



Analysis of Operating Cost and Pricing Trends in IT-ADM

Client XXX

Final Report



■ Summary

- Trends in operating cost components
- Trends in operating cost structure
- Trends in overall blended pricing



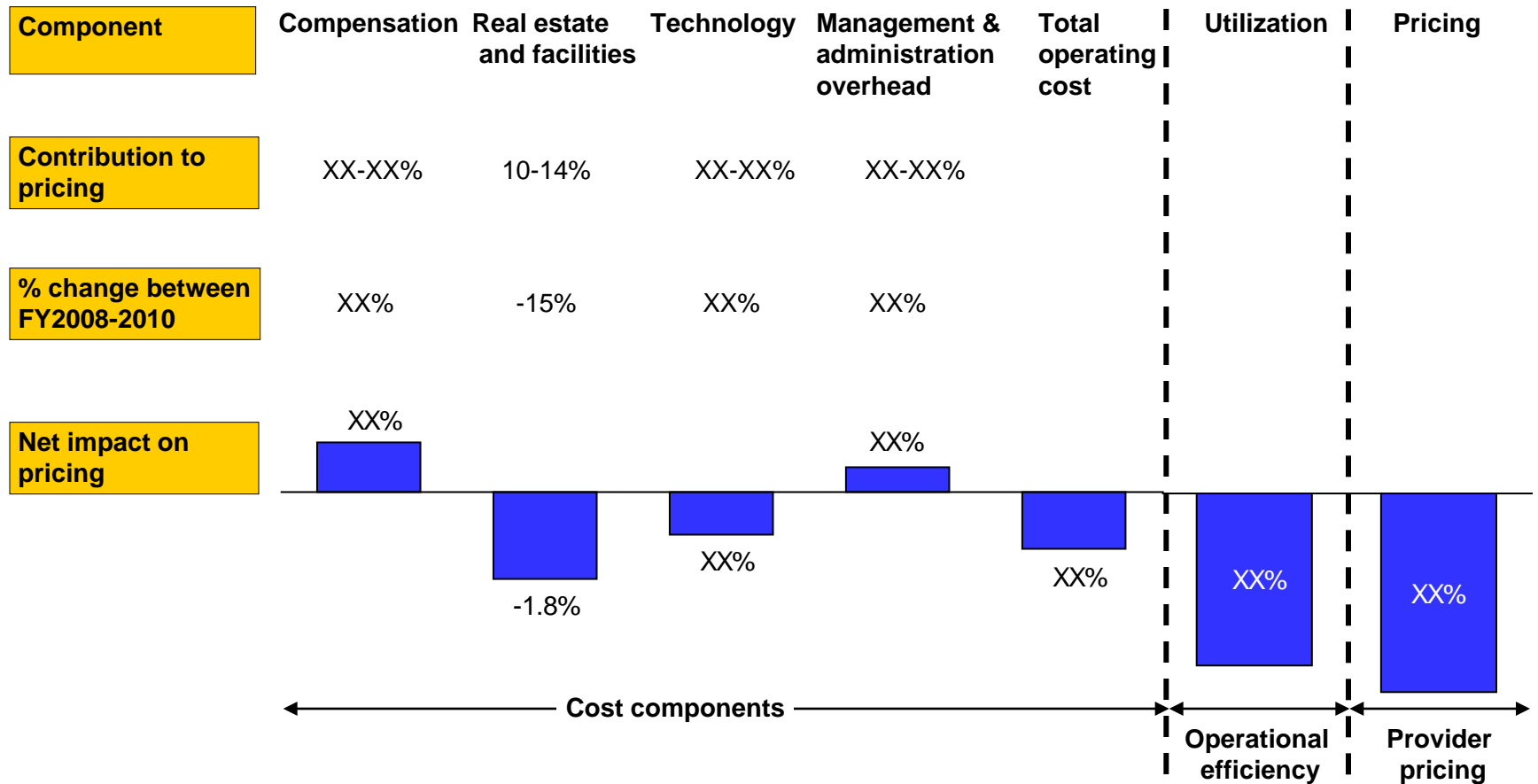
Background

- Client XXX commissioned Everest to conduct analysis of operating cost and pricing trends in India and US
- Based on discussions, the mutually agreed scope of the engagement was as follows:
 - Trends in blended operating cost components for India and U.S.
 - Trends in overall operating cost on a blended basis for India and U.S.
 - Trends in overall blended pricing for U.S. and India delivery
- This report includes the completed analysis per the engagement scope

