

We know

We know

***Developing charging
methodologies for appropriate
service pricing***



Presentation

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The Offshoring Institute

Das Offshoring Institute offers various services around optimizing location footprints and back office processes

- Location analyses and research studies based on our Global Location Selection Criteria Database (> 100 metropolitan areas)

- Consulting & advisory services to optimize business support processes

- Trainings and specific courses on business service-related topics



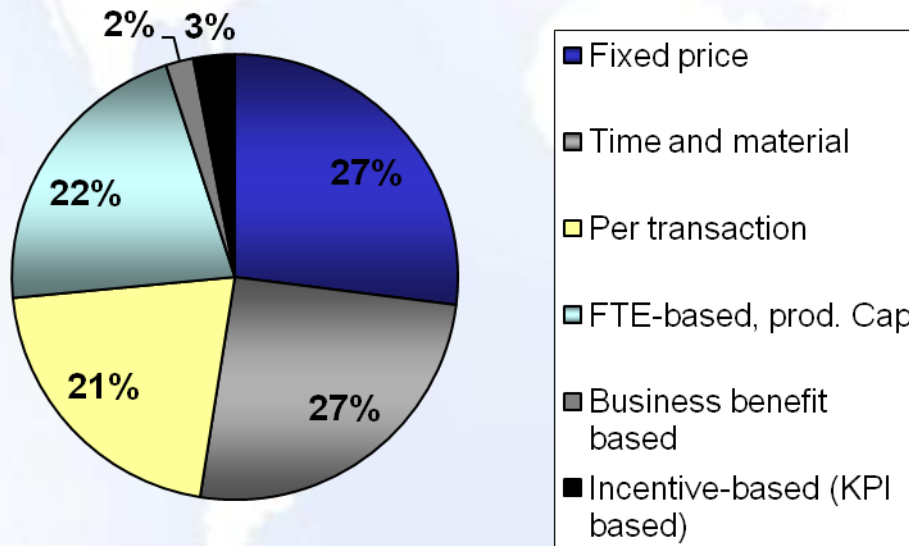
We know how to make the globe transparent.

- Consulting services and trainings are provided through the brand „Dressler & Partner“
- The term „Offshoring“ often creates skepticism, fear and concerns at large-scale European corporations

Trends and Survey Results

Fixed Price and Time and Material are the most applied charging mechanisms among the services delivered in general

Charging Mechanisms usage frequency chart



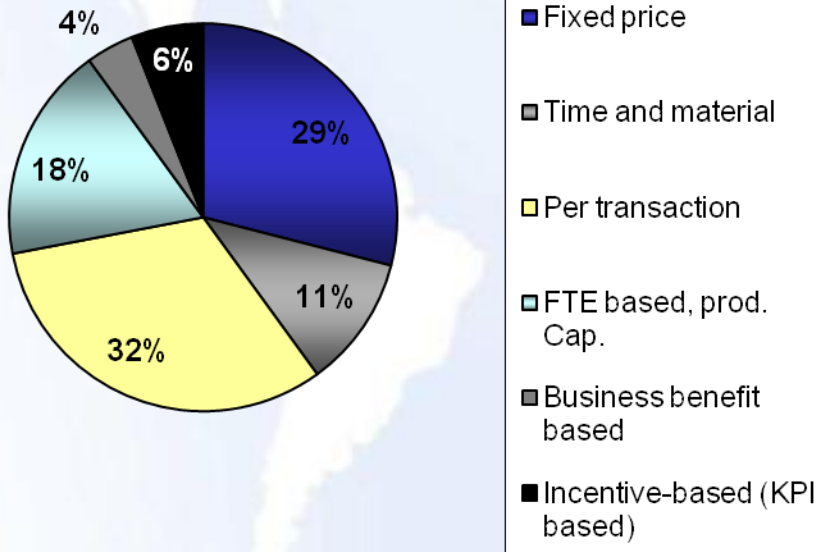
Comments
<ul style="list-style-type: none"> ▪ The graphic shows the preference for each charging mechanism among the companies interviewed ▪ The percentages were obtained taking into account the total clients portfolio and how often the specific charging mechanism is applied among them

