

CONFIDENTIAL

Escalating costs at R&D centers

- *Snippets from our survey*

IDC Forum Presentation

Zinnov LLC

August 29, 2007

Zinnov India Development Centre (IDC) Forum is a platform where senior management teams from product engineering firms collaborate. Currently, over 60 companies participate in the forum

Objectives

- To understand the various challenges faced by India operations and the risk mitigation strategies.
- To provide a common stage for the participants to put forth their views and experiences about the Product Development activities in India.
- Discuss and identify the trends and challenges for Offshore Product Development.
- Focus on improving the R & D capability in India

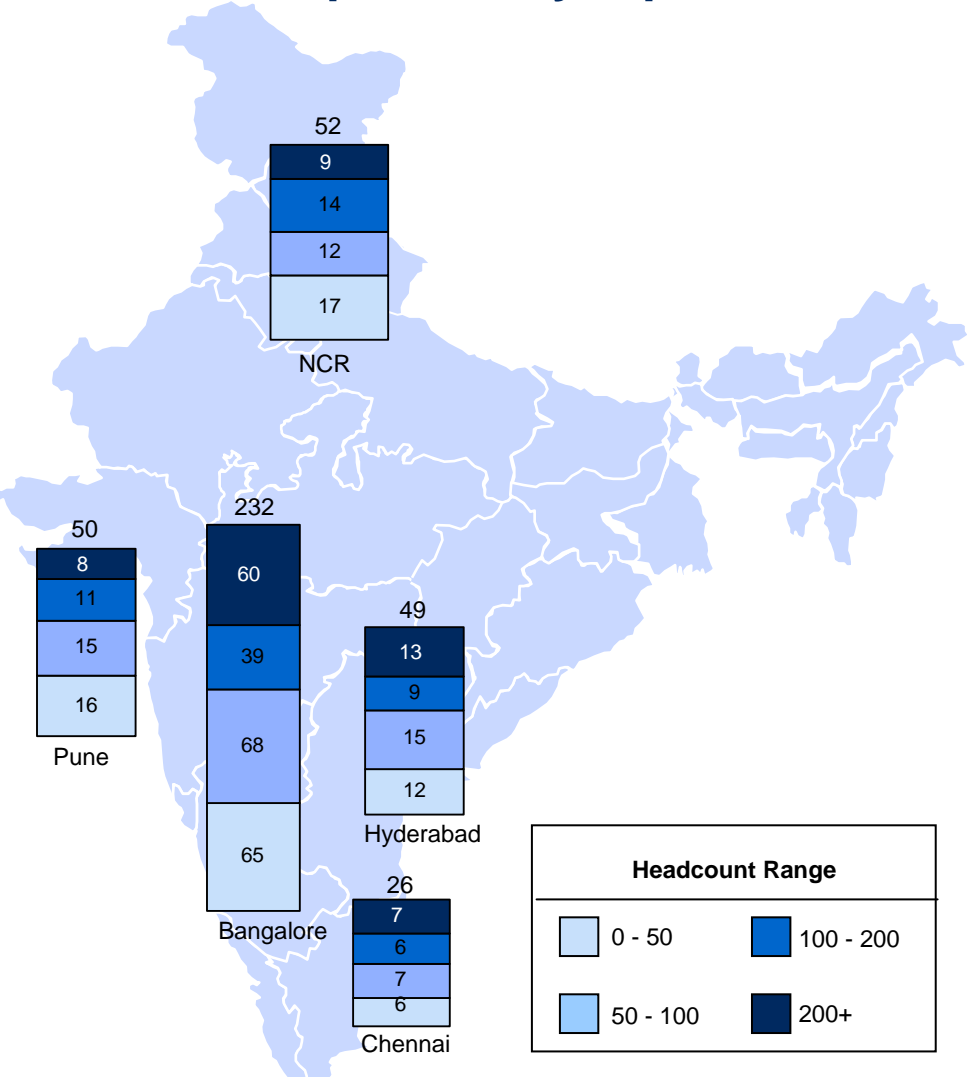
Benefits

- Opportunity to participate in interactive discussions facilitated by Zinnov Research Team on various industry topics.
- Network with senior management teams from other product companies.
- Knowledge Sharing, learning and understanding from peers in the industry with diverse experiences.
- Access to online discussion and best practices at the forum through website

Topics of Discussion

- Productivity
- Human Resources
- Intellectual Property
- Infrastructure
- Technology Development
- Product Ownership
- Optimal Processes
- Engagement Models
- Improving Customer Satisfaction
- Government initiatives
- Experiences at India development centre

There are 430+ MNC captive centers in India, this is twice as many in number than previously reported



