CFO BRIDGE NEWSLETTER

WWW.CFOBRIDGE.COM

June 2023

THEME FOR THE MONTH: RESOURCE OPTIMIZATION

Editor's Note

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Thanks to all readers, we have started getting positive feedback for having started the newsletter to cater to the Tech SME segment.

We have chosen Resource Optimization as a theme for this month.

We all would know that RMG (Resource management group) in every IT organization plays a very important and critical role, indirectly resulting in the P&L management of the company. If the resource planning is not managed well enough it can result in huge bench, skill mis-match / shortage / country mis-match leading to revenue opportunity loss.

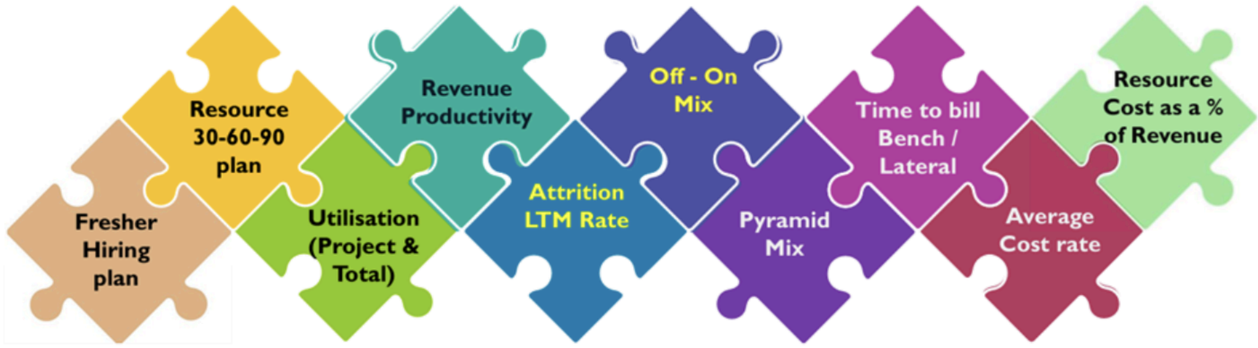
In this newsletter we will try to bring out some of the good or best practices followed in various large organizations on resource planning, we also share some of the key metrics available in the public domain and how every Tech SME needs to track, monitor, and draw insights for action.

This newsletter should help Medium and SME IT companies to bring focus on cash flow generation since it has a clear linkage to valuation and ability to attract investments.

INSIDE THE ISSUES

- We all know, “What gets measured gets improved”, hence in every IT organization managing the metrics around resources is very important to track and drive action.
- The Revenue Forecasting with minimal variance to actual should dovetail to the resource planning and it needs a continuous rebalancing and if this is the not managed/ collaborated well by the leadership and operational heads, it will get reflected in the P&L for sure.
- So timely decision making on data is important. Let’s now delve further to understand it better.
- As always, we value your feedback and comments, so please feel free to write to us.

RESOURCE OPTIMIZATION DRIVERS IN IT SERVICES



Points to keep in mind as we get to understand how to leverage the above-mentioned Optimization drivers:

- All the above drivers influence the direct resource cost and the delivery overhead cost, if they are not managed at optimal level or at benchmark levels it will immediately show an impact on the P&L when one does the inter-firm comparison.
- Measuring and monitoring the trends in the above parameters would clearly bring out the areas for improvement.
- It is observed that any optimization action taken in resource planning will take a couple of months to bring it back to normalcy.
- Make your data definitions for the organization clear and consistent. Do not change it frequently, else trends / patterns will be lost.
- Many of the above parameters are very sensitive and confidential and can expose the company’s cost strategy when it comes to pricing.
- Over the years, various organizations' business mix shifted from a pure-ply IT services to SAAS, Infra, Platform /IP led business service .To avoid wrong inferences/comparisons by analyst community organizations have discontinued sharing parts of the data .
- This has led to limitations on doing meaningful inter firm comparisons on all parameters.
- However, in this newsletter we shall share some directional inputs for the Tech SMEs so that it can help in their resource optimization program, since this is the need of the hour given current market conditions.