Source: Offshoring Institute Charging Study 2008

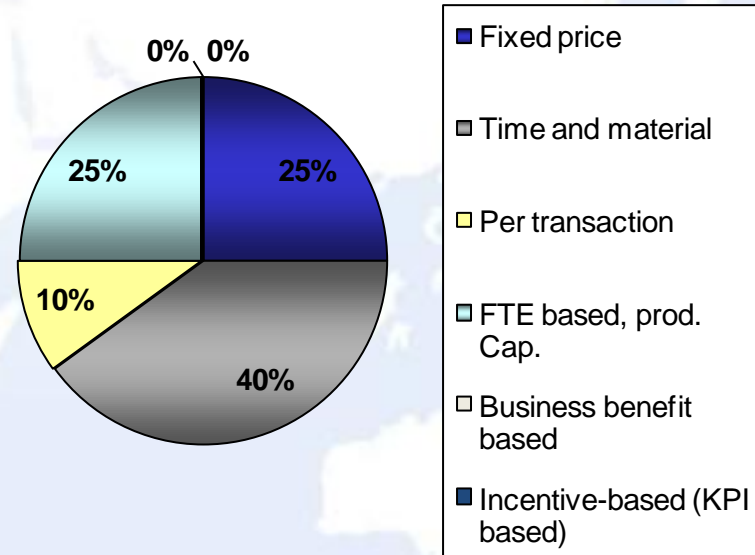
Trends and Survey Results

Nevertheless, individually BPO providers prefer the 'Per Transaction' charging mechanism meanwhile captive centers prefer the 'Time and Material' pricing method

Charging mechanisms among BPO providers



Charging mechanisms among SSC

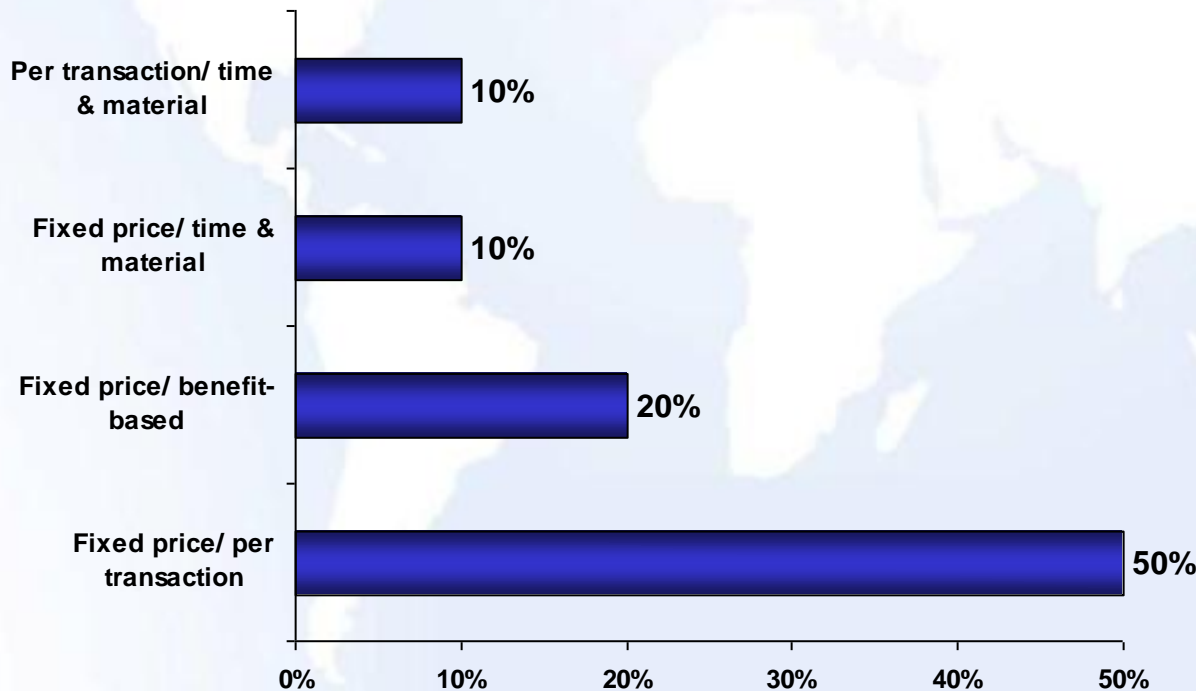


Source: Offshoring Institute Charging Study 2008

Trends and Survey Results

Combination of fixed price and per transaction method is by far the most common charging mechanism overall

