

IT Services Cost and Operations Benchmarking Report

IMA India

2010

Introduction

- This benchmarking report has been prepared by analysing data collected through a detailed questionnaire administered to a group of nine IT companies (six captive and three third party service providers).
- Most of the participating companies undertake multiple activities such as IT services, research and development (R&D), business process outsourcing (BPO – both voice and non-voice), and knowledge process outsourcing. The analysis in this report pertains to their IT Services business only, unless otherwise stated.
- Where the participating companies have not been able to provide segregated data for their IT Services segment, a proportionate allocation has been done on the basis of appropriate parameters.
- The names of participating companies have been masked, and only indicated by alphabets, to protect confidentiality. Further, no identifiable metrics are presented as 'absolute' numbers. Instead ratios or indices have been provided to facilitate comparisons.
- The contents of this report are the exclusive intellectual property of IMA India. They are copyright protected and legally privileged. Unauthorised copying, reproduction or distribution of the information contained in these pages would amount to an infringement of law and would invite applicable penalties, as per the terms of the contract signed by all participating companies.

Participant profile

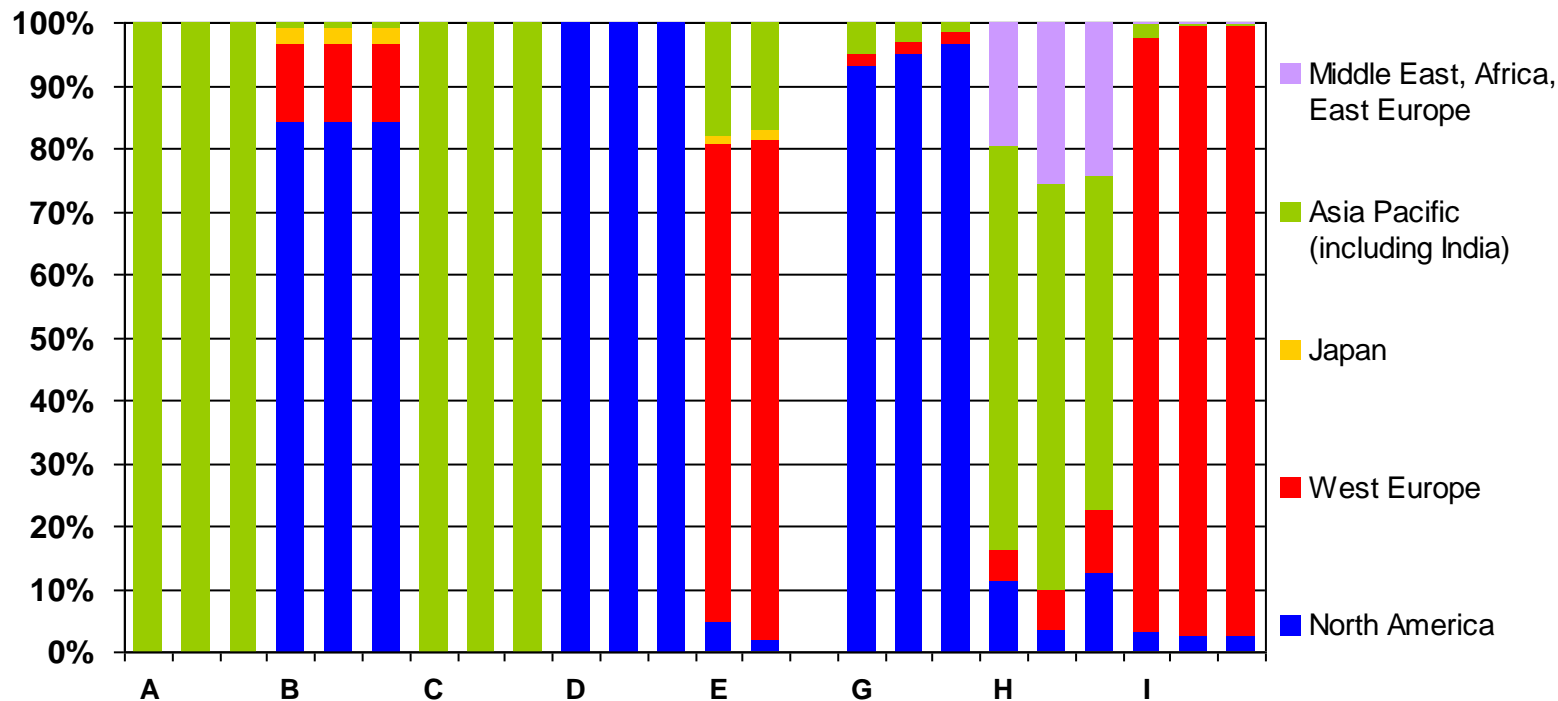
	Company								
	A	B	C	D	E	F	G	H	I
Captive/ Third party	Captive	Captive	Captive	Captive	Captive	Captive	Third party	Third party	Third party
Multi/ single location	Single	Single	Multi	Single	Multi	Multi	Multi	Multi	Multi
Share of revenue from IT services	54.0%	39.9%	24.0%	100%	17.2%	26.7%	100%	64.3%	61.0%
Business activities	<ul style="list-style-type: none"> • Remote infrastructure services • System integration • Testing • Package implementation • Custom application development; • IT consulting 	<ul style="list-style-type: none"> • Remote infrastructure services • Testing; • Custom application development ; • Production support 	<ul style="list-style-type: none"> • Testing; • Custom application development 	<ul style="list-style-type: none"> • Package implementation, • Custom application development; • IT consulting 	<ul style="list-style-type: none"> •Package implementation, •Custom application development ; •IT consulting 	<ul style="list-style-type: none"> •Remote infrastructure services; •Testing; •Package implementation, •Custom application development •Application support 	<ul style="list-style-type: none"> •System integration •Testing; •Package implementation, •Custom application development 	<ul style="list-style-type: none"> •Package implementation; •Custom application development 	<ul style="list-style-type: none"> •Remote infrastructure services; •System integration; •Testing; •Package implementation, •Custom application development; •IT consulting

Executive Summary

- Per FTE cost is comparatively higher for captives, spread over a range of INR 1.25 to 1.79 million on an annual basis, the average figure being INR 1.52 million for 2008-09. The corresponding figures for third party companies are INR 0.77-1.22 million with an average figure of INR 1.02 million for 2008-09.
- A number of companies which increased their headcount in 2008-09 over the previous year, achieved a decline in indirect costs per FTE, implying a tight control on overheads and sharing of infrastructure.
- In general the largest cost component is salary (49-77%). The second highest component for some companies is related to facilities (up to 17%) and for some others it is related to travel (up to 19%).
- A few companies, even those that do not work in night shifts, provide home-office local transportation facilities for employees. Cost optimisation is often obtained by charging employees for partial recovery of transport costs, and also with route optimisation and type of vehicles used.
- While it might not be feasible to reduce dependence on diesel generator sets, the findings show that companies with tight control of electricity usage through regular monitoring have been successful in reducing power costs.
- There is significant scope for improvement in the recruitment efficiencies of companies. The most efficient company is almost six times more efficient in the recruitment process compared to the least efficient company.

Sources of revenue: Geographical diversity

Geographical sources of revenue, 2007-08, 2008-09, 2009-10

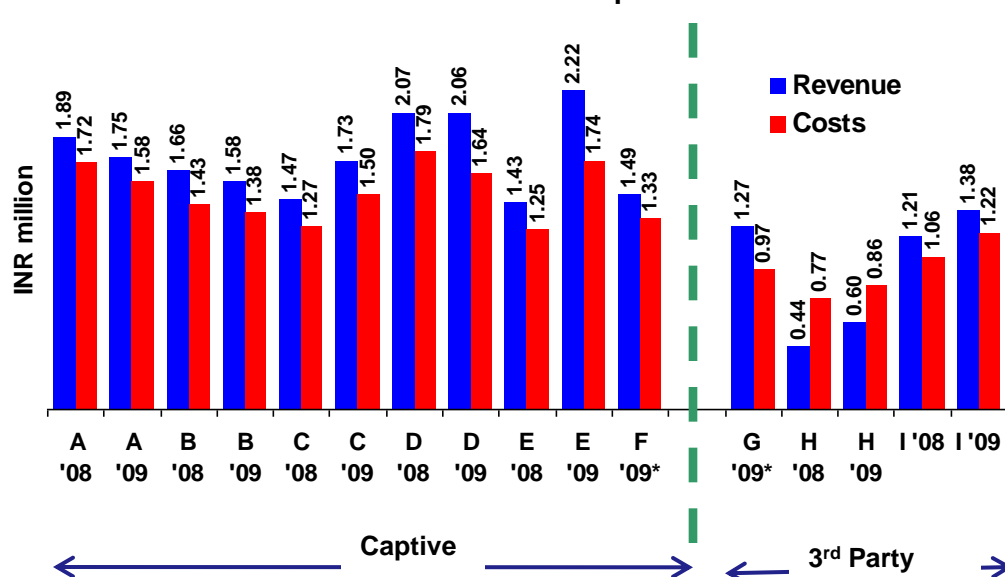


Three firms do not have diversified geographical sources of revenue. While the percentage share of revenue from the US have remained almost the same for firms B and I, it has declined for firms E and H in 2008-09 as compared to 2007-08. The share for firm G, however, has increased during this period.

