

PricePoint™: Q2 2020 – Points to Consider in the Pricing of Outsourcing Services

April-June 2020: Complimentary Abstract / Table of Contents



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

- Accelerators™
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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

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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 fee
- Specific peer intelligence

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 Q2 2020

Overall trend in Q2 2020

In Q2 2020, stringent lockdowns imposed worldwide severely impacted the operations for service providers. The demand for ITO deals in this quarter remained muted, with traction observed for deals involving cloud migration, cybersecurity, and digital workplace services. The fall in revenue growth rate was significant as it entered the negative territory due to demand- and supply-side constraints, which also led to a shift in operating margins, largely offset by cost optimization measures. Thus, pricing declined at both offshore and onshore locations in this quarter

Outlook for Q3 2020

In the upcoming quarters, provided that the spread of COVID-19 is suppressed and countries lift restrictions, it is expected that the overall macroeconomic demand might pick up. Additionally, with abridged supply constraints, pressure on the price and margins for service providers may also start to soften. Service providers are likely to focus on cost optimization and improvement in utilization rates by reskilling employees in the remote working model, that is predicted to transform into a hybrid model in future. Further, the acceleration in digital transformations led by the pandemic, can be leveraged by the service providers as an opportunity. Thus, the pricing for IT services is expected to decline in Q3 2020 as well

Dimension	Price driver	Impact in Q1 2020	Impact in Q2 2020	Conclusion
Demand-side factors	Deal size	↑	↑	<ul style="list-style-type: none"> The share of small (ACV¹ < US\$10 million) and mid-sized (US\$10 million < ACV < US\$ 50 million) deals increased, whereas that of large (ACV > US\$50 million) deals fell in Q2 2020 vis-à-vis Q1 2020 The overall deal count remained stagnant in Q2 2020 as compared to the previous quarter The share of ERP/SI¹, Infrastructure Outsourcing (IO), and ADM¹ deals remained stagnant in this quarter vis-à-vis last quarter The share of new deals as a percentage of the total deals remained stagnant in Q2 2020, as compared to Q1 2020 <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 fell in Q2 quarter, as compared to the Q1 2020 Overhead expenses as a percentage of revenue also declined in Q2 2020 vis-à-vis Q1 2020 Both Indian as well as global service providers witnessed a decline in revenue growth rate. Indian service providers recorded a fall in operating margin, however, the margins for global players improved marginally <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 stagnant in this quarter The average value of INR depreciated by 1.45% against USD in Q2 2020 <p><i>(Refer to pages 14 and 15 for details)</i></p>
	Forex rates	↓	↓	

1 ACV: Annual Contract Value; ERP/SI : Enterprise Resource Planning / System Integration; 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 Q3 2020

Featured research offers an assessment of automation potential across Record-to-Report (R2R) services

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Automation potential assessment | R2R (page 1 of 3)

The automation potential across different R2R processes have been typically observed to be lower than that of the P2P and O2C processes

Percentage of activities automated High (H) Medium (M) Low (L)
 Market adoption Rank 1 [] [] [] [] [] Rank 5 [] [] [] [] []
 Degree of reduction in FTEs [] Low [] Medium [] High

R2R processes	Percentage of activities automated	Degree of reduction in FTEs	Market adoption	Rationale (typical activities automated across this service line and insights)
Account reconciliations	M - H	[]	[] [] [] [] []	<ul style="list-style-type: none"> Automate balance sheet account reconciliations by extracting the GL information and period open items from ERP & accounting systems to populate and reconcile into standard templates for reconciliation based on rules Automate identifying unmatched transactions and routing them for investigation and resolution Creation of reconciling items with supporting documents and post into ERP after due date Automate the bank account reconciliation process
Journal entry processing	H	[]	[] [] [] [] []	<ul style="list-style-type: none"> Recurring Journal Entry (JE) creation through standard JE templates, scheduling, and JE validations such as account code combination Automatically sending for Journal Voucher (JV) approvals JE posting with supporting documents into ERP/finance systems
Month end close	M - H	[]	[] [] [] [] []	<ul style="list-style-type: none"> Automatic creation of routine period end tasks and allocation Automatic alerts/escalations on critical delays Reporting and tracking of month end close activities (in real-time) Automatic carry over and ageing of open items

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How automation potential varies? | R2R (page 1 of 2)

The automation potential depends on the operating environment complexity of the organization across their R2R processes

Tower characteristics	
Tower	R2R
Process inclusions	Account reconciliations, journal entry processing, month end close, intercompany reconciliations, fixed assets, treasury, regulatory reporting, general reporting, and FP&A
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 accounting standard variations and across countries/entities	Partly standardized operations with few policy variations across countries/entities	Highly standardized operations with accounting policy rigidity and minimum exceptions across countries and entities
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 or two locations
Process maturity	Second- and 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
Level of digitization	Low digital (high excel-based operations than standard R2R systems)	Partly digital (mix of excel-based operations & standard R2R systems)	Completely digital (recorded & processed through standard R2R systems)
Technology fragmentation	Legacy & non-standardized IT landscape (large no. of ERP/accounting systems varying by countries or entities)	Mix of legacy and modern IT systems	Highly modernized IT landscape with uniform ERP/accounting systems across entities/countries
Number of entities	Higher number of entities & business units	Medium number of entities/BUs	Lower number of entities & BUs
Governance	Low alignment of IT and senior management	High IT alignment but limited senior management involvement	High alignment of IT and senior management automation mandate

¹ A particular client may not have all the client environment parameters corresponding to low/medium/high automation potential scenario, however, it can still fall under a specific category if it meets the maximum parameters pertaining to that category as listed in the above table

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	September 2020
PricePoint™ Q3 2020 Points to Consider in the Pricing of Outsourcing Services	Q4 2020

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



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