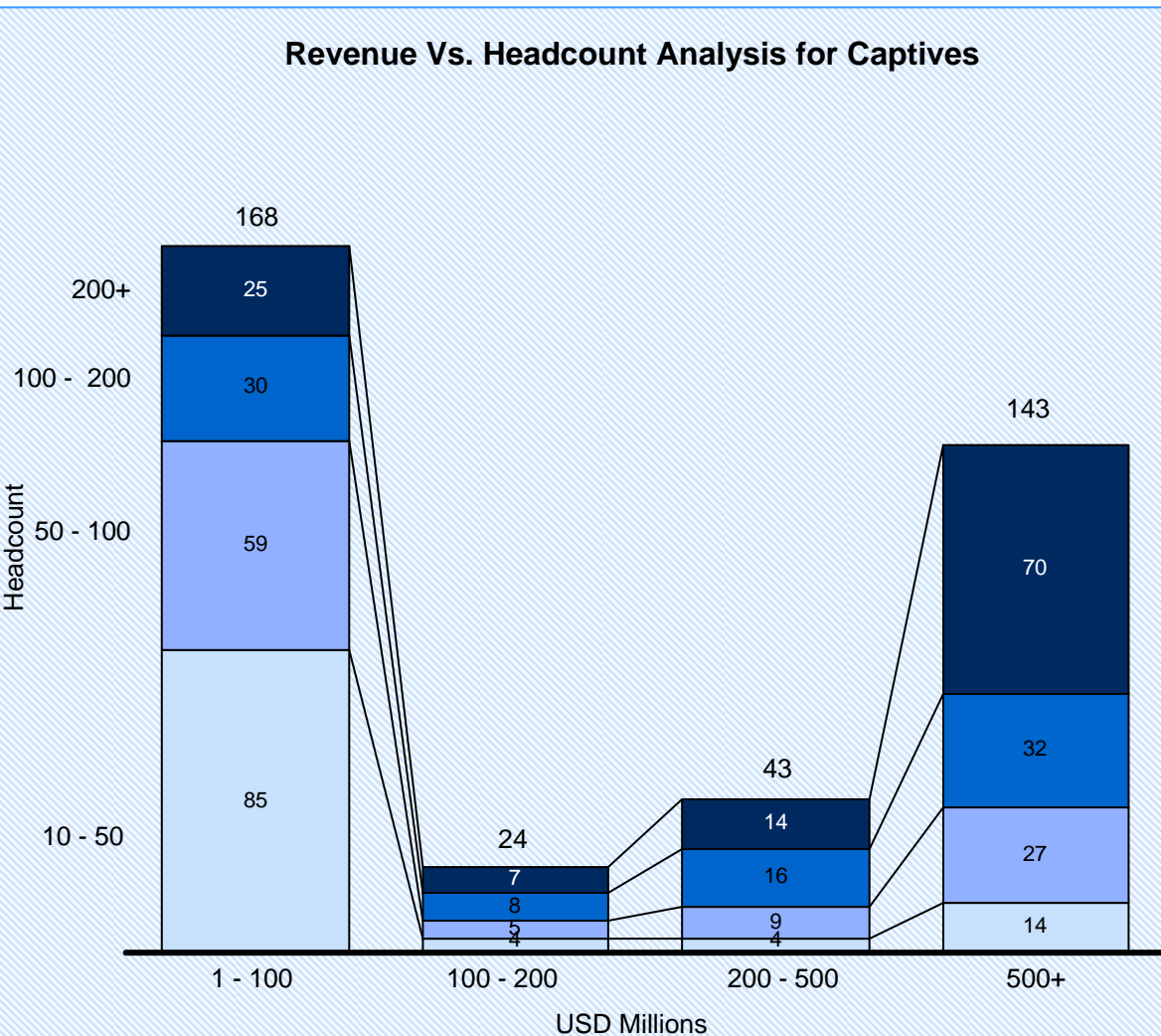
Discussion
<ul style="list-style-type: none"> ▶ Bangalore houses about 232 MNC captive centers, which is approximately 55% of the total MNC captives in India. ▶ Hyderabad and Chennai is emerging as 2nd city option for many of the existing captive centers. Chennai is also the manufacturing hub for telecom majors E.g. Oracle, Symantec, Amazon etc. ▶ Bangalore has the highest number of captives with headcount greater than 200, four times higher in number than Hyderabad. ▶ Very few companies are looking to setup their Product development teams outside the 5 major cities. Nagpur, Chandigarh, Kolkota and Cochin are other cities options available

A total of 409 MNC Captive centers doing product development in India is considered for Analysis

Source: Zinnov research

About 49% of the total captive centers in India, have revenues less than \$ 100 Million