Assumptions for trend analysis

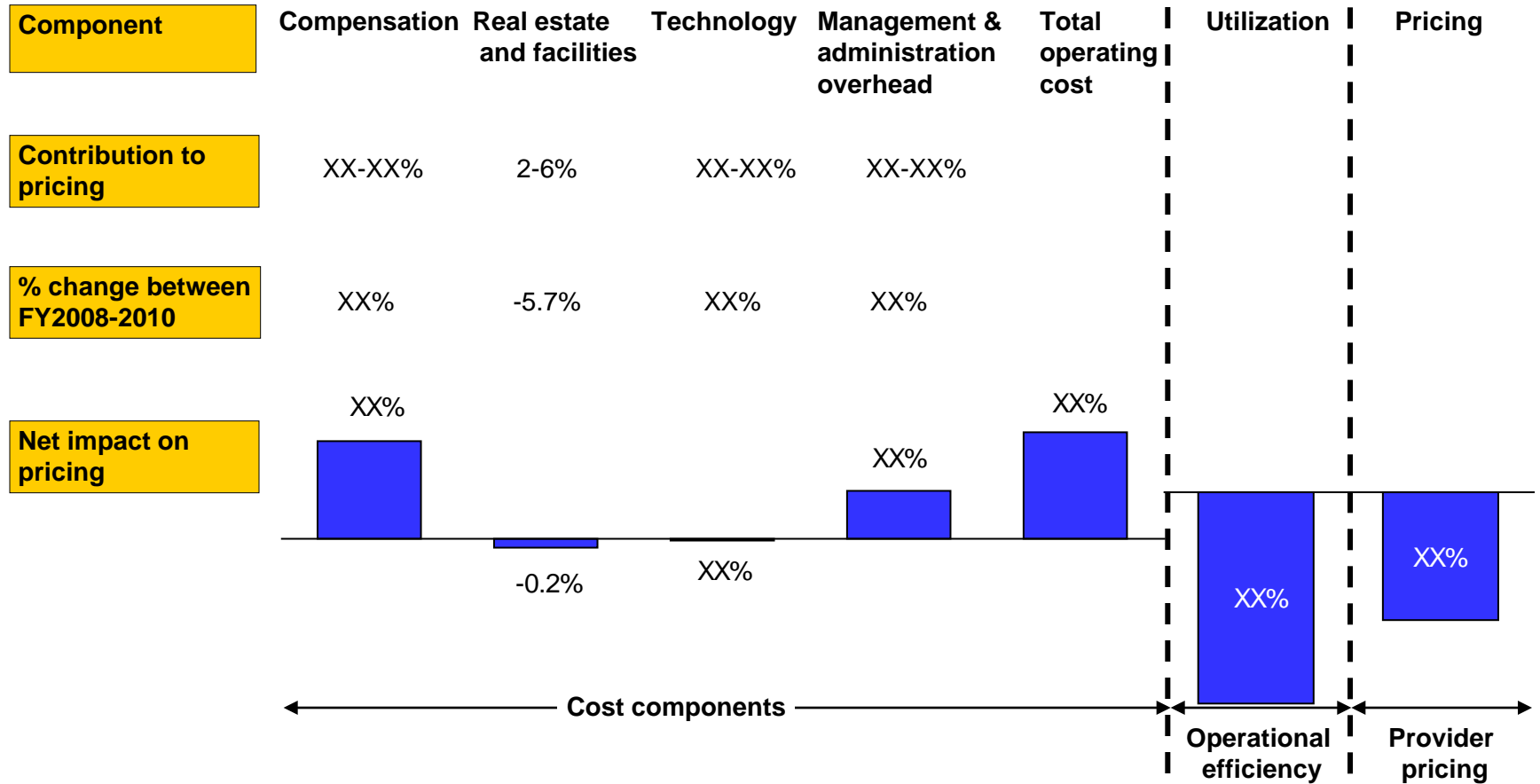
- We have considered Tier-1 Indian cities (e.g., Bangalore, Delhi NCR) and Tier-2 U.S. cities (e.g., Charlotte, Jacksonville) for the analysis
- We have used the following ForEx conversion ratios to arrive at cost numbers in India
 - FY2008: 1 US\$ = 43.81INR
 - FY2009: 1 US\$ = 48.85INR
 - FY2010: 1 US\$ = 46.1INR

Summary of operating cost and price movements in India



- In USD terms, the declining total operating cost (on a blended basis) in India translated to XX% price decrease between FY2008-FY2010
- During this period, provider utilization levels improved from ~XX% to ~XX%. This enabled further a price reduction of XX%
- Therefore, the expected price reduction between FY2008-FY2010 was XX%. The actual price reduction in India was ~XX%, implying that service providers were able to maintain their margins in India between FY2008-FY2010

Summary of operating cost and price movements in US



- XXXX
- XXXX
- XXXX



- Summary
- **Trends in operating cost components**
 - **India**
 - U.S.
- Trends in operating cost structure
- Trends in blended pricing

