



Optimizing Prices of Outsourced Services

How to make benchmarking work for you?

June 2013

The outsourcing industry has witnessed a multitude of changes over the last two years that have altered the pricing dynamics radically

Three reasons why your prices might not be reflective of the current market rates:

- 1 Significant fluctuations in macro-economic factors
- 2 Decline in premium for specialized and language-based skills
- 3 Increased competitive intensity between outsourcing service providers



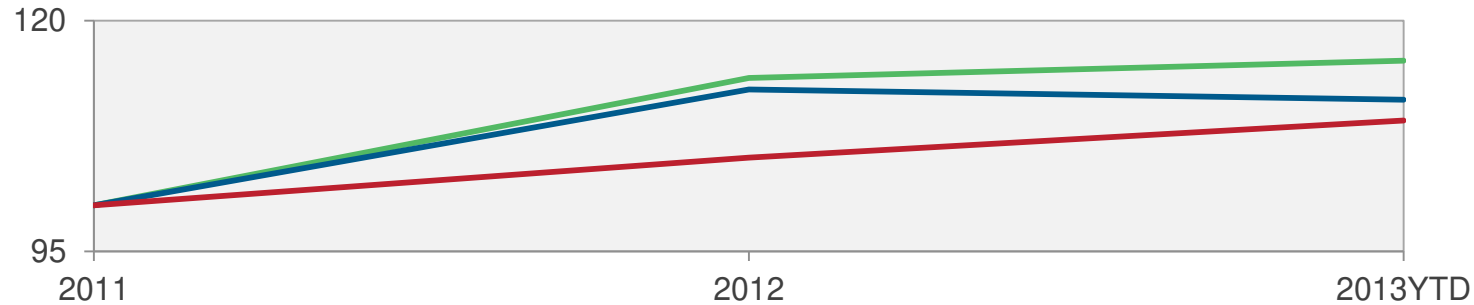
Though your prices might have been competitive when they were originally contracted, if they have not been calibrated with benchmarks in the last 12 months, you could be overpaying by up to 15%

Favorable trends in macro-economic factors: depreciation of Indian Rupee, decline in inflation

1

Currency of the most prominent offshore location (i.e., India) has depreciated significantly against \$, €, and £

Yearly average forex conversion rates (Indexed)

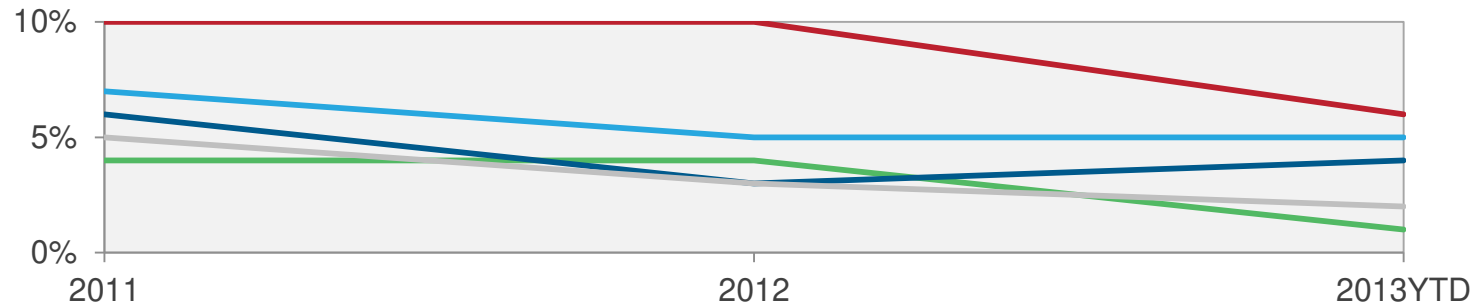


Depreciation between 2011-2013

- 14% (USD:INR)
- 10% (GBP:INR)
- 8% (EUR:INR)

Inflation in most delivery locations across the globe has reduced

Annual consumer price inflation



Decline in inflation rate between 2011-2013

- India (3%)
- Brazil (2%)
- Romania (2%)
- Philippines (3%)
- Poland (4%)

