WHY INDIA & BANGALORE?
The world is coming to India for their talent needs...

- 30 year old industry - Began in 1985 in Bangalore
- IT Sector employs 3.2 million directly and ~ 10 million indirectly
- 200,000 engineers joining the IT industry every year
- 825+ global corporate offshore centers are in India
- Total industry revenues of $118 billion in 2014
- Industry growing at 14%
- Data security and privacy regulations are in place – The IT Act 2000
- SEZ act provides for a 15 year tax holiday scheme
- Labor costs advantage – salary differentials of 50% - 70% lower than US
- Increasing talent maturity and deep domain expertise
- Service delivery, quality of output and types of engagements have matured to cater to all types of requirements
- Global talent with many qualified global expatriates & returnees
- Many companies driving their innovation, R&D centers, patent portfolios and product ideation programs out of their India offshore centers

India's share in global sourcing of services

RoW – Rest of the World

Source: Nasscom

![Graph showing India's share in global sourcing of services from 2005 to 2013.](image-url)

- 2005: 51%
- 2009: 49%
- 2010: 45%
- 2011: 42%
- 2012: 43%
- 2013: 48%

52%
Captives – preferred value enhancing choice of most corporates...

- Captives or global in-house centers (GIC) or offshore centers provide for an effective way to derive enhanced business value.
- Benchmarks provide for captives deriving 6x-8x value beyond cost and labor arbitrage.
- For R&D, product dev, collaboration, business value or decision/judgment functions captives are the de-facto choice.
- A BOT (Build – Operate – Transfer) is a risk mitigated way for a corporate to reduce establishment risk and derive greater value than sourcing to a vendor.
- Vendor outsourcing is primarily used for back office and maintenance/support needs.
- Most vendor engagements are limited to value derivation up to cost arbitrage savings.

**Indian Captive Market size**

- $15.5 Bn

**Contribution to Indian IT-BPO exports**

- 18%

**ER&D/SPD share in total captives revenue**

- 44%

**Number of captives in India**

- 825+

**Captives in India with headquarters in North America**

- 76%

**Number of employees in captives in India**

- 530K

ER&D – Engineering and R&D, SPD – Software Products Development

Source: Nasscom, 2014
Some of the leading MNCs that have captive centers in India are...

- ABN Amro
- Acceenture
- AIA
- Airbus
- Amazon
- Amex
- ANZ
- AOL
- AT&T
- Axa
- Barclays
- British Telecom
- Caterpillar
- Cisco
- Continental
- Dell
- Dow Chemical
- Exxon Mobile
- Ford
- GM
- HP
- Honeywell
- HSBC
- IBM
- Intel
- JP Morgan
- Marriott
- McKinsey
- Mercedes Benz
- Microsoft
- Motorola
- Nokia
- Oracle
- Pfizer
- Philips
- Prudential
- RBS
- Shell
- Siemens
- Target
- Telstra
- Tesco
- Thomson
- Reuters
- Volvo
- Shell
- World Bank
- Yahoo
- 3M
Bangalore – The preferred choice of the majority....

- Bangalore is home to 39% of all R&D centers & 44% of all GIC’s in India
- Is home to 4158 schools, 55 polytechnics, 66 engineering colleges & 9 universities including India’s top most universities in management, IT, design, statistics and astrophysics
- Attracts graduates from 18,000 institutes of higher learning from all over India
- Has the most talented and diverse talent pool compared to any other city
- Has a unique eco-system for R&D, IT, startup and product companies
Patents out of Bangalore centers

- IBM (4800)
- HP (1100)
- GE (1000)
- Texas Instruments (800)
- CISCO (800)
- Qualcomm (230)
- Phillips (210)
- Samsung (135)
- Huawei (200)
- Mercedes (200)

Patents by city:

- Bangalore: 56%
- Delhi NCR: 18%
- Mumbai/Pune: 24%
- Chennai: 2%
- Hyderabad: 2%
- Other cities: 21%
BOT MODEL EXPLAINED
### POSSIBLE SOURCING MODELS