Revenue Vs. Headcount Analysis for Captives

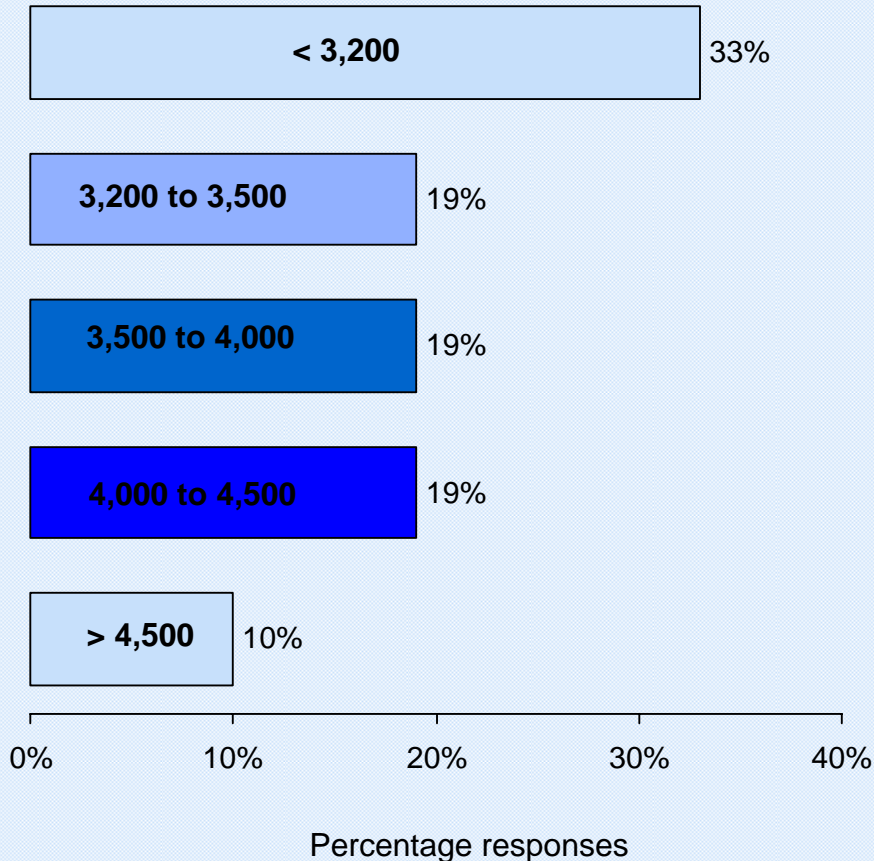


Discussion

- About 49% of the captive centers in India have revenues less than USD 100 Million, ~ 85 of these companies have team size ranging from 10-50.
- Only 6% of the total captives in India have their revenue ranging between USD 100 – 200 Million.
- Companies with revenue more than USD 500 Million have set large teams in India. There are roughly about 70 companies in this category.
- Large companies also tend to offshore other business functions like Shared support, Technical services, Consulting etc. to achieve economies of scale.

Total Cost per employee at the current center. This includes payroll, infrastructure, communication, travel, professional fees etc

Total cost per employee (USD/month)

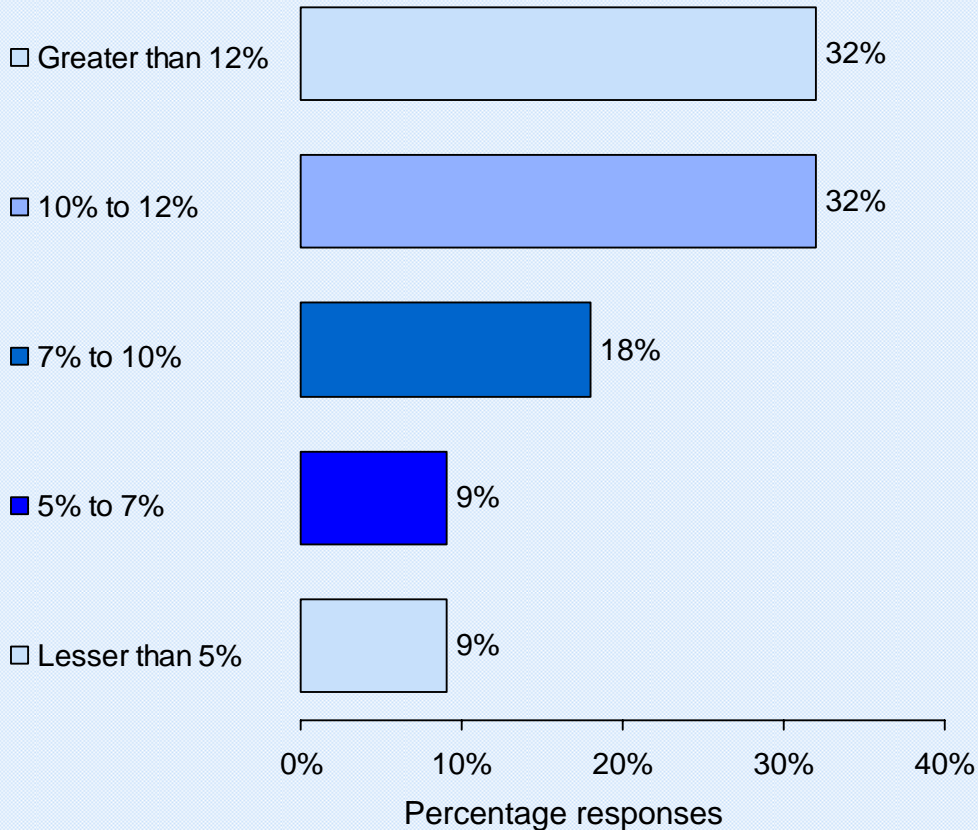


Discussion

- 70% of the companies with less than \$3,200 were companies with less than \$30 million in revenue
- 75% of the companies in \$3,200 to \$3,500 were companies with more than \$1 in revenue
- 75% of the companies with more than \$4,000/month were publicly traded companies