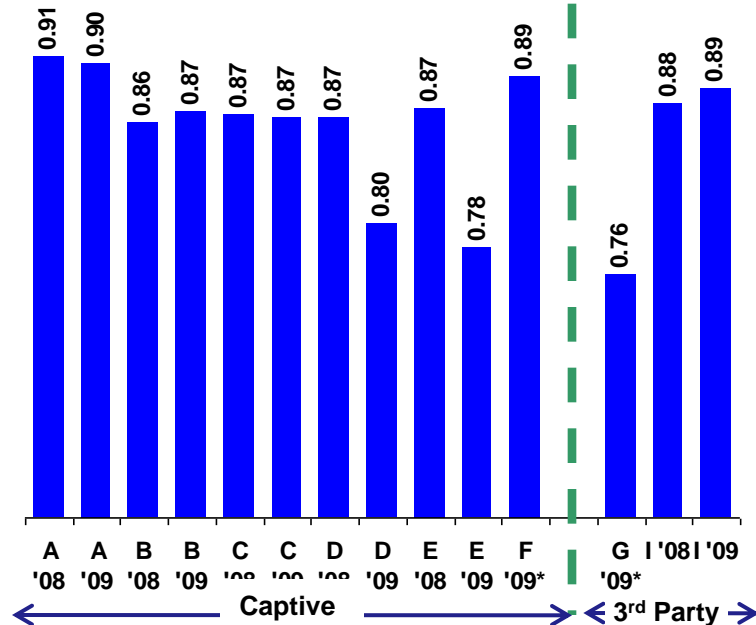
Headline revenues and costs

Revenue and cost

Revenue and cost per FTE

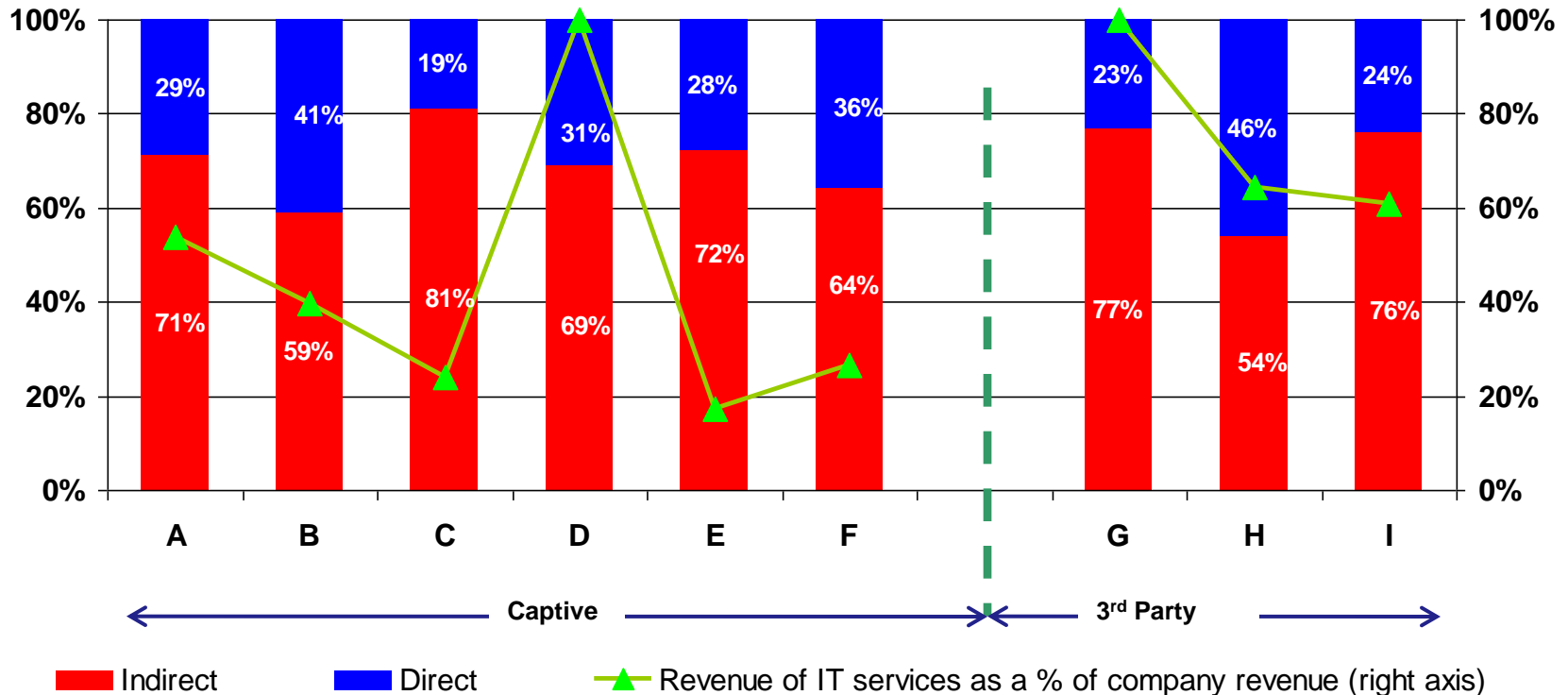


Ratio between cost per FTE and revenue per FTE



Both revenue and costs per FTE are generally higher in the case of captive firms, with company D registering the maximum revenue per FTE in its IT Services segment in 2007-08 and company E in 2008-09. While revenue per FTE for company D remained the same in the subsequent year, that of company E improved quite significantly. This happened despite D and E increasing their headcount. Yet another parameter which shows considerable variation is the ratio of per FTE cost to per FTE revenue. The lower the figure, better the performance. Only companies A, D and E have registered an improvement on this count in 2008-09 over the previous year.

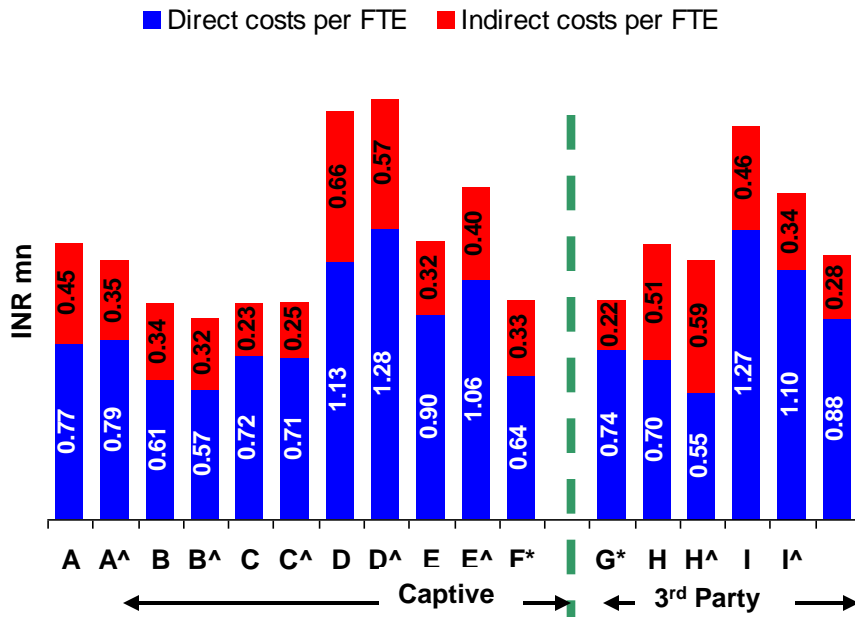
Direct and indirect costs per FTE



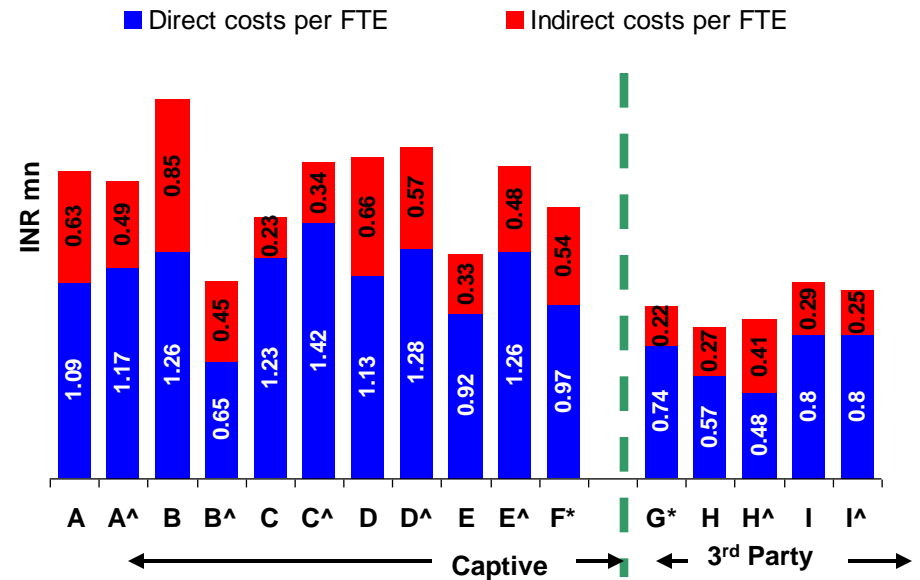
On average, direct costs are 54-81% of total cost on a per FTE basis. Companies with a greater proportion of direct costs are in an advantageous position as that gives the company more flexibility to respond to changing business conditions. Companies B and H are relatively well-positioned on this count.

Direct and indirect costs per FTE (2)

Company level costs (2007-08 & 2008-09)



IT Services costs (2007-08 & 2008-09)



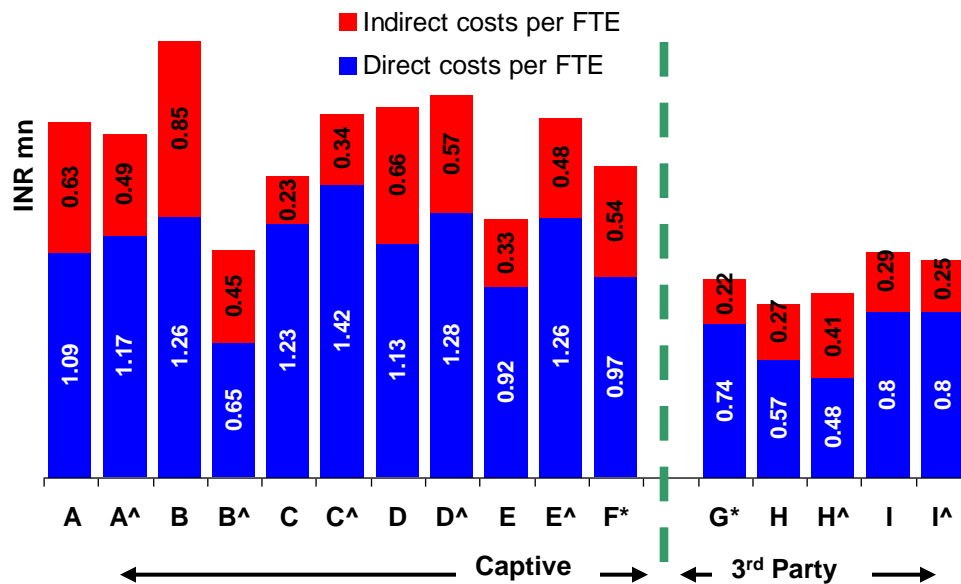
Note: * - cost data available for one year

X-axis labels: company labels with ^ denotes data for 2008-09

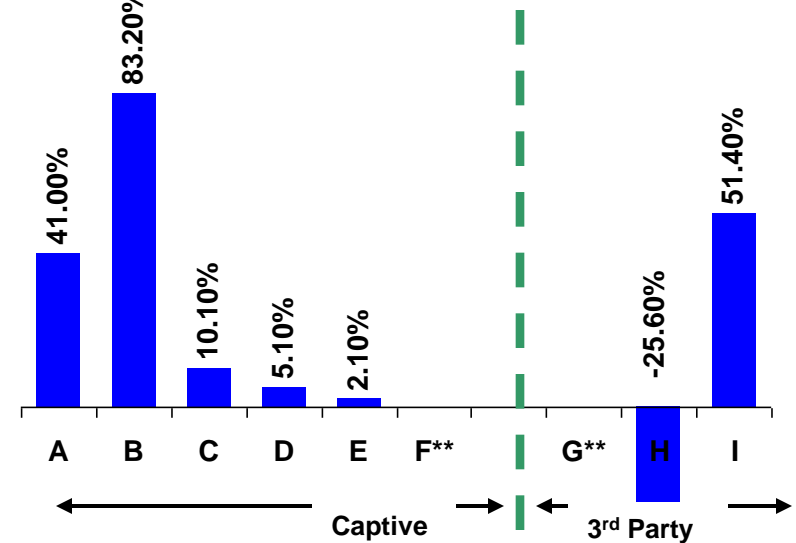
Four companies in the sample – A, B, H and I – have reduced per FTE costs in 2008-09, compared to the previous year, at the company level. At the IT services segment level, company B has achieved a particularly sharp reduction while companies C and E have witnessed an increase in both direct and indirect costs. The remaining companies have witnessed an increase in only one component, which has led to an increase in the overall cost per FTE.