Types of combinations in use



Comments
<ul style="list-style-type: none"> ▪ The graphic displays the percentage of companies, that mentioned a specific type of combination of different charging mechanisms ▪ The most mentioned combination refers to a fixed base fee and additional fees per transaction to cover changes of the transaction volume

Source: Offshoring Institute Charging Study 2008

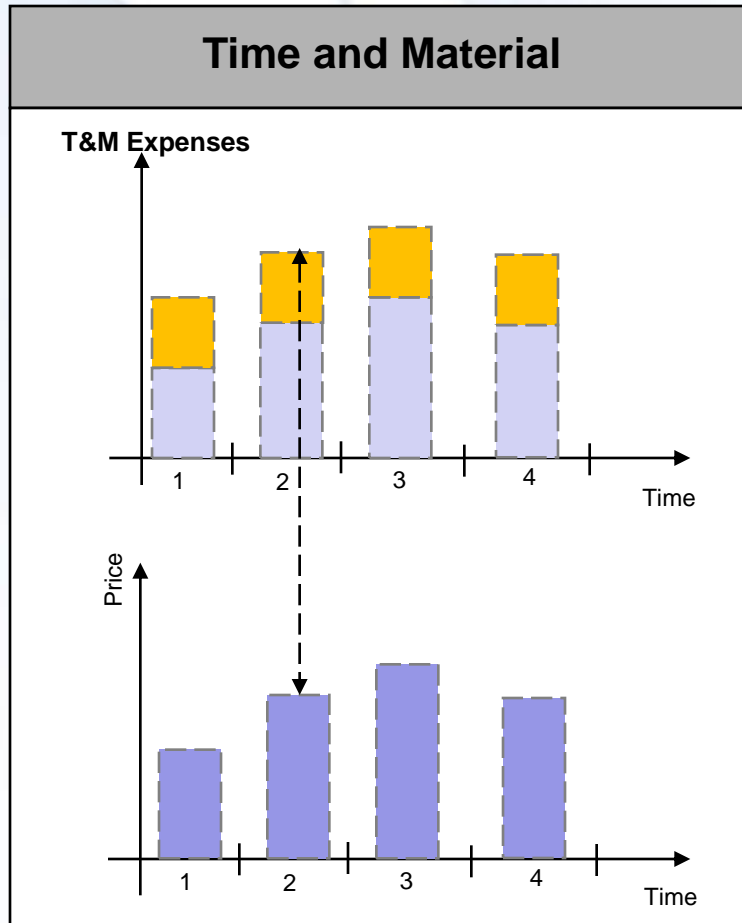
Charging methodologies

Seven general types of charging mechanisms are most common

Charging mechanism	Short description
Fixed price	Pricing is agreed before start of operations, based on processes, activities, SLAs, or specific requirements contained in the agreement
Time and material	Price is accorded to the duration of the service provided and the amount of material to be spend during the serving of the activities/services supplied to the customer
Per transaction	The price is always given in proportion to the number of transaction taking place during the service provision. For this, each transaction should have a unique and particular price
Business benefit-based	The price change in proportion to the benefit reached by the customer due to the leverage of its services to the provider
Incentive-based (KPI based)	Prices is conditioned to the reaching of goals established before the start of the deal. Penalties generally appear when goals are not obtained
Business benefit-based	The price change in proportion to the benefit reached by the customer due to the leverage of its services to the provider
FTE based	The price is established in direct function of the number of employees dedicated exclusively to the engagement
Revenue based	A percentage of the customer's revenues is fixed at the beginning of the engagement as a price for the services provided
Production capacity based	The price is based on the installed production capacity of the operating units/ companies served and only changes if the capacity varies (extending or downsizing the factory capacity)

Charging methodologies

The time & expenses charging method allows to factor the effort of every client but provides no improvement incentives for the provider

