



PricePoint™: Q2 2018

Points to Consider in the Pricing of Outsourcing Services
April-June 2018: Complimentary Abstract / Table of Contents

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Custom research capabilities

- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

Introduction

PricePoint is a quarterly compendium of key demand- and supply-side trends impacting pricing in Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) deals. It is published by the Pricing Assurance practice at Everest Group that conducts pricing advisory engagements for large global buyers and providers of outsourcing services. PricePoint draws entirely from first-hand information and insights that have been generated from:

- “Live” advisory engagements
- Analyst briefings and direct market conversations
- Proprietary cost- and transaction-tracking tools
- Financial results published by service providers

PricePoint focuses on market developments in India and the United States, which serve as the key offshore and onshore delivery locations respectively, for outsourced services. Other delivery locations are included as part of “featured research” whenever necessitated by market developments

What objectives does PricePoint serve?

- Supports (re)negotiation efforts
- Assists internal decision-making or calibration as per market dynamics
- Serves as a potential thought-starter on unexplored areas of pricing or spend efficiency

What objectives does PricePoint not serve?

- Comprehensive benchmarking of client-specific resource units, service levels, or delivery metrics
- Customized guidance on optimizing contract fee
- Specific peer intelligence

Note: Due to delay in the publication of financial results by service providers, PricePoint reports are published with a time lag of one quarter.

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Guide to interpreting pricing dashboards for outsourced IT and business process services

Area

Impact of price driver

Pricing implication symbols



Decrease price



Sustain price



Increase price

These symbols represent the impact of each price driver on the overall pricing in isolation

Overall price trend/outlook

Significant decrease in price

Stability in price

Significant increase in price

Marginal decrease in price

Marginal increase in price

These symbols represent the cumulative impact of all the price drivers on the overall pricing

Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q2 2018

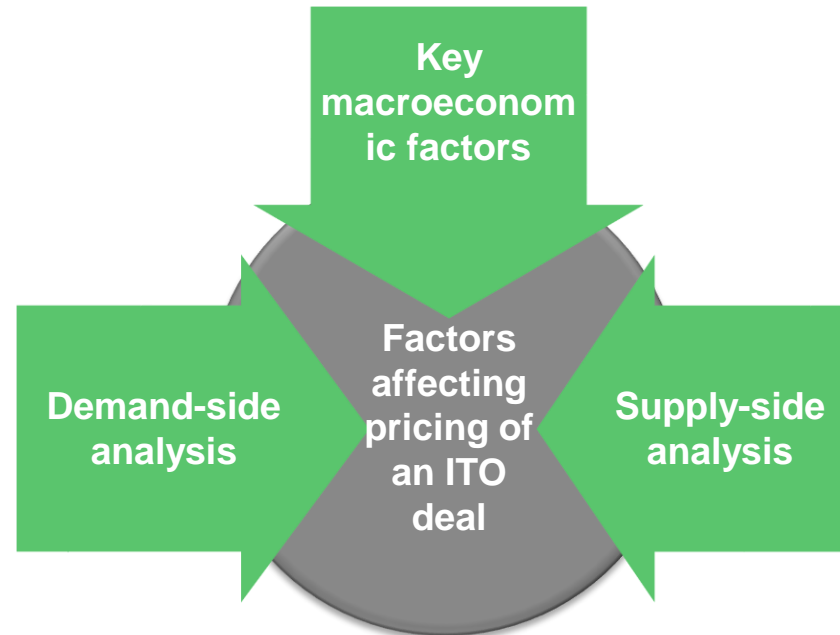
Overall trend in Q2 2018	● ● ● ● ●	This quarter witnessed an uptick in deal activity, especially in the North America region. Accenture and TCS led the industry's revenue growth, while the resource utilization for most providers reached an all-time high. Overall, pricing in USD terms remained largely rangebound in this quarter.
Outlook for Q3 2018	● ● ● ● ●	Demand for ITO services is expected to maintain healthy momentum due to enterprises' focus on digital transformation and improved global economic growth. Indian service providers' margins are likely to improve through expected INR depreciation against USD. Pricing is expected to reduce for offshore, and marginally increase for onsite locations.