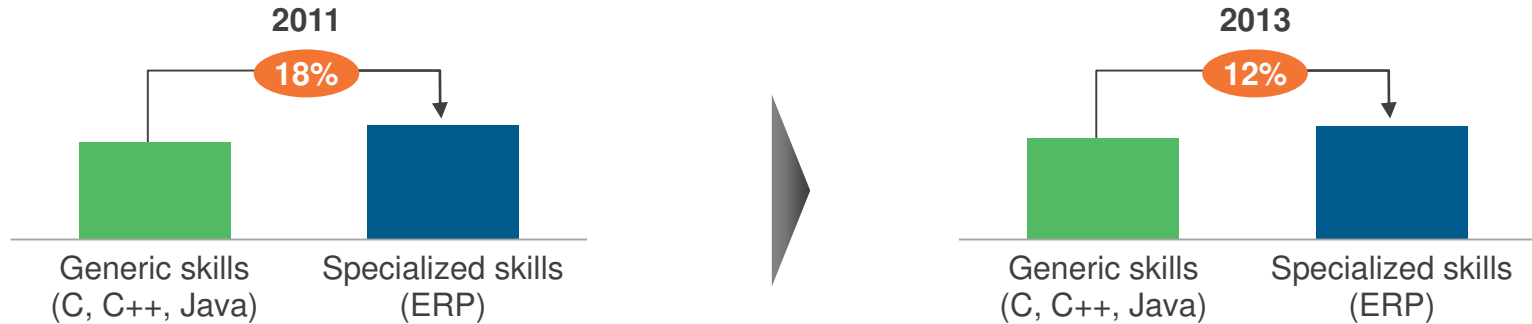
These macro-economic changes have led to downward price revision in majority of the contracts in 2013

Decline in premium for specialized and language-based skills

2

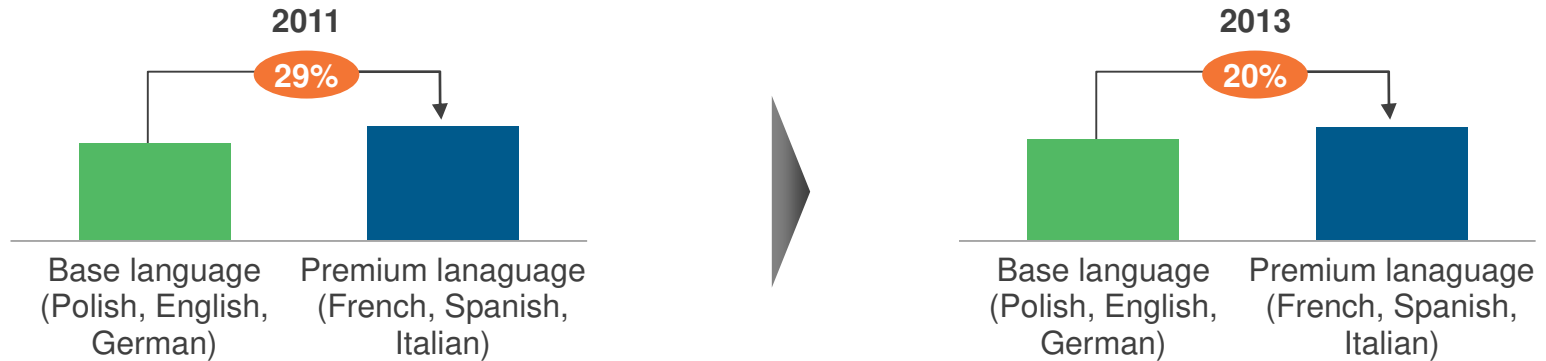
Skills earlier deemed as “highly specialized” are getting commoditized leading to lower price premiums

Actual IT-ADM deal example: Comparison of specialized skill premium across years in the **same** deal



Increased availability of talent has led to decline in language-based price premiums

Actual FAO deal example: Comparison of language premium across years in the **same** deal (delivery center in Poland)