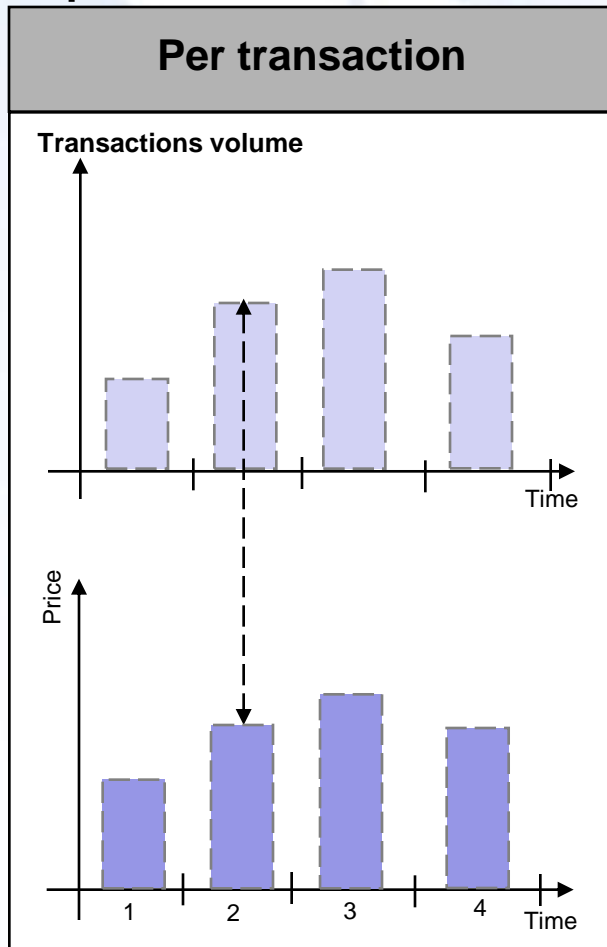


Perspective	Pro's	Con's
Clients	<ul style="list-style-type: none"> ▪ Client pays only for the resources used ▪ Enables the client to choose and adjust resources ▪ No long-term commitments to the BPO provider 	<ul style="list-style-type: none"> ▪ No incentive for the BPO provider to improve efficiency or effectiveness ▪ High administrative costs to track resources with billings
Provider	<ul style="list-style-type: none"> ▪ Low risk on potential disconnect between revenue and cost ▪ Good margin on no commoditized skill sets ▪ Enables the use of resources on the BPO provider's bench 	<ul style="list-style-type: none"> ▪ No long-term revenue commitments ▪ Administrative overhead to track resources with billings ▪ Unable to charge for value; challenge to grow the relationship

Charging methodologies

Per transaction charging is only effective if the opportunities for improvement are visible

illustrative



Perspective	Pro's	Con's
Clients	<ul style="list-style-type: none"> ▪ Client pays only for services it uses ▪ Low capital investment for new technologies or processes or to accommodate growth in business ▪ For more accurate chargeback 	<ul style="list-style-type: none"> ▪ Unit or use costs can be problematic for very high unplanned volumes ▪ Demand forecasting, if immature, makes this model too reactive and perceived as expensive ▪ Challenge to benchmark for industry-specific and point solutions
Provider	<ul style="list-style-type: none"> ▪ Provider can leverage its solutions and is in control of delivery ▪ Ability to create value and charge for it ▪ Higher margin potential on one to-many, standard solutions 	<ul style="list-style-type: none"> ▪ Only committed revenue stream is the minimum base amount ▪ Lower switching costs and less lock-in ▪ Immature contracting and pricing practices for alternative delivery and acquisition models

Charging methodologies

Simplified example of a transactional-based charging model

Baseline:

Same structure of invoices per LE

Legal Entities (LE)

Transaction type	total volume	LE 1	LE 2	LE 3	WF
automatic invoices	10	2	2	6	0,1
manual transactional invoices	10	2	4	4	1,0
manual non-standardized invoices	10	2	6	2	3,0
Sum	30	6	12	12	