Cost escalation has been greater than 10% when compared to last year

Cost escalation when compared to previous year



Discussion

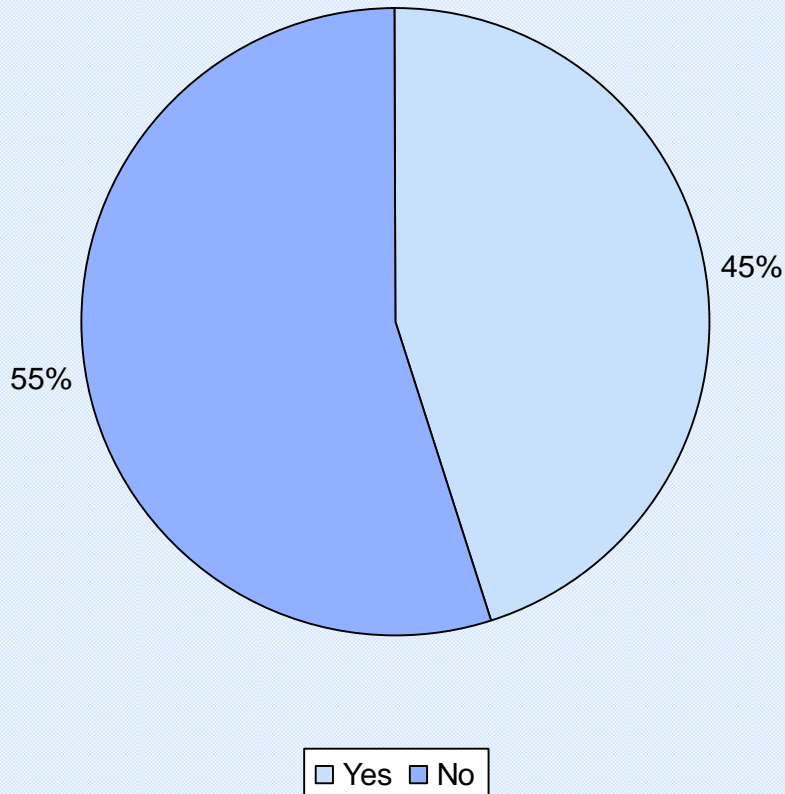
- 75% of the companies with more than 10% cost escalation had a monthly cost less than \$4,000/month
- Most start up companies reported a cost increase greater than 10% this year

Top 4 reasons for escalation

- Salary Escalation
- Dollar Appreciation
- Facility Cost Escalation
- Travel Cost Escalation

The lesser number of companies entering India has not made a significant change to the attrition rate

Perception of attrition in last 6 months

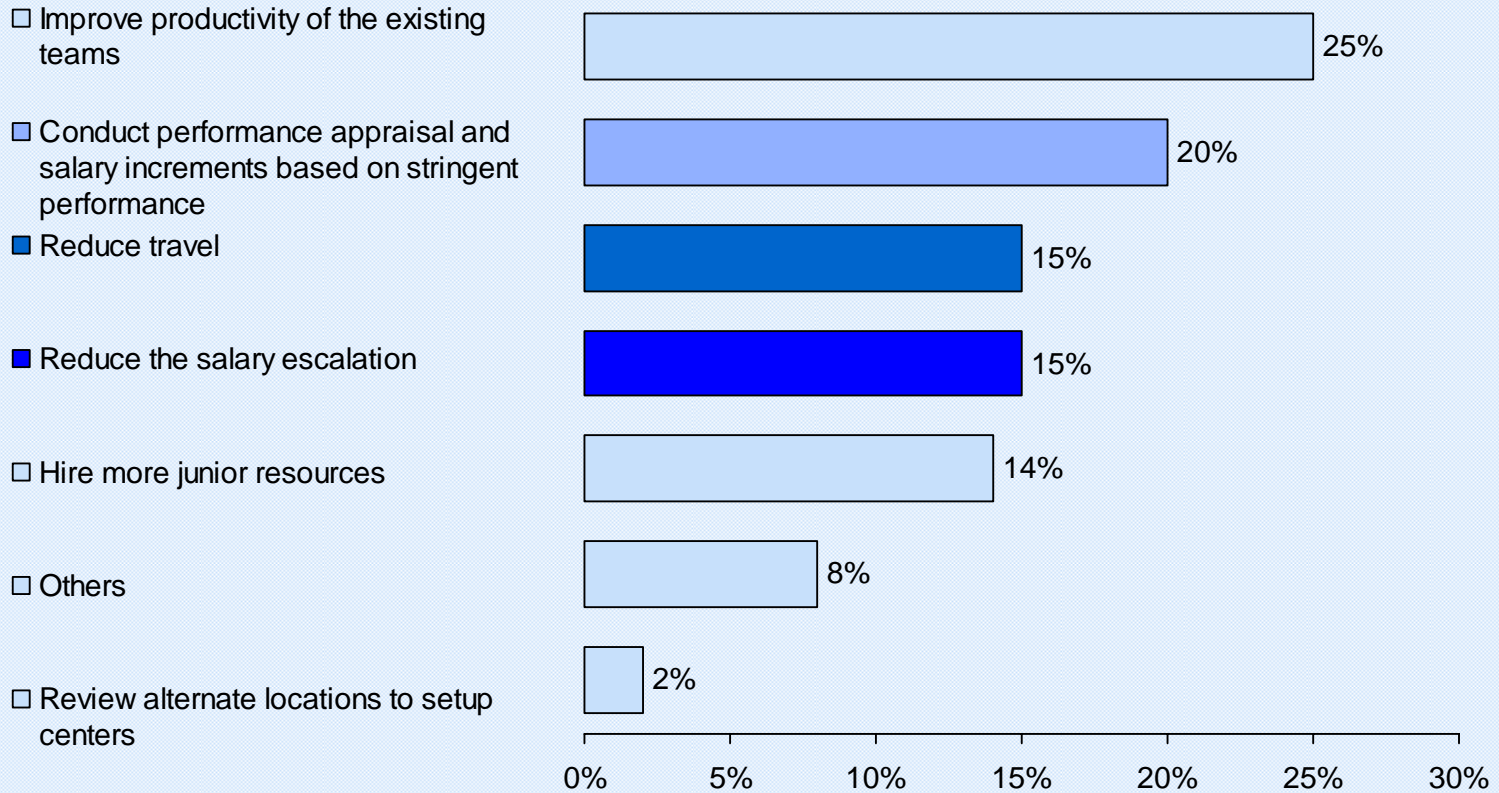


Discussion

- Only 45% of the companies reported a decrease in attrition rate in the last 6 months
- Is the attrition currently happening at high performer level?
- Is the attrition higher at the low performer level as the salary increase at that level was minimal?

