



PricePoint™: Q4 2018

Points to Consider in the Pricing of Outsourcing Services

October-December 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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- Virtual Roundtables
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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 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.

Table of contents

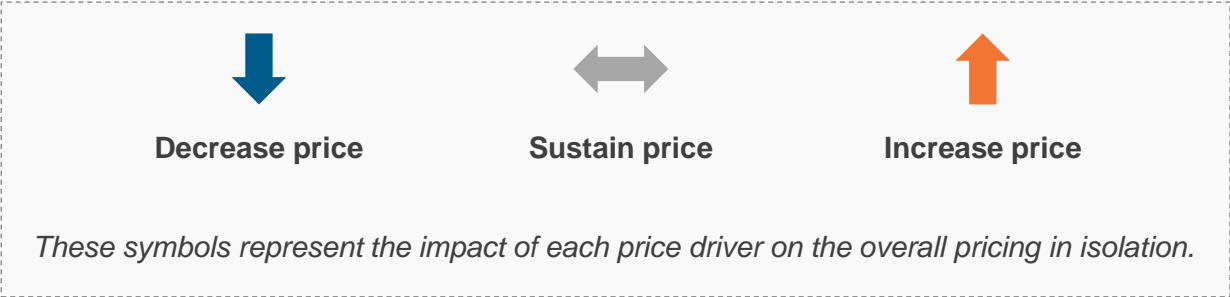
Topic	Page no.
Section I: Pricing dynamics in outsourced IT services	6
• Pricing dashboard	7
• Demand-side analysis	8
• Supply-side analysis	10
• Key macroeconomic factors	12
• Trends and future outlook	15
Section II: Pricing dynamics in outsourced business process services	16
• Pricing dashboard	17
• Demand-side analysis	18
• Supply-side analysis	20
• Key macroeconomic factors	22
• Trends and future outlook	25
Section III: Featured research	26
• Assessment of automation potential across workplace services	27
Appendix	33
• Glossary of key terms	34
• Research calendar	36
• References	37

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

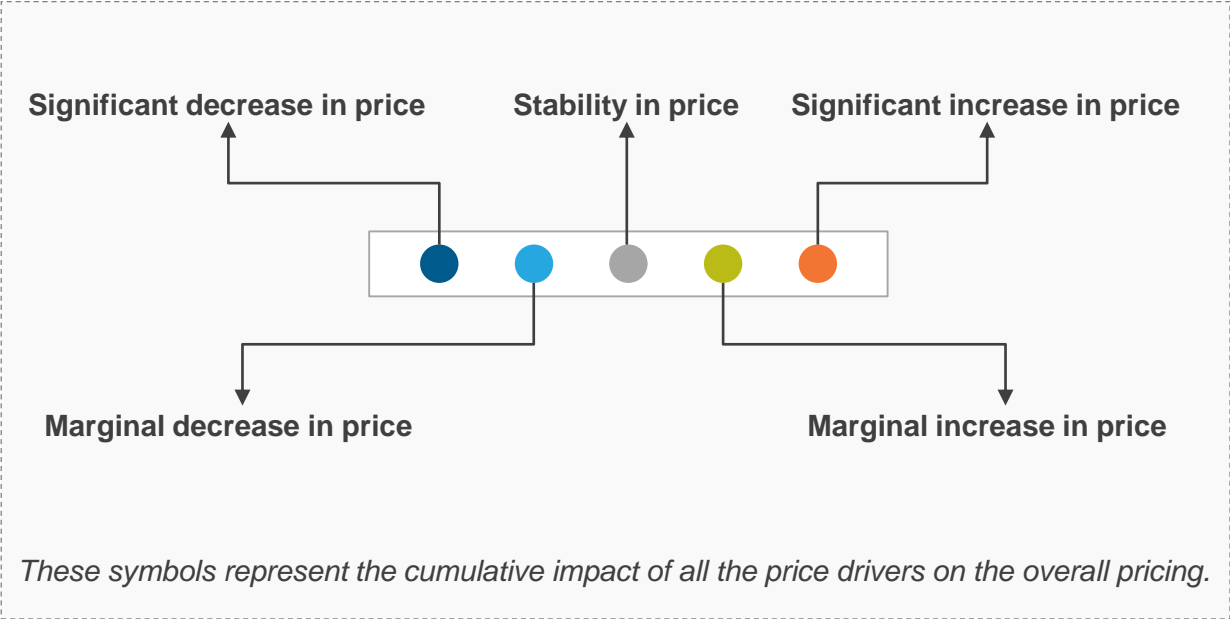
Area

Impact of price driver

Pricing implication symbols



Overall price trend/outlook



Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q4 2018

Overall trend in Q4 2018



This quarter witnessed a marginal decline in deal activity due to a seasonally weak quarter. Strong margin pressures persisted due to increased localization efforts and a dip in utilization, however favorable currency depreciation provided tailwinds to the providers. Overall pricing remained stable for offshore locations, while it increased for onsite ones