Weighting Factor of each invoice type

Workload 0,1 of transactional invoice

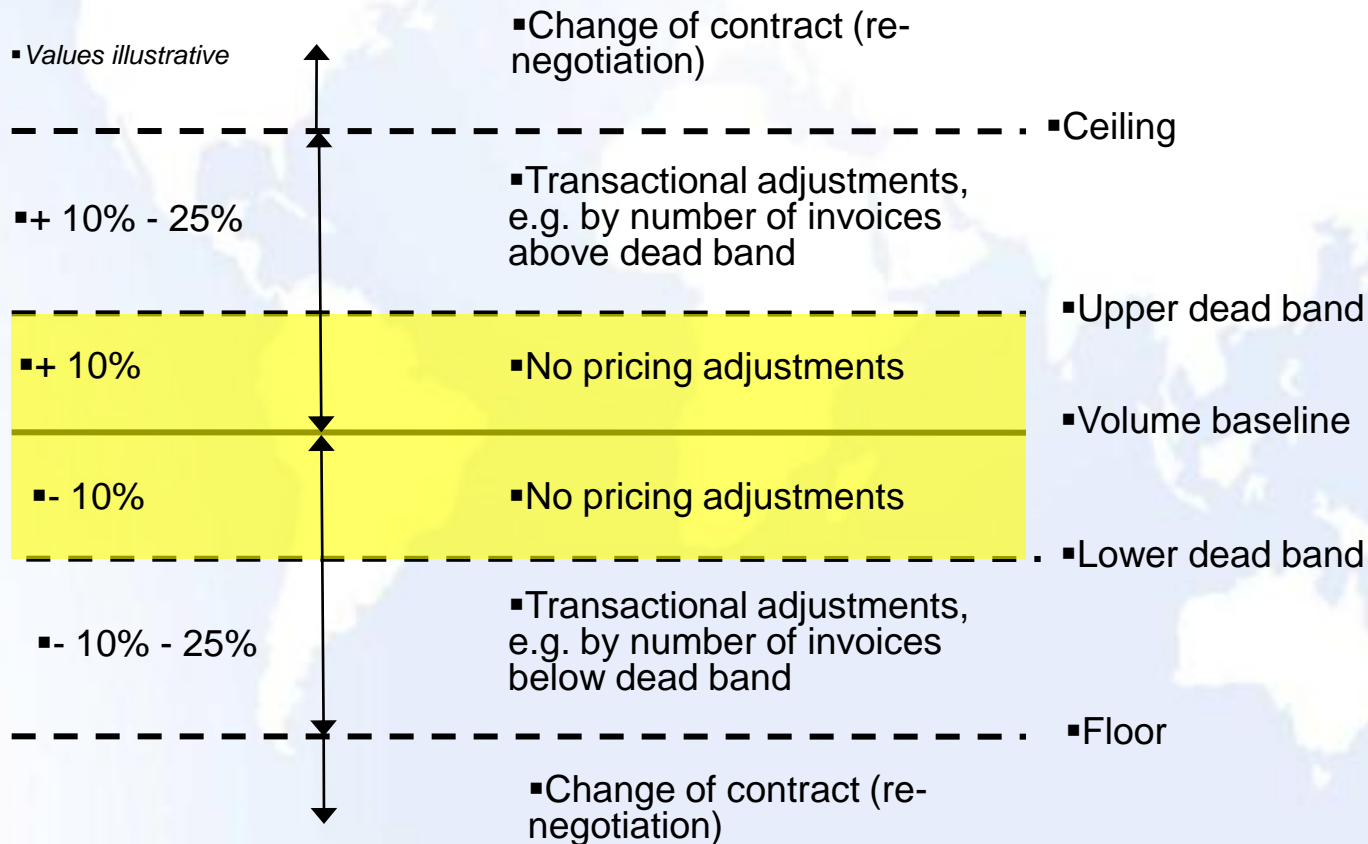
Workload 3x higher than transact. invoice

Total cost for all LE **100,00 €**

Transaction type	adjusted volume	Price per invoice	Budget LE 1	Budget LE 2	Budget LE 3
automatic invoices	1 (10*0,1)	0,24 € (100/41*0,1)	0,49 € (0,24€*2)	0,49 € (0,24€*2)	1,46 € (0,24€*6)
manual transactional invoices	10 (10*1,0)	2,44 € (100/41*1,0)	4,88 € (2,44€*2)	9,76 € (2,44€*4)	9,76 € (2,44€*4)
manual non-standardized invoices	30 (10*3,0)	7,32 € (100/41*3,0)	14,63 € (7,32€*2)	43,90 € (7,32€*6)	14,63 € (7,32€*2)
Sum	41		20,00 €	54,15 €	25,85 €