Key steps taken to reduce cost escalations

Measures taken to reduce cost escalation



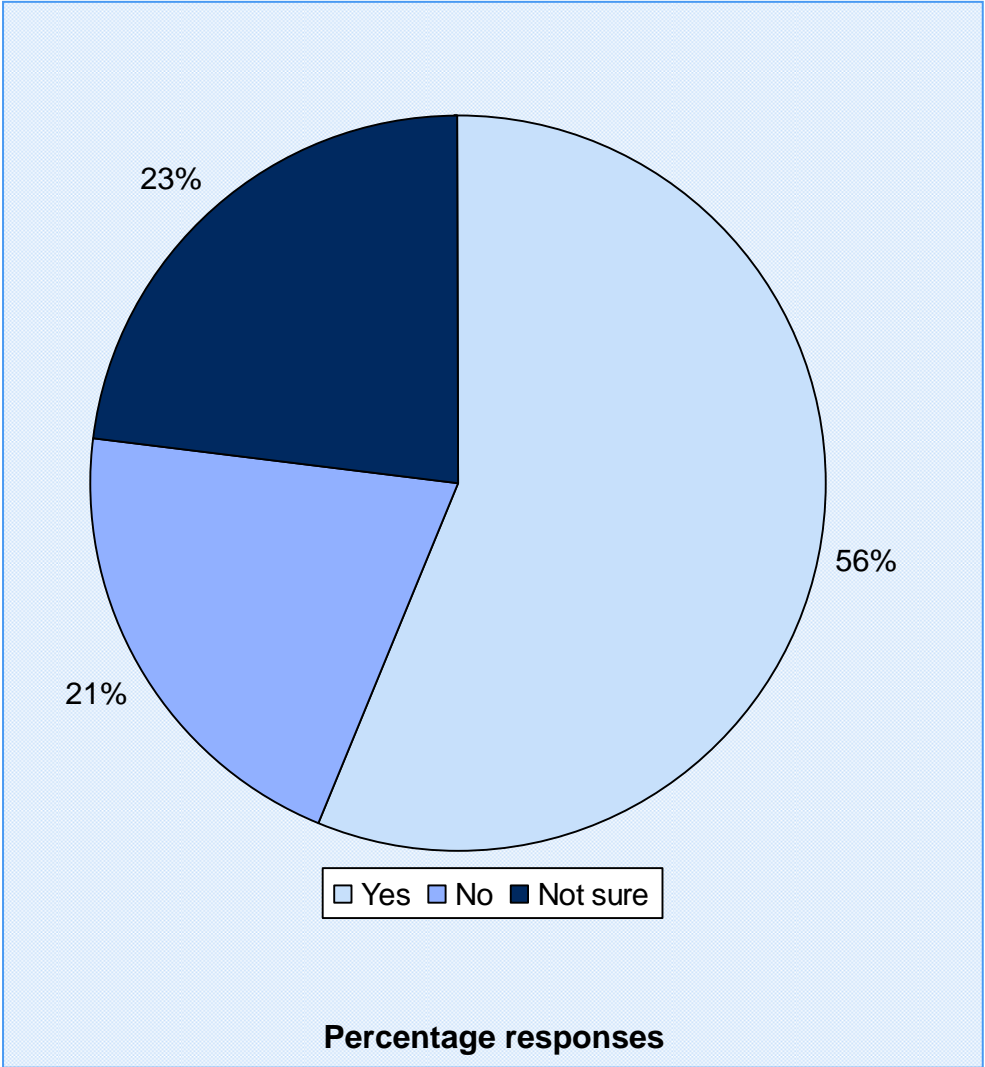
Percentage responses

Payroll contributes the highest to the total cost of the operations in majority of the companies

Distribution of total cost of operations

Payroll cost	40% to 87%
Facility cost	9 to 25%
Travel cost	3 to 17%
Professional fees	3 to 7%
Tax and other statutory payments	3 to 10%