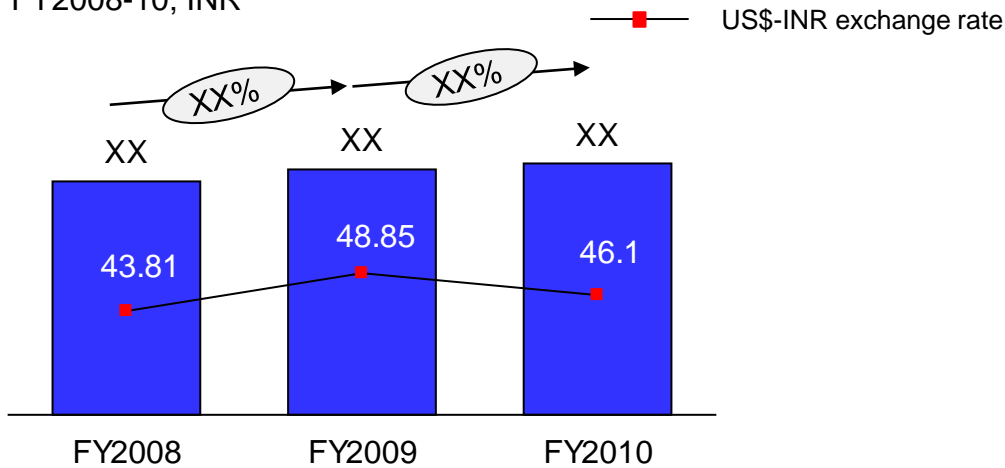
Trends in operating cost components in India

Compensation



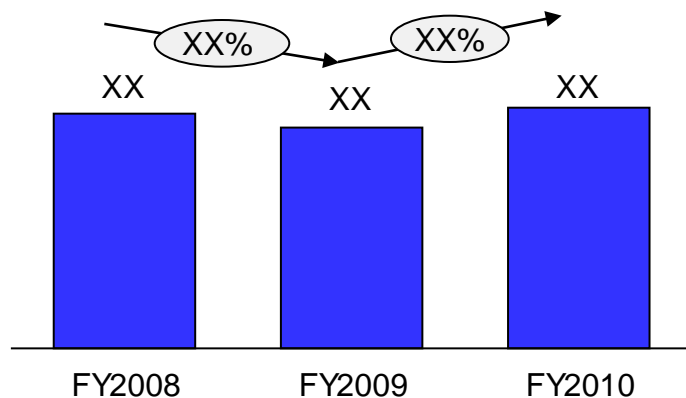
Compensation¹ costs per resource on a blended basis

FY2008-10; INR



Compensation¹ costs per resource on a blended basis

FY2008-10; US\$



Key takeaways

- Compensation expenses contribute ~XX-XX% of the total offshore operating cost structure, and XX-XX% of service provider pricing
- On a blended basis, the wage inflation (in INR terms) between FY2008 and FY2009 was ~XX%, whereas between FY2009 and FY2010 it was ~XX%
- Due to ~12% depreciation in the Indian rupee in 2009, the change in compensation expenses in US\$ terms in 2009 was ~XX% decline. Conversely, the appreciation of the Indian rupee by ~6% in FY2010 resulted in a ~XX% increase in compensation cost in US\$ terms
- Looking forward, compensation expenses are expected to XXX

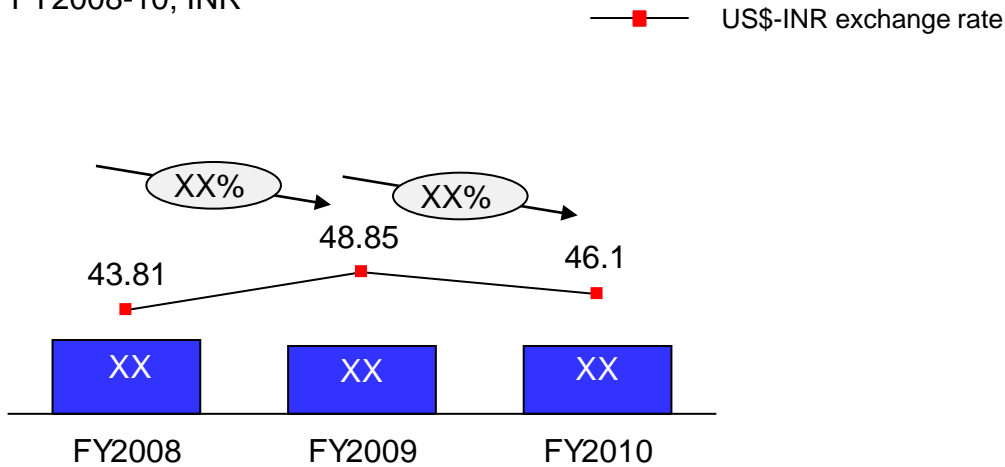
1 Compensation includes base salary, benefits and bonus

