



PricePoint™: Q4 2019 – Points to Consider in the Pricing of Outsourcing Services

PricePoint™

October-December 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
- Data cuts
- 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

Membership information

- This report is included in the following research program(s)
 - PricePoint™
- If you want to learn whether your organization has a membership agreement or request information on pricing and membership options, please contact us at info@everestgrp.com

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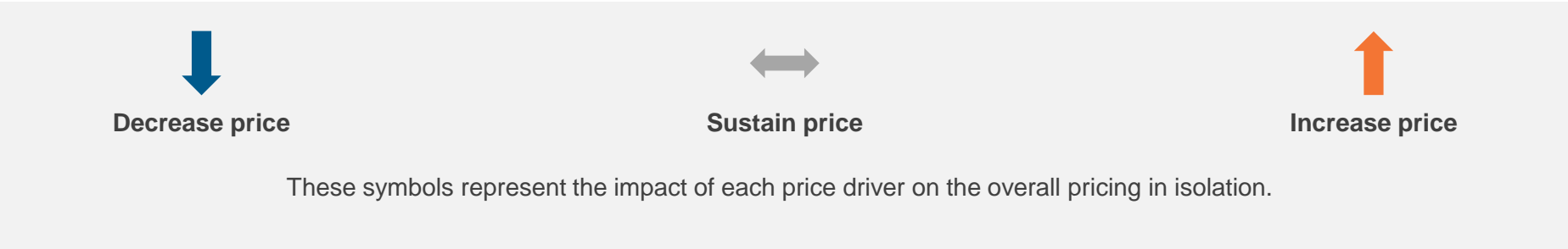
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Guide to interpreting pricing dashboards for outsourced IT and business process services