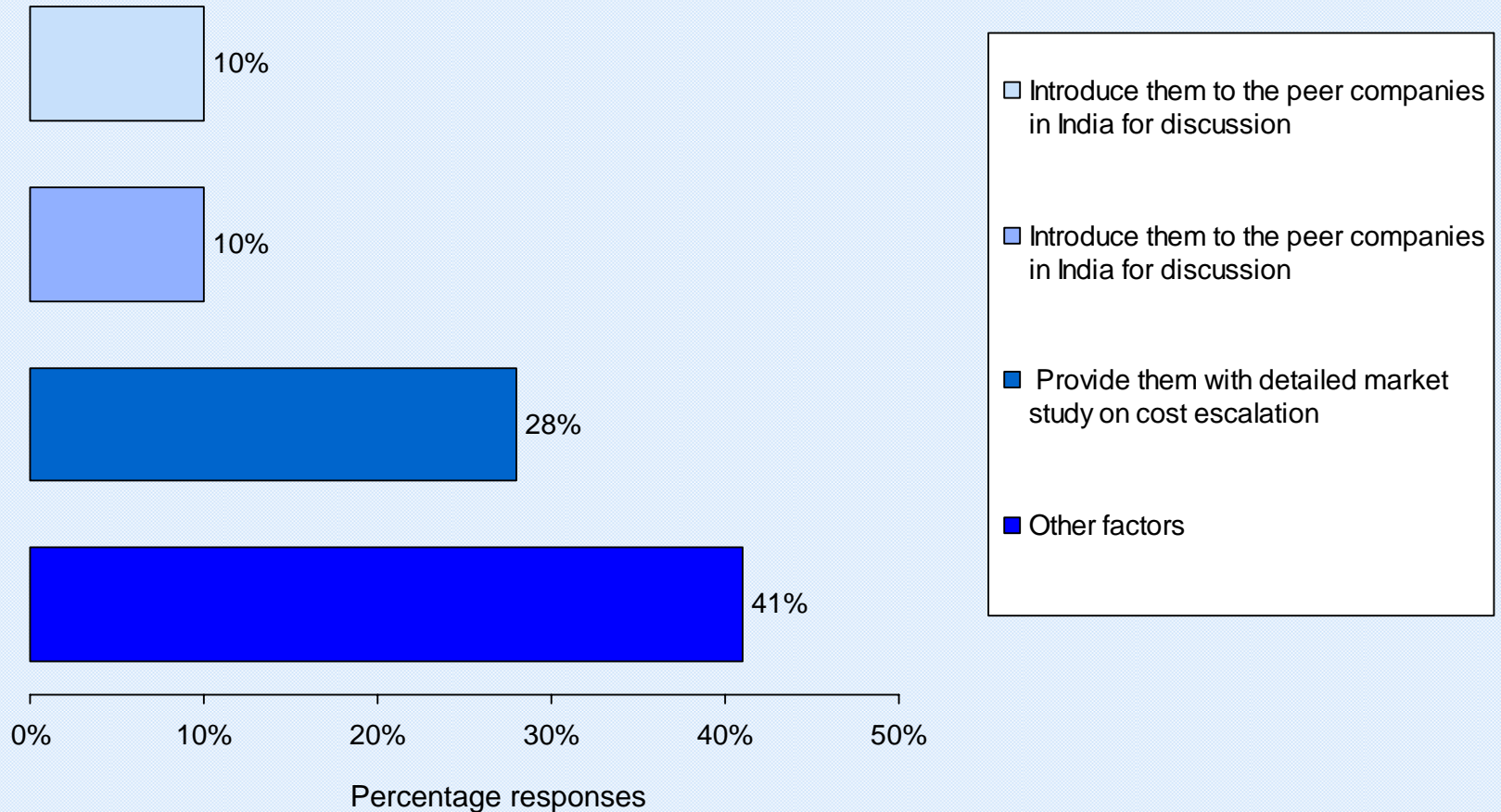
Joint press conference would be a good option to address the cost escalation issues



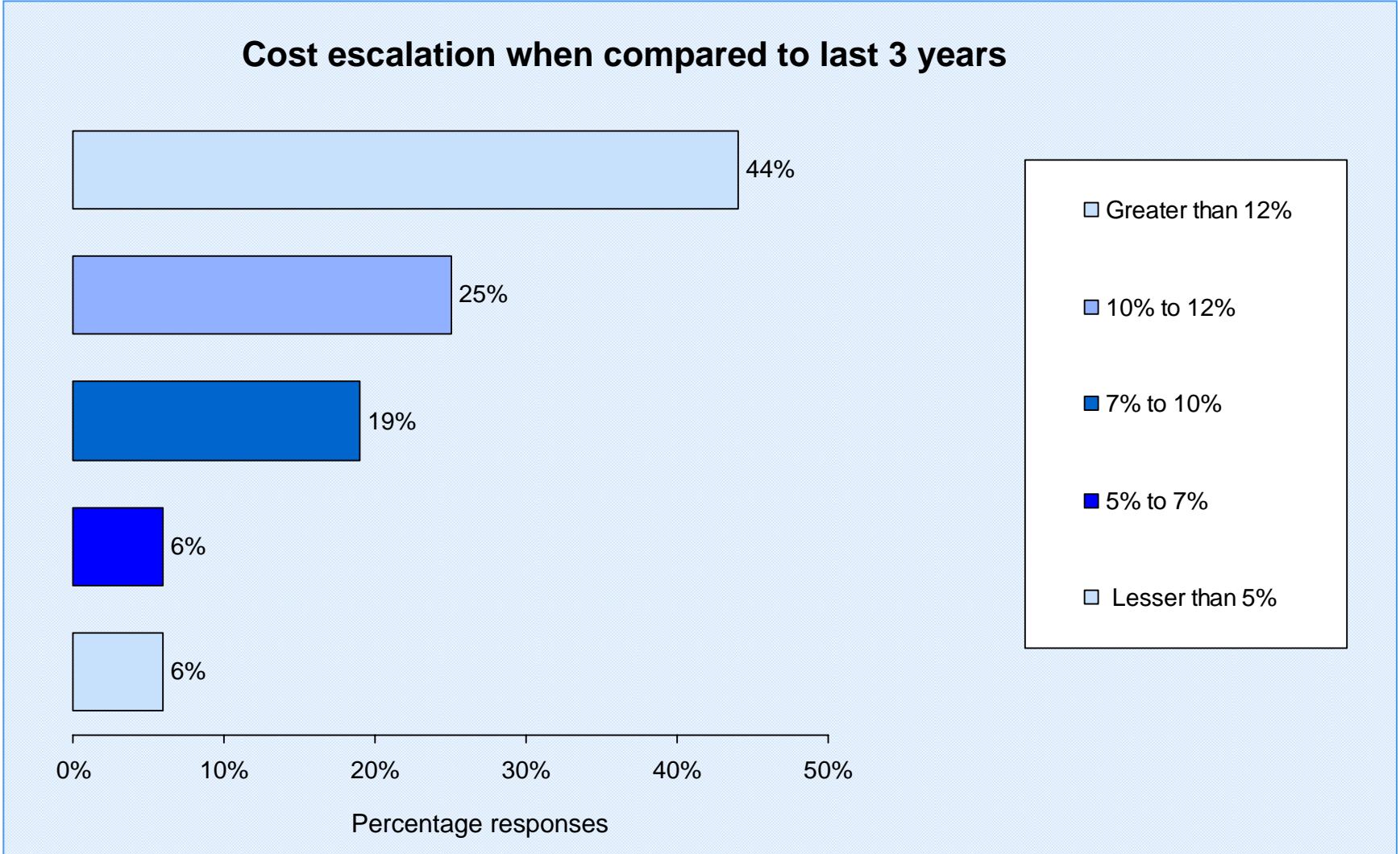
Discussion
<ul style="list-style-type: none">• What should be the format of the discussion?• Should we have a few representatives talk to the rest of the team?

