



## Key Effectiveness Factors in Using Price Benchmarking to Improve Your Competitive Position

**Although outsourcing buyers are now benchmarking suppliers more than ever before, and suppliers are increasingly undertaking price benchmarking to gain perspectives on their competitive value, many don't realize there are key factors that impact the accuracy and reliability of the benchmarking assessment.**

*By Ross Tisnovsky, Everest Price Benchmarking Practice Leader*

In working with both suppliers and buyers to help ensure their outsourcing arrangements are structured to achieve optimal value, Everest notes a significant uptick in the amount of price benchmarking initiatives undertaken over the past year. This is especially true at times of contract renewal or in supplier-selection processes where offshore players are involved and price may be the primary basis of competitive differentiation.

Benchmarking enables suppliers to assess the competitiveness of their offerings identify performance gaps, and realize the strengths and weaknesses of what market rivals are doing. Benchmarking helps buyers gain insight into the cost elements that comprise supplier pricing and also identify underlying drivers for and impacts arising from various pricing models. Benchmarking is also a valuable component in successful remediation of pricing-related issues in an existing outsourcing relationship.

Clearly, benchmarking is a valuable tool in structuring and managing outsourcing relationships to achieve greater value. However, there are inherent fallacies in benchmarking that can create erroneous data and thus result in significant business risks for companies relying on such data for their decisions.

### Critical Success Factors Impacting the Value of Benchmarking

Through its experience in assisting clients in significant benchmarking initiatives, Everest has insight into the pitfalls associated with benchmarking. To avoid a benchmarking initiative resulting in erroneous data, we recommend ensuring the following aspects and practices.

1. **Ensure data comparability** (so-called apples-to-apples comparisons). Input-based pricing depends on such FTE units as function, role, skill set, location, and tenure. However, the nomenclatures and descriptions for roles and work elements vary among suppliers. Companies undertaking benchmarking activities can be led astray by data not based on apples-to-apples comparisons.

Therefore, when comparing pricing across various supplier situations, successful benchmarking depends on identifying the description of the

resource units (FTE role and work elements) that comprise the pricing drivers and on assessing the feasibility of benchmarking for each resource unit.

2. **Select a benchmarking partner whose methodology includes use of “live” data.** The second fallacy in using benchmark data is the accuracy and reliability of the data. A key parameter in selecting a benchmarking partner should be the extent to which it bases its benchmarking methodology on data from actual deals on which it has advised. This source of data ensures reliable data for the following reasons:
  - a. The benchmarking partner is in the best position to identify outsourcing deals arrangements that are most similar to the client’s situation, thus also to identify the data that is not relevant to a particular benchmarking initiative.
  - b. The benchmarking partner knows whether the data is actually from the best-and-final offer or from the price the parties agreed on.

In contrast to such “live” deal data, purchasing syndicated survey-based data or data from requests for information results in uncertain quality in that the data are not likely to reflect the aggressive prices resulting from actual proposals and signed contracts. Thus, a benchmarking initiative relying on such inaccurate data would result in sub-optimal (at best) or even erroneous data.

### Competitive-Advantage Information Suppliers Can Gain through Price Benchmarking

Price benchmarking offers outsourcing suppliers several avenues for gaining competitive-advantage information. The following four avenues are examples of the types of benefits from output information via price benchmarking initiatives.

- **Determine the ideal pricing model.** Price benchmarking results in validating a supplier’s cost-based pricing approach compared to industry best practices (such as incentives and reward-sharing) and compared to other pricing models (fixed price versus pass-through, for example). **Exhibit 1** displays the various components for comparison in price benchmarking

#### EXHIBIT 1

Outsourcing pricing models

Approach	Structure	Method	Adjustment
Input based	Unit based	Fixed price	Market
	Baseline	Pass-through	Inflation adjusted
Output based	Time & materials	Cost-plus	Incentive
	Milestone based	Open book	Reward sharing
Outcome based	Percentage of spend		

- **Enter a new market or new service delivery geography with appropriate pricing.** For new entrants in a sourcing geography, benchmarking can eliminate some uncertainties and ensure feasibility. Estimating the total costs of operating in a geography, followed by direct price benchmarking, enables suppliers to analyze the financial viability of entering that geography.
- **Ensure appropriate bids in proposals for services.** Knowing the combination of bottom-up cost build and direct price benchmarks for a new buyer project enables a supplier to prepare a competitive and appropriate price bid.
- **Understand areas for pricing optimization.** Pricing models for outsourced services are undergoing significant changes. Benchmarking provides insights to suppliers regarding these dynamic trends and enables them to identify potential areas for price optimization to propose to buyers.

Everest has significant experience in partnering with suppliers in the four avenues described above for gaining competitive advantages through price benchmarking initiatives. In addition, our methodology and data sets are based on “live” deal data from a wide variety of outsourcing arrangements in which we fill a trusted-advisor role for clients in structuring or remediating their contracts and relationships. We also possess data and insight to help suppliers relate benchmark data to their business strategy while aligning pricing with dynamic market trends.

If you would like to explore these and other issues surrounding benchmarking, please feel free to contact us. We can help ensure your proposals for new services and your existing outsourcing relationships are based on the optimal pricing structure.

## About Everest Group

**Everest Group** is a global consulting and research firm that comprehensively serves the outsourcing and offshoring market. An industry leader since creating the sourcing consultancy practice in 1991, Everest has earned a worldwide reputation for ongoing innovation by helping clients capture optimum value through the development and implementation of leading-edge sourcing strategies, including captive, outsourced, and shared-services approaches. We help companies create strategies and sourcing relationships that deliver total value – improving performance and results while effectively managing risks.

Since its inception, Everest has forged over 600 major outsourcing relationships, advising clients on complex sourcing issues in more than 30 key business processes worldwide. Our experience spans numerous Fortune 500 clients in banking, insurance, retail, energy & utilities, healthcare, manufacturing, telecom, media & entertainment, and hospitality sectors, among others.

The Everest Research Institute serves as a central source of independent and objective strategic intelligence, analysis, and actionable insight for leading corporations, suppliers, technology providers, and investors in the global outsourcing and offshoring marketplace. Our research analysts address both business process and information technology sourcing topics, providing the global outsourcing and offshoring community with information that empowers highly productive, sustainable sourcing strategies and relationships.

Through a uniquely integrated consulting and research delivery model, Everest offers its clients the flexibility and scalability to support a broad scope of business situations, client needs, and project requirements. Service offerings range from comprehensive support for critical initiatives to modular support for ad hoc inquiries.

Everest is headquartered in Dallas, Texas, and has offices in New York, Toronto, London, Amsterdam, New Delhi, Melbourne, and Sydney. For more information, please visit [www.everestgrp.com](http://www.everestgrp.com) and [www.everestresearchinstitute.com](http://www.everestresearchinstitute.com).

**For more information about Everest Group, please contact:**

Everest Group

Phone: +1-214-451-3000

E-mail: [info@everestgrp.com](mailto:info@everestgrp.com)

**For more information about this topic please contact the author:**

Ross Tisnovsky, Everest Price Benchmarking Practice Leader  
[rtisnovsky@everestgrp.com](mailto:rtisnovsky@everestgrp.com)