Everest Group®

Beaconfield Partners™

Service Provider Pricing:
Key Opportunities to Improve Costs Now

Introductions

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Beaconfield Partners Introduction

Beaconfield
Partners™
Analysts & Advisors

www.beaconfieldpartners.com

Benchmarking & Assurance

- Benchmarking
- Price Assurance
- Market Sounding
- NextGen Contracting
- Governance & QA

Everest Group®

Commercial Advisory & Sourcing

- Deal Structuring
- Vendor Strategy
- Competitive Dialog
- Tendering / Evaluation
- Negotiation / Contracting

Program Delivery & Turnaround

- Contract Management
- Vendor Management
- SIAM Implementation
- Program Governance
- Portfolio Planning

Context setting

Focus of this webinar

- Are you still over-paying for services in the face of COVID-19 cost pressures?
- When and how much should you negotiate on pricing?
- What are the win-win levers to pull?

Sources for today's webinar

- Everest Group's recent sole-sourced and competitive deal advisory experience
- Perspectives from recent mid-tenure contract and strategic engagement reviews
- Discussions with multiple enterprise strategic out-sourcing stakeholders

Discussion points for today

- **Where are we now?**
- Where are the opportunities?
- Optimization versus structural change approach
- Q&A

COVID: The story so far

1 Despite difficulties, we figured out remote delivery (eventually)

2 The operating model got exposed at the board level

3 Enterprises (some) have moved to a recession mindset

4 The C-suite is seeking to drive structural changes

The coronacrisis is changing the use of 3rd party service providers very quickly – where is your organization?