Trends in operating cost components in India

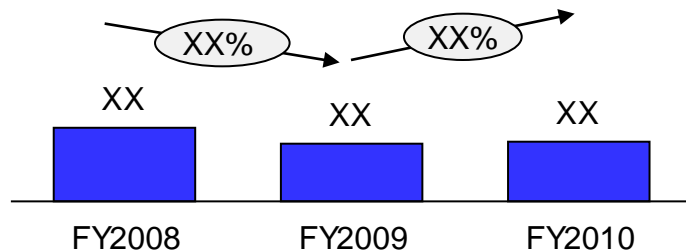
Real estate and facilities



Real estate and facilities¹ costs per resource on a blended basis
FY2008-10; INR



Real estate and facilities¹ costs per resource on a blended basis
FY2008-10; US\$



Key takeaways:

- Real estate and facilities costs contribute typically ~XX-XX% of the total offshore operating cost structure, and 10-14% of service provider pricing
- XXX
- XXX
- In the short term, rentals are expected to XXX
- However Tier-1 Indian service providers are shifting ~XX% of their workforce to Tier-2/3 cities, thereby benefiting from (among others) reduced real estate and facilities expenses. The overall reduction in operating cost due to this shift is expected to be ~XX-XX%

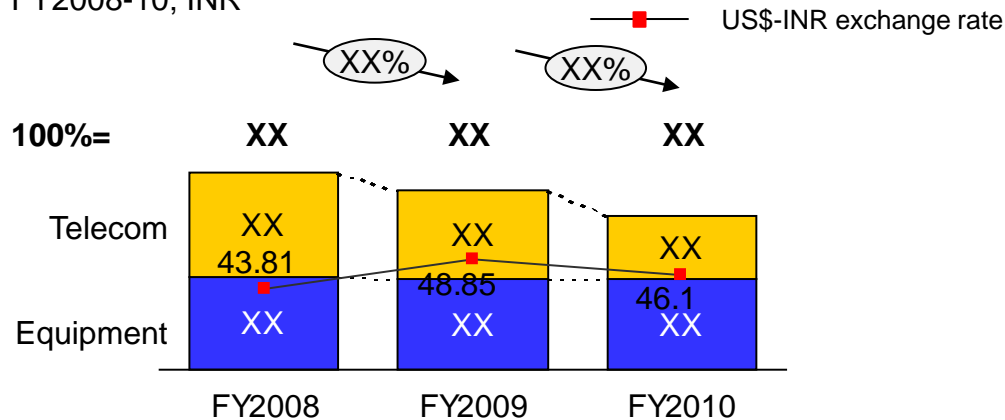
¹ Real estate and facilities consists of rental costs, facilities management, utilities cost, and cost of fixtures and fit outs

Trends in operating cost components in India Technology



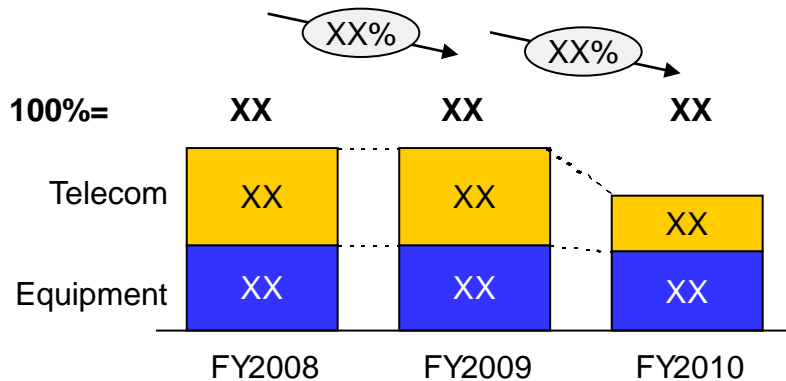
Technology¹ costs per resource on a blended basis

FY2008-10; INR



Technology¹ costs per resource on a blended basis

FY2008-10; US\$



Key takeaways:

- Technology costs contribute typically ~XX% of the total offshore operating cost structure, and XX-XX% of service provider pricing
- XXX
- Within technology costs, bandwidth cost changed by XX% on account of XX
- It is expected that both, telecom costs and equipment costs will XX in the medium term

¹ Technology cost component consists of equipment cost and telecom bandwidth cost. Major components of equipment cost include cost of desktops, printers, and servers

