
Variance Analysis in an Indian Power Sector KPO

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ABSTRACT

The Knowledge process outsourcing (KPO) industry is responsible for creating employment and transmitting benefits of globalization to the Indian public. The KPO in consideration was based in the sub urban area of Delhi and had been set up, inter alia, to meet the needs of Power sector and Energy sector clients (name not revealed on company's request). This mid size KPO which operated in multi shifts, was established 9 years ago in 2001 and has both European and North American clients and has created a name for itself for quality services across the verticals. The primary data we obtained directly from the company is analysed with Standard Costing variance analysis, then variances are ascertained and classified as favourable or adverse for this KPO dedicated to the power sector clients.

INTRODUCTION:

The Knowledge process outsourcing (KPO) industry is responsible for reduction in unemployment and the passing benefits of globalization to the Indian masses. A BPO (Business Process outsourcing) firm focuses on less skill intensive work and in contrast a KPO offers high end knowledge based work such as Analytics, Technical feasibility etc. It is estimated that almost four hundred of the Fortune five hundred companies either have a direct out sourcing or indirect out sourcing hub in India. As per E-value serve the KPO market in India in 2010 should be around \$17 billion. Also it is one sector where cost management plays a critical role in order to be competitive. As per Albright et al (1992) the sourcing and cost of process variation holds the key to efficient variance analysis. Variances are ascertained and classified as favourable and adverse for a Indian KPO dedicated to the power sector clients.

The analysis of the standard cost and actual cost is considered for variance analysis in this paper.

The tradition of excellence and continuity have leveraged the company's experience and expertise

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and rapidly evolved into a knowledge process outsourcing services provider. The company is recognized for its business insight, industry expertise, quality of services and customer commitment. The company operates 365x24x7 and provides a whole gamut of offshore outsourcing services in the areas of Inbound and Outbound Voice Support, Email Services, Technical Support and Finance and Accounting BPO.

METHODOLOGY:

The KPO in consideration was based out of a sub urban area of Delhi and had been set up, inter alia, to meet the needs of Power sector and Energy sector clients of data search, integration and design. The

KPO requested that it's name should not be revealed. This mid size KPO which operated in multi shifts, was established 9 years ago in 2001 and has both European and North American clients and has created a name for itself for quality services across the verticals. It offered competitive prices for the services offered and was one of the preferred choice of energy sector clients. For the purpose of the paper, the scenario where the company has a project on which they have done standard costing to bill clients was considered. When the project got over, the company was comparing the standard cost with actual cost incurred to gain the favourable or adverse conditions while at the same time analysing the drivers responsible for adverse outcome. The primary data we obtained is analysed with Standard Costing variance analysis.