STAGE 1

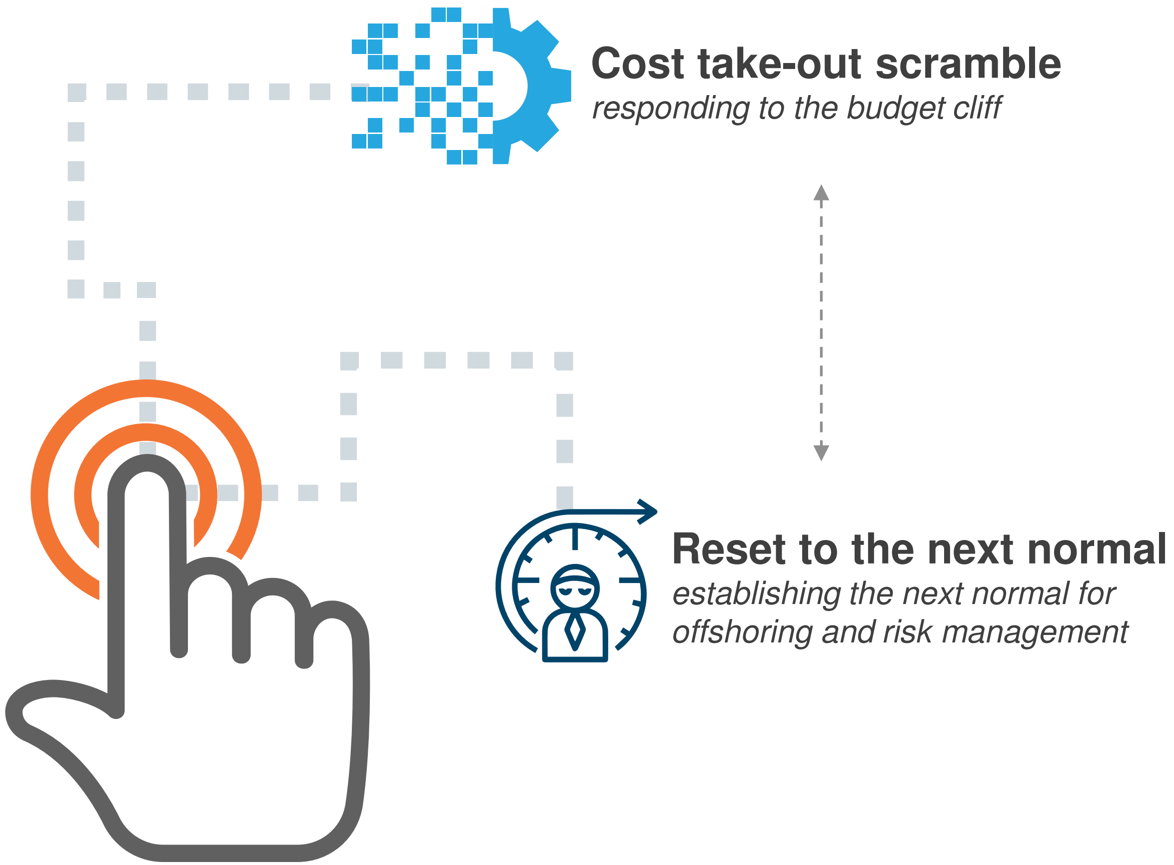
Work-from-home scramble

finding the infrastructure to enable remote work

STAGE 2

Resource continuity planning

enabling productivity and preparing for large-scale medical absenteeism



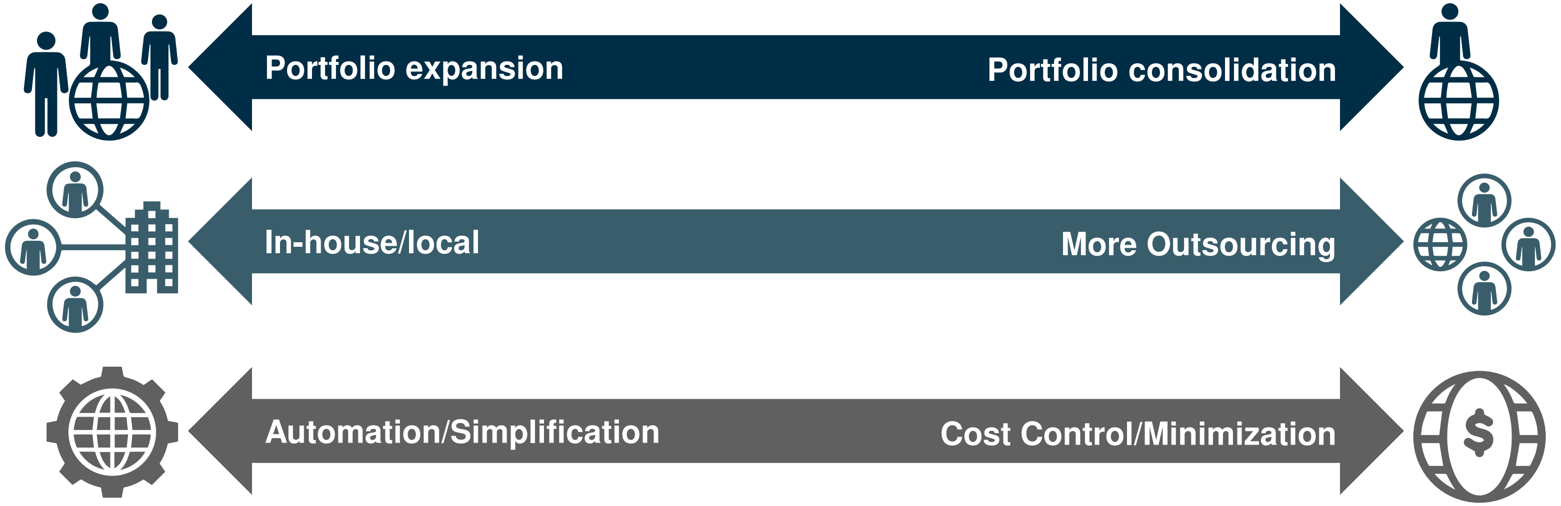
All options on the table as enterprises prepare for the next normal

Goals

Dramatically reduce costs

Lower risk exposures

Increase productivity



Our research shows organizations have already moved into cost cutting mode, while also focused on agility and risk

What are you doing to prepare for the “next normal” (or to return to some sort of business as usual)?

	Significant effort	Neutral	Almost no effort
Reviewing workforce flexibility options (scheduling, work-from-home, office layouts, health monitoring, etc.)	75%	8%	17%
Reigning in operational costs	71%	13%	15%
Updating business continuity and risk-related planning	69%	17%	13%
Cutting external spend	62%	15%	23%
Evaluating more balanced / different location strategies	50%	15%	35%
Implementing new technologies for automation/analytics	48%	27%	25%
Implementing/revising outsourcing / shared services scope and supplier strategies	38%	29%	33%
Eliminating processes that we realize do not need to be done	37%	27%	37%
Accessing new financing strategies	37%	23%	40%

Poll question #1

Where are the biggest opportunities for your organization? (select the top 3)

- High bill rates and role over-skilling
- Poor 3rd party leverage
- Inadequate continuous improvement expectations
- Correcting embedded terms like inflation, currency
- Obsolete solutions/technology

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Our convictions

1 A budget cliff is here – *faster and steeper* than expected

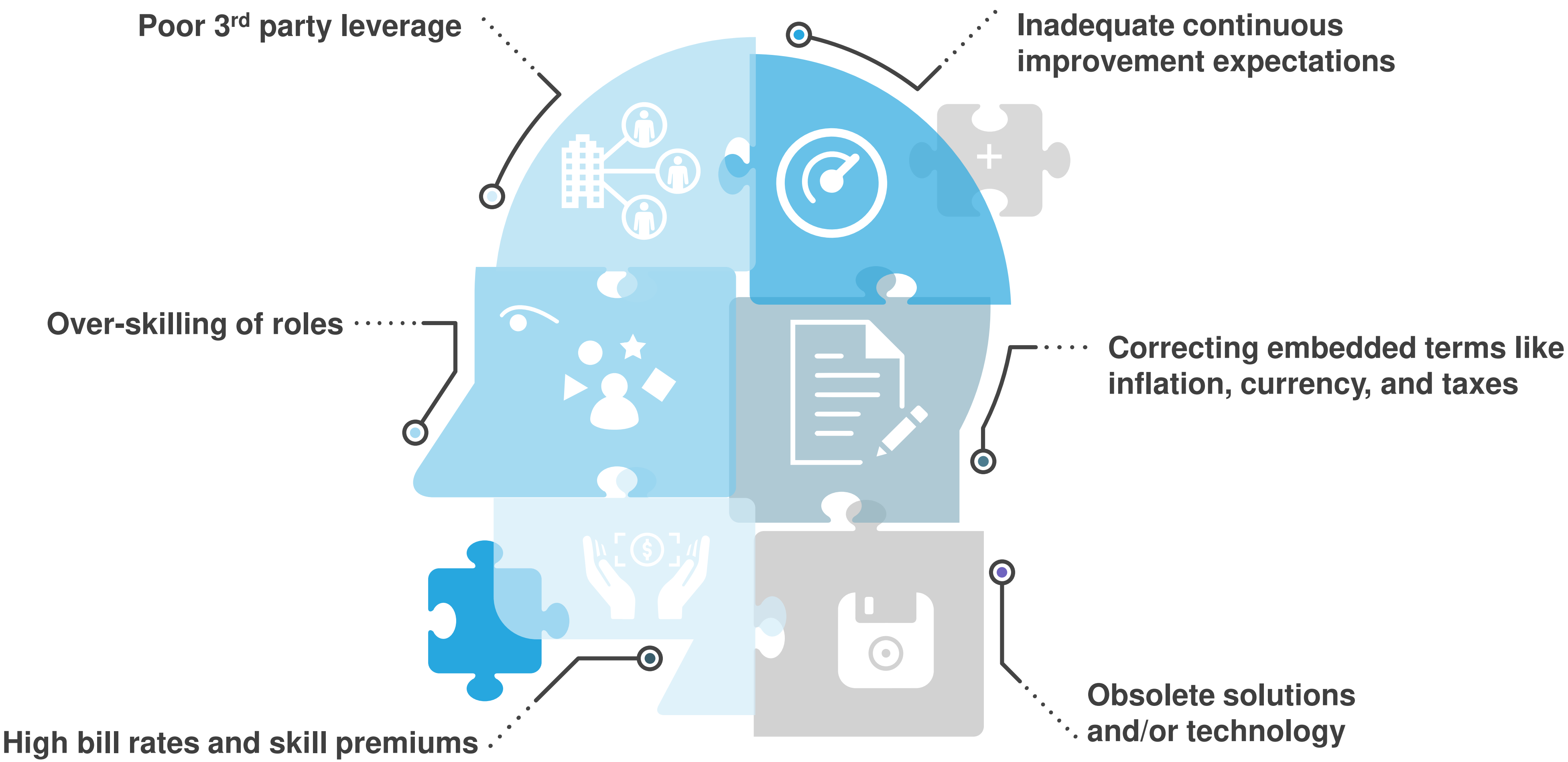
2 Smart leaders are using the crisis to *“rip off the Band-Aid”*

