



## **PricePoint™: Q3 2018**

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

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In addition to a suite of published research, a membership may include

- Accelerators™
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- Pinnacle Model™ reports
- PriceBook
- Virtual Roundtables
- Workshops

## 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

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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 for outsourced services, respectively. 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 the 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 the contract fee
- Specific peer intelligence

**Note:** Due to the 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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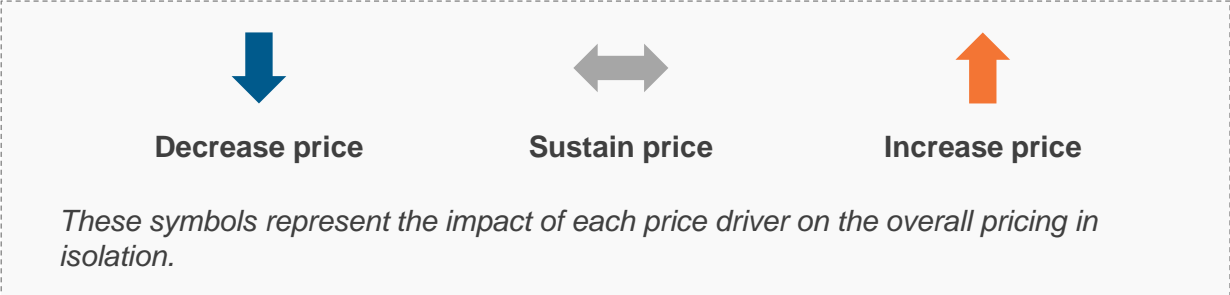
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# Guide to interpreting the pricing dashboards for outsourced IT and business process services

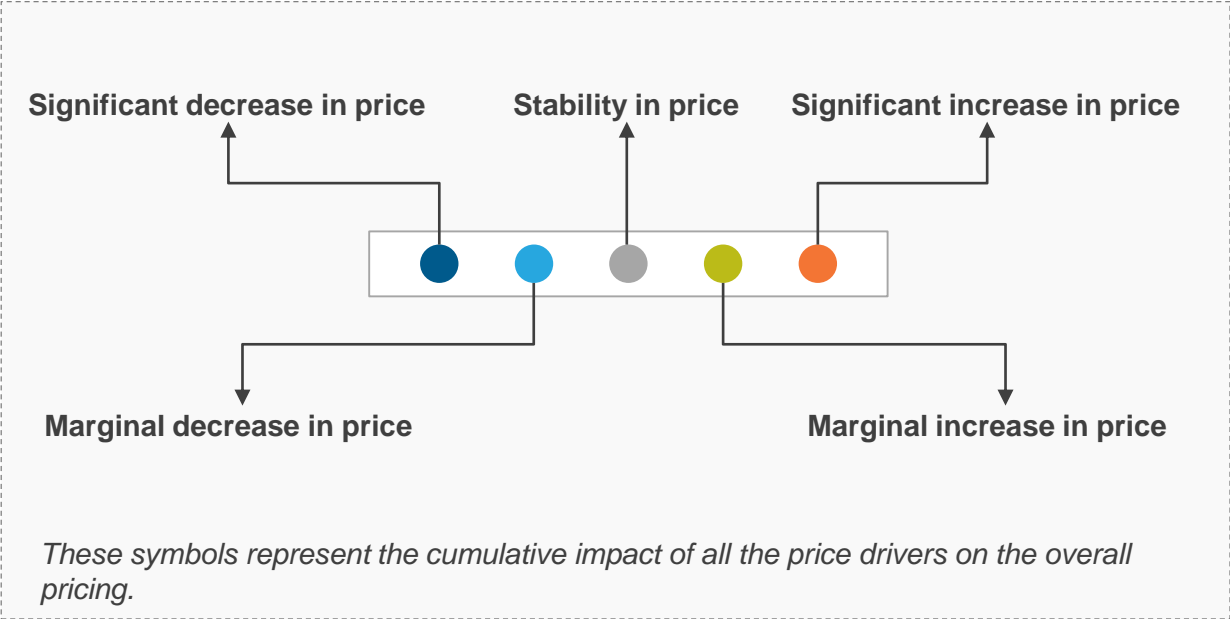
Area

Impact of price driver

Pricing implication symbols



Overall price trend/outlook



# Pricing dynamics in outsourced IT services

## Pricing dashboard – summary of pricing drivers in Q3 2018

### Overall trend in Q3 2018



This quarter witnessed an increase in the ITO deal activity with customers seeking next-generation services in areas such as cloud migration, agile, and automation. Favorable forex fluctuation provided a cushion to the providers in terms of sustaining margins. Overall pricing in offshore locations reduced, while it increased for onsite locations.

### Outlook for Q4 2018




As the demand for digital services continues to increase and the overall market for such services continues to expand, pricing pressure, especially in these services is expected to not be a limiting factor and remain stable.