TABLE - The details of the data analysis are presented

Process	A Typical Power Sector Client (Plan)			Actual Results		
Particulars	Particulars	Ratio/Rate	Amount	Amount(NR)	Ratio/Rate	Amount(NR)
Sales Hours				25,000		23,400
No of Seats				184		169
Target Rate \$				12.00		12.00
USD/INR rate				45.00		48.00
Target Rate INR				540.00		576.00
Revenue				13,500,000		13,478,400
Shrinkage	Calculation of no of hours an agent can work in a month					
No. of days in a month		22.00			22.00	
Total available hours		9.00			0.00	
Number of hours		198.00			198.00	
-Holidays		12.00%			8.33%	
-Absence		1.00%			3.24%	
-Lunch/Tea breaks		11.00%			13.23%	
-Comfort breaks		2.50%			1.57%	
-Investment/Training time		5.00%			3.78%	
Chargeable hours%		68.50%			69.85%	
Chargeable hours in a month		135.63			138.30	
Staff Requirement	No of Associates Required to run the associates in initial training					
Associates		135.63	Per Month	185.00	138.30	170.00
Associates Training	No of associate per TL required for pro	9%	Per Month	17.00	10%	17.00
Team Leaders	No of associate per aM required for pro	18	No. of TL	11.00	18	10.00
AM	No of associate per Manager required	70	No. of AM	2.64	68	2.50
Manager	No of associate per Sr. Manager required f	210	No. of Manager	0.88	170	1.00
Sr.Manager/director	No of associate per Trainer required for	500	No. of Sr. Manager	0.37	340	0.50
Trainer	No of associate per Quality person requ	40	No. of Trainer	4.63	34	5.00
Quality		40	No. of Quality persons	4.63	42.5	4.00
Salary Cost						
associates		17,500	CTC/Month	3,535,000	19,693	3,682,498
Team Leaders		32,500	CTC/Month	357,500	38,000	380,000
quality		30,000	CTC Month	138,750	29,537	125,489
Asst Mgr Ops		48,000	CTC/Month	126,857	48,531	120,000
OPS Mgr.		78,000	CTC/Month	68,714	79,068	79,068
Director		130,000	CTC/Month	48,531	131,740	65,870
Trainer		30,000	CTC/Month	138,750	29,537	147,685
Associate Incentive & spiff		2,600	Per associates/Month	525,200	2,600	486,200
Other Staff spiff		200	Per Other staff/Month	4,829	200	4,600
Transport		5,000	Per person	1,010,000	5,200	972,400
Staff welfare		200	Per person	45,229	221.00	46,410
Total Salary Cost				5,998,929		6,110,220
Recruitment	Cost of recruiting people for attrition bac	7,000	Per Person	119,000	9,000	153,000
Training	Cost of training people for attrition bac	12,000	Per person	204,000	12,000	204,000

Recruitment & Training Cost				323,000		357,000
Technology Cost						
MPLS (lease Line with US Cost between US and ind	Cost of lease line	191,250	Per 2 mbps, 48 kbps/seat	956,250	204,000	816,000
PSTN Inbound	inbound call charges	0,2250	INR Per talk minute	236,250	0.2400	235,872
Total Technology Cost				1,192,500		1,05,872
Total Cost oc Sales				7,514,429		7,519,092
Gross Margin				5,985,571		5,959,308
Gross Margin%				44%		44%
Overhead Recovery						
Communications	Recovery of Overheads on pre-determ	2%	of Revenue	270,000	2%	269,568
Indirect People costs		10%	of Revenue	1,350,000	9%	1,213,058
Marketing		3%	of Revenue	405,000	2%	269,568
Property & Utilities		9%	of Revenue	1,215,000	13%	1,752,192
Travel & subsistence		1%	of Revenue	135,000	1%	134,784
Depreciation		5%	of Revenue	675,000	4%	539,136
Interest and Finance Charges		5%	of Revenue	675,000	5%	673,920
Total Overhead				4,725,000		4,852,224
Net Profit				1,260,571		1,107,084
Net Profit %				9%		8%

RESULTS:

It was evident from the data and the graph that revenue has decreased only by 0.2 % and consequently the cost of sales and overheads should also mirror this trend. But this is not the case in this study. Rather the cost of sales increased by 0.1% and Overheads increased by 2.7% over the standard value, resulting in a decrease in profit by 12.2%.

This can be mainly attributed to the following key drivers of variance:

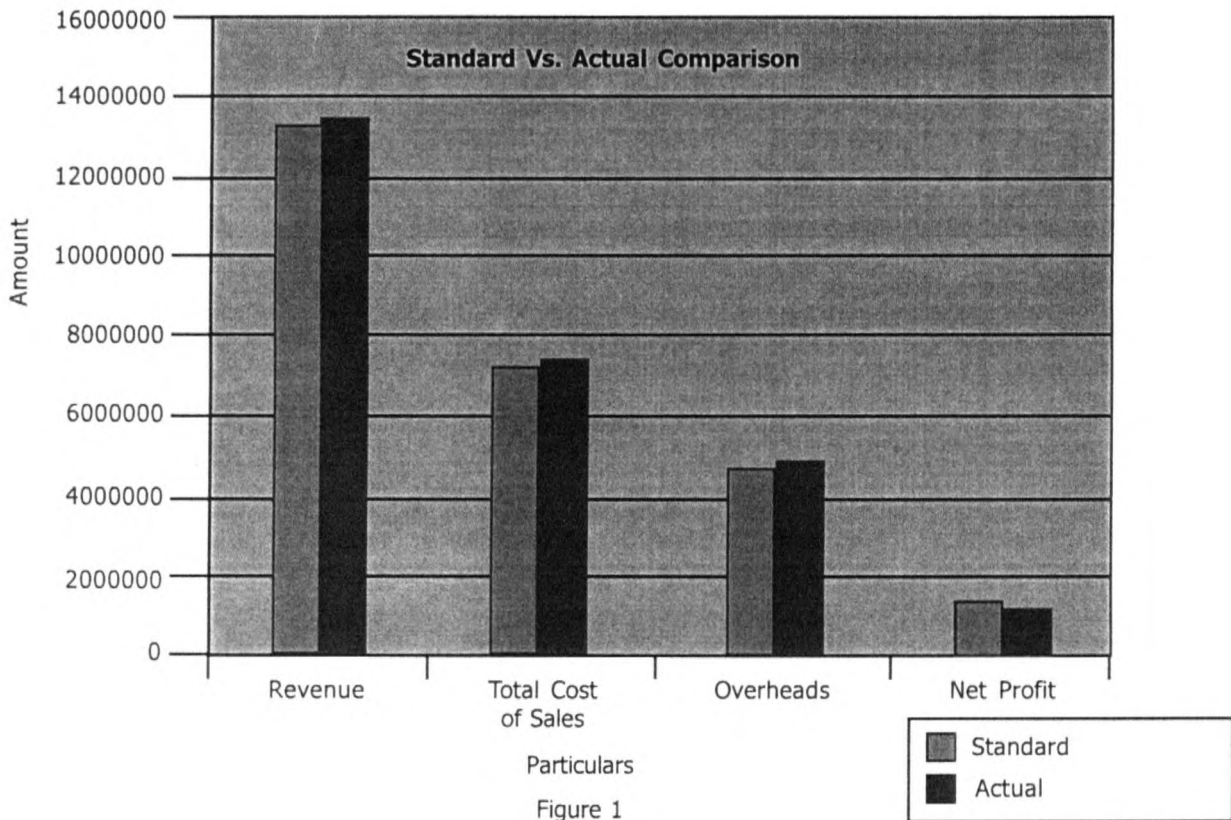
1. Exchange rate variation between the time periods. This leads to transaction and translation exposure which needs to be managed. One good policy is to have natural hedge against such exposures.
2. A decrease in number of sales hours than estimated. This can be from exogenous variables and can also be a forecasting error.

3. Much larger than estimated costs incurred in training and recruitment (10.5% increase). Given the fact that the industry has a high attrition rate, this cost needs some attention.

4. Also although most of the components of the variable overheads are less than the standard costs but due to only one component there is a 2.7% increase in overheads. This component is 'property and utility' indicating that company purchased a property or utility which was not expected earlier, resulting in a rise in overheads.

As per Ryan (2001) the budget constraints need to be considered along with variance analysis. This Indian KPO will face the macro economic trend of rising salary(Rs 61,10,220) bill but should also benefit from low telecom rates.

The result reveals that though the gross profit percentage remains at 44% the actual net profit percentage falls to 8% rather than the envisaged 9%.



CONCLUSION:

Variance analysis helps planning profit in better way and control. This technique is most useful for those firms which are knowledge centric and compete with global firms. Such variance analysis contributes to the profitability of the KPO sector which will also lead to creation of jobs for high skilled segment in India and thus contributing to national development.

Also ,the variance analysis has been beneficial for the concerned firm re looking at its entire value proposition i.e. the pricing, quality, services and features. Furthermore, these analysis shows that firms will benefit from Activity based costing when the overhead component is high. In fact a time driven ABC approach is highly recommended which will need

the ascertainment of cost per hour of each type of resource that delivers service to each type of customer and also the ascertainment of time required of a particular resource for servicing customer demand.

More specifically, it also points out that the decrease in revenue will not automatically lead to a decrease in cost of sales due to reasons such as a presence of fixed cost, exchange rate fluctuations, training and recruitment cost etc.

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