3 Investments in digital and modernization will increase *rapidly*

4 *Everything* is on the table

5 Window for change will be measured in *months, not quarters*

Most enterprise services portfolios have multiple sources of value leakage that should be addressed pre-emptively



In every portfolio review we have performed, these issues consistently surface

Work from Home (WFH) does not imply an immediate reduction in operating costs for service providers

BASED ON EVEREST GROUP INTERNAL ANALYSIS

Factors leading to an increase in cost for the Service Provider

- Costs related to information security measures when employees are working from home – VPN, etc.
- Costs related to providing employees with data cards or reimbursing for home broadband connections
- Losing favorable tax benefits when not delivering out of SEZ locations
- Slightly higher equipment costs due to moving from desktops to laptops and many users having multiple devices

Factors leading to a decrease in cost for the Service Provider

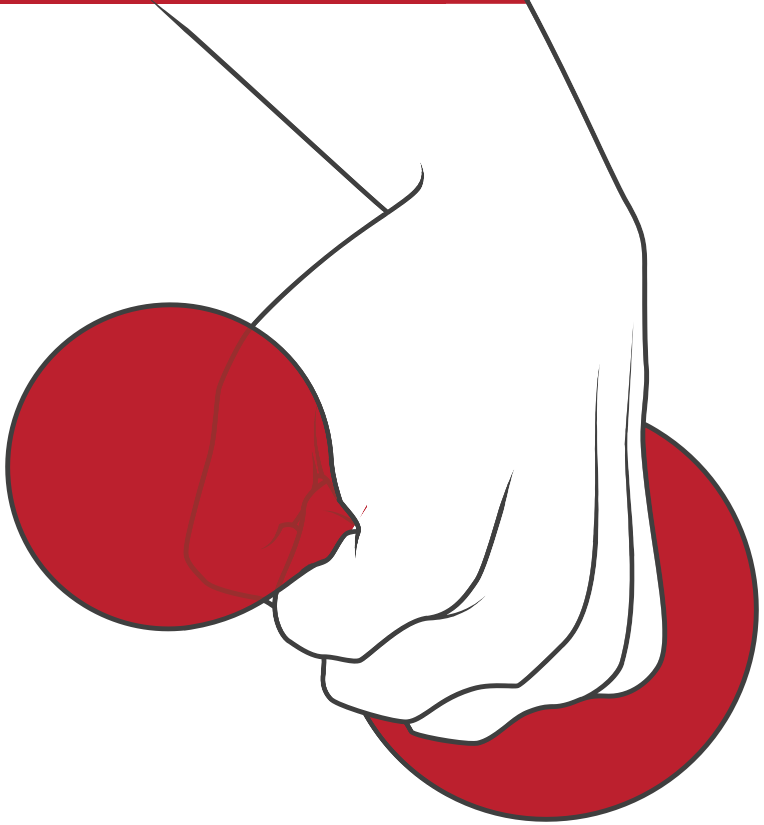
- Lower real estate, electricity and internet bandwidth costs due to significant staff working from home
- Lower costs related to Transport expenses and food allowance for resources working during non-business hours shift

In the short term (6-9 months), we anticipate service provider costs to go up. However, in the medium term (18-24 months) reduction of certain cost heads coupled with currency depreciation can cause the delivery costs to go down by 3-5%

Going in with a standard "one size fits all" discounting request can be counter-productive for enterprises

"I need a 10-15% discount on rate cards…"

"…you as a service provider can afford it, as your net margin is high"