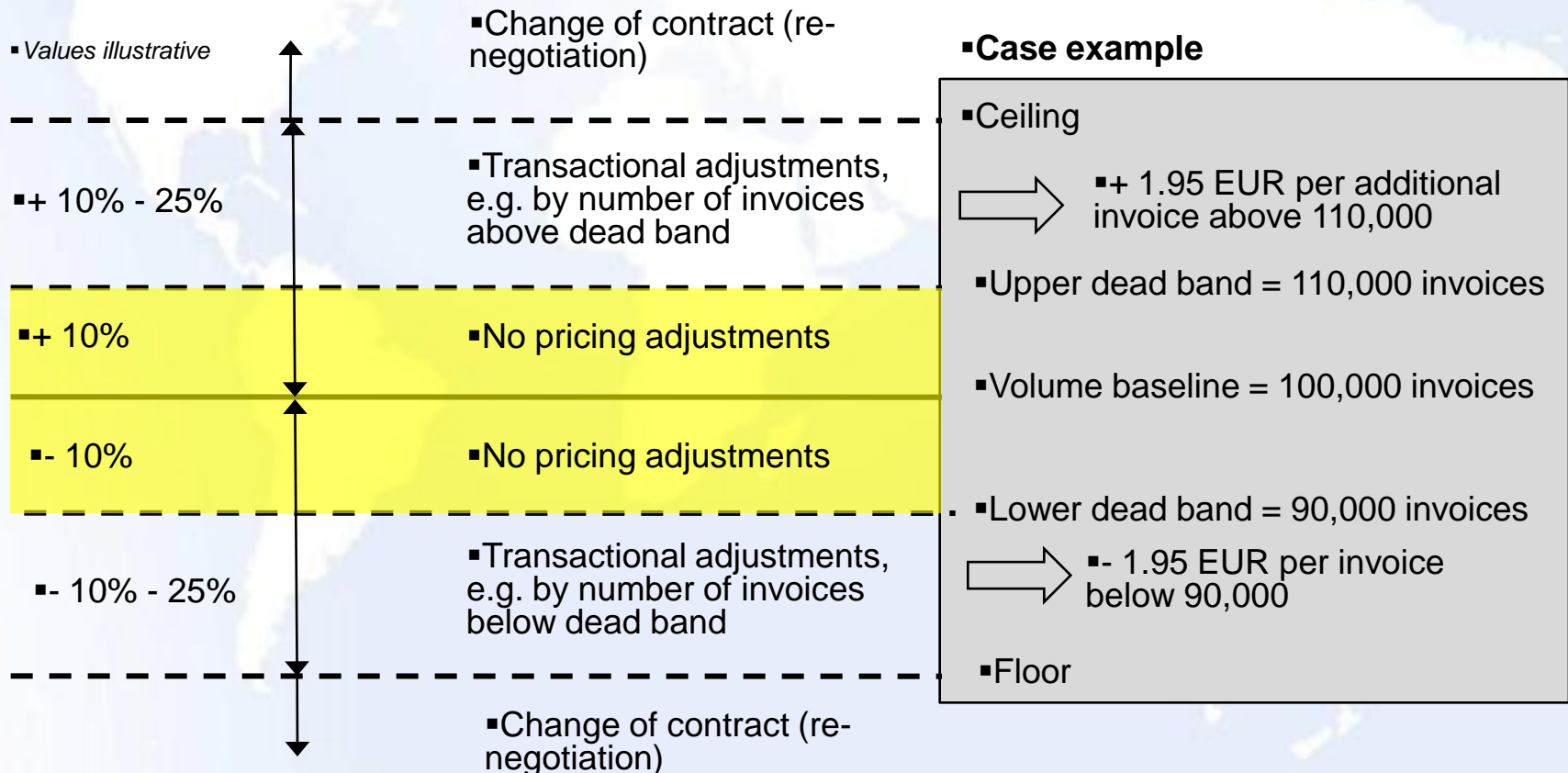
Transparency, Fairness and Complexity Reduction

Transactional flexible pricing models should contain pre-determined dead bands and variable charges above/below certain thresholds



