



## PricePoint™: Q1 2019

Points to Consider in the Pricing of Outsourcing Services  
January-March 2019: Complimentary Abstract / Table of Contents

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

- Accelerators™
- Analyst access
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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 in internal decision-making or calibration as per the market dynamics
- Serves as a potential thought-starter in 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 contract fees
- Specific peer intelligence

**Note:** Due to a 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 drivers

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 Q1 2019

### Overall trend in Q1 2019



There was a slight decline in deal activity this quarter, especially in the large-sized ones in the North America region. Service providers across the board witnessed a decline in their revenue as well as margin. Overall, pricing in USD terms remained largely rangebound in this quarter.

### Outlook for Q2 2019



Demand for digital ITO services is expected to maintain a healthy momentum due to the enterprises' focus on digitizing their businesses as well as their strategic cost management and rationalization. As the size of the digital component continues to increase and reach a critical mass, the overall pricing in ITO is expected to also inch up.

| Dimension                    | Price driver          | Impact Q4 2018 | Impact Q1 2019 | Conclusion  |
|------------------------------|-----------------------|----------------|----------------|---|
| <b>Demand-side factors</b>   | Deal size             | ↑              | ↓              | <ul style="list-style-type: none"> <li>Mid-sized deals (\$10 million &lt; ACV &lt; \$50 million) saw an increase, while there was decline in the number of large-sized deals (ACV &gt; \$50 million)</li> <li>Demand was driven by the retail and healthcare sectors while the manufacturing, consumer packaged goods, and financial services sectors showed a decline in activity during the same period</li> <li>Within the ITO landscape, the demand continued to be led by system integration services, driven by strong deal activity in North America</li> <li>The ratio of renewed deals to total deals increased in Q1 2019</li> </ul> <p><i>(Refer to pages 8 and 9 for details)</i></p> |
|                              | Deal volume           | ↑              | ↓              |   |
|                              | Value mix             | ↓              | ↑              |   |
|                              | New deal-renewal mix  | ↑              | ↓              |   |
| <b>Supply-side factors</b>   | Resource utilization  | ↓              | ↑              | <ul style="list-style-type: none"> <li>The resource utilization rate (excluding trainees) declined in Q1 2019 as compared to the previous quarter</li> <li>SG&amp;A<sup>1</sup> costs as a percentage of revenue increased in Q1 2019</li> <li>Revenue growth rate as well as the operating margins witnessed downward pressure especially for both sets of service providers</li> </ul> <p><i>(Refer to pages 10 and 11 for details)</i></p>   |
|                              | Overhead cost         | ↑              | ↑              |   |
|                              | Financial performance | ↓              | ↓              |   |
| <b>Macroeconomic factors</b> | Wage inflation        | ↑              | ↑              | <ul style="list-style-type: none"> <li>Wage growth in India as well as the United States saw a slight increase in this quarter</li> <li>The INR depreciation against the USD meant further pricing pressure in offshore pricing</li> </ul> <p><i>(Refer to pages 12 and 13 for details)</i></p>   |
|                              | Forex rates           | ↔              | ↓              |   |

<sup>1</sup> SG&A: Sales, General, and Administrative

# Factors affecting pricing dynamics in outsourced IT services

Price movement has been impacted by the movements in the following three levers (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 renewal mix in ITO

## Supply-side analysis

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



Factors affecting the pricing of ITO services

In the next slide, the impact of the above-mentioned factors on the actual price movement for ITO deals at offshore and onsite locations have been captured. It also showcases the expected future outlook for Q2 2019.

# Featured research offers an analysis of the COLA clauses and their importance in outsourcing contracts

## Cost of Living Adjustment (COLA) and its importance

If structured improperly, the COLA clause could potentially have a cascading and adverse effect on the total charges over the contract tenure



### What is COLA?

- Over the tenure of an outsourced contract, the service provider could incur changes in the delivery cost over time, caused primarily by wage inflation linked to the cost of the respective delivery locations
- The COLA clause, called inflation adjustment in some contracts, provides service providers with the ability to adjust charges to reflect a fair increase in delivery costs
- This adjustment is typically performed annually at the anniversary of the contract or individual Statement of Work (SoW)



### Key principles of calculation

- A standard mechanism for adjusting charges should include:
  - The milestone(s) at which adjusted
  - The index used for COLA
  - Sensitivity (parts of charge COLA applies)
  - Formula to arrive at the ex
- The index used should be ea and reflect the correct inflatic
- A historical view of index val reviewed before contract sig against other similar indices not skewed)

COLA has a cascading effect on an annual basis and could be a hidden choke point within a contract. Choice of an equitable index and formula are critical to ensuring that service provider charges remain aligned with the market



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## Indices typically used for key offshore geographies India, China, and the Philippines

| Country     | Index typically used       | Issued by  | 12-month % change (Dec 2017-Dec 2018) |
|-------------|----------------------------|--|---------------------------------------|
| India       | Consumer Price Index (CPI) | Ministry of Statistics and Programme Implementation, Government of India | 5.24%                                 |
| China       | Consumer Price Index (CPI) | National Bureau of Statistics  | 1.91%                                 |
| Philippines | Consumer Price Index (CPI) | Philippine Statistics Authority  | 5.1%                                  |



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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          |
| 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            |
| <b>PricePoint™ Q1 2019 Points to Consider in the Pricing of Outsourcing Services .....</b> | <b>September 2019</b> |
| PricePoint™ Q2 2019 Points to Consider in the Pricing of Outsourcing Services .....        | Q4 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 insights 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 a 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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