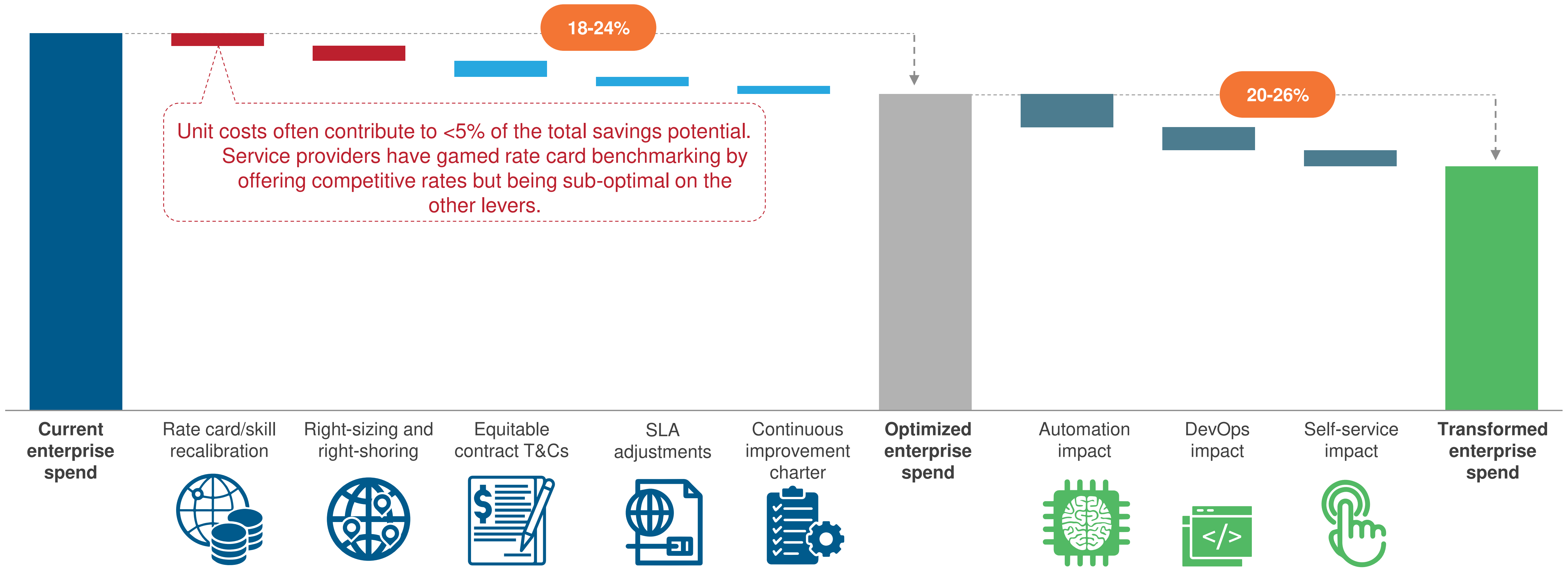
Considerations

- A well-thought, strategic approach to cost takeout
- Focused on "win-win" themes to drive the right provider behavior
- Start with knowing where you stand vis-à-vis market benchmarks
- Prioritize contracts/functions with the most cost bloat

Focusing on only unit cost (rate cards) leads many enterprises to miss out on significant savings opportunities

Spend improvement potential in 3rd party contracts
Representative levers and impact, application services example

xx Savings potential



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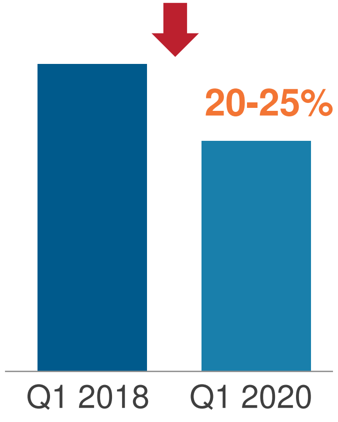
IT infrastructure is an area where pricing has declined significantly over the past two years

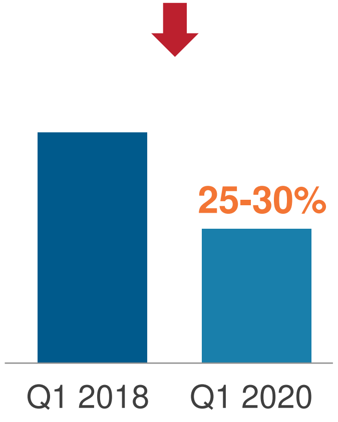
PER RECENT LIVE DEAL EXPERIENCE

Fact: IT infrastructure unit pricing for specific resource units has declined by up to 20-30% over the past two years. Are you still in the legacy era?

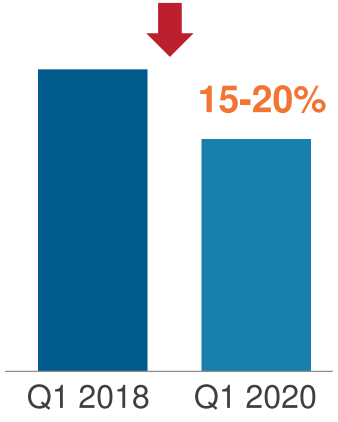
Price per VM



Price per TB of storage



Price per integrated log source (SIEM)



Additional context		
• 500-2,000 VM environment • Year 1 price in the deal • Remote management support	• 2-5 PB environment • SAN tier 1 storage • Year 1 price in the deal • Remote management support	• 2,500-3,000 EPS environment • Year 1 price in the deal • Full managed service as a price (includes cost of SIEM tool)

Enterprises continue to pay high premiums for skills that have potentially become more commonly available

Examples of "hot" skills: in high demand	Examples of "not as hot" skills: demand stabilizing

- Big data and analytics
- Full stack development
- Microservices
- Cloud based ERP
- UX Design
- Cognitive (ML/NLP)
- Master data management
- Agile

- SAP S/4 HANA
- Automation testing
- Enterprise content management
- Robotic process automation
- Enterprise collaboration skills
- ETL
- SCM

	"Hot" skills	"Not as hot" skills
Pricing premium over generic development skills	**15-40%**	**5-18%**
Change in pricing premium over the past 18-24 months	**Increased by 3-10 percentage points**	**Decreased by 5-8 percentage points**

Poll question #2

What levels of effective rate changes are you targeting?