Dimension	Price driver	Impact Q2 2018	Impact Q3 2018	Conclusion
<b>Demand-side factors</b>	Deal size	↑	↔	<ul style="list-style-type: none"> <li>• Increase in large-sized deals in the traditional IO<sup>1</sup> and ADM<sup>1</sup> space came at a cost of reduced pricing; however, this was offset by better pricing in digital</li> <li>• Robust overall demand in IT services was evident from the number of deals signed during Q3 2018, which was at the highest in comparison to several preceding quarters</li> <li>• Demand in ITO was led by IO and ADM services, where the service providers continued to experience price reduction pressure</li> <li>• The ratio of new deals to total deals increased in Q3 2018 giving leeway to service providers who are expected to pass on more productivity benefits in renewal deals <i>(Refer to pages 8 and 9 for details)</i></li> </ul>
	Deal volume	↑	↑	
	Value mix	↓	↓	
	New deal and renewal mix	↑	↑	
<b>Supply-side factors</b>	Resource utilization	↓	↔	<ul style="list-style-type: none"> <li>• The resource utilization rate reduced slightly as compared to the previous quarter, primarily due to workforce addition by most of the service providers</li> <li>• SG&amp;A<sup>1</sup> costs as a percentage of revenue remained flat in this quarter</li> <li>• Revenue growth rate as well as the operating margin increased for the Indian IT providers, while it reduced slightly for global providers <i>(Refer to pages 10 and 11 for details)</i></li> </ul>
	Overhead cost	↑	↔	
	Financial performance	↓	↑	
<b>Macroeconomic factors</b>	Inflation	↑	↑	<ul style="list-style-type: none"> <li>• Wage growth in ITO in both India as well as the United States increased marginally. Growth in facilities and real estate largely remained flat</li> <li>• USD appreciation against the INR reduced the operating costs for providers <i>(Refer to pages 12 and 13 for details)</i></li> </ul>
	Forex rates	↔	↓	

<sup>1</sup> IO: Infrastructure Outsourcing; ADM: Application Development and Maintenance; SG&A: Selling, General, and Administrative


# Featured research offers an analysis of key benefits and limitations of Platform as a Service model and a comparison of leading PaaS platforms

## Benefits and limitations of PaaS




**Benefits associated with PaaS**

- **Speed-to-market:** Applications can be released more quickly than usual to get user feedback
- **Ease of development:** It is a very simple way to test and prototype new applications
- **Efficiencies:** PaaS platforms help drive efficiencies across:
  - **Application support activities**
    - For example, incident/problem management, application operations, service request fulfillment, and service reporting
  - **Application development activities**
    - For example, realization and testing to a lesser degree across analysis, design, and deploy phases
- **Cost savings:** It can save money during the development of new services and applications
- **High availability and up-to-date services:** Many services that can be consumed inside the applications are published by PaaS providers. These will be always available and up-to-date
- **Suitability for Agile development:** Suitable for development companies and/or factories that want to implement Agile methodologies




**Limitations of PaaS**

- **Suitability across SOR solutions:** PaaS is more suitable for System of Record (SOR) solutions like ERP. They are applications with a B2C or B2B application model with dynamism to be built into the solution. In the case of SOR migration, which is difficult to balance with its benefits
- **Application complexity:** For complex applications, if hosted on a PaaS platform, many challenges may arise:
  - Cost becomes very high as it depends on the platform
  - Continuous data propagation for live applications can be a challenge as they do not offer data propagation to be customized


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## Comparison of leading PaaS platforms


PaaS providers




AWS Elastic Beanstalk




Azure Cloud Service



Google Cloud Platform




IBM Cloud



Pivotal Cloud Foundry

Features	AWS Beanstalk	Azure Cloud Service	Google Cloud Platform	IBM Cloud	PCF
<b>Key differentiators</b>	<ul style="list-style-type: none"> <li>• Wide range of services – storage, security, DevOps, AI, IoT, and productivity</li> <li>• AWS provides the highest number of data centers with the most international coverage</li> </ul>	<ul style="list-style-type: none"> <li>• Familiarity with Microsoft – take software tools and reinvent/repurpose them for the cloud</li> <li>• Discounts for existing Microsoft enterprise customers</li> <li>• Particularly well-suited for applications hosted in a Microsoft environment</li> </ul>	<ul style="list-style-type: none"> <li>• Built-in traffic splitting, enabling low-effort application versioning</li> <li>• Built-in A/B testing and incremental feature rollouts</li> <li>• Best suited for cloud native businesses</li> <li>• Google developed the container standard used by both AWS and Azure</li> </ul>	<ul style="list-style-type: none"> <li>• Suitable for customers with significant IT legacies, especially mainframe customers</li> <li>• Fault-tolerant platform that facilitates the development of applications as stateless processes, enabling both horizontal and vertical scaling with a minimal overhead</li> <li>• Integration with Watson APIs with no additional infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• With in-transit data encryption, managed Operating System patching, secure credential management, and zero-downtime deployments, PCF provides a suite of powerful security tools and processes</li> <li>• Its open-source nature provides application portability, minimizes vendor lock-in</li> </ul>

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# 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
<b>PricePoint™ Q3 2018 Points to Consider in the Pricing of Outsourcing Services .....</b>	<b>February 2019</b>
PricePoint™ Q4 2018 Points to Consider in the Pricing of Outsourcing Services .....	April 2019

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



# Additional Pricing Assurance research references

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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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