Direct and indirect costs per FTE (3)

IT Services costs (2007-08 & 2008-09)



% change in FTEs in 2008-09



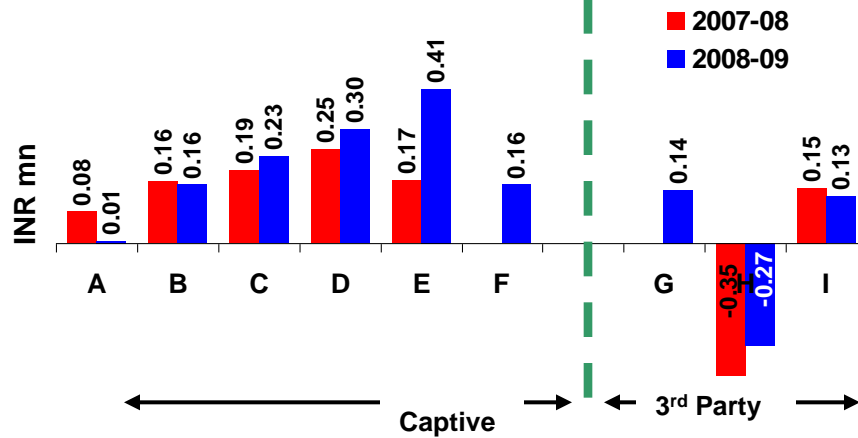
Note: * - cost data available for one year

X-axis labels: company labels with ^ denotes data for 2008-09

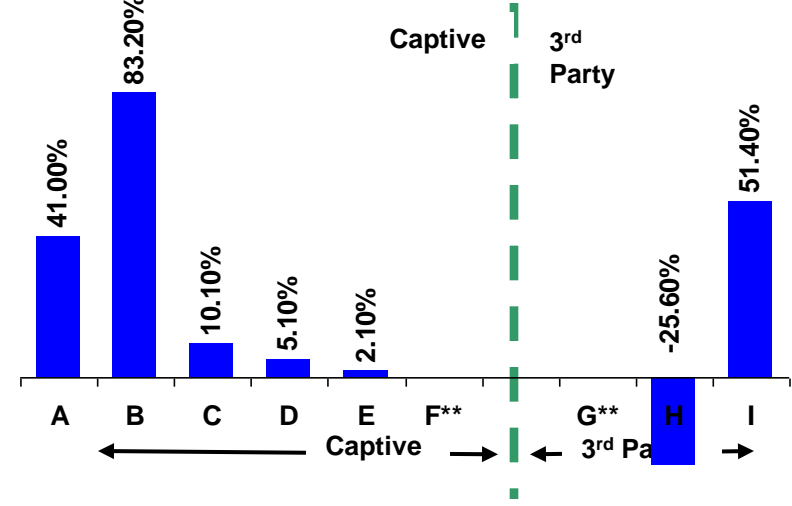
Companies A, B, D and I are characterised by an increase in headcount in 2008-09, and have also witnessed a fall in their indirect per FTE. This would suggest that cost savings may have been achieved on account of a greater number of FTEs sharing the same indirect cost structure.

Profits

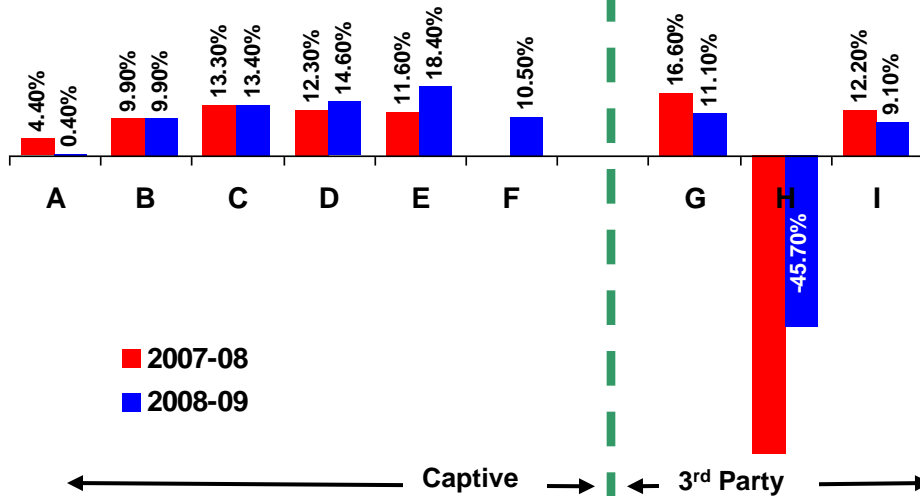
Profit per FTE (IT Services segment)



% change in FTEs in 2008-09



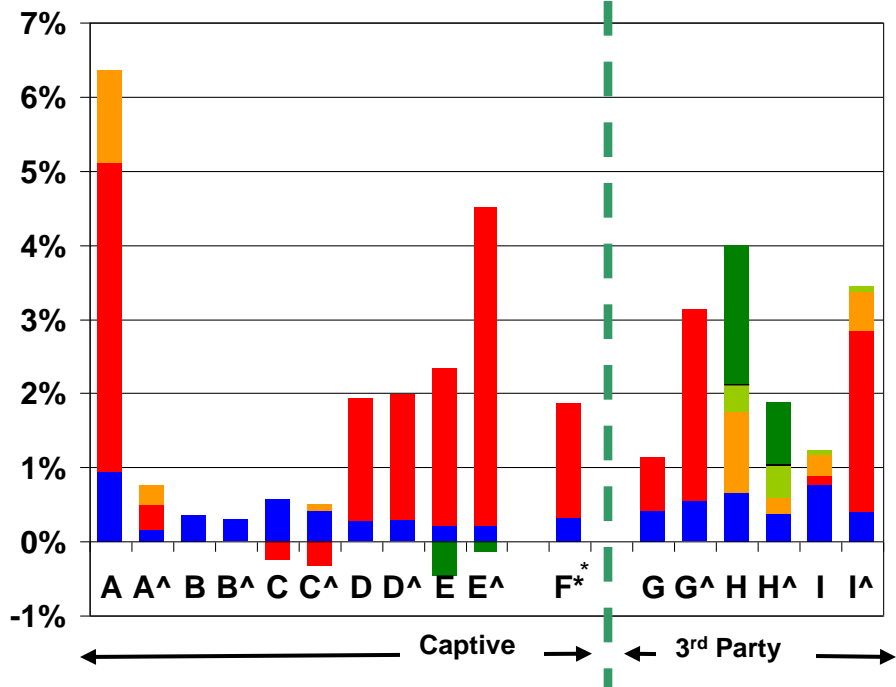
Profitability (IT Services segment)



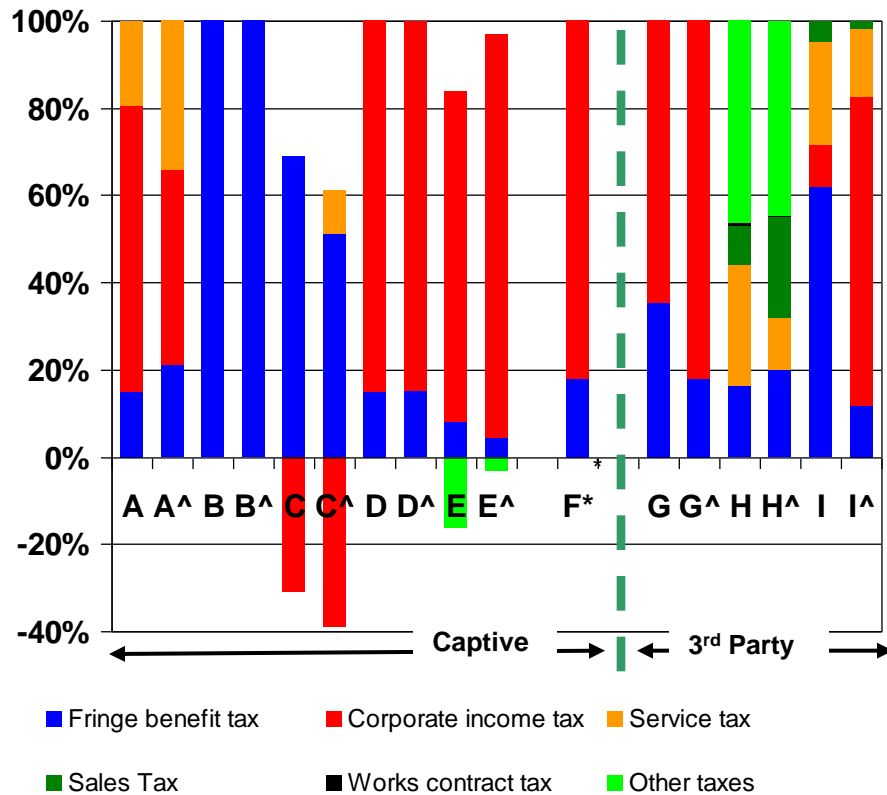
Despite the fact that companies A, B and I have achieved a reduction in cost per FTE, their profit per FTE has fallen in 2008-09. All other companies have improved or maintained their profit per FTE over these two years. Company H registered a loss for two consecutive years, although the margin of loss reduced in 2008-09 compared to 2007-08.

Taxes

Total taxes as a % of revenue (company level, 2007-08 & 2008-09)



Components of total taxes paid at company level (2007-08 & 2008-09)

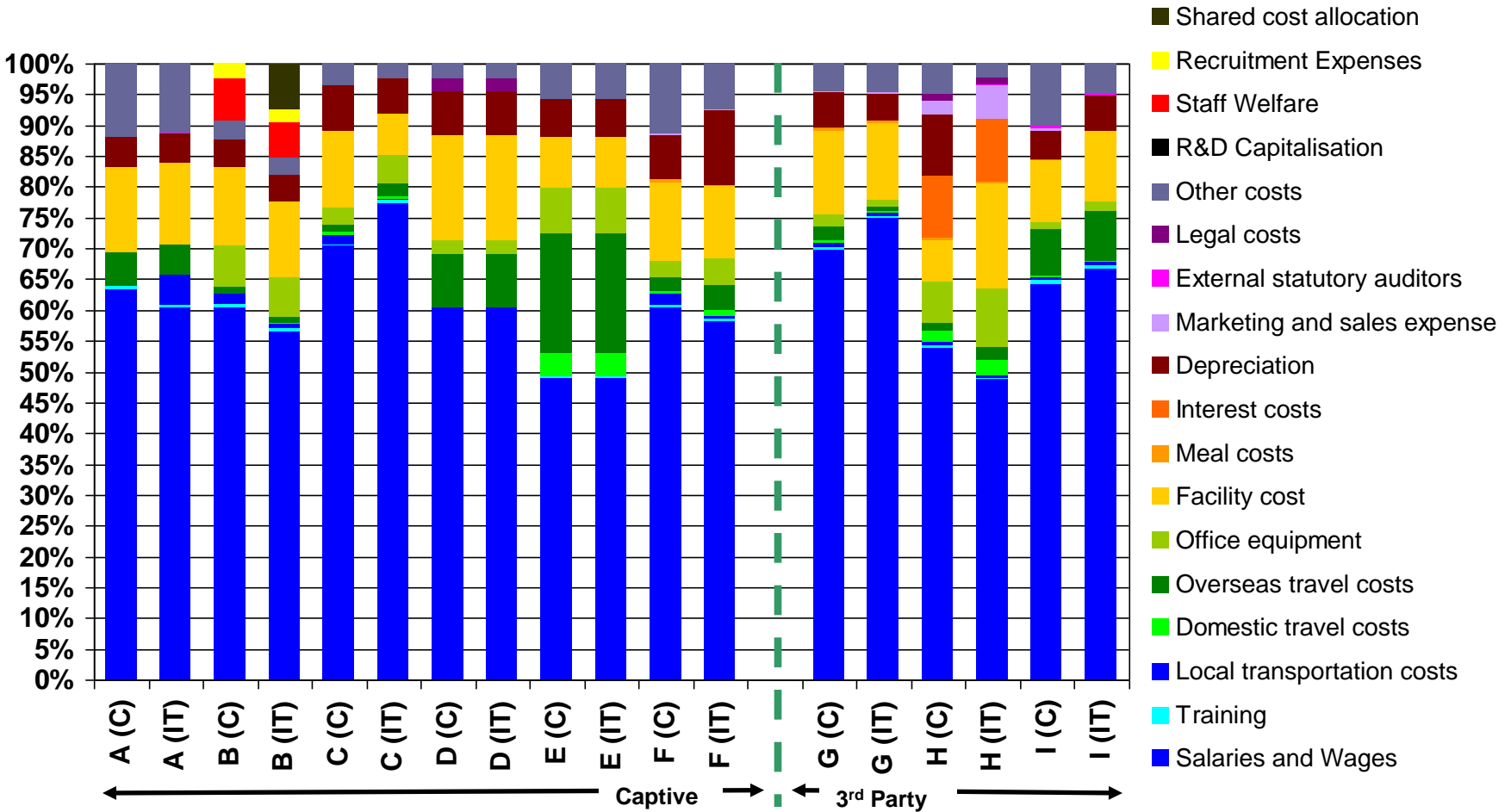


Tax liability is on average, higher for third party service providers. While corporate income tax is generally the largest tax component for all players, FBT is a significant component for captives. For H, tax liability has fallen even though profit per FTE has gone up, as the latter was on account of reduced headcount rather than increased profit.

