



**Export Development Board**

**Export Value Survey 2007**

**Sri Lankan IT/ ITES Industry**

**October 2008**

**\*connectedthinking**

**PRICEWATERHOUSECOOPERS** 

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## 1. Highlights

Over the past three to four years Sri Lanka has been increasingly recognized as an emerging outsourcing destination for key functions and specialized services in IT and ITES in Asia. The advantages of the country include increasing availability of highly skilled professionals and comparative cost and qualitative advantages relating to infrastructure and workforce.

With this emergence of the IT/ ITES export industry in Sri Lanka, the Export Development Board sought to profile the industry and to establish export revenues generated in 2007 as a baseline indicator to track its contribution to the national economy.

The key findings of the survey are highlighted below:

- **Categories:** The survey identified 178 IT/ ITES export companies in Sri Lanka. 137 engage in IT, 34 in ITES and 7 in both IT and ITES.
- **ICT Industry Revenue and Growth:** The total ICT export industry grew by 23% from US\$ 173 million in 2006 to US\$ 213.2 million in 2007. The IT industry contributed to 83% of this growth.
- **IT/ITES Industry Revenue and Growth:** The IT export industry grew significantly by 28% from US\$ 120.9 million in 2006 to US\$ 154.1 million in 2007 whilst the ITES export industry grew by 13% from US\$ 50.5 million in 2006 to US\$ 57.2 million in 2007.
- **Revenue Profile by Size:** There are 90 small companies, 36 medium sized companies and 11 large companies in the IT industry. The largest contributors to revenue were the large companies with 48% of the total industry revenue followed by 36% by the medium sized companies. The ITES Industry consists of 22 small companies, 5 medium sized companies and 7 large companies. Similar to the IT industry, the largest contributor to revenue with 75% were the large companies.
- **Service Offerings:** The key service offering provided by the IT industry is software development with 62% of the companies engaging in this activity. Fifty two percent of IT companies also promote their own products. IT services and IT consulting are also offered by 35% and 29% of the companies respectively. In the ITES industry, 72% of companies offer non-voice services.
- **Ownership:** 40% and 61% of the IT and ITES companies respectively were set up with foreign direct investment either through joint ventures or 100% ownership.
- **Workforce:** IT companies employ an average of 83 personnel with a ratio of billable employees to total number of employees of 69%. ITES companies on average employ a total of 250 personnel with a ratio of billable employees to total number of employees of 71%. The largest percentage of employees with 48% in the IT industry and 83% in the ITES industry were from large companies.
- **Workforce Revenue:** Revenue per billable employee in the IT industry and ITES industry were estimated as US\$ 21,220 and US\$10,596 respectively

- **Workspace:** The average floor space utilized by IT and ITES exporters are 8,300 sq. ft and 17,900 sq. ft respectively. The average floor space available per employee for IT exporters is 170 sq. ft, whilst the ITES industry has 102 sq. ft available per employee.
- **Communication:** The preferred communication bandwidths varied between 512kb and 4MB for IT exporters and 1MB and 4MB for ITES companies.
- **Top markets:** The top three markets for both IT exporters and ITES companies were identified as Europe, North America and South Asia.
- **Perceived growth:** The perceived growth rates within existing markets for IT companies and ITES companies were 20% - 30% and 30% - 40% respectively.
- **Emerging markets:** Emerging target markets for IT exporters were identified as Africa, South America and the Middle East while the emerging markets for ITES companies were Africa and Australia/ New Zealand.
- **Canvassing:** Sixty one percent of IT companies canvas business via overseas offices either through foreign principles or own offices whilst 27% of the companies rely on direct marketing by local offices. In the ITES industry, a similar trend was observed with 71% of the companies canvassing business via their foreign offices.
- **Expansion:** 57% of IT exporters are not planning to open new offices, with 29% intent on opening offices outside Sri Lanka. Similarly, 53% of ITES companies have not planned to open new offices, with 37% intent on opening offices outside Sri Lanka.
- **Quality Certifications:** At least 9% of IT companies possess formal quality certifications with a further 28% pursuing one. In the ITES industry, 18% possess formal quality certification with a further 12% on a similar quality pathway.
- **Government support:** The key role expected by the industry to be played by the Government is to promote and position Sri Lanka's capability as an outsourcing destination for IT and ITES.

## 2. Introduction

### 2.1 Global ICT Industry

In 2007, global technology and service spending was estimated to have had a year-on-year growth of 7.3% to almost US\$ 1.7 trillion. Within this, the growth in the ICT services sub-sector has shown an above industry growth of 30% reaching US\$70-76 billion in 2007<sup>1</sup>. The cost advantages associated with global sourcing of ICT services have seen the emergence of outsourcing destinations of choice with the Asia Pacific region and Central and Eastern Europe leading the tables<sup>2</sup>.