FRESHERS HIRING || PYRAMID MIX OPTIMIZATION || TIME TO BILL

IT Major	Freshers	As % of FY23 Exit Headcount
TCS	44,000	7%
INFOSYS	51,000	15%
HCL	26,734	12%
WIPRO	22,000	9%
PERSISTENT	3,000	13%
COFORGE	480	2%

In case of Infosys, HCL and Persistent, 13-15% of their FY23 Exit headcount were freshers hired in FY23, on similar lines it was 9% for Wipro, 7% for TCs and 2% for CoForge.

Process:

IT companies plan to have a robust demand process and identify the hiring cum training needs upfront and hire freshers from Campus to be onboarded in JAS quarter of the year when Engg. Graduates pass-out.

Any additional demand is met out of Off Campus hires/also a strategy followed when demand is not clear. These resources get trained and would take about 2 Quarters to become billable on projects.

Companies are adopting various methods to crash the time to bill freshers. When freshers are on-boarded it impacts the utilization for a few quarters until they become billable. Also, the resource costs as % of revenue gets distorted.

Pros: Optimizing average resource cost, developing saleable skills; hire quality skills, better pyramid mix.

Cons: Temporary impact on Utilization, if not mitigated can lead to major P&L impact.

RESOURCE COST AS % REVENUE || AVERAGE COST RATE || OFF-ONS MIX

IT Major	Resource Cost as % Revenue	Outsourced cost as % Revenue
TCS	56.6%	9.2%
INFOSYS	53.3%	9.6%
HCL	54.5%	14.7%
WIPRO	59.4%	12.8%
TECH M	51.0%	14.7%
LTI+MT	62.9%	NA
PERSISTENT	59.5%	12.5%
COFORGE	59.8%	11.5%
LTTS	55.5%	11.3%
Cyient	50.3%	6.7%

Resource cost refers to Total employee cost as % of Revenue. If mix offshore is higher, then the overall resource cost would be lower on the contrary, higher bench cost, onsite resources, higher overhead cost can influence the resource cost to go up. In cases where there is an unplanned demand or scarcity of skills or non-availability of resources in a location (Onsite or Offshore) company uses sub-contractors to bridge the gap. Ideally this third-party sub-contractor cost should be kept for minimum tenor and be replaced with hiring of own employees to lower the cost else cost goes up. Third Party Services used in Infra or System Integration projects need regular review.

Levers to focus on:

- Track the average cost per employee by band and by offshore/ Onsite (by country) and monitor to bring it down by focusing on employee utilization and billability.
- Ensure the Onsite resource cost in support/ overhead nature is kept optimal (needs hard decisions)
- Review the aging of any TP resource hired – validate if there are billing and seek justification why not replace it with your own employee – sometimes cost billed rate may be lower than buy rate. Exit?

- Look at resources in Bench and their Aging and billability
- Resources in Internal or Invest mentor Solution build or training projects – need ROI – validate
- Resource Utilization –Unbilled resources have a direct impact on cost and P&L.

RESOURCE COST AS % REVENUE || AVERAGE COST RATE || OFF-ONS MIX

IT Major	Revenue / Employee ($)	Total Utilization %
TCS	45,425	NA
INFOSYS	53,215	77.1%
HCL	55,704	NA
WIPRO	43,437	72.8%
TECH M	43,353	86.0%
LTI+MT	48,565	81.7%
PERSISTENT	45,262	78.5%
COFORGE	43,145	78.9%
LTTS	44,528	NA
Cyient	47,025	85.8%

When intake of fresher/lateral is lop-sided, or any project is terminated in an unplanned manner or if there is a big skill mismatch there are scenarios of non-billable resources at project level or at total level.

Definition of Utilization

Project Utilization: (Billed Resources) / (Projects deployed resources)

Total Utilization: (Billed Resources) / (Project deployed resources + Bench + Training + COE /Others) Soto Utilization improves the billability of resources deployed on projects by moving out all unbilled resources deployed as non-billable on projects after review. This creates alternate opportunities for those resources to be billed in another project. Bench resources skill mapping, rotation of resources to bill as per role, training and right skilling, managing shadows, will all help to improve billability and optimal use of resources.