Area

Pricing implication symbols

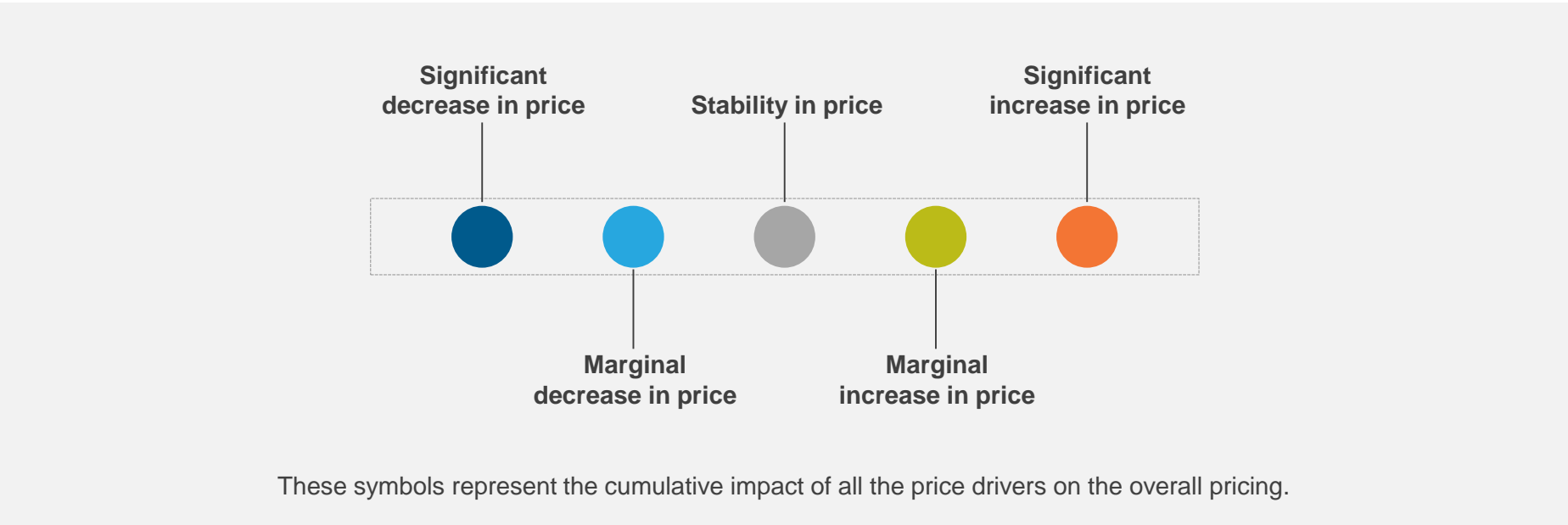
Impact of price drivers



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 Q4 2019

Overall trend in Q4 2019



Deal activity declined marginally in this quarter, largely due to seasonal furloughs and subdued demand from the BFSI¹ sector in the US and the UK. This further translated into a marginal decline in revenue growth, whereas the operating margins continued an upward trend. Pricing in USD terms increased marginally at offshore and remained stagnant at onshore locations this quarter

Outlook for Q1 2020



Service providers expect demand in the BFSI and retail sector to pick up soon. Further, large digital transformation deals from enterprises might continue as demand for key digital transformation increases. However, market sentiment remains cautious about the emerging Covid-19 situation and its possible global spread. Therefore, overall pricing in the upcoming quarter is expected to remain stagnant

Dimension	Price driver	Impact in Q3 2019	Impact in Q4 2019	Conclusion
Demand-side factors	Deal size	↑	↑	<ul style="list-style-type: none"> The share of large (ACV² > US\$50 million) deals increased, whereas the share of mid-sized (US\$10 million < ACV < US\$ 50 million) and small (ACV < US\$10 million) deals declined marginally in Q4 2019 vis-à-vis Q3 2019 The overall deal count declined slightly in Q4 2019 as compared to the last quarter The share of stand-alone ERP/SI² deals increased, whereas ADM² deals declined due to fall in demand from the BFSI sector The share of new deals as a percentage of the total deals remained stable as compared to the previous quarter <i>(Refer to pages 8 and 9 for details)</i>
	Deal volume	↑	↓	
	Value mix	↓	↑	
	New deal-renewal mix	↔	↔	
Supply-side factors	Resource utilization	↔	↓	<ul style="list-style-type: none"> The resource utilization rate improved in this quarter as compared to the last quarter Overhead expenses as a percentage of revenue declined in Q4 2019 vis-à-vis Q3 2019 Global service providers witnessed a slight decline in revenue growth rate and an increase in operating margin, while Indian service providers saw a slight decline in revenue growth rate and stagnant operating margin as compared to the last quarter <i>(Refer to pages 10 and 11 for details)</i>
	Overhead cost	↔	↓	
	Financial performance	↔	↔	
Macroeconomic factors	Wage inflation	↑	↑	<ul style="list-style-type: none"> Wage growth in India increased marginally, while it remained flat in the United States The average value of INR remained stable against USD in this quarter <i>(Refer to pages 12 and 13 for details)</i>
	Forex rates	↑	↔	

¹ BFSI: Banking, Financial Services, and Insurance

² ACV: Annual Contract Value; ADM: Application Development and Maintenance; ERP/SI: Enterprise Resource Planning / System Integration