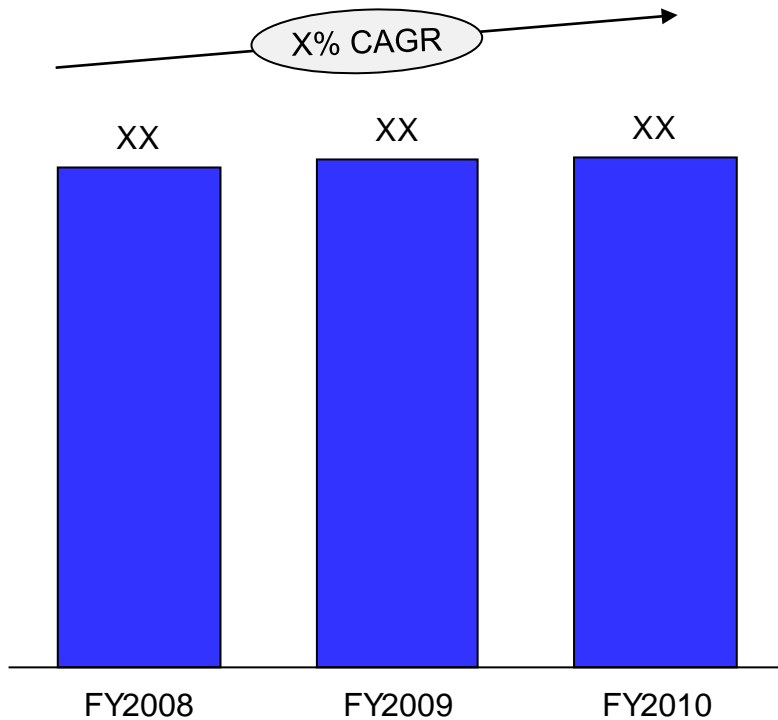


- Summary
- **Trends in operating cost components**
 - India
 - **U.S.**
- Trends in operating cost structure
- Trends in blended pricing

Trends in operating cost components in U.S. Compensation



Compensation¹ costs per resource on a blended basis
FY2008-10; US\$



Key takeaways:

- XXX
- XXX
- XXX
- XXX

1 Compensation includes base salary, benefits and bonus

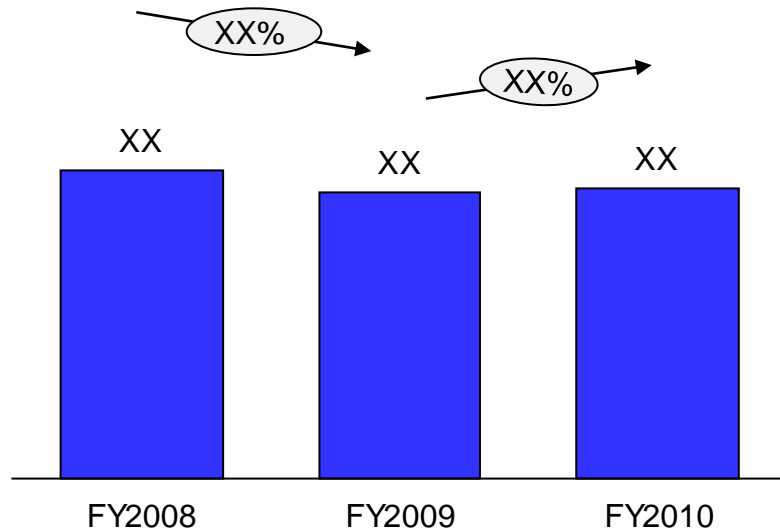
Trends in operating cost components in U.S. Real estate and facilities



Real estate and facilities¹ costs per resource on a blended basis
FY2008-10; US\$

Key takeaways:

- XXX
- XXX
- XXX
- XXX

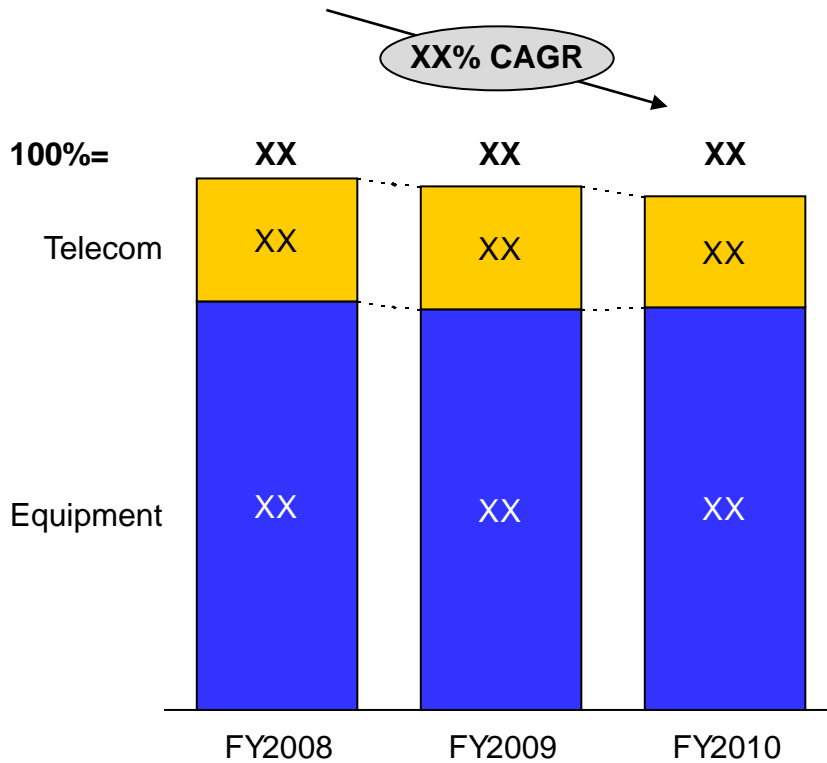


¹ Real estate and facilities consists of rental costs, facilities management, utilities cost, and cost of fixtures and fit outs