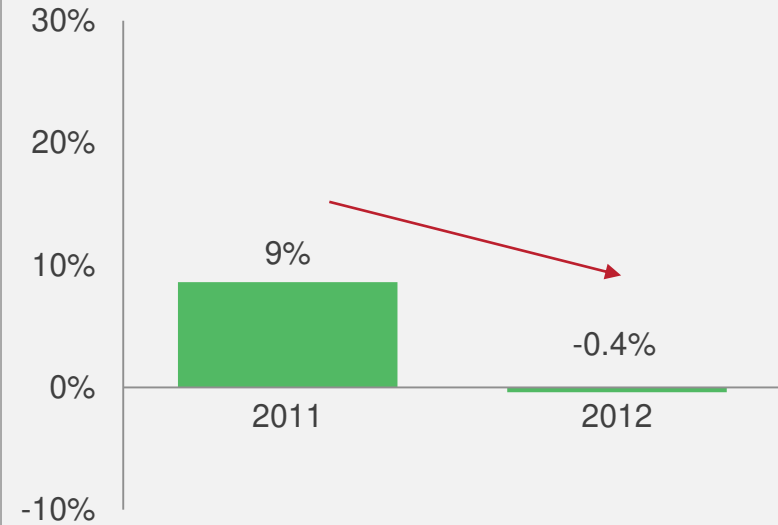
The decline in premium for “specialized” skills in ITO and language-based skills in BPO has created a price negotiation opportunity for buyers

Competitive intensity at all time high, amid indications of lower growth in the market

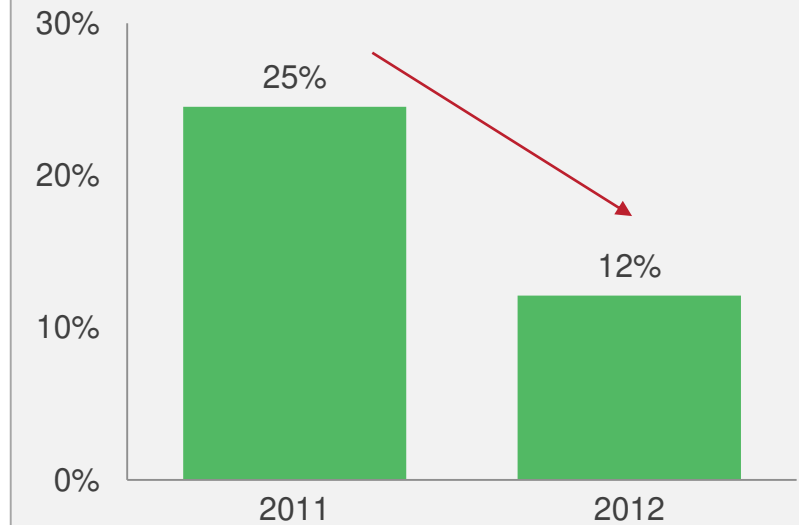
3

Revenue growth of outsourcing service providers declined significantly during 2011-2012

Revenue growth (Y-o-Y) – Global providers average



Revenue growth (Y-o-Y) – Indian providers average



Decline in service providers' growth rates has led to increased competition and pricing aggression. In the last 6 months, price benchmarking has helped our clients to reduce their outsourcing spend by up to 15%

There is a large number of organizations that offer “price benchmarks.” Ironically, there is a large number of reasons why those benchmarks can be erroneous

Benchmarkers providing “off-the-shelf” and “quick and dirty” metrics fail to give buyers any negotiation leverage. Here are some questions you should ask before selecting your benchmarking service provider:

1. Does the benchmarker offer first-hand, contemporary, and best-in-class data repository?
2. Does the normalization process account for accurate nomenclatures, proxies, inflation, forex changes, etc.?
3. Beyond the metrics that highlight variances, are you getting context that is essential for decision making?
4. Does the output include the resource unit details in order to ensure apples-to-apples comparison?
5. Does the benchmarker have a pressure-tested approach to render guidance for less mature functions/locations?
6. Is the benchmarking only reflective of past pricing or does it provide forward looking guidance on price expectations?
7. Does the benchmarker have exposure to buy and supply sides of sourcing mandates; are the credentials robust?



Everest Group has a dedicated Price Benchmarking team that has tested and refined its value proposition for each of the above on 100+ benchmarking engagements


Does the benchmarker offer first-hand, contemporary, and best-in-class data repository?