Measures taken to reduce the cost escalation concerns of the headquarters (in US, Europe and APAC)

Cost escalation measures



Cost escalation has been greater than 10% when compared to last 3 years



Zinnov – About us

Company Overview

- We are an globalization advisory services company with offices in US and in India.
- We help our clients reduce the time, money and risks involved in globalization initiatives and enable them maximize the benefits.

Unique Selling Proposition

- People
- Research based consulting approach
- Results driven solutions

Why Zinnov

- We have provided our research and consulting solutions to more than **60** customers.
- Today, our client roster includes reputed NASDAQ listed companies, Fortune 1000 firms, small to medium sized independent software vendors in Software, Hardware and Wireless domains.

Zinnov hosts the India Development Center (IDC) Forum in Bangalore. Executive management teams from product captive centers in India participate in this forum to network and share their experiences.

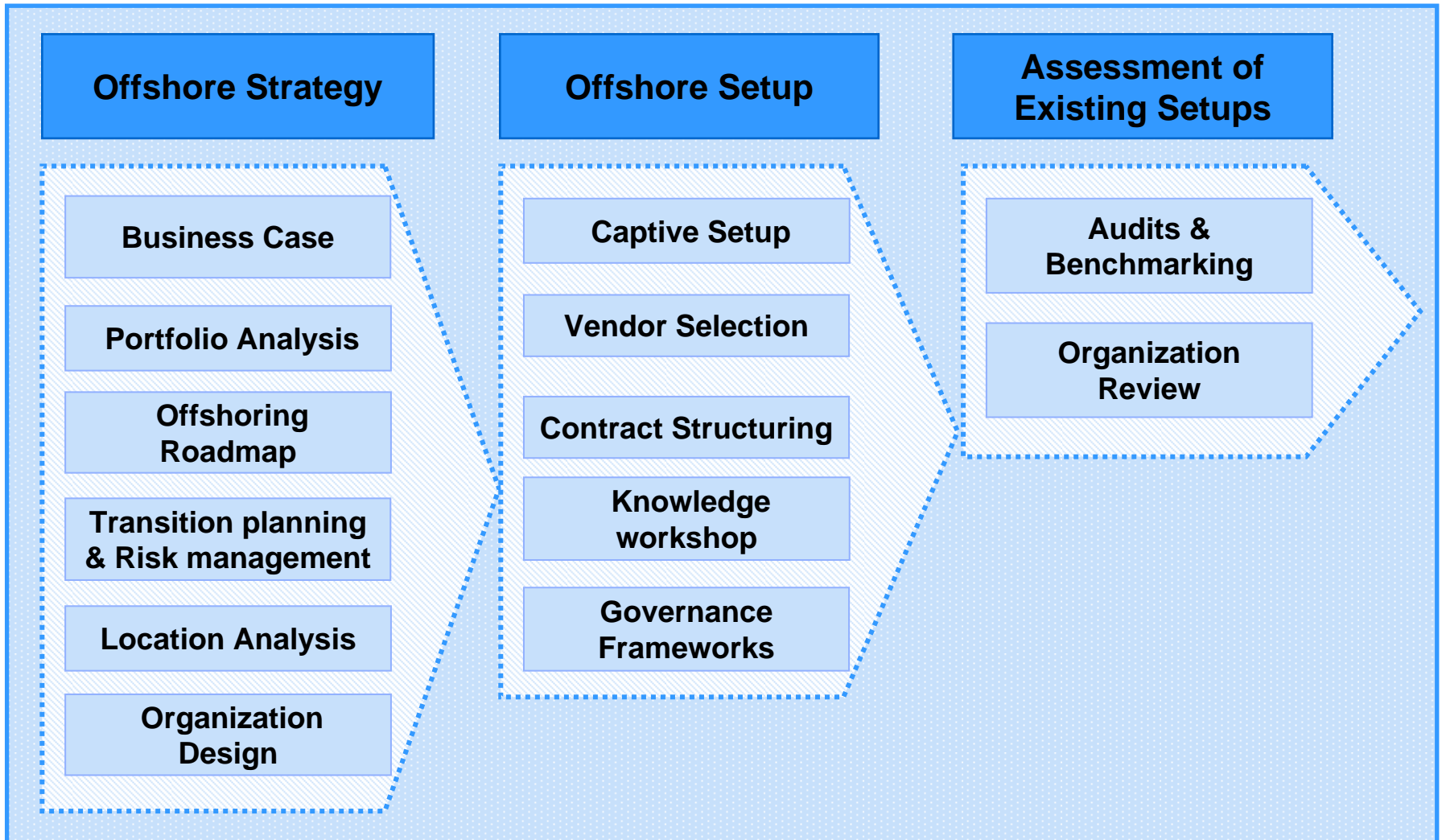
IDC Forum enables Zinnov to get first hand information on challenges and best practices on various global initiatives