- 0-3%
- 4-8%
- 9-13%
- 14-19%
- 20+%

Discussion points for today

- Where are we now?
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- **Optimization versus structural change approach**
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There is a limit to which unit prices and indexation can be negotiated, so it is critical to look at the "win-win" cost impact levers for material changes

NOT EXHAUSTIVE

Direct "negotiated" cost impact levers

- Rate card reduction
- Technology skill premium reduction
- Indexation/inflation impact waiver
- Account management fee waiver

Indirect "win-win" cost impact levers

- Calibrated service credit regime
- Preferred spend portfolio access
- Higher levels of automation
- Shared resource delivery model

The "win-win" cost levers can help achieve much more cost savings without significant impact on margins

Providers are much more open to taking on risks in order to maintain competitiveness without a rate haircut

A

Fully variable Digital FTEs

Enterprises are now keen to automate more, but without the initial capital expenditure. Some providers are seen to replace a human FTE with a digital FTE and charge a monthly run fee for it (zero implementation risk/cost).

B

Front-loading transformation benefits

This is often spoken about and is a common theme. However, the scale we have recently seen is materially different. Some providers (for Oil & Gas, Travel firms specifically) are front-loading 2021/22 benefits into 2020 financials.

C

Partial revenue deferred or linked to outcomes

Some providers (IPPs) are seen to put more fee at risk, to be paid when a certain business outcome such as revenue increase and/or cost reduction is achieved. In some cases, it is **less** about link to service but **more** about weathering the storm.

D

PoCs and time investments

Instead of discounts, providers are investing their resources on value-adds like Proofs of Concept (PoCs), process redesign, etc. This ensures no additional cash outflow and expensive resources are kept busy in accounts.

Over-stringent SLA targets come at a price, impacting the overall fee by as much as 10-14%

Typical SLA stringency price premiums
Application services example

Stringent SLA targets

5-7%
higher than typical

Typical SLA targets

5-7%
lower than typical

Lenient SLA targets

Good practices to manage this bloat
Typical observations from recent contracts

- SLA stringency targets should be aligned with core enterprise/business requirements, and highest is not always better
- In a new contract, asking for a significant and immediate jump in service levels from baseline can lead to a high premium being baked in
- Enterprises may want to start with high targets at the start of a relationship, but over time these should be calibrated for relevance
- As a rule of thumb, the governance process should include an SLA review every 6-12 months to cover
  - Inclusion of new SLA metrics
  - Change in stringency of existing SLA metrics (as needed)
  - Retirement of some SLA metrics

A number of our large enterprise clients are looking to restructure their contracts to ensure consistent T&Cs and realign pricing models

REPRESENTATIVE – BASED ON RECENT CLIENT WORK

Contract simplification

Key issue: IT/BPO portfolios have grown over the past decade, leading to inconsistencies in contracts

- Enterprises are looking to rationalize their service provider set and bring all contracts to a comparable standard
- Major focus on making SOWs and other schedules consistent in design and with similar philosophy on key commercial terms such as
  - Service credit regime
  - Y-o-y productivity improvement
  - Benchmarking clauses
  - Volume based discounts, etc.
  - Innovation clauses

Pricing model restructuring

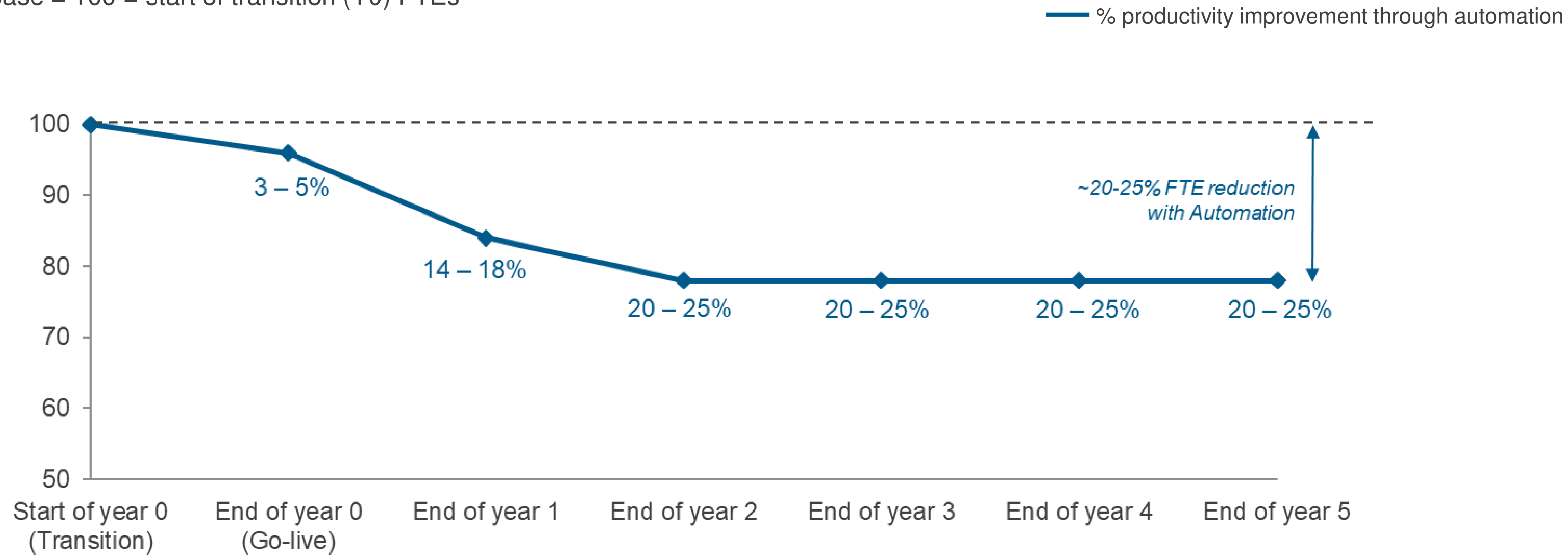
Key issue: A range of pricing models being leveraged, often varying between business units for the same type of service

- Enterprises are keen to recalibrate the pricing models used to ensure a true "win win", i.e. enable the right behavior
- "One size fits all" approaches to push more output and outcome-based models are being reviewed to ensure a balanced view
- Ensuring a methodical approach which aligns with the following characteristics of the work being performed
  - Complexity
  - Predictability of work unit (e.g., Average Handle Time)
  - Volume forecasting accuracy
  - Long term focus (scalability vs niche service), etc.