Everest Group's Value Proposition #1: Pricing data sourced from live-deals

Evaluation of multiple live global deals

Does not include any purchased, third-party, or survey-based data

Service Scope	Service Location	COOL	Transition cost	Pricing Structure	Pricing Unit	Person budget	2007	2008	2009	2010	2011
Supply Chain Accounting	Bangalore	Shared	Upfront	Fixed	Price per FTE	2000	3	3	3	3	
Standard Product Cost	Bangalore	Shared	Upfront	Fixed	Price per FTE	2000	16	16	16	16	
Cost of Manufacturing	Bangalore	Shared	Upfront	Fixed	Price per FTE	2000	1	1	1	1	
Production	Bangalore	Shared	Upfront	Fixed	Price per FTE	2000	17	17	17	17	
ITC Support/Activities	Bangalore	Shared	Upfront	Fixed	Price per FTE	2000	17	17	17	17	



Offshoring Opportunity Analysis
May 2012

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Sources of Information:
1. Everest Research Institute, 2007
2. Everest Infrastructure Management Outsourcing Survey, 2006

Acknowledgement:
We thank the following companies for sharing information used in the document.



INDEX Requires your inputs

Worksheet Name
[Quick Estimate](#)

Purpose:
Concise table providing quick estimate of aggregated cost savings across IT organization without detailed analysis by tower, takes role-wise FTEs as input

Data Center
 Table indicating cost saving on offshoring functions inside data center tower

Desk top
 Table indicating cost saving on offshoring functions inside desk top tower

Network
 Table indicating cost saving on offshoring functions inside network tower

Helpdesk
 Table indicating cost saving on offshoring functions inside help desk tower

Summary
 Summary information of savings from all towers

Assumptions (scenario)
Listing of all assumptions made for three offshoring scenarios

Assumptions (cost)
Listing of typical offshore FTE rates for each tower by function

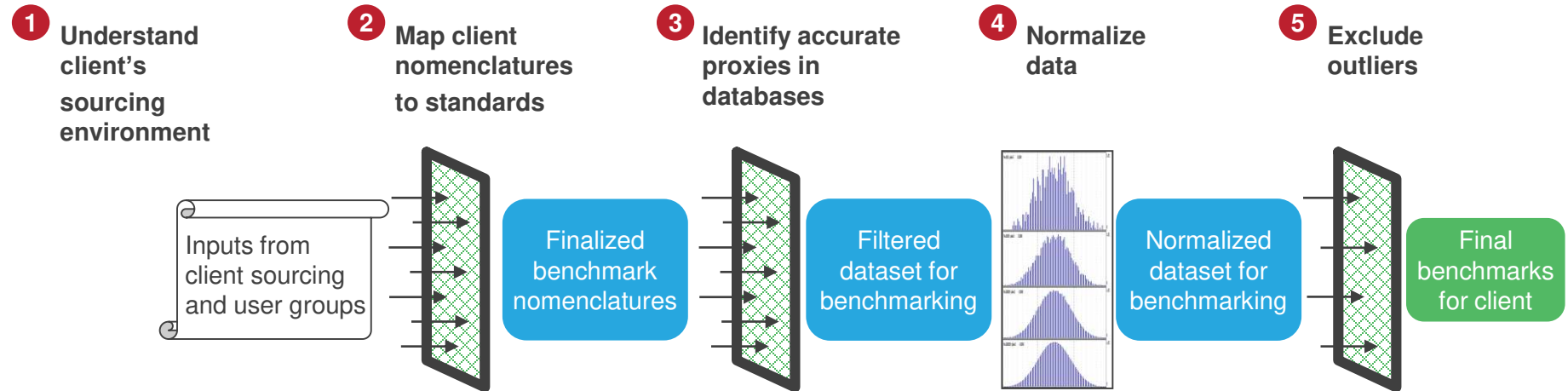
Notes:
This section's content for quick calculations with less data required to be needed.
The worksheets in this section may be used to calculate in the detail cost savings achieved in each tower and location. Requires FTE and cost estimation at function level.

- We use **CLEAN** deal-data from ~50 ITO deals and ~80 BPO deals (<2 years old), each with its set of participating service provider pricing (i.e., multiple price per deal)
- Deal data comprises of **only service provider BAFO (final-bid) pricing** totaling to over ~10,000 price points across roles and locations
- Extensive coverage of key delivery locations across the globe
- Pricing for Tier-1 and Tier-2 Global as well as Indian service providers

Does normalization account for accurate nomenclatures, proxies, inflation, forex changes, etc.?