<table>
<thead>
<tr>
<th>Freelancers</th>
<th>Dev. factories</th>
<th>Offshore Dev. center</th>
<th>Captive</th>
<th>PBOT</th>
</tr>
</thead>
</table>
| - Independent developers  
- Multiple locations  
- No cohesive process  
- Complicated to manage  
- Expensive | - Fixed bid  
- No control over talent  
- No continuity  
- Discipline on requirements  
- Process maturity needs high | - Dedicated talent  
- Management effort required  
- Less control over talent  
- Indirect costs high  
- Located on vendor site – IP loss possible | - Local experience required  
- Max control  
- Mgmt. involved day to day  
- Highest costs  
- Operational & establishment risks high | - Max flexibility & control  
- Hiring & scale Management Process  
- Minimized risk  
- Pay as you go  
- Lower costs  
- Tax efficient  
- Take ownership when ready |

**Freelancers**
- Independent developers
- Multiple locations
- No cohesive process
- Complicated to manage
- Expensive

**Dev. factories**
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- No control over talent
- No continuity
- Discipline on requirements
- Process maturity needs high

**Offshore Dev. center**
- Dedicated talent
- Management effort required
- Less control over talent
- Indirect costs high
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**Captive**
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- Max control
- Mgmt. involved day to day
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**PBOT**
- Max flexibility & control
- Hiring & scale Management Process
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COVIAM PLAN BUILD OPERATE TRANSFER (CPBOT)

COVIAM Services Provided in The PBOT Model
ADVANTAGES OF THE CPBOT MODEL

PBOT - COST Plus model

Customer pays for
- Physical & people assets
- Setup, rental & utilities
- Managed services margin

COVIAM provides
- PBOT services
- Leadership & people management
- Corporate entity setup
- Network setup & support
- Legal, taxation, finance
- Payroll processing
- Regulatory filings
- Facilities & support
- Employee engagement
- Approvals & auth. liaison
PBOT model flow and timeline

START

Negotiate terms

Contract framing

Sign contract

Real Estate finalize

Order equipment

Additional payments For capex.

Start hiring

Office & network setup

Office & network setup

Testing & parallel

Deposits refunded on a pro-rated basis after remaining payments of 3 year leased space deducted. Assets sold and refunded.

Entity transfer (corporate)

Rental & assets transfer

Employees transfer

Notice 6 months prior to exit

Regular Operations

Regular Operations

X + 120 TO 150 days*

Completion dates

PBOT Success fee paid to COVIAM @ 3 months (calculated as average billed for each year of ops) for every successful year of operation

COVIAM stock options given for employee retention to be cashed out at fair value or switched To customer options if available

A sample list of companies who have setup using BOT

Lowes
Target
L’Brands
Aetna
AIG
Danske Bank
Wachovia
MetLife
Aviva
JD Edwards
Anheuser Busch InBev
Visa …
COVIAM – Value Based Best of Breed Services

WHO WE ARE?
We are a boutique lifecycle management consulting & services company – providing strategy & mandate setup through to establishment, enablement, realignment, transformation, and governing your services and sourcing strategy within a stable support and risk mitigated framework.

WHAT WE DO?
HOW WE WORK?

- Global track record
- Experience setting multiple centers & engagements
- Strategic and execution focus
- Pool of dedicated available talent

Our Approach
Why Us?
Inspired by our diverse leadership backgrounds we use the power of skills, data and innovative thinking to drive results. We are your trusted partners to solve business problems, focused on value optimization by using a multidimensional innovation framework enhanced by our skills and continuous experimentation approach.
Typical Journey If You Setup Your Own Captive...