Revenue Productivity – Revenue per Employee: This data needs caveat for inference. In case the revenue has IP/Platform / Non-linear revenue then the result may not be comparable. Further if the Onsite mix is higher, it can increase this measure likewise cost will also be high too. To infer read metrics in conjunction and not in isolation.

NET RESOURCE ADDITION || ATTRITION (LTM) || LOCATION MIX || 30-60-90 PLAN

IT Major	Net Addition	Attrition (LTM)
TCS	22,600	20.1%
INFOSYS	28,219	20.9%
HCL	17,067	19.5%
WIPRO	13,793	19.2%
TECH M	1,227	15.0%
LTI+MT	4,952	20.2%
PERSISTENT	4,290	19.8%
COFORGE	724	14.1%
LTTS	1,372	22.2%
Cyient	2,436	25.0%

Annual plans are directional, a 30-60-90 days near term resource management plan is very essential best practice driven in a collaborative manner. led by an empowered leader who makes all tough decisions. It will also involve the decision of punting future business to hire resources. Some companies fail here wherein when a punting call is taken with-out a mitigation plan if it were to mis-fire then damage control must be done. Smaller companies can go out of business if they make disproportionate hiring and fail to make hard timely decisions, the company will collapse on the P & L / cash flow front. Currently there is a surge in Attrition, but how the attrition refill happens is a tactical action.

Levers to focus on and some good practices:

Attrition of specialized skills –hire laterals from the market, else internally elevate and fill in the bottom, this creates motivation and curbs attrition in the long run and optimal pyramid.

Location Mix to Optimize cost : Near shore low-cost countries / Tier 2/3 India location used.

Hard decisions are taken in 30-60-90 plan; Fresher hiring plan including any delay on boarding when business / demand is slow or goes negative in an unplanned manner. It is a tough call.

Investments in COE or non-billable head count should be judiciously spent with ROI and with a budget and spent within affordable budget limits as a practice.

Use the annual increment and salary structuring decisions judiciously in bad times.

Date Source: Annual Report, Investor presentation, transcripts of respective companies, if not available they are not presented

USEFUL TIPS AND HACKS PRACTICED

- While externally many metrics are not disclosed, internally for IT services tracking Utilization, cost rate, billing rate at granular band/pyramid level and by Offshore, near shore and Onsite is very essential. Set benchmarks and review all exceptions.

- In a BPO industry or commoditized roles the billing rate will not increase so churning of the resources and retaining the cost line is very essential and increase should be in relation to the price increase else one will witness the margins go southwards. Explore BOTs or automation tools, sourcing or delivering from low-cost destinations to keep the cost line else it will impact P&L.

- Do note the Leave % will be 6% in Offshore and 2-3% in case of Onsite and hence find out mechanisms wherein if you are providing shadow resources on T&M projects ensure there is no billability loss on account of leave.

- If the project has matured, scope and deliverables are clear and if the business is billed both in Offshore and Onsite, it may be useful to convert the project into a managed services project where it is measured by outcomes and where it is delivered is not a material point then one can move the onsite work to offshore and deliver it at lower cost at same or similar price.
- Unbilled resources on projects have more than 10-15 reasons prevalent and it needs a focused daily monitoring mechanism as a full-time job for the Project Management office, if this is not followed there will be inefficiencies in projects, and it will bleed.
- All Fixed price projects need to be monitored for both Schedule variance and Effort variance and reviewed monthly, they over-run or get delayed and be mitigated with a clear get-well plan. If this is not followed it can be disastrous.
- Aging review of resources in Bench, Training , COE/Practice, Internal or Investment projects is essential – Do it both by band , Cost and no. of days. Find mechanisms to get them billed to recover their cost as a bare minimum effort.

Thank you for reading!

- Subbu

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THE END