Automation can significantly accelerate year-on-year productivity improvements, yet in many contracts the impact is opaque to the enterprise customer

YOY productivity ramp-downs in FTEs – finance P2P
Indexed, base = 100 = start of transition (Y0) FTEs

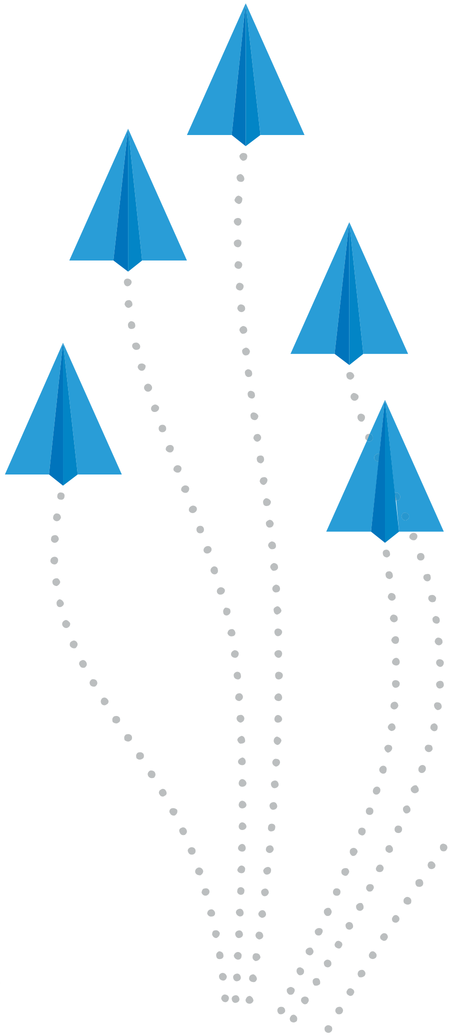
REPRESENTATIVE IMPACT – FAO P2P



In over 50% of the legacy contracts we assess, enterprises do not see transparency on the actual financial impact of automation

Prioritization is critical to make the outcomes of any cost takeout high-impact and equitable

- Don’t negotiate hard on contracts that are already competitively priced – it can lead to poor service quality
- In our experience, legacy contracts/relationships that have been in place for a long time tend to have more bloat in them
- A seemingly competitive **rate card** does **not** mean a fair-priced **contract**



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How do your services labor rates compare?

Get a complimentary price check

*Data for analysis comes from our **pricing database of 250+ roles and 32** countries

3 roles

from a set of 3 functions*

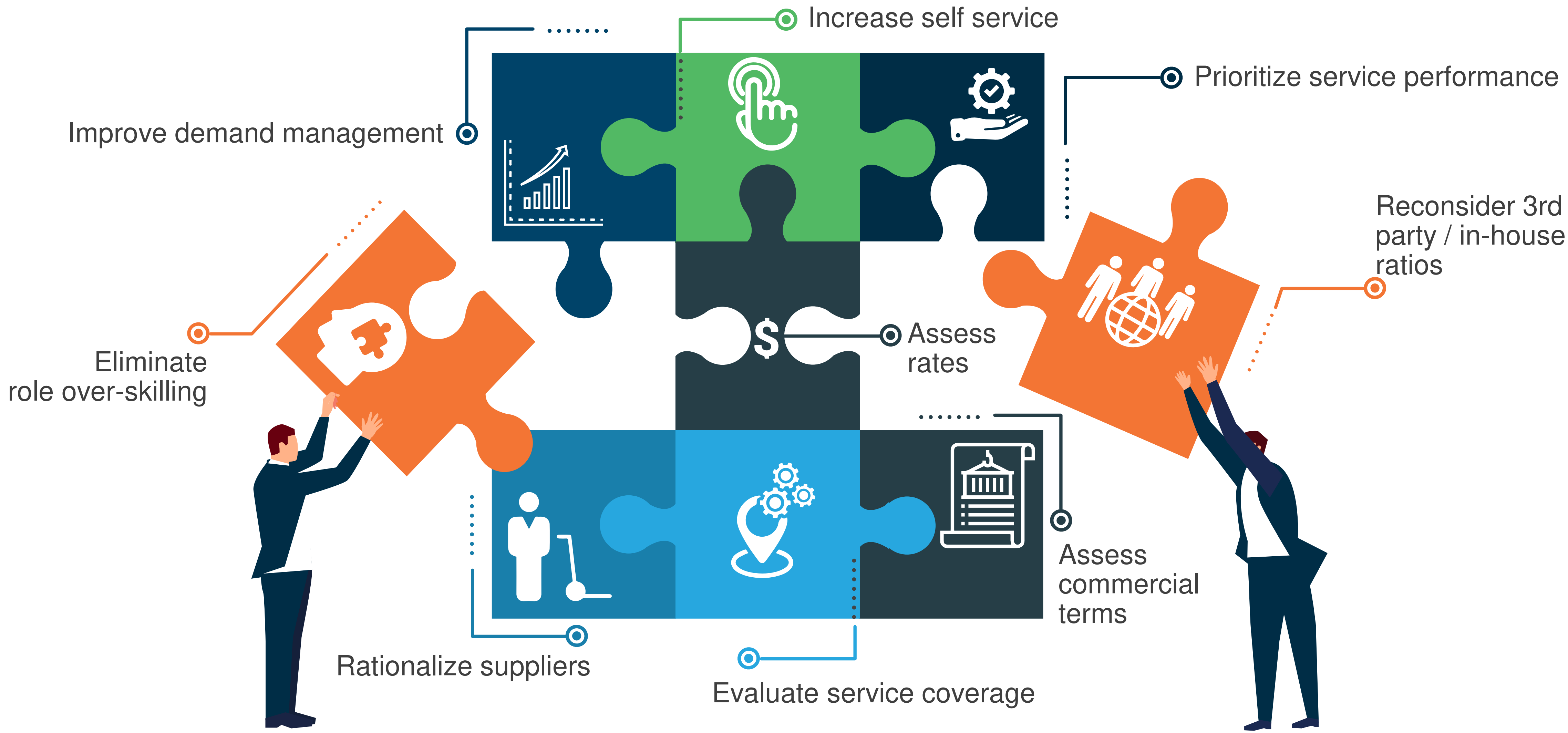
- IT Applications
- Finance & Accounting
- Contact Center