Note: * - data available for one year only
 Negative bars in the charts denote tax credit for the previous year

Cost Comparison: Company-level vs IT Segment

Components of cost: comparison between company level and segment level costs, 2008-09

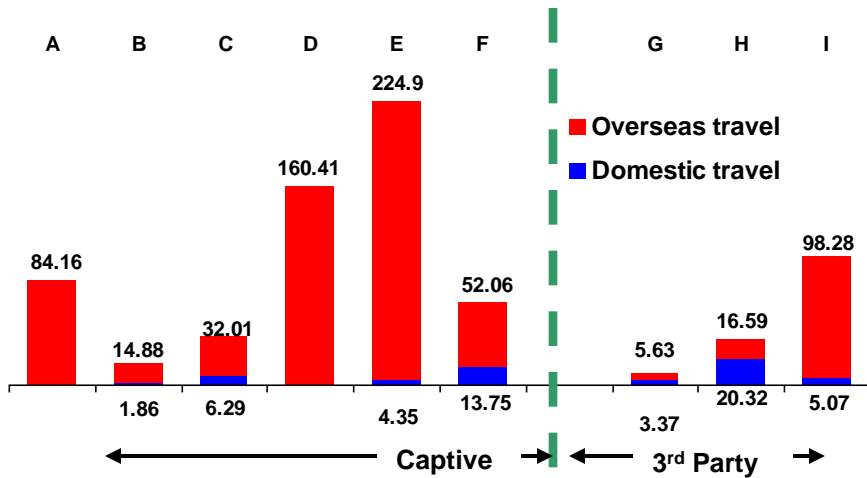


Note: (C) denotes company-level data, while (IT) denotes data pertaining to the IT Services segment

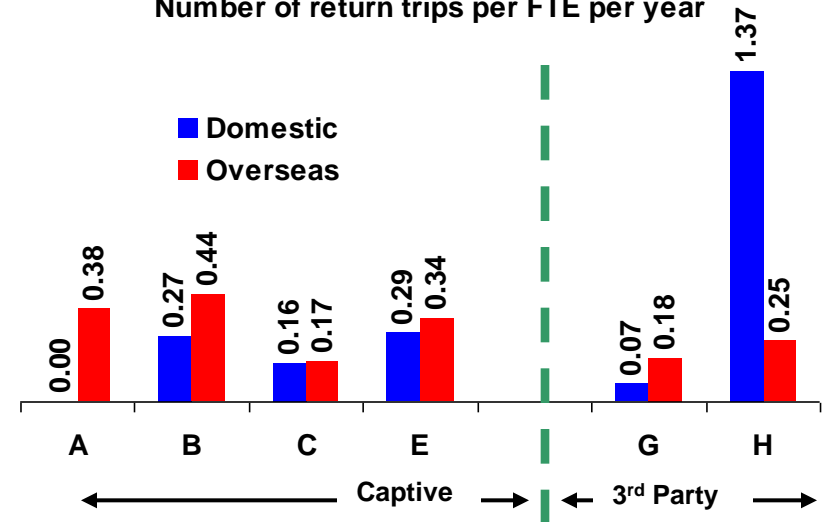
Travel

Domestic and international travel

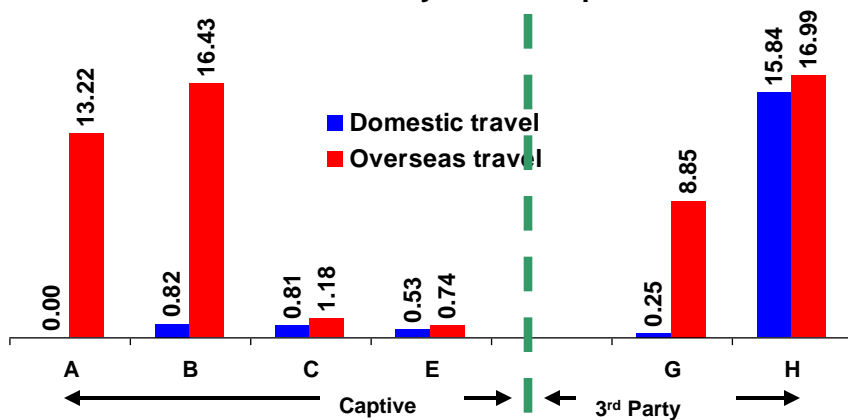
Total travel cost per FTE (INR thousand)



Number of return trips per FTE per year



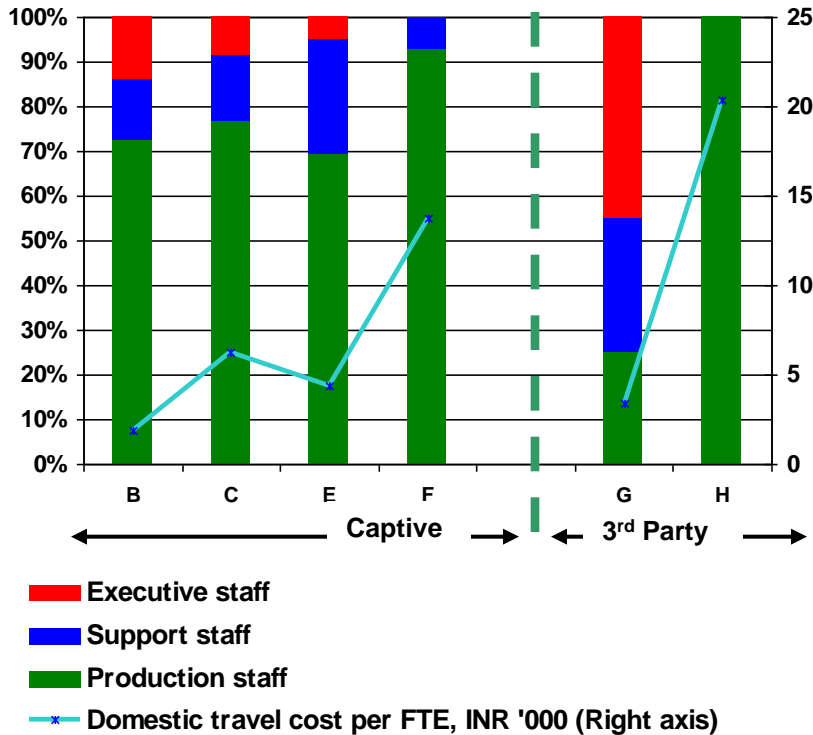
Number of mandays travelled per FTE



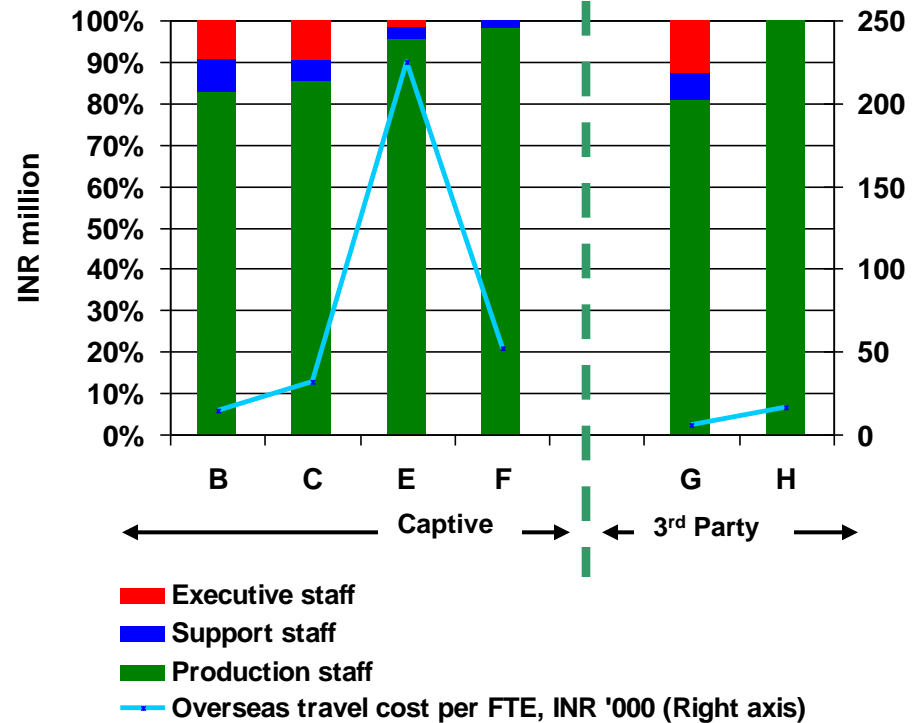
Most companies plan their travel in advance, and have long-term tie-ups with hotels to reduce travel expenses. The variation in the travel costs therefore emerge primarily from unplanned travel, frequency and length of travel, and the sector of travel. Company H has a low travel cost per FTE, despite the fact that its FTEs, on average, travel the greatest number of days. This could be due to the fact almost half of the total man-days travelled are in the domestic sector.

Travel expenses by employee type

Domestic travel expenses



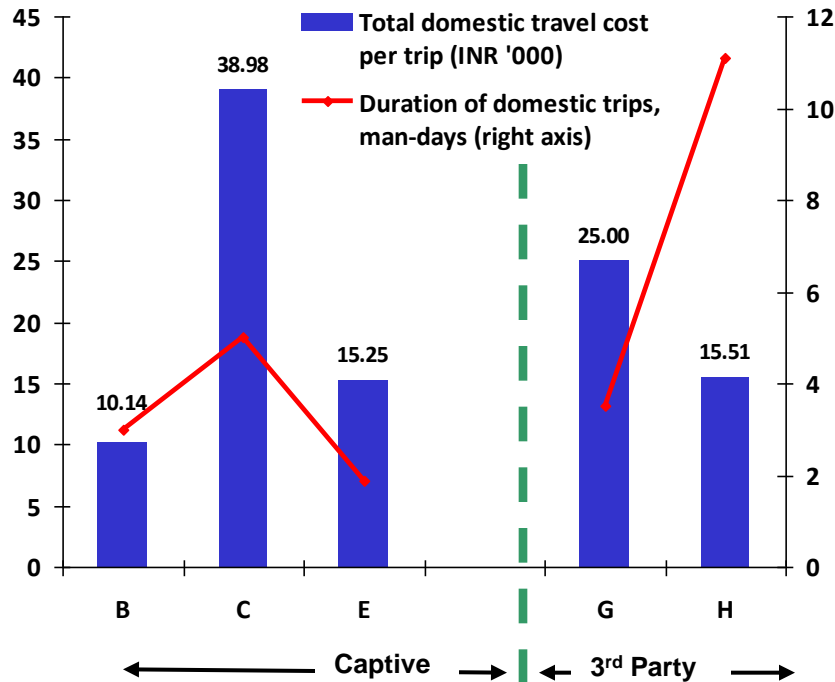
Overseas travel expenses



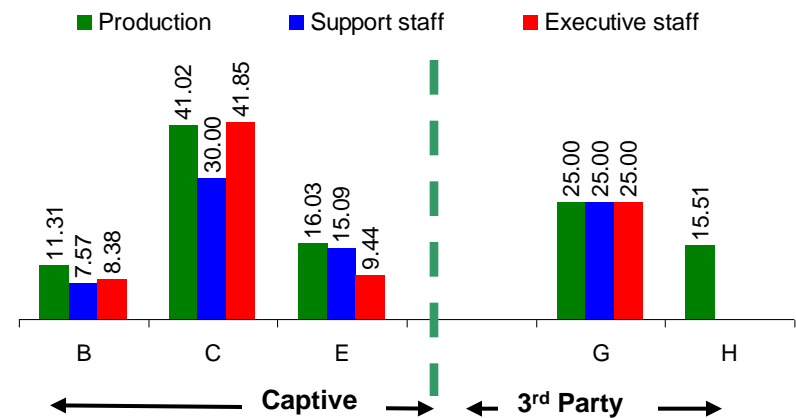
Production staff travel is usually paid for by the client and entails long-term stay at the delivery site. For this reason travel costs relating to production staff form the greatest share of total travel cost.