Dimension	Price driver	Impact Q1 2018	Impact Q2 2018	Conclusion
Demand-side factors	Deal size	↔	↑	<ul style="list-style-type: none">• Large-sized deals increased in this quarter showcasing an enhanced confidence amongst enterprise buyers• While Banking, Financial Services, and Insurance (BFSI) witnessed the most deals among the major verticals, telecom deals were fewer in number• Demand in ITO was led by infrastructure outsourcing services, though these deals continue to experience persistent pressure for price reductions from the enterprises• The ratio of new deals to total deals increased in Q2 2018 <p>(Refer to pages 8 and 9 for details)</p>
	Deal volume	↔	↑	
	Value mix	↓	↓	
	New deal-renewal mix	↔	↑	
Supply-side factors	Resource utilization	↓	↓	<ul style="list-style-type: none">• Resource utilization rate, including trainees, increased in this quarter due to better planning and management of size and composition of the workforce• SG&A costs as a percentage of revenue increased slightly in this quarter• Revenue growth rate as well as operating margins witnessed downward pressure, especially for Indian IT providers <p>(Refer to pages 10 and 11 for details)</p>
	Overhead cost	↔	↑	
	Financial performance	↑	↓	
Macroeconomic factors	Inflation	↑	↑	<ul style="list-style-type: none">• Wage growth in India and the United States saw a slight increase in this quarter along with real estate and facilities costs• The average USD-INR rate remained largely stable in this quarter <p>(Refer to pages 12 and 13 for details)</p>
	Forex rates	↑	↔	

Factors affecting pricing dynamics in outsourced IT services

Movement of the three categories of levers analysed in the previous slides, together have a cumulative impact on the price movement

- Operating cost inflation in India & the United States
- Forex movement in India & the United States



- Deal size mix
- Number of ITO deals announced
- Value mix of ITO deals
- New deal renewal mix in ITO

- Resource utilization
- Overhead cost (SG&A expenses)
- Revenue growth- YoY
- Operating Margin

Featured research offers the mechanism and options available for the GICs to price their solutions and services

Market view | Prevalent pricing models

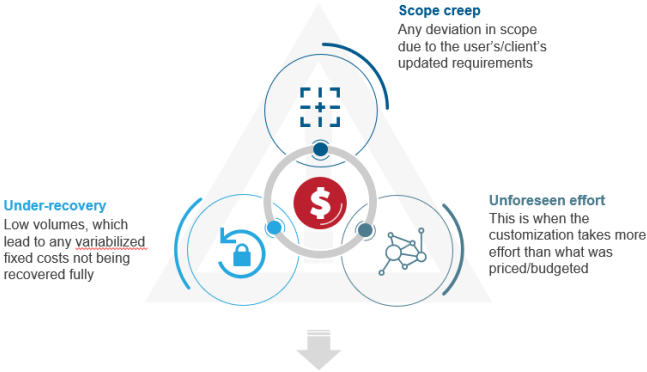
T&M is still the most prevalent model for delivered solutions given the relatively low maturity, but GICs are increasingly exploring service catalog and impact-linked models

● Very high ● Low

Model	Prevalence	Benefits	Potential drawbacks	Examples of application
Time & material	<div><div></div></div>	<ul style="list-style-type: none">Ease of implementationTransparency	<ul style="list-style-type: none">No certainty of outcomes	<ul style="list-style-type: none">SME access (indefinite timeline, vague scope)One-off, low volume services
Service catalog <i>Most contemporary pricing themes for non-standard solutions are being structured on these lines</i>	<div><div></div></div>	<ul style="list-style-type: none">End-to-end viewEase of pitching to user entity	<ul style="list-style-type: none">GIC assumes certain delivery riskComplex from Transfer Pricing (TP) standpoint	<ul style="list-style-type: none">Pre-planned advisory solutions (e.g. workshop, orientation, baselining programs)Price-per-bot (AaaS or PaaS model) for RPAPrice-per-production support ticketPrice-per-KYC check performed or price per application processed
Business impact-linked (gain share) <i>These models are relatively new, but GICs are increasingly thinking of implementing them to ensure competitiveness and future-readiness</i>	<div><div></div></div>	<ul style="list-style-type: none">Strong linkage to valueEntity sees "skin in the game"	<ul style="list-style-type: none">GIC assumes high delivery riskVery complex from TP standpoint	<ul style="list-style-type: none">Price per FTE reduced due to automation

C. Risk coverage within the pricing model

Risk coverage (under-recovery, scope creep, and unforeseen effort) underpins the entire outcome-based pricing approach



The risks associated with service delivery will need to be estimated and baked into any outcome-based pricing model.