3 countries

from a set of 6 countries*

- Australia
- China
- India
- The Philippines
- UK
- United States

Most enterprise sourcing portfolios have multiple sources of value leakage that should be pre-emptively addressed



Clients see real value from these kinds of efforts

Top 10 life sciences major

$2.2 million

annualized savings

- IT infrastructure services
- Sole sourced environment
- 20x return on investment

Fortune 50 technology major

$27 million

annualized savings

- Contact center services
- Global portfolio rationalization
- 42x return on investment

Top 10 oil & gas major

$6 million

annualized savings

- IT applications services
- Proposal and contract review
- 35x return on investment

Discussion points for today

- Many enterprises are still over-paying for 3rd party services
- How much you negotiate depends on the starting point
- Look beyond just rate benchmarks for real value
- Q&A

Everest Group and Beaconfield Partners assist teams in capturing value from their services spend through memberships and focused projects

Memberships

Outsourcing Excellence

*Best-in-class **market intelligence** to maximize value from technology and operations outsourcing*

- **Sourcing strategy / provider portfolio**
- **Solution design**
- **Risk management**

Pricing as a Service

*On-demand **price benchmarks** and performance analytics to maximize outsourced spend reduction*

- **Pricing and cost**
- **Performance management**
- **Policy and contracting**

Projects

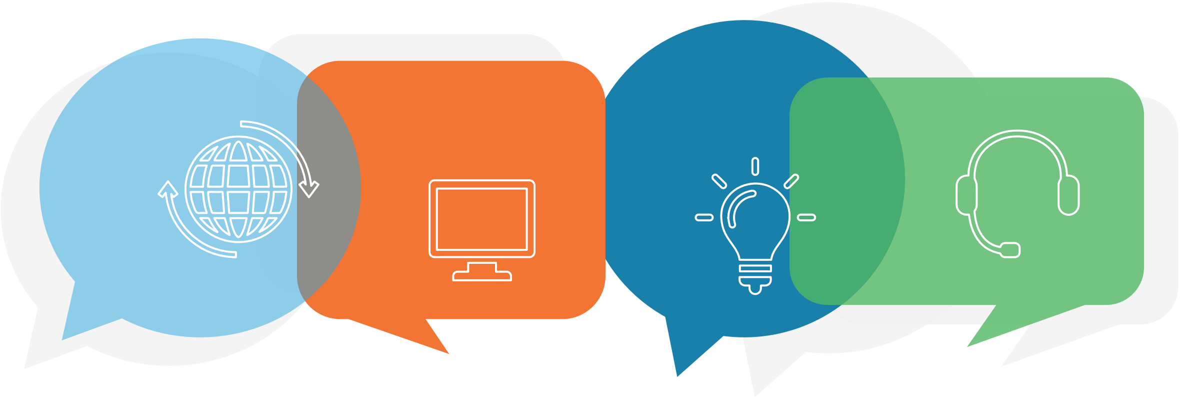
Time to value

Near-term (<6 months)

- Rapid cost take-out
- WFH playbook
- Third-party resource strategy
- Sourcing waste assessment
- Price benchmarking

Medium-term (>6 months)

- Workforce strategy
- Outsourcing advisory
- Location portfolio strategy
- Provider rationalization
- Repatriation / Insourcing



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- Type your question in the dialogue box, then select **Send** to submit the question to our session panelists

- Attendees will receive an email with instructions for accessing today's presentation
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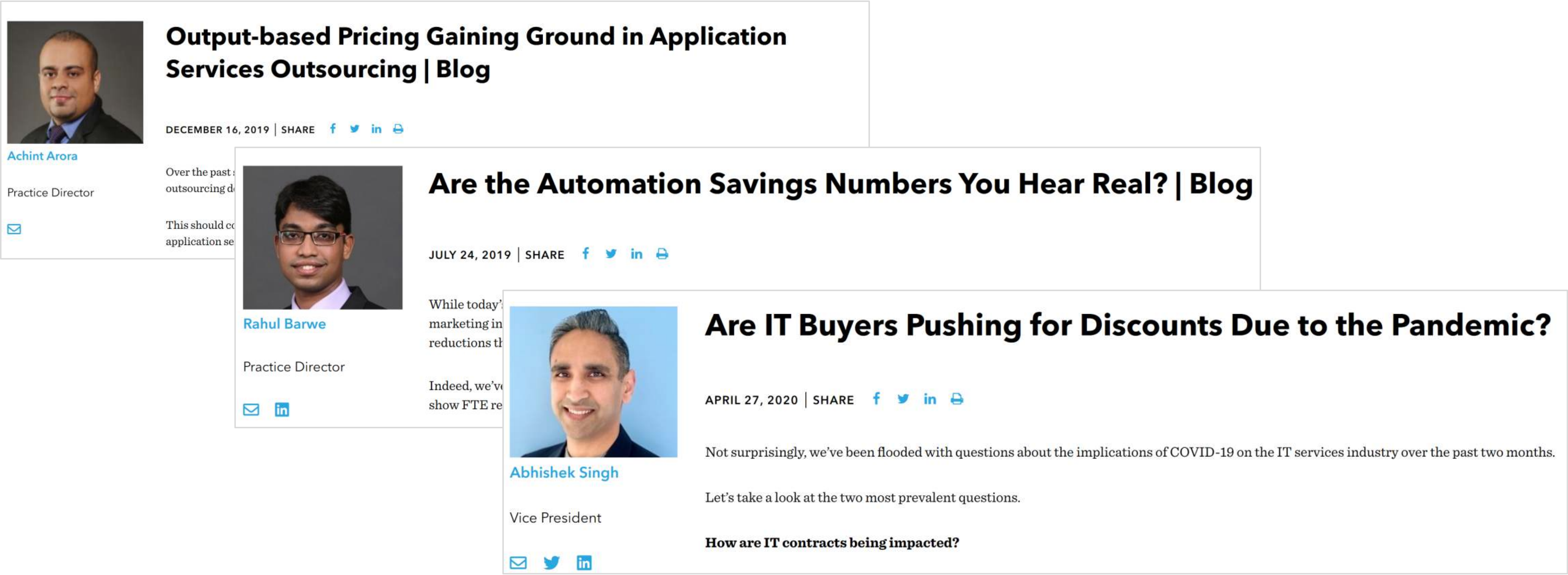
Check out our blog for the latest perspectives on pricing and contracting for global services – www.everestgrp.com/blog/