Cost per trip: Domestic travel

Domestic travel cost and duration of travel



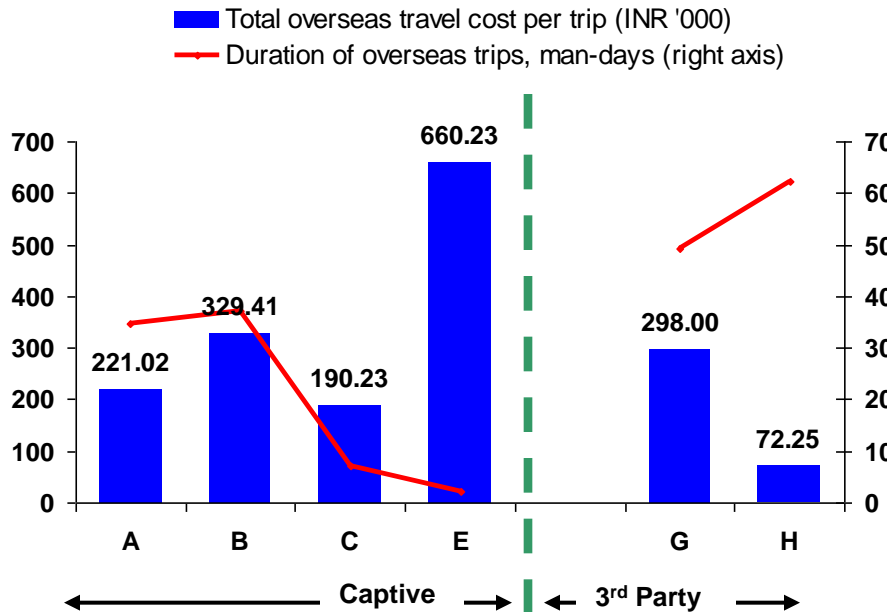
Domestic travel cost per trip (INR '000)



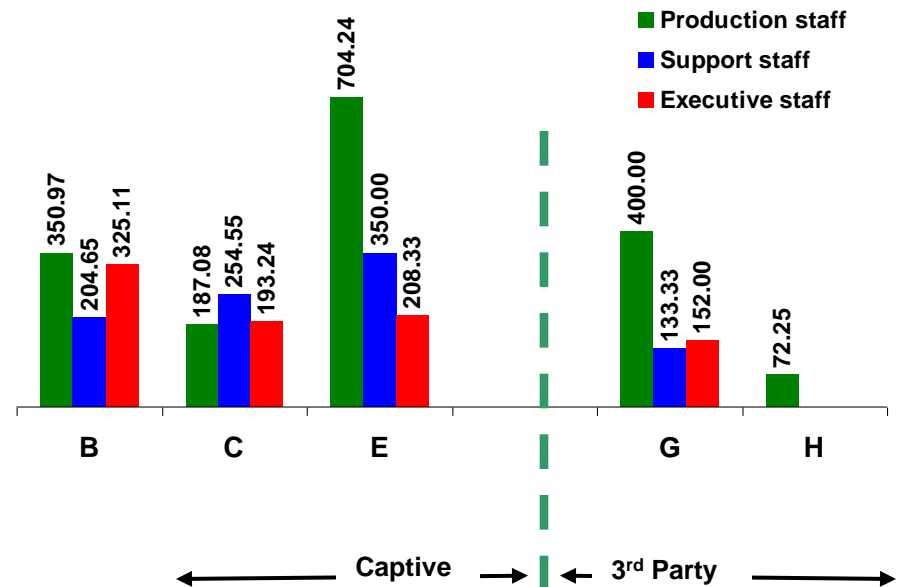
Barring company H, the travel cost per trip is largely a function of average duration of trips.

Cost per trip: Overseas travel

Overseas travel cost



Overseas travel cost per trip (INR '000)



The relationship between cost per trip and average duration is less visible in the case of overseas travel, largely because of the substantial variations that can stem on account of the travel destinations

Facilities

Comparison of lease clauses (1)

	Year of signing lease rental & escalation clause	Validity (in years) of the last-negotiated rental and escalation clause	Annual rental (INR/sq ft) at the time of signing initial lease or last re-negotiated lease	Escalation clause at the time of signing initial lease or last re-negotiated lease	Estimated rental in 2015 (INR/ sq ft)
Bangalore 1 (CBD)	2009	1	39	20%	116.45
Bangalore 2 (CBD)	2004	3	17	11-15%	65.21
Bangalore 3 (CBD)	2004	5	65	NA	-
Bangalore 4 (SBD)	2007	3	42	11-15%	111.66
Bangalore 5 (SBD)	2003	3	16	0-5%	21.52
Bangalore 6 (SBD)	2004	3	40	0-5%	52.48
Bangalore 7 (outside SBD)	2009	5	13	0-5%	15.08
Bangalore 8 (outside SBD)	2006	3	NA	NA	-
Bangalore 9 (outside SBD)	2007	3	NA	NA	-

Note: Rentals for 2015 have been estimated on the basis of annual rental at the time of signing initial lease and the escalation clause agreed therein. The average value of the escalation range has been used to project the rentals where a single figure is not available.

Comparison of lease clauses (2)

	Year of signing lease rental & escalation clause	Validity (in years) of the last-negotiated rental and escalation clause	Annual rental (INR/sq ft) at the time of signing initial lease or last re-negotiated lease	Escalation clause at the time of signing initial lease or last re-negotiated lease	Estimated rental in 2015 (INR/ sq ft)
Chennai 1 (CBD)	2008	3	48	11-15%	112.93
Chennai 2 (CBD)	2008	11	35	11-15%	82.34
Chennai 3 (CBD)	2008	11	40	11-15%	94.10

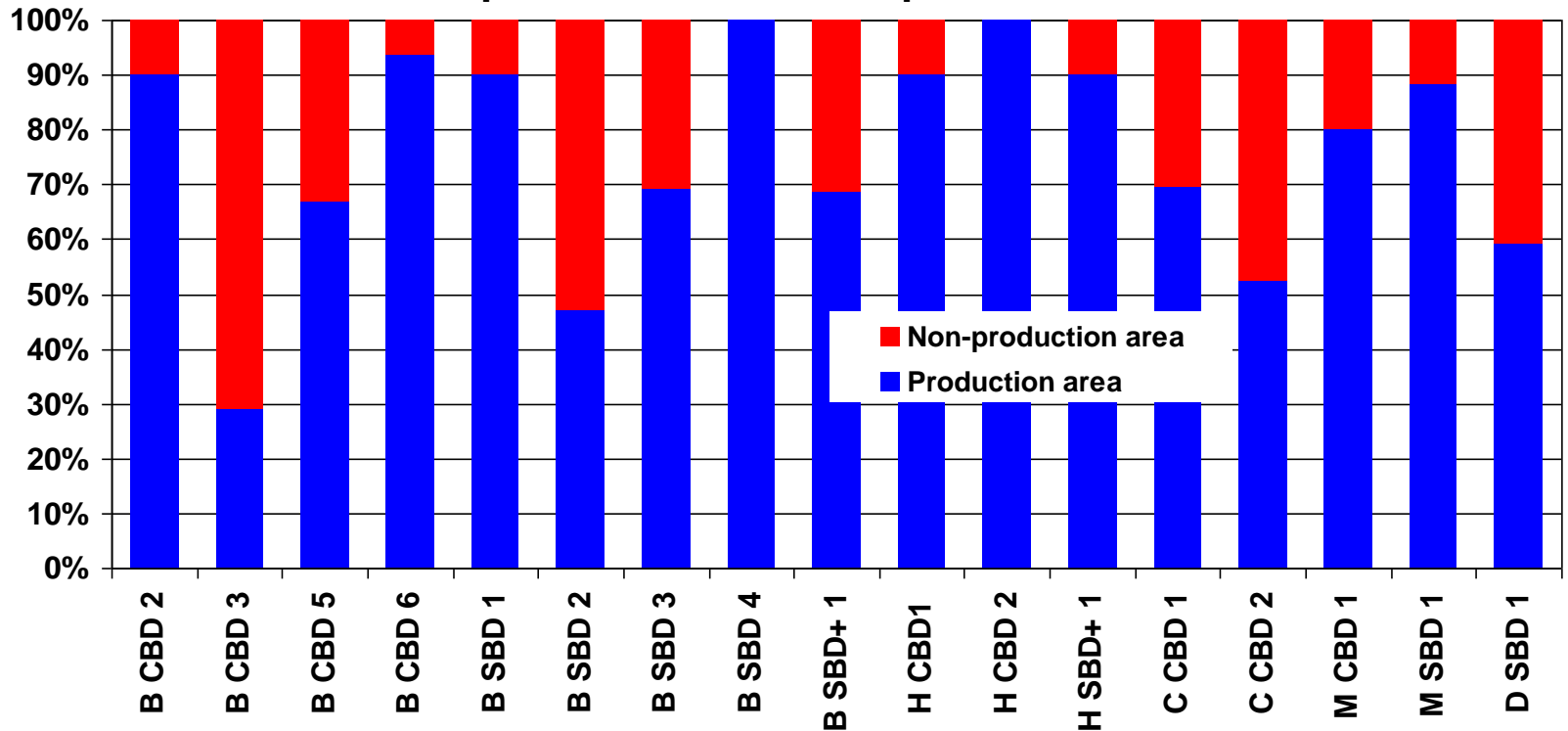
	Year of signing lease rental & escalation clause	Validity (in years) of the last-negotiated rental and escalation clause	Annual rental (INR/sq ft) at the time of signing initial lease or last re-negotiated lease	Escalation clause at the time of signing initial lease or last re-negotiated lease	Estimated rental in 2015 (INR/ sq ft)
Hyderabad 1 (CBD)	2007	NA	57	NA	-
Hyderabad 2 (outside SBD)	2005	3	25	0-5%	32.00

	Year of signing lease rental & escalation clause	Validity (in years) of the last-negotiated rental and escalation clause	Annual rental (INR/sq ft) at the time of signing initial lease or last re-negotiated lease	Escalation clause at the time of signing initial lease or last re-negotiated lease	Estimated rental in 2015 (INR/ sq ft)
Mumbai 1 (SBD)	2003	3	44	11-15%	149.36
Mumbai 2 (SBD)	2006	6	37	11-15%	125.60

Note: Rentals for 2015 have been estimated on the basis of annual rental at the time of signing initial lease and the escalation clause agreed therein. The average value of the escalation range has been used to project the rentals where a single figure is not available.