Zinnov has extensive expertise across multiple domains and its key clients includes various reputed firms, including NASDAQ listed companies

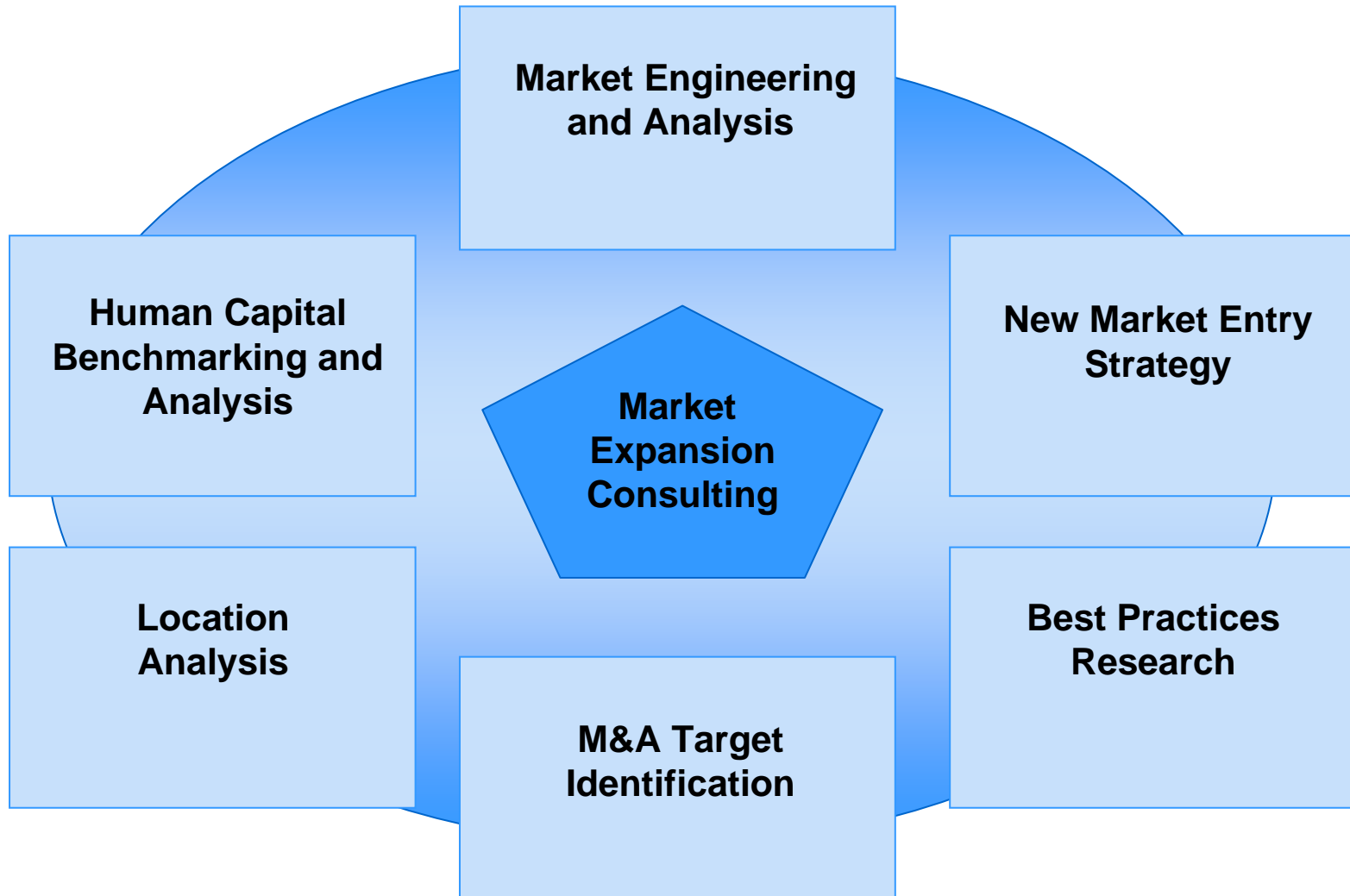
Sample List



Zinnov offers offshore advisory services (offshore strategy, offshore setup and assessment of existing setups)...



...as well as market expansion consulting to help clients in a variety of areas



Zinnov's unique value proposition lies in its extensive experience with globalization (offshoring advisory and market expansion consulting)

Illustrative

Zinnov – Unique Value Proposition (USP), besides 'Objectivity' which most Consulting Firms would bring in

Extensive experience with globalization

Significant presence in offshore location compared to other similar companies

Follows a low-touch consulting model to reduce the total cost of consulting to our customers

Only consulting company to host forum designed for MNC captive centers

Zinnov has helped over 60 large & SMB companies based in US, Europe and Japan in their globalization initiatives

Zinnov is proud to maintain 100% reference clients

Thank You !

Zinnov Contact

www.zinnov.com

info@zinnov.com

29/4, 3Rd Floor H M Strafford
7th cross, Vasanth Nagar
Bangalore, KA 560052
India

Phone: +91-80- 41127925/6

575 N. Pastoria Ave
Suite J
Sunnyvale
CA – 94085

Phone: 408-716-8432

21, Waterway Ave,
Suite 300
The Woodlands
TX-77380

Phone: 281-362-2773