Everest Group's Value Proposition #2: Comprehensive normalization of data

Everest Group's normalization process



Understand key characteristics such as

- Role or resource unit descriptions
- Volumes of roles / resource units
- Delivery locations
- Service levels
- Pricing model

Buyer/service provider nomenclatures tend to differ in terms of descriptions, SLAs etc. Everest Group maps these nomenclatures to its standardized format for apples-to-apples comparison

Isolate deal data points with characteristics that match client's requirements including:

- **Buyer industry**
- **Deal size/scope**
- **Role/resource units**
- **Volumetrics**
- **Delivery locations**

Pre-2013 data is **normalized to factor forex and inflation** movements in service delivery location in order to reflect current pricing trend

- Perform analysis to cluster similar skills for price analysis
- Remove the low and high end price outliers to preserve data accuracy
- Retain the 20th percentile to 80th percentile values, and calculate the median pricing for each role

Beyond the metrics that highlight variances, are you getting context that is essential for decision making?

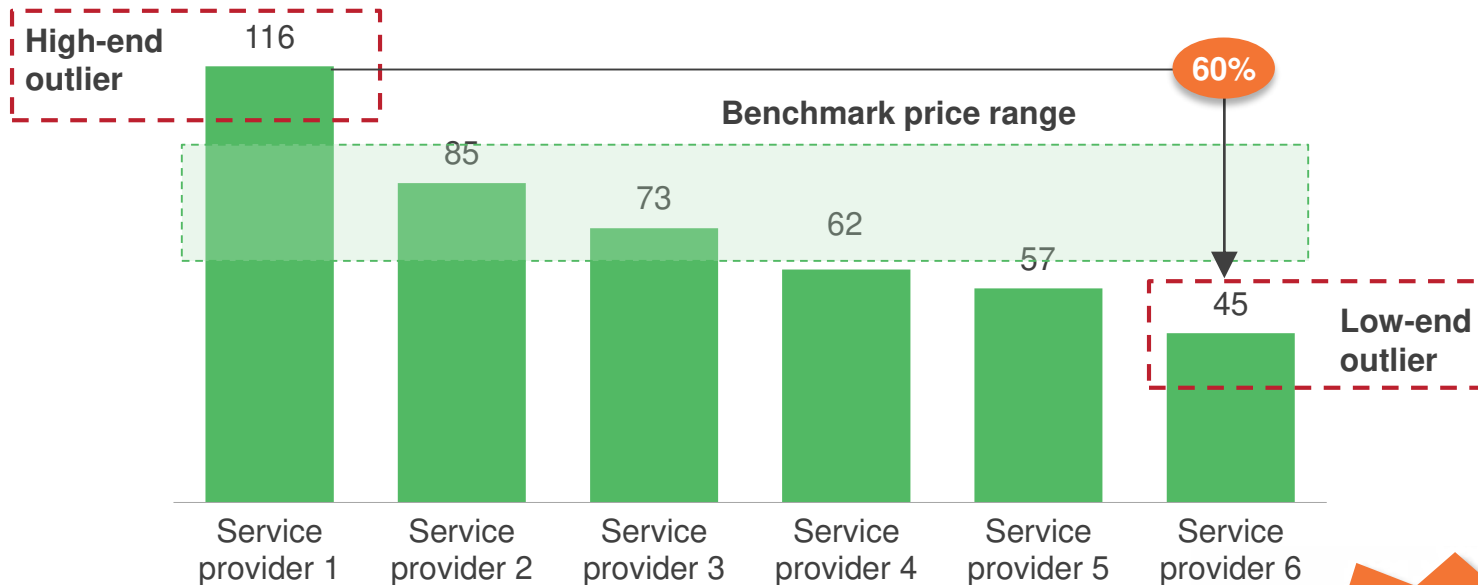
Everest Group's Value Proposition #3: Contextualized benchmarks

As Everest Group derives its benchmarks from live deals that it has advised on, it can provide the additional context behind numbers to help drive focused price negotiations

Indexed onsite rates for Project Manager role¹

Median rate, base index = 100

FTE PRICING EXAMPLE



Benchmark context

- Resource up-skilling
- Relevant 'value-add'
- Multiple competency JD

- Resource 'force-fit'
- Low cost Tier-2 provider
- Cross subsidization

Low pricing may not always be beneficial; higher price may sometimes be justified

¹ Rates are representative of pricing from deals of similar size and scope

Does the output include the resource unit details in order to ensure apples-to-apples comparison?