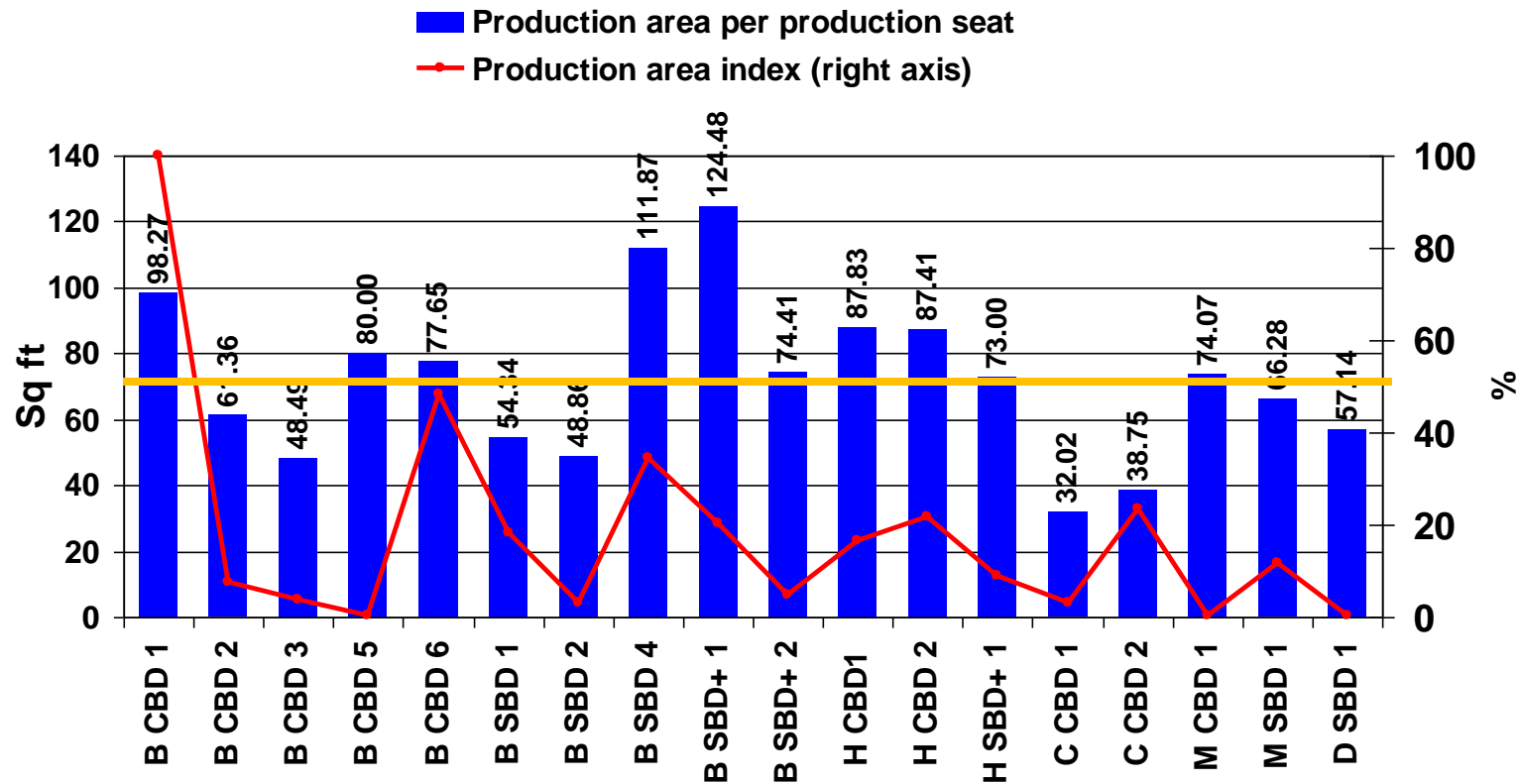
Space utilisation in facilities

Ratio of production and non-production area



Key: B – Bangalore, C – Chennai, D- Delhi, H – Hyderabad, M – Mumbai; CBD – central business district, SBD – secondary business district, SBD+ - outside secondary business district

Production area per production seat

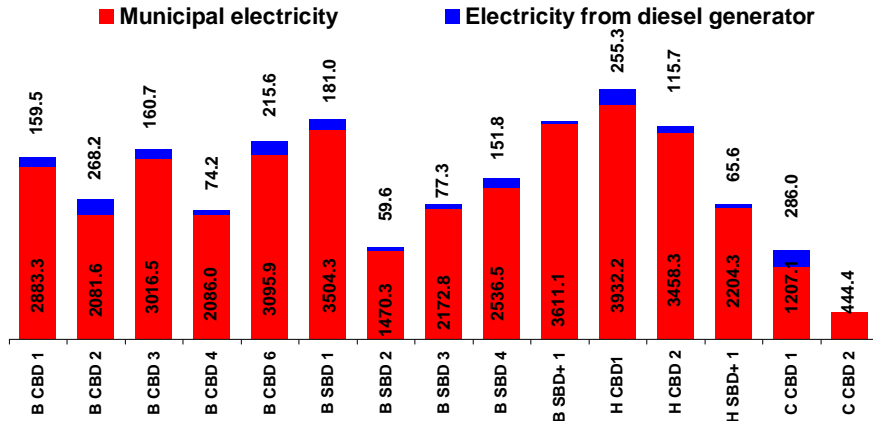


The yellow line in the chart represents the average area – 72.01 sq ft – allocated to each production seat

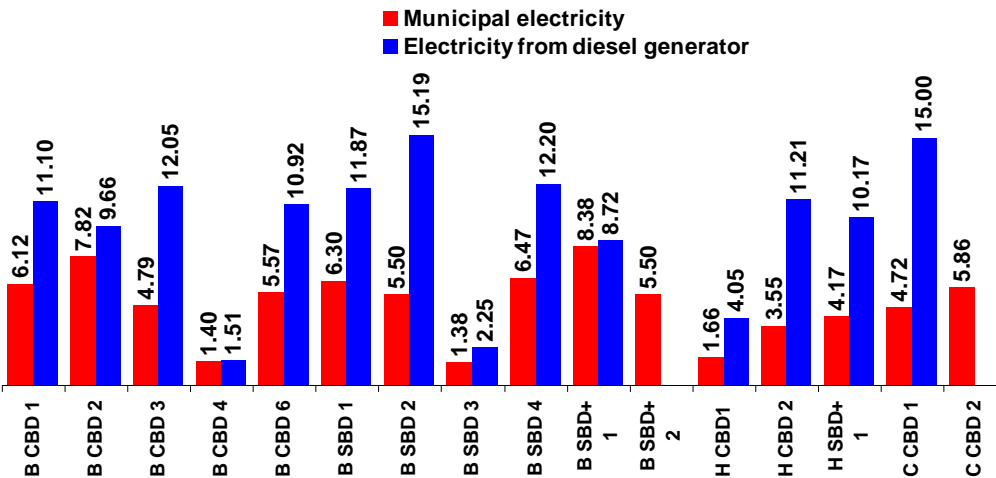
Key: B – Bangalore, C – Chennai, D- Delhi, H – Hyderabad, M – Mumbai; CBD – central business district, SBD – secondary business district, SBD+ - outside secondary business district

Electricity consumption

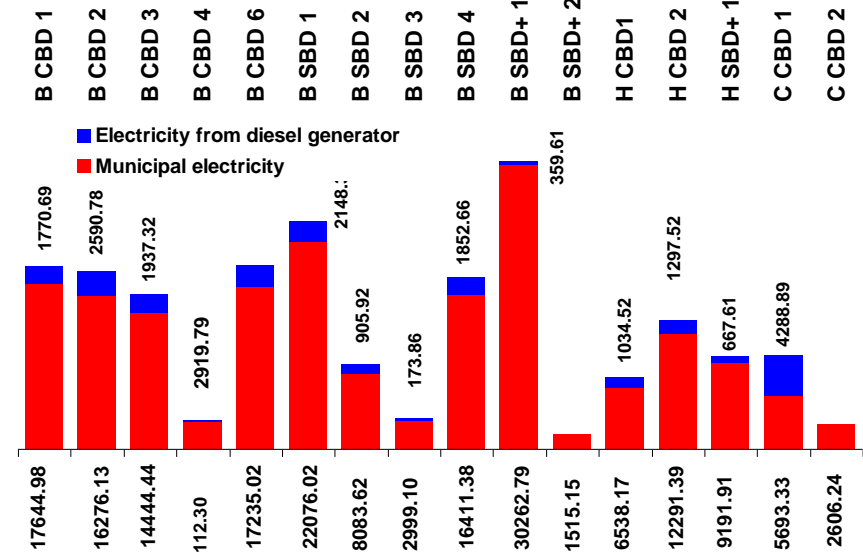
Units of electricity consumed per production seat



Cost of per unit electricity (INR)



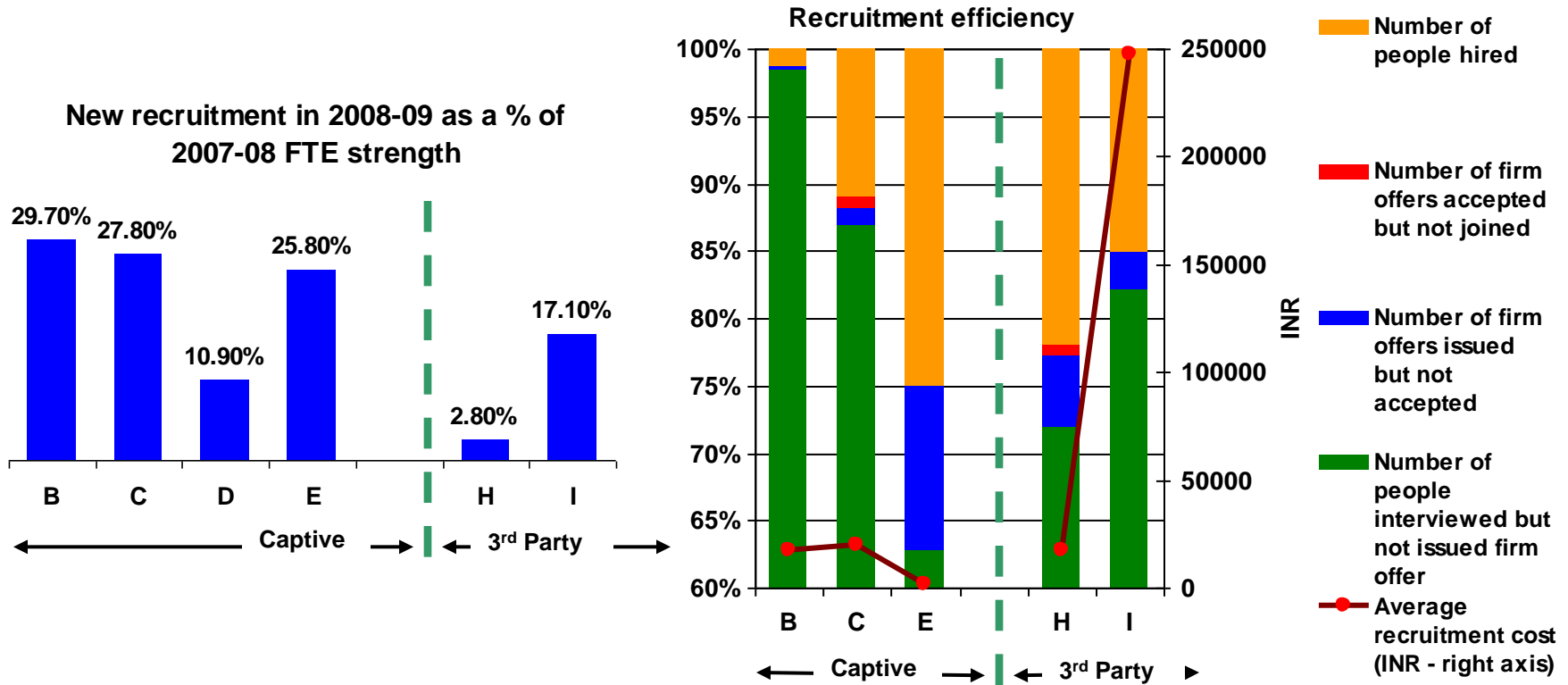
Cost of electricity per production seat (INR)



Electricity from diesel generators is up to three times more expensive than municipal power. Despite being in similar lines of business there is significant variation in consumption of electricity per production seat, implying the existence of scope for savings.