Drivers

- Cost arbitrage
- Talent pool availability

Dampeners

- Lack of Knowledge about outsourcing
- Infra & Capex. investments

Value

- Increased Infrastructure facilities
- Talent pool with relevant domain knowledge
- Increased value addition
- Access to new markets

1. Critical: Cost arbitrage
2. Operational Efficiency
3. Correction in attrition

Evolution

- Cost escalation
- Attrition
- Lower Productivity

- Higher Risk
- Lower productivity
- Lack of clarity & strategy

Transform

- Enhanced value addition
- Co-innovation & CoE
- Improved productivity & value
- Extended control pool

CAPTIVE 1.0

- Misaligned Portfolio
- Inaccurate Baseline
- Op Inefficiency
- Poor Risk & Perf Management
- Collaboration Failures

<table>
<thead>
<tr>
<th>REASONS FOR VALUE LEAKAGE</th>
<th>MINIMUM</th>
<th>MAXIMUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misaligned Portfolio</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Inaccurate Baseline</td>
<td>5%</td>
<td>25%</td>
</tr>
<tr>
<td>Op Inefficiency</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>Poor Risk &amp; Perf Management</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Collaboration Failures</td>
<td>7%</td>
<td>20%</td>
</tr>
</tbody>
</table>

CAPTIVE 2.0

- Increased awareness about outsourcing
- Peer Pressure
- Globalization drive
- Enhanced scalability in operations

- Cultural differences
- Quality, SLA's and Productivity
- Talent pool with domain expertise

- Global leadership
- Planning & strategy alignment
- Cultural differences
- Shared control
COVIAM Journey...

Setup Services
- Strategy & Vision formulation
- Location strategy
- Soft landing strategy
- Talent source mapping
- Facilities search & setup
- Legal & compliance
- Corporate registration
- Risk assessment
- Taxation & SEZ leverage
- ROI model creation
- Operating Models & Metrics Frameworks

Value
- F & A services setup
- HR model & practices
- Organizational model
- Roles, resp., authority levels
- Compensation & Benefits practices
- Governance framework
- Risk & control
- Communication plan
- Leadership hiring
- IT setup

Transformation Services
- Mandate reassessment
- Change management
- Operational assessment
- Talent assessment
- M & A advisory
- Future state roadmap
- Value assessment

CoE setup
- Benchmarking
- Monetization

Leadership hiring
- IT setup
- Change management

Risk & control
- M & A advisory
- Future state roadmap
- Value assessment

Talent & Capability
- Strategic realignment services
- Operational realignment services

CoE setup
- Benchmarking
- Monetization

Communication plan
- Leadership hiring
- IT setup
- Change management

Governance framework
- M & A advisory
- Future state roadmap
- Value assessment

IT setup
- Change management
- M & A advisory
- Future state roadmap
- Value assessment

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Evolution
- Strategy & Vision formulation
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- Legal & compliance
- Corporate registration
- Taxation & SEZ leverage
- ROI model creation
- Operating Models & Metrics Frameworks
## Comparison With Other Models – Costs / Control / Effort / Taxes

<table>
<thead>
<tr>
<th>ITO/BPO/Specialist firm</th>
<th>PBOT</th>
<th>Own captive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Standard delivery model (GDM)</td>
<td></td>
<td></td>
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<tr>
<td>- Breadth of resources available for expedited needs (scale)</td>
<td></td>
<td></td>
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<tr>
<td>- Min. hiring time (pool available)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Resource quality suspect</td>
<td></td>
<td></td>
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<tr>
<td>- Lack of resource control</td>
<td></td>
<td></td>
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<tr>
<td>- Attrition issues</td>
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<tr>
<td>- Vendor has 45% + op. margins</td>
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<tr>
<td>- Build and enhance relationships with vendor top management who are not interested in small accounts</td>
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<tr>
<td>- Not building talent for the future</td>
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<tr>
<td>- Uses expensive onshore resources</td>
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<tr>
<td>- IP and competitor risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PROS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cost effective</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Control over resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Transparent model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Tax efficient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Stock options incentive / dilution not needed upfront</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Backend setup and running by affiliate</td>
<td></td>
<td></td>
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<tr>
<td>- Ownership option (T of PBOT)</td>
<td></td>
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<tr>
<td>- You have a trusted partner with demonstrated captive setup capability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Hiring / Firing decisions</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Deal through an affiliate</td>
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<td></td>
</tr>
<tr>
<td>- Services margin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Hiring period longer than ITO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Success fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PROS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Complete ownership of ops</td>
<td></td>
<td></td>
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<tr>
<td>- Control over resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Not cost effective</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Exposure to Indian tax laws and rules</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- General management and other talent to be hired additional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Stock options incentives are needed (dilution)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Parent Co. management involved in day to day decisions of running operations than growing business</td>
<td></td>
<td></td>
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<tr>
<td>- Hiring period longer than ITO</td>
<td></td>
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<tr>
<td>- Additional transfer pricing taxes need to be paid (6% of run rate)</td>
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</tbody>
</table>