Everest Group's Value Proposition #4: Detailed benchmarking deliverables

Based on
final-bids from
Live-deals only

Expected outcomes

- Rates for onshore, landed, and offshore delivery models
- Pricing range for each service provider category (Global and Indian service provider)
- Discrete price benchmarks for each role and location

Sample deliverable (IT FTE-pricing example)

Role characteristics: IT Systems Analyst

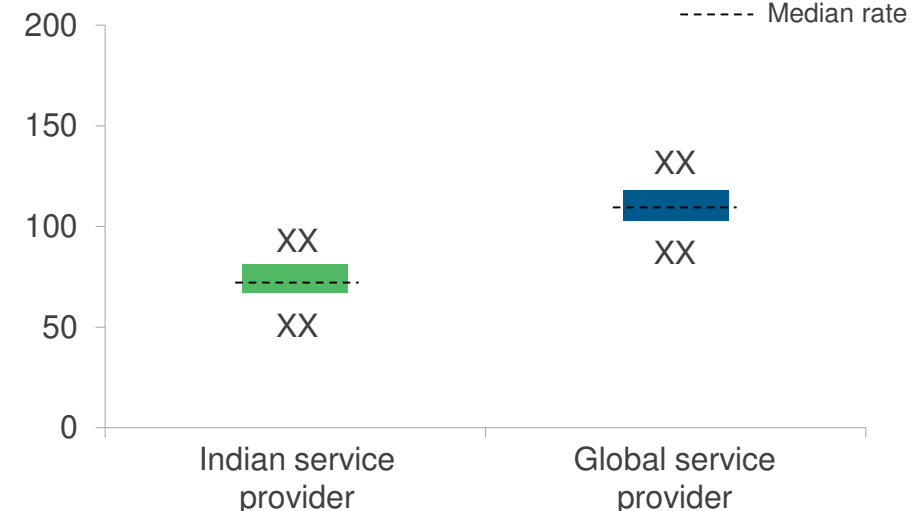
Tenure: 1-3 years

Qualification: Bachelors degree in Engineering

Description:

- Reviews, analyzes, and evaluates business systems and user needs
- Documents requirements, defines scope and objectives, and formulates systems to parallel overall business requirement

Typical onshore pricing per FTE in U.S. US\$ per hour 2013



Does the benchmarker have a pressure-tested approach to render guidance for less mature functions/locations?

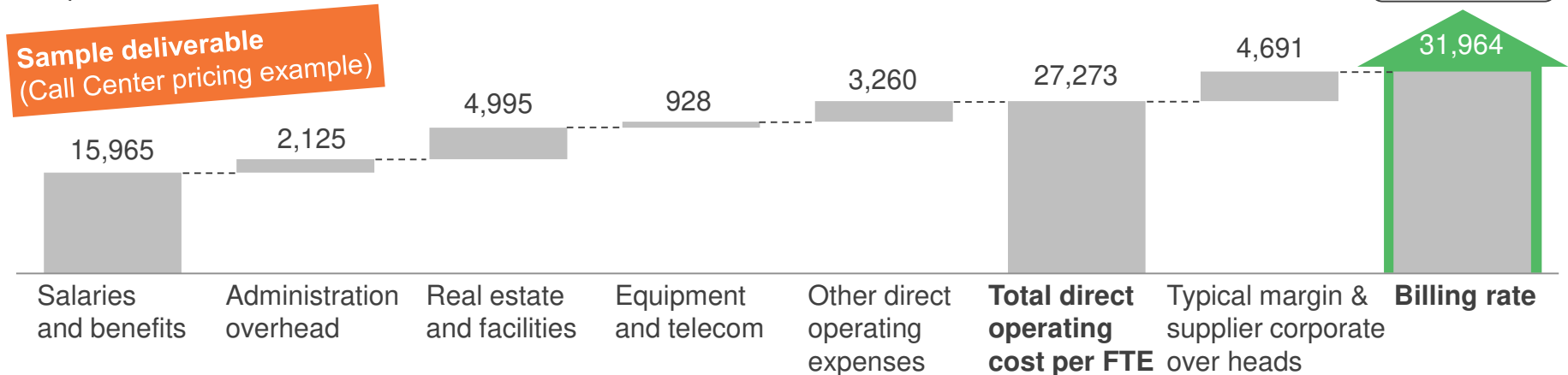
Everest Group's Value Proposition #5: Robust estimation process

Expected outcomes

- Insight into service provider operating costs, mark-up and pricing
- Average price estimate for a given role in a given delivery location
- Clarity on location-specific cost-side drivers (wage, real-estate inflation, resource availability etc.)