Manpower

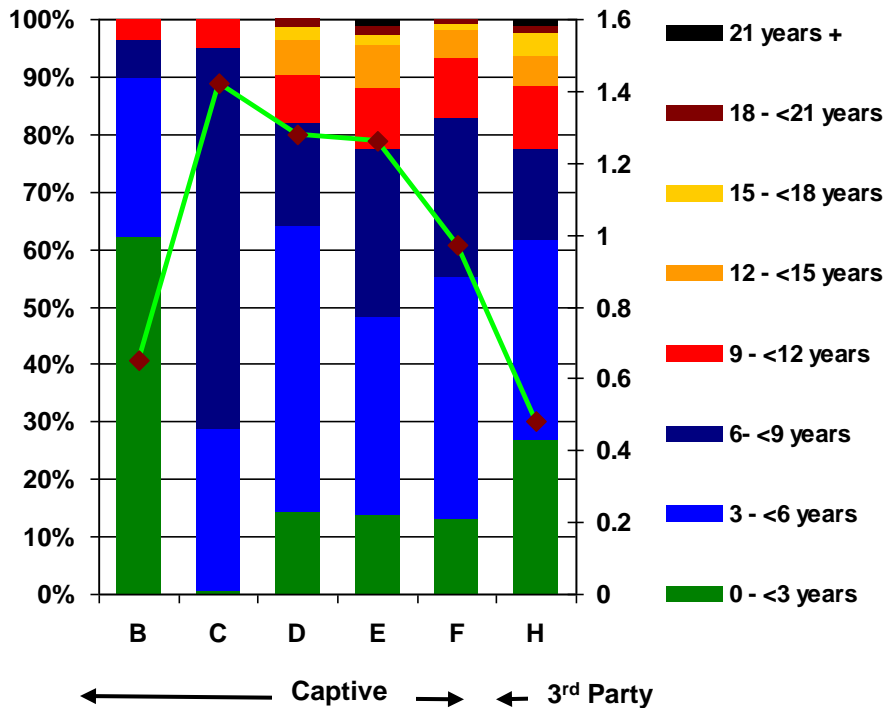
Recruitment efficiency



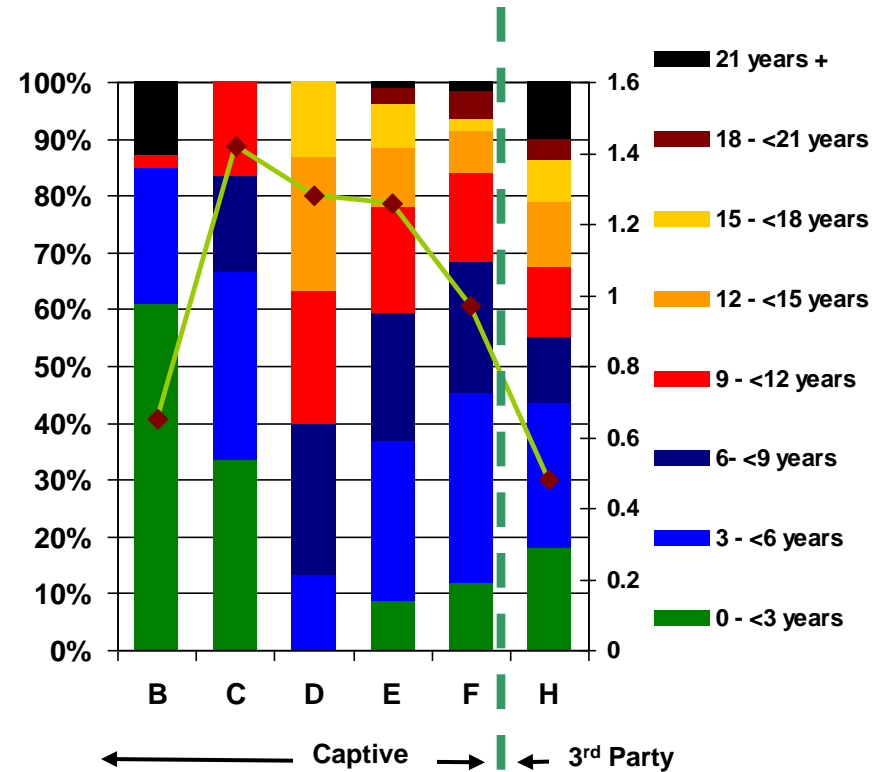
Company B has a relatively inefficient hiring process, as it rejects a large majority (95%) of candidates interviewed. E and H have relatively more effective recruitment processes. The variances could be on account of the talent source (qualified vs unqualified) or interview methodology or recruitment criteria.

Experience levels vis-à-vis salary cost

Experience-wise spread of production staff



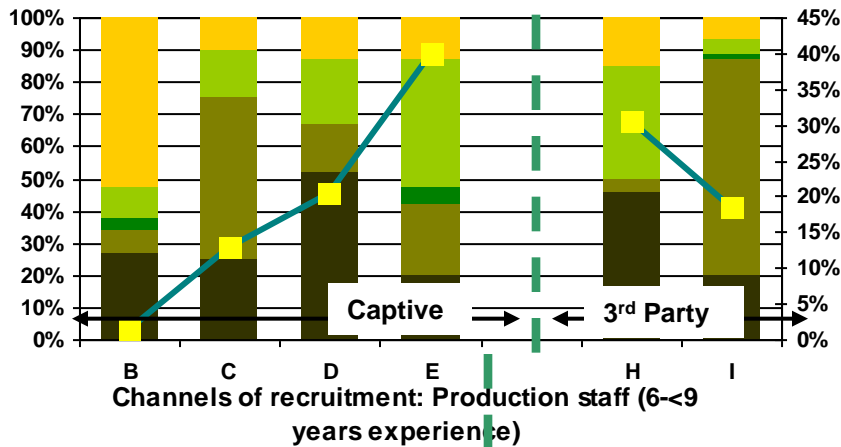
Experience-wise spread of support staff



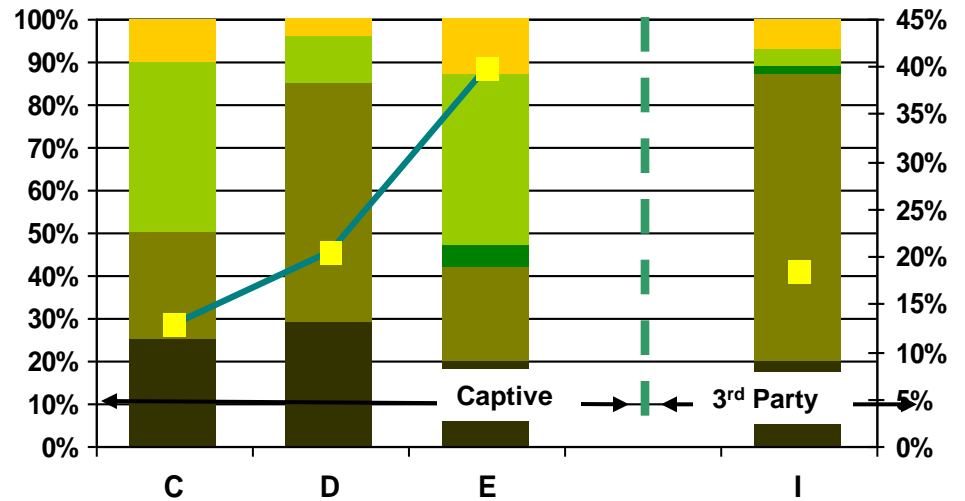
Companies that have a higher proportion of junior/entry level staff have a lower average direct cost per FTE

Channels of hiring

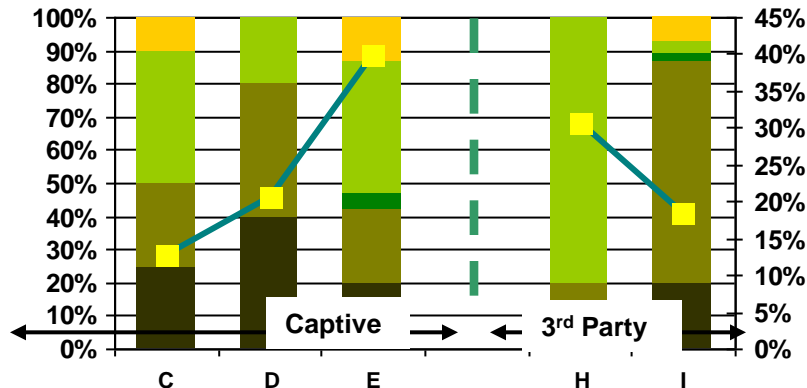
Channels of recruitment: Production staff (0-<3 years experience)



Channels of recruitment: Production staff (12-<15 years experience)



Channels of recruitment: Production staff (6-<9 years experience)



- Others
- Job sites
- Print advertisements
- Recruitment consultants
- Employee referrals
- ■ Number of people recruited as a % of people interviewed (right axis)

In combination with previous findings relating to weaknesses in the recruitment process, B's significant usage of 'other' channels should be carefully evaluated, as it may be one of the causative factors for its low rate of hiring.