Trends in operating cost components in U.S. Technology



Technology¹ costs per resource on a blended basis
FY2008-10; US\$



Key takeaways:

- XXX
- XXX
- XXX
- XXX

¹ Technology cost component consists of equipment cost and telecom bandwidth cost. Major components of equipment cost include cost of desktop, printer and server

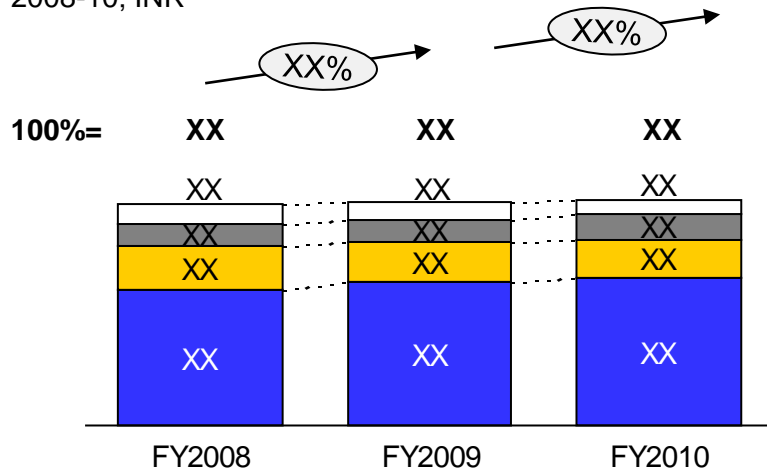


- Summary
- Trends in operating cost components
- **Trends in operating cost structure**
- Trends in blended pricing

Trends in operating cost structure in India

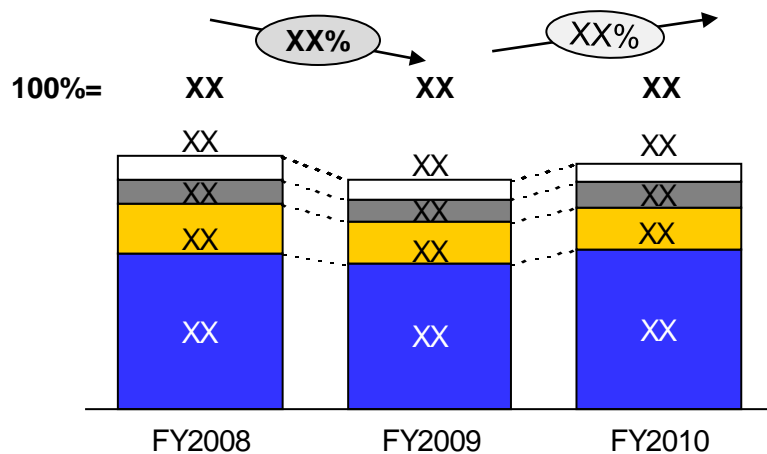


Total operating costs per resource on a blended basis 2008-10; INR



- Technology
- Management and administration overheads
- Real estate and facilities
- Compensation