Outlook for Q1 2019



Demand for ITO services is expected to remain healthy with a strong order book especially in digital services. Pricing for digital services will continue to be charged at a premium while pricing for traditional services will remain stable

Dimension	Price driver	Impact Q3 2018	Impact Q4 2018	Conclusion
Demand-side factors	Deal size	↔	↑	<ul style="list-style-type: none"> Small-sized deals (ACV < US\$10 million) saw an increase with a focus on next-gen digital technologies, while the share of large-sized deals (ACV > US\$50 million) saw a decrease Demand showed a slight decrease in retail and healthcare verticals while partially offset by recovery in Banking, Financial Services, and Insurance (BFSI) sector Demand was led by ERP/SI¹ services driven by healthy deal activity in North America The ratio of new deals to total deals increased in Q4 2018 <p><i>(Refer to pages 8 and 9 for details)</i></p>
	Deal volume	↑	↔	
	Value mix	↓	↑	
	New deal and renewal mix	↑	↑	
Supply-side factors	Resource utilization	↔	↑	<ul style="list-style-type: none"> The resource utilization rate reduced slightly as compared to the previous quarter, primarily due to the seasonal furloughs in Q4 2018 SG&A¹ costs as a percentage of revenue declined marginally in this quarter Revenue growth rate as well as the operating margin increased for Indian IT providers, while their global counterparts registered a decline in revenue growth rate with increased operating margin <p><i>(Refer to pages 10 and 11 for details)</i></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 USD appreciation against INR reduced the operating costs for providers <p><i>(Refer to pages 12 and 13 for details)</i></p>
	Forex rates	↓	↓	

¹ SG&A: Selling, General, and Administrative; ERP/SI: Enterprise Resource Planning/Systems Integration

Factors affecting pricing dynamics in outsourced IT services

The pricing movement has been impacted by the fluctuations in the three levers mentioned below (which have been analyzed in the previous slides)

Key macroeconomic factors

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

Demand-side analysis

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

Supply-side analysis

- Resource utilization
- Overhead costs (SG&A expenses)
- Revenue growth (YOY)
- Operating margin



Factors affecting the pricing of ITO services

In the next slide, we have captured the impact of the above factors on the actual price movement for ITO deals at offshore and onsite locations. It also showcases the expected future outlook for Q1 2019.

Featured research offers an analysis of the automation potential across Workplace Services at a subprocess/activity level

Service desk and desktop support are fairly mature with respect to adoption of automation and are usually the first services to be automated in enterprises

Workplace services	Automation potential		Market adoption	Rationale (typical activities automated across this service line and insights)
	Percentage of activities automated	Degree of reduction in FTEs		
Service desk ¹	H			<ul style="list-style-type: none"> Auto-healing solutions for duplicates removal, automated report generation, browser freezing issues, etc. Multi-lingual support rendered through Microsoft
Remote device support (RDS)	H			
Application packaging ²	L			

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The automation potential varies based on the underlying environment characteristics as enumerated below

Tower:

Service model:

Service desk, remote device support, application packaging, image management, patch management, messaging and collaboration, software distribution, field support services, global account management, and mobile device management

Client environment parameters	Automation potential range based on client environment characteristics		
	Low end ¹	Medium	High end ¹
VDI adoption	Non-virtualized environment	Partly virtualized environment	Highly virtualized environment
User adoption	Users reluctant to change their ways of working and imbibe a new technology	Some users are quick to adopt new technologies, others take more time	Good user change management in place, fast adoption of new technology among users
Delivery mix or service placement	Decentralized operation with fragmented FTEs across more than three locations	Mix of consolidated & fragmented FTEs across two to three locations	Consolidated FTEs across one to two locations

1 A particular client may not have all the client environment parameters corresponding to low/medium/high automation potential scenario; but can still fall under that category, if it meets maximum parameters under that category as listed in the above table



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32

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	February 2019
PricePoint™ Q4 2018 Points to Consider in the Pricing of Outsourcing Services	April 2019
PricePoint™ Q1 2019 Points to Consider in the Pricing of Outsourcing Services	Q3 2019

Note: For a list of all of our published PricePoint™ reports, 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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