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- PricePoint™: Q4 2019
- PricePoint™: Q3 2019
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- Business Continuity Planning (BCP): A Strategic Rethink
- Contracting for Agile IT: Rethinking Your Service Agreements to Keep Up with Changing IT Models
- Practitioner Perspectives - Mastering Efficiency and Innovation with Intelligent Automation
- Virtual Roundtable Discussion Deck: Preparing for the Next Normal in Services Sourcing
- Digital Adoption Platform (DAP): Accelerating the Journey from Transformation to Adoption
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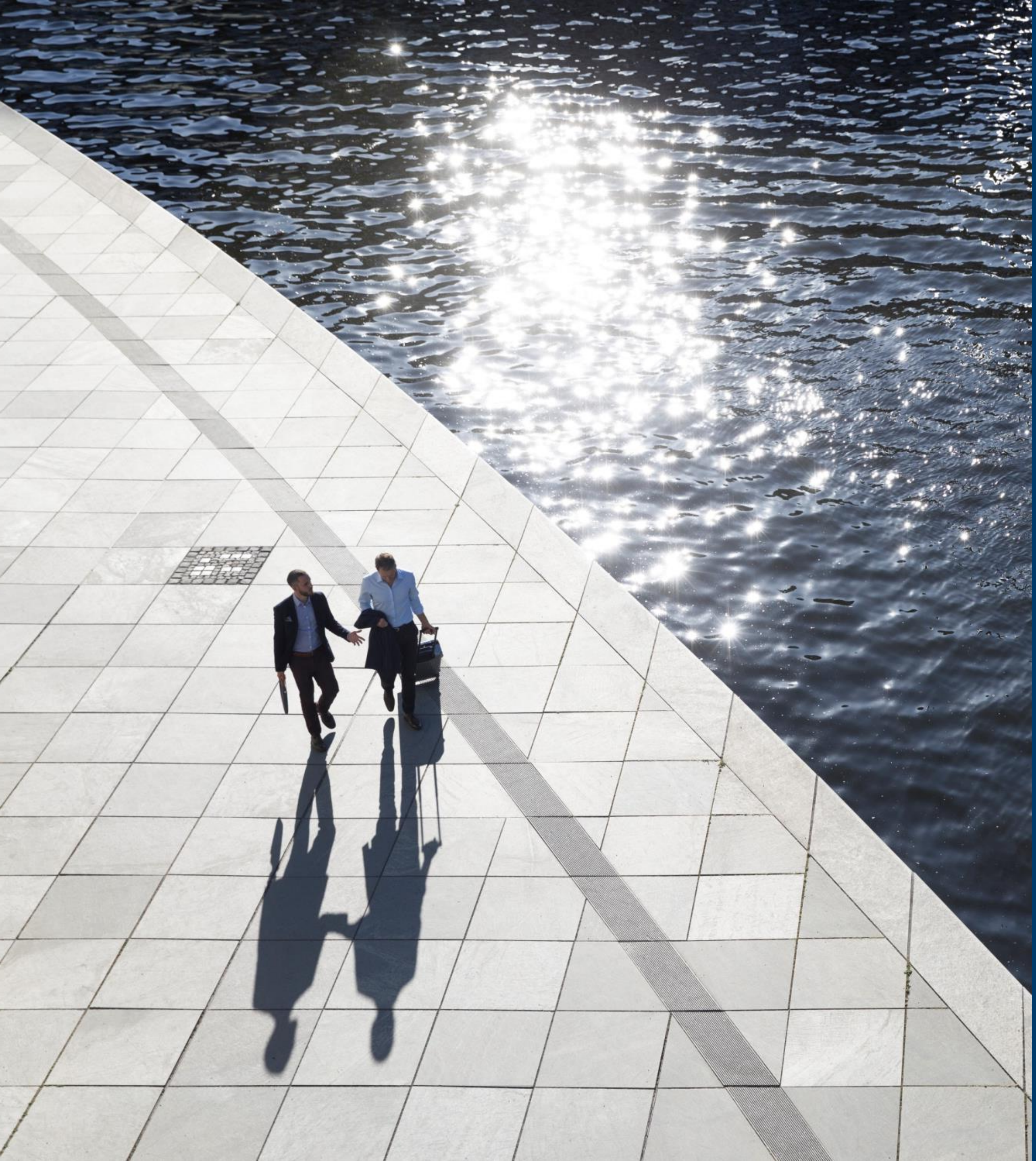

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