Compensation (fixed and variable): Production staff

Graduate* employees

All figures in INR million

Experience: 1 year					
	B	D	E	F	H
Fixed	NA	0.32	0.33	0.37	0.11
Variable	NA	0.03	0.014	0.05	0

Experience: 4 years					
	B	D	E	F	H
Fixed	0.28	0.52	0.54	0.58	NA
Variable	0.06	0.03	0.03	0.07	NA

Experience: 7 years					
	B	D	E	F	H
Fixed	0.46	1.14	0.76	0.82	NA
Variable	0.09	0.07	0.04	0.11	NA

Experience: 10 years					
	B	D	E	F	H
Fixed	NA	0.97	0.91	1.17	NA
Variable	NA	0.07	0.06	0.15	NA

Experience: 13 years					
	B	D	E	F	H
Fixed	NA	NA	1.07	1.40	NA
Variable	NA	NA	0.10	0.17	NA

Experience: 16 years					
	B	D	E	F	H
Fixed	NA	NA	1.20	0.76	NA
Variable	NA	NA	0.15	0.10	NA

Experience: 19 years					
	B	D	E	F	H
Fixed	NA	1.197	1.09	2.06	NA
Variable	NA	0.063	0.08	0.26	NA

Experience: 21+ years					
	B	D	E	F	H
Fixed	NA	NA	1.26	NA	NA
Variable	NA	NA	0.19	NA	NA

* Includes BA, B Sc, B Com, etc

Compensation (fixed and variable): Supervisor staff

Technical graduate (Tier I)* employees

All figures in INR million

Experience: 1 year					
	B	D	E	F	H
Fixed	NA	0.32	0.33	0.37	0.11
Variable	NA	0.03	0.014	0.05	0

Experience: 4 years					
	B	D	E	F	H
Fixed	0.28	0.52	0.54	0.58	NA
Variable	0.06	0.03	0.03	0.07	NA

Experience: 7 years					
	B	D	E	F	H
Fixed	0.46	1.14	0.76	0.82	NA
Variable	0.09	0.07	0.04	0.11	NA

Experience: 10 years					
	B	D	E	F	H
Fixed	NA	0.97	0.91	1.17	NA
Variable	NA	0.07	0.06	0.15	NA

Experience: 13 years					
	B	D	E	F	H
Fixed	NA	NA	1.07	1.40	NA
Variable	NA	NA	0.10	0.17	NA

Experience: 16 years					
	B	D	E	F	H
Fixed	NA	NA	1.20	0.76	NA
Variable	NA	NA	0.15	0.10	NA

Experience: 19 years					
	B	D	E	F	H
Fixed	NA	1.197	1.09	2.06	NA
Variable	NA	0.063	0.08	0.26	NA

Experience: 21+ years					
	B	D	E	F	H
Fixed	NA	NA	1.26	NA	NA
Variable	NA	NA	0.19	NA	NA

* Includes B Tech, BCA etc. from top 30 engineering colleges in India

Salary: Support staff

Technical post-graduate (Tier I)* employees

All figures in INR million

Experience: 1 year					
	B	D	E	F	H
Fixed	NA	0.32	0.33	0.37	0.11
Variable	NA	0.03	0.014	0.05	0

Experience: 4 years					
	B	D	E	F	H
Fixed	0.28	0.52	0.54	0.58	NA
Variable	0.06	0.03	0.03	0.07	NA

Experience: 7 years					
	B	D	E	F	H
Fixed	0.46	1.14	0.76	0.82	NA
Variable	0.09	0.07	0.04	0.11	NA

Experience: 10 years					
	B	D	E	F	H
Fixed	NA	0.97	0.91	1.17	NA
Variable	NA	0.07	0.06	0.15	NA

Experience: 13 years					
	B	D	E	F	H
Fixed	NA	NA	1.07	1.40	NA
Variable	NA	NA	0.10	0.17	NA

Experience: 16 years					
	B	D	E	F	H
Fixed	NA	NA	1.20	0.76	NA
Variable	NA	NA	0.15	0.10	NA

Experience: 19 years					
	B	D	E	F	H
Fixed	NA	1.197	1.09	2.06	NA
Variable	NA	0.063	0.08	0.26	NA

Experience: 21+ years					
	B	D	E	F	H
Fixed	NA	NA	1.26	NA	NA
Variable	NA	NA	0.19	NA	NA

* Includes M Tech, MCA, etc. from top 30 engineering colleges in India

Annexure

This section contains further data pertaining to the parameters discussed in the main report, for reference purposes

Revenue source and pricing model

Break-up of total revenue with respect to the source of revenue

	A	B	C	D	F	G	H	I
Transfer pricing	100%	100%	100%	100%	100%	98.5%	27%	100%
End-customer pricing	0%	0%	0%	0%	0%	1.5%	73%	0%

Break-up of total revenue with respect to the pricing model

	B	C	D	F	G	H	I
Transaction-based	0%	0%	100%	100%	0%	0%	0%
Fixed fee	0%	0%	0%	0%	0%	63%	4%
Time & material	100%	100%	0%		100%	37%	96%

Local transportation spend

	Local transport cost per FTE (INR '000)	% share of local transport cost in total cost	Local transport spend per FTE as a % of revenue per FTE
A	78.56	4.97	4.48
B	8.75	0.64	0.56
C *	4.01	0.27	0.23
D	7.87	0.43	0.38
E	2.58	0.15	0.12
F	3.93	0.29	0.26
G	6.41	0.66	0.50
H*	4.82	0.56	0.80
I	5.07	0.41	0.37

Shifts

	Total number of shifts	% share of	
		Day shifts	Part day/night shifts
A	31	32.26	67.74
B	17	17.65	82.35
C	1	100	0
D	1	100	0
E	1	100	0
F	35	37.14	62.86
G	xx	xx	xx
H	3	100	0
I	29	55.17	44.83

Note: The day/night classification is based on fees charged by transport service providers. In most cities, an additional night charge is usually applied to trips undertaken between 10pm and 6am.

Local transport

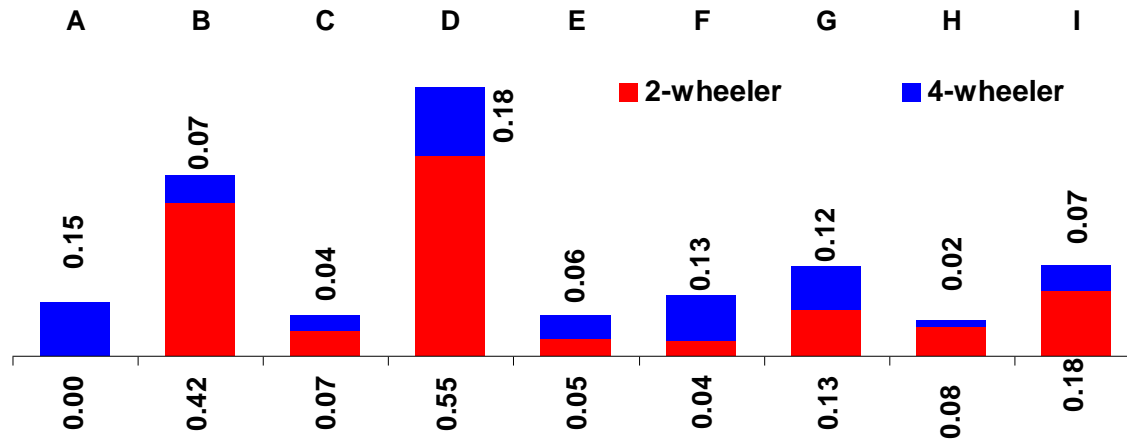
	% of employees eligible for company-paid home to office transport facility	% of employees availing company-paid home to office transport facility	Female employees availing company paid local transport as % of total employees availing the same facility
A	100.00	86.20	
B	37.20	29.90	26.70
C	NA	NA	NA
D	98.90	18.50	52.00
E	51.60	51.60	43.00
F	36.60	32.30	17.60
H	NA	NA	NA
I	--	27.50	34.40

NA – Company does not provided home to office transport facility to employees

Carpet, plot and parking areas

City	H	H	H	B	B	B	B	B	B	B	B	B	B	B	B	C	C	D	M	M
Location	CBD	CBD	SBD +	CBD	CBD	CBD	CBD	CBD	CBD	SBD	SBD	SBD	SBD	SBD+	SBD +	CBD	CBD	SBD	SBD	CBD
Carpet area as a % of plot area	73%	76%	87%	97%	83%	63%	24%	92%	83%	87%	67%	11%	78%	89%	75%	76%	90%	100 %	84%	100 %
% parking area allotted to 2-wheelers	65.4	56.5	32.3		37.8	49.1	15.4	77.0	45.7		19.7	7.0	0.0	49.6	0.0	69.0		40.0	0.0	
% parking area allotted to 4-wheelers	35.6	43.5	67.7		63.2	50.9	84.6	23.0	54.3		80.3	93.0	100.0	50.4	100.0	31.0		60.0	100.0	

Number of parking slots per FTE

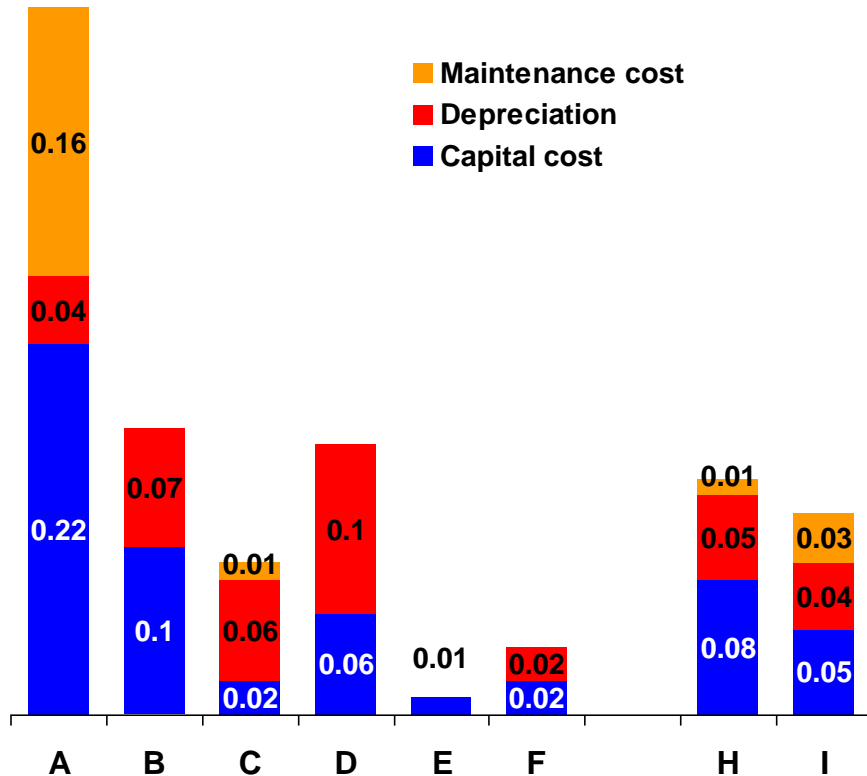


Modes of security

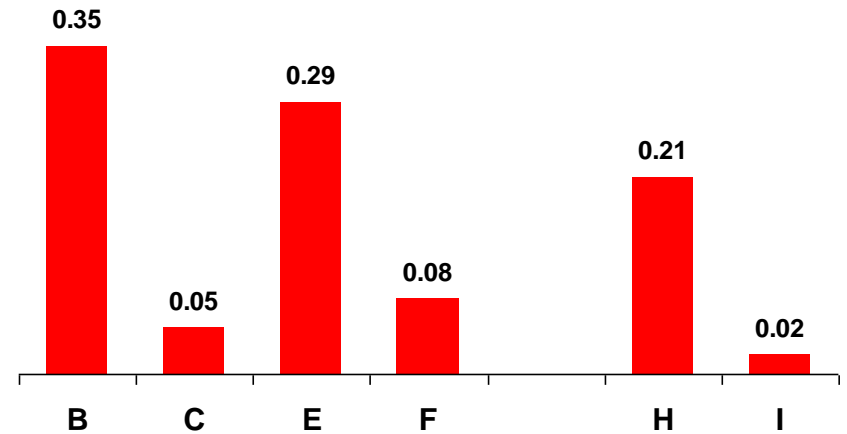
X

Total annual IT Cost

Total annual IT cost per FTE* (INR mn) (2008-09)



Fixed IT asset value per FTE (INR mn)



Communication cost

	% share of communication costs by modes of communication			
	2007-08		2008-09	
	Internet	Telephone	Internet	Telephone
A	NA	NA	50.00	50.00
B	49.78	50.22	49.78	50.22
C	1.83	98.17	2.09	97.91
D	70.02	29.98	67.36	32.64
E	NA	NA	28.98	71.02
F	NA	NA	35.00	65.00
H	12.07	87.93	14.85	85.15
I	44.30	55.70	79.89	20.11

	Communication cost per FTE, INR '000 (2008-09)	
	Internet	Telephone
A	23.33	23.33
B	9.00	9.08
C	0.76	33.98
D	16.78	8.13
E	4.46	10.94
F	13.75	25.54
H	1.14	6.53
I	12.15	3.06

IMA

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