Total operating costs per resource on a blended basis 2008-10; US\$



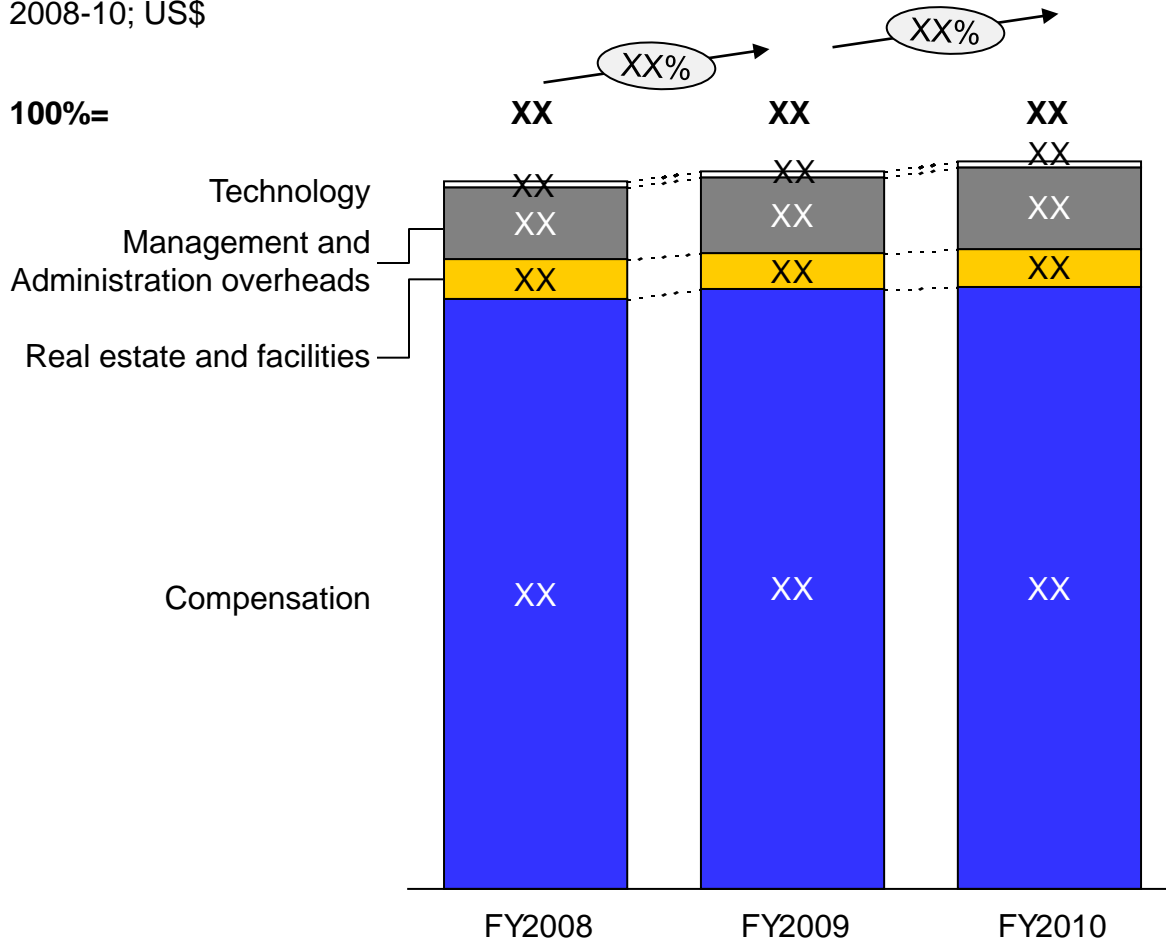
Key takeaways:

- Cumulative of compensation, real estate cost, management and administration overheads, and technology costs, operating costs increased by ~XX% year-on-year
- On account of the fluctuation in the USD-INR exchange rate, the aforementioned change in operating costs translated to ~XX% decrease in FY2009 and ~XX% increase in FY2010

Trends in operating cost structure in US



Total operating costs per resource on a blended basis
2008-10; US\$



Key takeaways:

- XXX
- XXX
- XXX

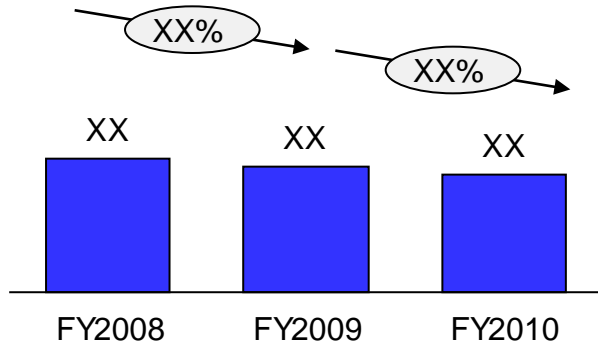


- Summary
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- Trends in operating cost structure
- **Trends in blended pricing**