*Estimated*
SERVICES MATURITY & INDIA ETAIL JOURNEY
GICs – Services Maturity And Retail / e-Commerce Presence

- **Low Competency Required**
  - **Cost Attribute Center**
    - Eg. Dell established customer relationship center.
  - **Non-Critical Functional Responsibility**
    - Eg. Oracle established center to support product development.
- **High Competency Required**
  - **Higher End Services**
    - Eg. Adobe develops and manages global products out of India.
  - **Product Development**
    - Eg. Amdocs develops 50% of its products in India.
  - **New Technology Research**
    - Eg. IBM India drives cloud research.
  - **Indian centers drive research in new technologies**

- **Low Value Addition**
- **High Value Addition**

**Source:** Interviews, Secondary Research, A.T. Kearney analysis.
Sample set of eCommerce companies in Bangalore

- FlipKart (24,000)
- Amazon (10,000)
- Tesco (6500)
- Target (3000)
- Lowe's (800)
- Walmart Labs (600)
- L Brands (600)
- InMobi (900)
- eBay / Paypal (1600)
- Rakuten (500)
- Syniverse (500)

* - BOT arrangements

Types of services performed by eCommerce Cos

- B2C and B2B platforms *
- Logistics and supply chain
- Marketplace development
- Inventory management
- Data analytics and mining
- Risk and compliance
- Mobile solutions
- Payment gateways
- Social eCommerce
- Merchandising & marketing tools
- UXD
- Voice platform
- Search engines
- Remote infrastructure
- management & DC setup

- Areas of focus
India e-Tailing Industry Snapshot

**MARKET SIZE AND GROWTH**
- 301M users online
- $6B – 2015 (70% growth over 2014)
- < 1% of total retail opportunity
- Mobile eCommerce – 30% of total traffic

**KEY PRIORITIES**
- Mobile and commerce platforms
- Search
- Order management
- Marketing

**EXPANSION IN**
- Mobile channel development
- Digital marketing, customer experience
- Web analytics, optimizing supply chain
- Big data

**CHALLENGES**
- Low volume & ticket per customer
- Multiple payment modes (CoD, debit, CC)
- Logistics & fulfillment
- Customer retention
A typical eCommerce retail spend cycle

**Spend and Growth**
- Approx. on average eCommerce companies spend 20% of revenues on IT
- Growth and scale drives higher spend
- Mature eTailing business spend more R&D on:
  - Mobile eCommerce
  - Logistics, fulfillment & supply chain tuning
  - New channels & customer acquisition
  - Data analytics & mining
  - Risk, fraud and security
- A $100M company would expect to spend $20M post establishment of marketplace and payments platform
- 8-10% of total staff (employee + vendors) of IT engineers

**IT Cost Breakdown by Category**
(% to Total IT Costs - Weighted Average)

- **Labor (Includes Benefits)**: 51%
- **Programming**: 29%
- **Ops/Tech Support**: 17%
- **Hardware**: 13%
- **Services**: 10%
- **Facilities**: 5%
- **Training**: 4%
- **Supplies**: 3%
- **Telecom**: 3%
- **Software**: 1%
- **Other Costs**: 10%
- **IT (Maintain)**: 7%
- **IT (R&D)**: 6%-14%
- **Marketing & Sales**: 4%-10%
- **Supplychain & Logistics**: 8%-10%
- **Fulfillment**: 5%-8%
- **General & Admin**: 5%-16%
Feel free to say hi!
We are friendly and social

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Karnataka 560-102 INDIA

THANK YOU