Senior Agent – Price build-up per FTE in Costa Rica

US\$ per annum



Typical utilization-based rates

US\$ per hour

■ Practical price estimate

Benchmark role	Experience (years)	Pricing Unit	Ground-up benchmarking rate (100% utilization)	Utilization-based rates for Costa Rica				
				85%	80%	75%	70%	65%
Snr. Agent	-	Hourly	16.6	19.6	20.8	22.2	23.8	25.6

1 Hourly rate built assuming 1920 annual billable hours and 100% utilization. Refer utilization-based rates for practical price estimates

Is the benchmarking only reflective of past pricing or does it provide forward looking guidance on price expectations?

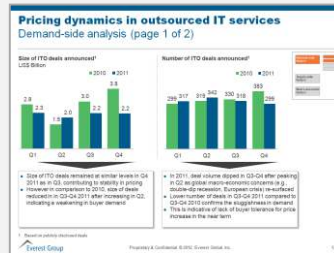
Everest Group's Value Proposition #6: Actionable guidance on pricing outlook

Everest Group complements its benchmarks with guidance on future pricing based on assessment of key cost and price drivers

Demand-side analysis

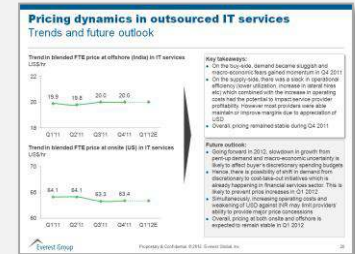
Analysis of key demand parameters:

- Deal size
- Deal volume
- Value mix
- New deals vs. renewals

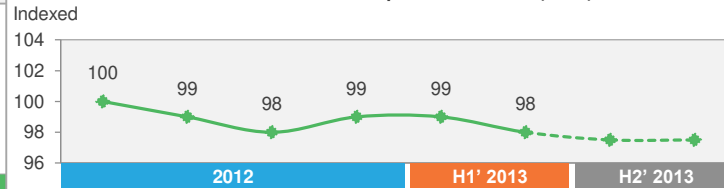


Pricing cues

Assessment of overall industry sentiment related to pricing based on service provider briefings, as well as direct conversations with buyers and services providers



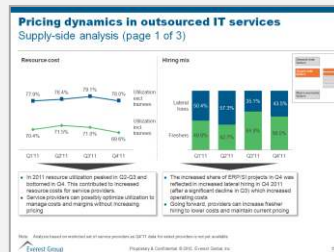
Trend and future outlook for blended FTE price at offshore (India)



Supply-side analysis

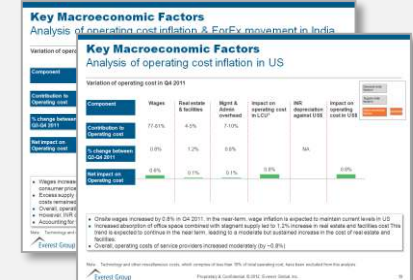
Analysis of service provider dynamics:

- Resource cost
- Overhead cost
- Hiring mix
- Onshore-offshore mix
- Financial performance



Key macro-economic factors

Impact of inflation and forex movements on operating costs in key delivery locations



Does the benchmarker have exposure to buy and supply sides of sourcing mandates; are the credentials robust?

Everest Group's Value Proposition #7: Established past credentials

Client category

Objectives fulfilled

Buyer

- Benchmark ongoing contracts for price optimization and focused negotiations
- Evaluate additional savings potential by optimizing delivery e.g., Tier-2 locations, flatter pyramids etc.
- Vet service provider bids for apples to apples comparison and optimum value for money
- Compare and validate provider pricing at multiple global delivery locations
- Rationalize outsourced skill portfolio and optimize commensurate spend

Service provider

- Understand current cost-price-skills landscape as a new entrant into a sourcing geography
- Understand practical price premiums associated with specific value-adds
- Understand pricing trends and potential areas for price improvement
- Validate delivery and pricing models compared to industry best practices

Sample pricing advisory clients in 2009-2012



Everest Group

Leading clients from **insight** to *action*

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