Transparency, Fairness and Complexity Reduction

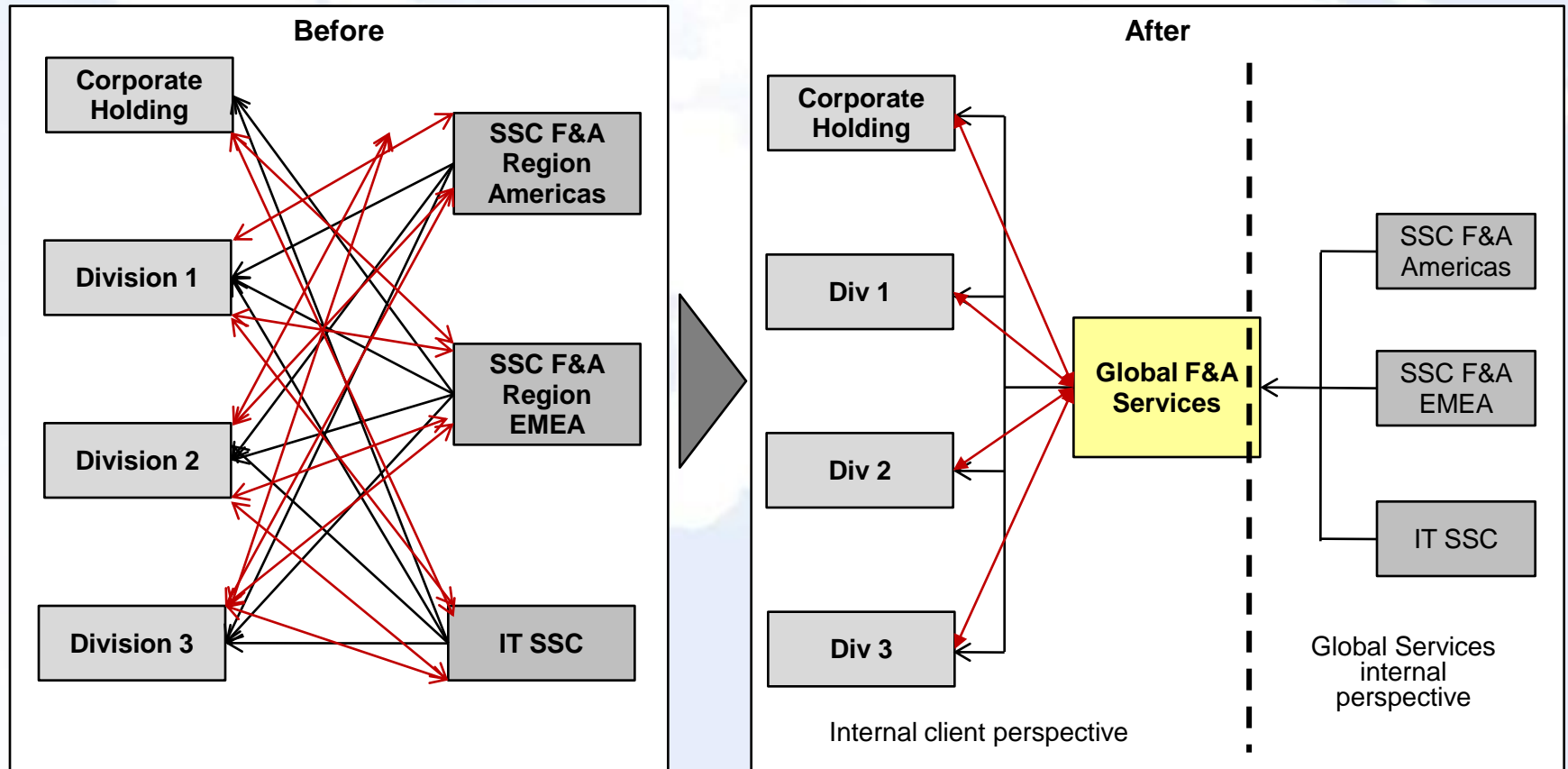
Ideally, dead band will not be left – no charging adjustments required



Transparency, Fairness and Complexity Reduction

Smart charging models provide simplicity, transparency, and fairness

Case



Legend

Communication:

Charging:

Thank you for attention

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