



PricePoint™: Q3 2019

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

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- 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

Membership information

- This report is included in the following research program(s)
 - PricePoint™
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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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Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q3 2019

Overall trend in Q3 2019



There was an increase in deal activity across Europe and Asia Pacific (APAC) and a moderate rise in deals across the US for this quarter. Service providers saw an uptick in revenue growth and decline in margin pressures with fairly stagnant utilization rates and overhead costs. Pricing in USD terms increased marginally in this quarter

Outlook for Q4 2019



Service providers can benefit from an expected increase in the share of large-sized deals due to increasing demand for digital services and transformational solutions. However, demand from certain verticals such as capital markets, banking (European banks and some US regional banks), and retail is expected to remain sluggish. Moreover, Q4 2019 might witness reduced activity due to seasonal furloughs. Hence, overall pricing in the upcoming quarter is expected to remain flat

Dimension	Price driver	Impact Q2 2019	Impact Q3 2019	Conclusion
Demand-side factors	Deal size	↑	↑	<ul style="list-style-type: none"> The share of mid-sized (US\$10 million < ACV¹ < US\$50 million) deals increased, whereas the share of small-sized (ACV < US\$10 million) deals declined in Q3 2019 vis-à-vis Q2 2019 The overall deal count increased in Q3 2019 due to an increase in demand for IT outsourcing across Europe and APAC and a moderate rise in demand across the US The share of stand-alone ADM¹ deals remained flat, while the share of ERP/SI¹ deals declined across the globe, especially in Europe The share of new deals as a percentage of the 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 also remained stable vis-à-vis Q2 2019 Revenue growth rate and operating margin rose for Indian service providers, while global service providers saw a slight decline in revenue growth rate and operating margin <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 India as well as the United States increased marginally The average INR rate appreciated against the USD 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 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



Factors affecting the pricing of ITO services

Supply-side analysis

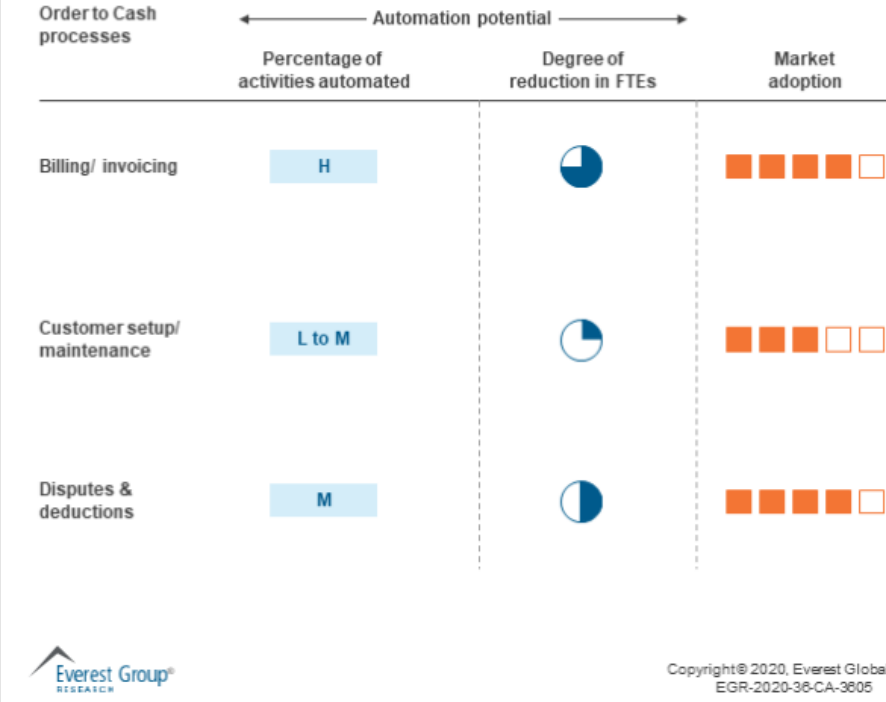
- Resource utilization
- Overhead cost (SG&A expenses)
- Revenue growth (YOY)
- Operating margin

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 Q4 2019.

Featured research offers an analysis of the automation potential across Order to Cash (O2C) Services at a subprocess/activity level

Automation potential assessment | Order to Cash (page 1 of 2)

The processes across O2C are observed to have medium to high automation potential except for customer MDM process



How Automation potential varies? | Order to Cash (page 1 of 2)

The automation potential depends on the operating environment complexity of the organization across their O2C processes

Tower characteristics
Tower: O2C
Process inclusions: Billing/invoicing, customer setup/maintenance, cash application, collections, disputes and deductions
Service model: Managed services

Client environment parameters	Automation potential range based on client environment characteristics		
	Low end ¹	Medium ¹	High end ¹
Standardization (process, skills/ language, etc.)	Non-standardized operations with policy variations and multi-language requirements across geographies and customers	Partly standardized operations with few policy variations and language requirements	Highly standardized operations with policy rigidity and minimum exceptions across geographies and customers
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
Process maturity	Second or third generation outsourcer/GIC 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 the maximum parameters under that category as listed in the above table

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Research calendar – PricePoint™

Published
 Planned
 Current release

PricePoint reports	Release date
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	March 2020
PricePoint™ Q4 2019 Points to Consider in the Pricing of Outsourcing Services	Q2 2020

Note: For a list of all 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

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