



PricePoint™: Q2 2019

Points to Consider in the Pricing of Outsourcing Services
April-June 2019: 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 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 Q2 2019

Overall trend in Q2 2019



The deal activity declined due to low outsourcing demand across the US and Europe. The service providers witnessed margin pressures due to new visa costs, currency headwinds, increase in local hiring, and subcontracting costs. Pricing in USD terms decreased marginally in this quarter.

Outlook for Q3 2019



Demand for digital services and transformational solutions such as Intelligent platforms, automation, cloud, AI, and analytics is likely to pick up within the ITO space. Service providers are also expected to sign large transformational deals, which may have a positive impact on the overall pricing in the subsequent quarter.

Dimension	Price driver	Impact Q1 2019	Impact Q2 2019	Conclusion
Demand-side factors	Deal size	↓	↑	<ul style="list-style-type: none"> Share of small-sized deals increased (ACV¹ < US\$10 million) while the share of mid-sized deals (US\$10 million < ACV < US\$50 million) declined in Q2 2019 vis-à-vis Q1 2019 The overall deal count went down in Q2 2019 due to a decline in demand for IT outsourcing across the US and Europe There was an increase in the share of standalone ADM² deals, while ERP/SI² deals declined across the globe The share of new IT deals as a percentage of total deals remained stable as compared to the previous quarter <p><i>(Refer to pages 8 and 9 for details)</i></p>
	Deal volume	↓	↓	
	Value mix	↑	↓	
	New deal-renewal mix	↓	↔	
Supply-side factors	Resource utilization	↑	↔	<ul style="list-style-type: none"> The resource utilization rate remained flat as compared to the last quarter Overhead expenses as a percentage of revenue declined vis-à-vis Q1 2019 Indian service providers witnessed upward revenue growth rate but lower operating margins. Global service providers saw a decline in revenue growth rate and an upward trend in margins <p><i>(Refer to pages 10 and 11 for details)</i></p>
	Overhead cost	↑	↓	
	Financial performance	↓	↔	
Macroeconomic factors	Wage inflation	↑	↑	<ul style="list-style-type: none"> Wage growth in both India as well as the United States increased marginally. Growth in facilities and real estate-primarily remained flat The average USD-INR rate remained largely stable in this quarter <p><i>(Refer to pages 12 and 13 for details)</i></p>
	Forex rates	↓	↔	

1 ACV: Annual Contract Value; ADM: Application Development and Maintenance; ERP/SI: Enterprise Resource Planning/System Integration

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 Q3 2019.




Featured research offers an analysis of the automation potential across Procure to Pay (P2P) Services at a subprocess/activity level

Automation potential assessment | Procure to Pay (page 1 of 2)

Invoice processing and vendor reconciliation have higher automation potential and market adoption compared to other P2P processes


Automation potential

Not Applicable
 Low
 Medium
 High

Procure to Pay Processes	Percentage of activities automated	Degree of reduction in FTEs
Invoice processing	H	
Vendor master data	M to H	
Payment processing	M to H	

1 OCR: Optical Character Recognition

2 ERP: Enterprise Resource Planning; PO: Purchase Order


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How automation potential varies? | Procure to Pay (page 1 of 2)

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

Tower characteristics

Tower: Procure to Pay (P2P - AP)


Service inclusions: Invoice processing, vendor master data, payment processing, vendor inquiries, vendor reconciliation and T&E claims

Service model: Managed services

Client environment parameters	Automation potential range based on client environment characteristics		
	Low end ¹	Medium	High end ¹
Standardization (Process, skills / language, etc.)	Non-standardized operations with policy variations and multi - language requirements across geographies and vendors	Partly standardized operations with few policy variations and language requirements	Highly standardized operations with policy rigidity and minimum exceptions across geographies and vendors
Delivery mix or service placement	Decentralized operation with fragmented FTEs across more than three locations	Mix of consolidated and fragmented FTEs across two- or three locations	Consolidated FTEs across one- or two locations
Process maturity	Second- or third generation outsourcer / GIC ² with high process maturity and automation penetration	Second generation outsourcer / or GIC with medium process maturity and automation penetration	First generation outsourcer with low process maturity and automation penetration

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

2 GIC: Global inhouse centers


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Research calendar – PricePoint™

Published
 Planned
 Current release

PricePoint reports

Release date

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	September 2019
PricePoint™ Q2 2019 Points to Consider in the Pricing of Outsourcing Services	November 2019
PricePoint™ Q3 2019 Points to Consider in the Pricing of Outsourcing Services	Q1 2020

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 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

For more information on this and other research published by Everest Group, please contact us:

Abhishek Sharma, Partner:

abhishek.sharma@everestgrp.com

Amanpreet Manchanda, Senior Analyst:

amanpreet.manchanda@everestgrp.com

Pricing Assurance Team:

PricingAdvisory@everestgrp.com

Website: www.everestgrp.com | Phone: +1-214-451-3000 | Email: info@everestgrp.com



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Dallas (Headquarters)

info@everestgrp.com
+1-214-451-3000

Bangalore

india@everestgrp.com
+91-80-61463500

Delhi

india@everestgrp.com
+91-124-496-1000

London

unitedkingdom@everestgrp.com
+44-207-129-1318

New York

info@everestgrp.com
+1-646-805-4000

Toronto

canada@everestgrp.com
+1-416-388-6765

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