Research calendar – PricePoint™

■ Published ■ Planned ▨ Current release

PricePoint reports

Release date

PricePoint™ Q1 2015 Points to Consider in the Pricing of Outsourcing Services	July 2015
PricePoint™ Q2 2015 Points to Consider in the Pricing of Outsourcing Services	November 2015
PricePoint™ Q3 2015 Points to Consider in the Pricing of Outsourcing Services	March 2016
PricePoint™ Q4 2015 Points to Consider in the Pricing of Outsourcing Services	June 2016
PricePoint™ Q1 2016 Points to Consider in the Pricing of Outsourcing Services	July 2016
PricePoint™ Q2 2016 Points to Consider in the Pricing of Outsourcing Services	September 2016
PricePoint™ Q3 2016 Points to Consider in the Pricing of Outsourcing Services	February 2017
PricePoint™ Q4 2016 Points to Consider in the Pricing of Outsourcing Services	April 2017
PricePoint™ Q1 2017 Points to Consider in the Pricing of Outsourcing Services	July 2017
PricePoint™ Q2 2017 Points to Consider in the Pricing of Outsourcing Services	September 2017
PricePoint™ Q3 2017 Points to Consider in the Pricing of Outsourcing Services	December 2017
PricePoint™ Q4 2017 Points to Consider in the Pricing of Outsourcing Services	March 2018
PricePoint™ Q1 2018 Points to Consider in the Pricing of Outsourcing Services	July 2018
PricePoint™ Q2 2018 Points to Consider in the Pricing of Outsourcing Services	October 2018
PricePoint™ Q3 2018 Points to Consider in the Pricing of Outsourcing Services	December 2018
PricePoint™ Q4 2018 Points to Consider in the Pricing of Outsourcing Services	April 2019

Note: For a list of all PricePoint™ reports published by us, please refer to our [website page](#)

Additional Pricing Assurance research references

The following documents are recommended for additional insight into the topic covered in this research. The recommended documents either provide additional details or complementary content, that may be of interest:

1. **Evolution of Governance Models in the Digital Era** ([EGR-2017-9-V-2141](#)); 2017. For years, the three-tier governance structure had become standard in the proposals that were submitted to enterprise buyers. While the three-tier structure remains the same, the focus is shifting from governance being primarily a “delivery construct” to a “value enabler,” in line with the changing landscape. In this research, we analyze enterprise expectations and how suppliers are addressing those asks by transforming their operating models. The focus is on contemporary CIO expectations from the governance layer, innovative methods, and best practices across suppliers
2. **Windows Upgrades – Price Benchmarks** ([EGR-2017-9-V-2099](#)); 2017. Most enterprises try to optimize their IT infrastructure steady-state run costs. However, one-time transformation-related costs can be an equally significant component that tends to get ignored. This white paper explores the types of upgrades in end-user devices, various commercial models leveraged by service providers for upgrades, and price benchmarks for upgrading Windows on end-user devices
3. **The Obscure Choke Points in IT and BPO Services Contracting** ([EGR-2017-9-V-2081](#)); 2017. As a sign of outsourced IT and BPO services maturity, Everest Group has observed contract benchmarking clauses being diligently invoked at regular intervals. The focus of most benchmarking exercises tends to be on the directly “visible” levers. However, there are a number of levers that remain hidden and are often ignored, resulting in untapped optimization potential. This viewpoint outlines some of the common obscure “choke points” that buyers need to be aware of, in order to avoid significant value leakage in contracts

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About Everest Group

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