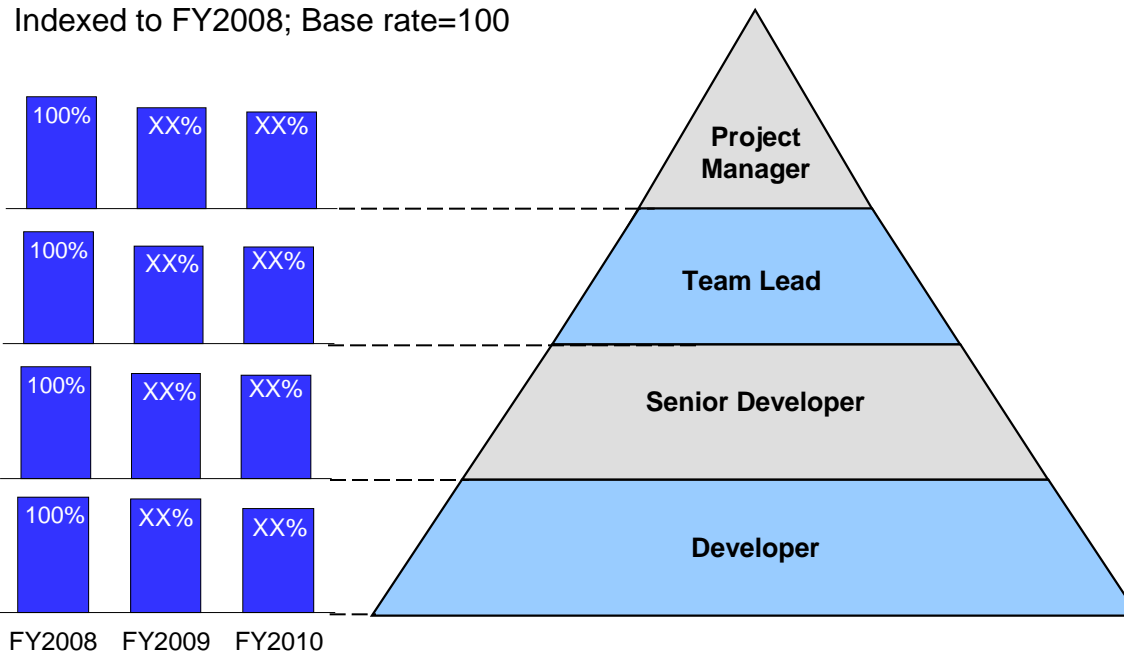
Trends in blended pricing in India



FTE-rates per resource on a blended basis FY2008-10; US\$/hr



FTE-rates per resource for discrete roles Indexed to FY2008; Base rate=100



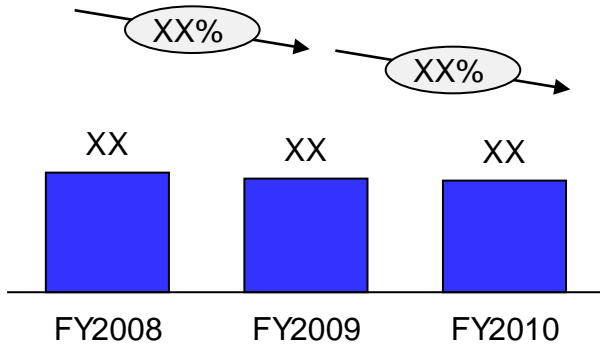
Key takeaways:

- On a blended basis, FTE-rates in India have declined between FY2008 and FY2010 with a CAGR of XX%
- The variation in price is not the same for the discrete roles (i.e. Developer, Senior Developer, Team Lead, and Project Manager)
- For senior roles (i.e. Team Lead and Project Manager), there has been a decline of ~XX% between FY2008 and FY2010
- The decline for junior roles (i.e. Developer and Senior Developer) has been XX%. This might be attributable to the fact that XXX
- Going forward, FTE rates are expected to XXX

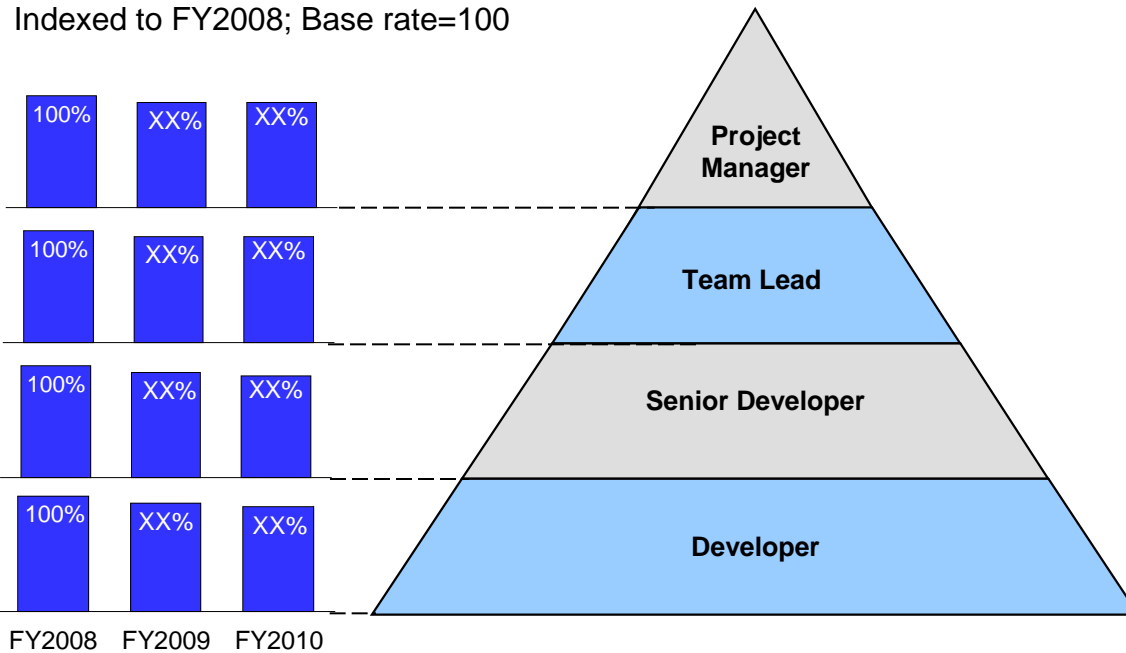
Trends in blended pricing in US



FTE-rates per resource on a blended basis FY2008-10; US\$/hr



FTE-rates per resource for discrete roles Indexed to FY2008; Base rate=100



Key takeaways:

- XXX
- XXX
- XXX
- XXX
- XXX

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