Factors affecting pricing dynamics in outsourced IT services

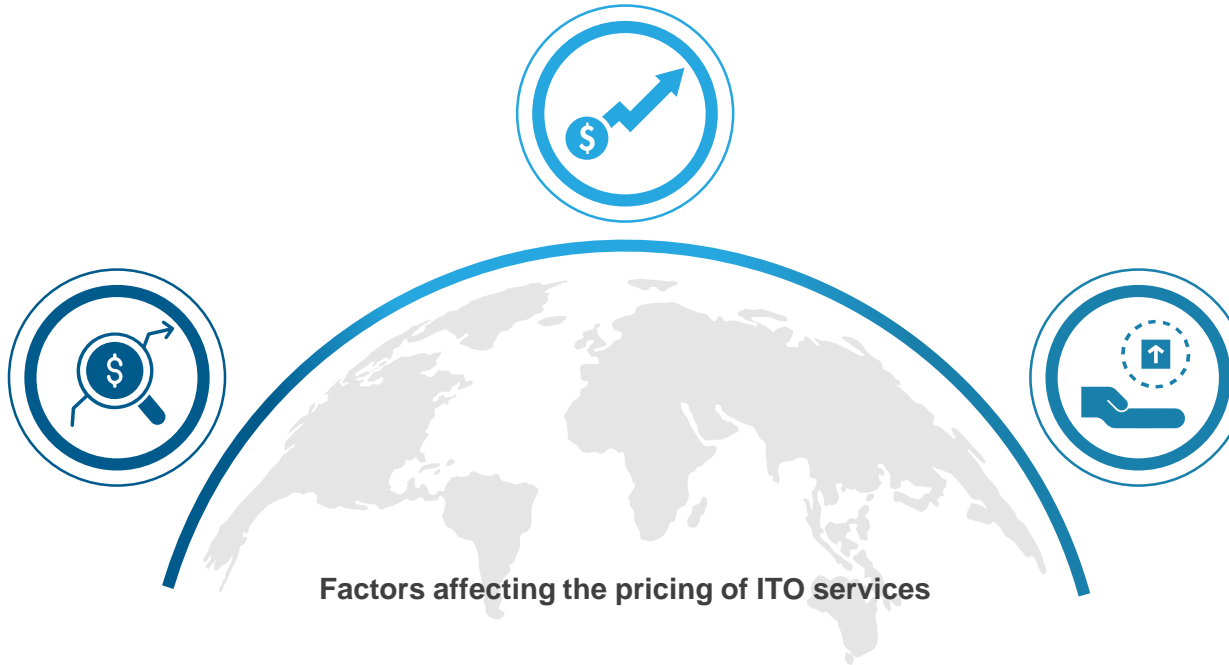
Price movement has been impacted by movements in the following three levers (which have been analyzed in the previous slides)

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



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 has been captured. It also showcases the expected future outlook for Q1 2020

Featured research offers a guidance on Service Integration and Management (SIAM) services

Types of service integrator roles and associated guardrails

Service integrator roles



Implicit

- No contractual agreement for SIAM¹
- High client intervention required
- Informal vendor relationship management is critical
- No separate governance organization/ Chinese walls
- "Single source of truth" such as an ITSM system may or may not be part of the expectations
- Potential for conflict could be high (depending on expectation setting and relationships with other vendors)

It is important to set guardrails and manage customer expectations on potential risks, as this is on a "best efforts" basis

¹ SIAM: Service Integration and Management



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Typical SIAM implementation phases

A SIAM implementation (setup) typically has a higher onsite presence as many of the steps involve direct supplier-client-integrator interactions

Planning and preparation	SIAM assessment	Requirements and TOM ¹ design	Process design and development	ITSM tool and process alignment ²	Training/handover of SIAM operations
Project launch	Due diligence (governance, contract, organization policies, data, tools, and technology)	Conduct joint process workshops	SIAM process definition (guideline, procedure, template, and work instructions)	Configure ITSM environment	Process-specific trainings
Initial stakeholder meetings	Prioritize requirements and decide implementation sequence	Collect, review, and incorporate workshop feedback	Agree upon ways of working	Process configuration and workflows	ITSM tools-specific trainings
Project plan sign-off	Identify strategic and transactional suppliers	Freeze and sign off on the process requirements & target operating model	Process definition and design	Add items, groups, etc., aligned to the service catalog	Knowledge acquisition by run team
Preparation of detailed workshop schedule	Individual supplier assessment including service scope, current processes, etc.		Define functional requirements and integration rules	Configure SLA, OLAs, reports, etc.	Supplier onboarding
Alignment with the client and service towers			Review, feedback incorporation, and sign-off on updated processes and operating guidelines	UAT, bug fixes, and sign-off	Hypercare / early life support

¹ TOM: Target operating model

² ITSM configuration (implementation and multi-supplier integration) may or may not be part of the scope. The responsibility of the SIAM setup resources during the configuration of ITSM environment is to share the functional know-how of the processes and test the processes that have been configured in the ITSM tool



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Research calendar – PricePoint™

Published
 Planned
 Current release

PricePoint reports	Release date
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	April 2020
PricePoint™ Q1 2020 – Points to Consider in the Pricing of Outsourcing Services	Q3 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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