

PricePoint™: Q1 2020 – Points to Consider in the Pricing of Outsourcing Services

January-March 2020: 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™](#)
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Background of the report

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

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



These symbols represent the impact of each price driver on the overall pricing in isolation.

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

Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q1 2020

Overall trend in Q1 2020

The demand for ITO deals in this quarter remained stagnant, whereas a fall in the share of new deals was observed as compared to the last quarter. The impact of the ongoing pandemic was evident with a substantial fall in revenue growth rate and a decline in operating margins owing to demand- and supply-side constraints due to the suspended operations; accompanied by continued headwinds from BFSI¹ sector in the US and the UK. Hence, pricing declined at both offshore and onshore locations in this quarter

Outlook for Q2 2020

As the spread of the novel coronavirus (COVID-19) is expected to deepen in the upcoming quarters, it will add further pressure on the price and margins for service providers. This would be on account of budget cuts and lowered discretionary spend from the enterprises pertaining to supply chain disruptions and reduction in consumer spending. Service providers can offset losses by prioritizing cost reductions, rethinking business continuity, and tapping on upcoming demand for digital technologies. Pricing for IT services is expected to fall dramatically in Q2 2020

Dimension	Price driver	Impact in Q4 2019	Impact in Q1 2020	Conclusion
Demand-side factors	Deal size	↑	↑	<ul style="list-style-type: none"> The share of small (ACV < US\$10 million) deals increased, whereas the share of mid-sized (US\$10 million < ACV < US\$50 million) declined and the share of large (ACV > US\$50 million) deals remained stagnant in Q1 2020 vis-à-vis Q4 2019 The overall deal count remained stagnant in Q1 2020 as compared to the last quarter The share of ADM² deals increased, whereas the overall share of Infrastructure Outsourcing (IO) deals declined in this quarter vis-à-vis last quarter The share of new deals as a percentage of the total deals declined marginally as compared to the previous quarter <p><i>(Refer to pages 10 and 11 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 in Q1 quarter as compared to the last quarter Overhead expenses as a percentage of revenue increased in Q1 2020 vis-à-vis Q4 2019 Both Indian as well as global service providers witnessed a significant decline in revenue growth rate and experienced eroded margins as well <p><i>(Refer to pages 12 and 13 for details)</i></p>
	Overhead cost	↓	↑	
	Financial performance	↔	↓	
Macroeconomic factors	Inflation	↑	↔	<ul style="list-style-type: none"> Wage growth across both India and the US remained flat. Growth in facilities and real-estate remained flat in this quarter The average value of INR depreciated by 1.05% against USD in Q1 2020 <p><i>(Refer to pages 14 and 15 for details)</i></p>
	Forex rates	↔	↓	

1 BFSI: Banking, Financial Services, and Insurance

2 ACV: Annual Contract Value; ADM: Application Development and Maintenance

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)



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



Key macroeconomic factors

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



Note: In the next page, 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 Q2 2020

Featured research offers a guidance on solutioning for autonomous cars using Hadoop and Big Data

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Levels of driving automation (page 1 of 2)

The below classification of level of autonomy is defined by Society of Automotive Engineers (SAE) and is the most referred to global standard (SAE J3016™). The U.S. Department of Transportation (DoT) uses this J3016's six levels of automation for on-road motor vehicles in its "Federal Automated Vehicles Policy".

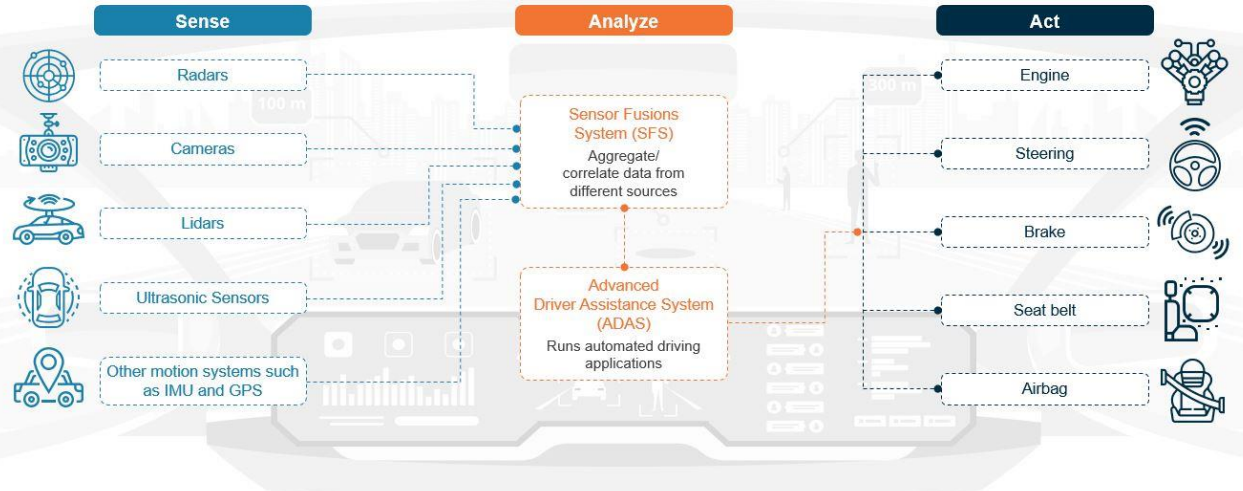
On-road and widely available			On-road since 2017 <small>Multiple releases planned for 2020</small>		Currently only under test phase
Level 0	Level 1	Level 2	Level 3	Level 4	Level 5
No automation	Driver assistance	Partial automation	Conditional automation	High automation	Full automation
Human driver has full control	Steering or brake acceleration support	Steering and brake acceleration support	Performs most driving tasks	Performs all driving tasks	Performs all driving tasks
Driving environment is monitored by human driver			Driving environment is monitored by automated system		
Needs constant supervision of support features			Human override is required when feature requests	Full control in most circumstances. Human override is still an option	Full control circumstances. No Human override

Source: SAE (Society of Automotive Engineers) International

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Components of autonomous car



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Research calendar

PricePoint™

Published
 Planned
 Current release

PricePoint™ reports

Release date

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	July 2020
PricePoint™ Q2 2020 Points to Consider in the Pricing of Outsourcing Services	Q3 2020

Note: For a list of all of our published PricePoint™ reports, please refer to our [website page](#)



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