### 2.2 Emergence of Sri Lanka as an IT/ ITES Outsourcing Destination

Over the past three to four years Sri Lanka has been increasingly recognized as an emerging outsourcing destination for key functions and specialized services. In the year 2007, A.T. Kearney's Global Services Location Index highlighted Sri Lanka among the top 50 outsourcing destinations. Despite the limited size of the workforce in relation to other large outsourcing players such as India, Sri Lanka possesses highly skilled professionals for niche services in IT testing, finance and accounting, with the highest number of Chartered Institute of Management Accountants (CIMA) graduates in the world outside of the UK, and legal services<sup>3</sup>. Further the location of Sri Lanka in terms of time-differences allows it to cater to the European, Australian and the American markets. All these factors place Sri Lanka in a prime position to establish itself as one of the top outsourcing destinations.

### 2.3 The Sri Lankan IT/ITES Industry

The IT industry in Sri Lanka was established about one and a half to two decades ago. With a large number of small and medium enterprises, the IT/ITES industry in Sri Lanka consists of players offering a wide range of services from software development, IT consultancy services and IT support services to IT Enabled Services for both voice and data processing. Current estimates place the total number of entities offering services in the IT/ITES industries in Sri Lanka at over 900. This estimate is based on the consolidated databases of the Export Development Board (EDB), Board of Investment of Sri Lanka (BOI), ICT Agency of Sri Lanka (ICTA) and IT/ITES Industry Associations.

There are several industry associations representing specific verticals or business interests in the IT/ ITES industry. The industry associations are looking at consolidating the associations under one association for a synergistic approach to the strategic development of the IT/ ITES industry. Supported by the Government of Sri Lanka through the ICT Agency of Sri Lanka, several initiatives have already been taken in this regard. In November 2008, the industry intends to launch the SLASSCOM. Modeled after the Indian NASSCOM, the SLASSCOM will be the representative body for the IT/ITES industry and play the role of strategic advisor to the government on public policy and international trade development as well as to its member companies in the Sri Lankan IT/ITES sector.

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<sup>1</sup> "Strategic Review 2008", NASSCOM

<sup>2</sup> "Top 50 Emerging Global Outsourcing Cities 2008", Global Services – Tholons Study

<sup>3</sup> "Top 50 Emerging Global Outsourcing Cities 2007", Global Services – Tholons Study

Despite the moves by the industry to consolidate, a considerable number of business entities are not registered with the Government, industry-related bodies or with industry associations. Some of these business entities, catering to the export market, are not known outside their immediate business circles. Through this survey several of these companies have been identified and listed on the EDB's IT Export Companies Database.

## **2.4 IT/ITES Export Industry Profile**

To date there is neither a consolidated formal source of information pertaining to the quantum of IT/ITES exports nor a comprehensive analysis of the IT/ITES export industry. Various organizations and bodies have estimated the total foreign revenue brought in by the IT/ITES exporters, however these figures have not been independently verified.

Given the potential for growth, it is critical that the industry leaders and associations have a good understanding of the current industry, its contribution to the national economy and its strengths and weaknesses. Based on this understanding, the industry will be able to develop its strategy in relation to global demand and to assess the "as is" position of the Sri Lankan IT/ITES industry in the global markets. From a national planning perspective, this would assist decision makers to devise and focus on key interventions that will enable the industry to achieve its long term goals and monitor the effectiveness of these interventions.

In this context, the EDB, with the participation of the IT/ITES sector sought to profile the IT/ITES export sector and to establish the current export revenues being generated by the industry as a baseline indicator to track its contribution to the national economy. The EDB commissioned PricewaterhouseCoopers Sri Lanka (PwC) to conduct a survey in order to profile the IT/ITES export industry.

## **2.5 Role of the Steering Committee in the Survey**

For the purposes of the survey, the EDB formed a Steering Committee to assist PwC in understanding the objectives and expected outcome of the survey. The steering committee comprised of representatives from the Export Development Board (EDB), Board of Investment of Sri Lanka (BOI), ICT Agency of Sri Lanka (ICTA), Software Exporters Association (SEA), Sri Lanka Association for IT Industry (SLASI), IT Enabled Services Association (ITESA) and other industry experts.

The Steering Committee, through several discussions provided useful insights and assistance in the following areas:

- Establishing the objectives and the outcome of the study
- Defining the scope and outputs of the study
- Providing inputs for the design of the questionnaire
- Validation of companies under each vertical and key assumptions
- Influencing the management of IT/ITES companies to participate in the survey

## **2.6 Scope of the Sector Analysis**

For the purposes of the study, the IT/ITES export industry was defined as IT and ITES companies that would have generated some amount of revenue from the export of their products or services during the period of 2006 and 2007. Further, companies should have earned export revenue on a continuous basis rather than on a one-time export. For cost centers such as captive ITES or IT

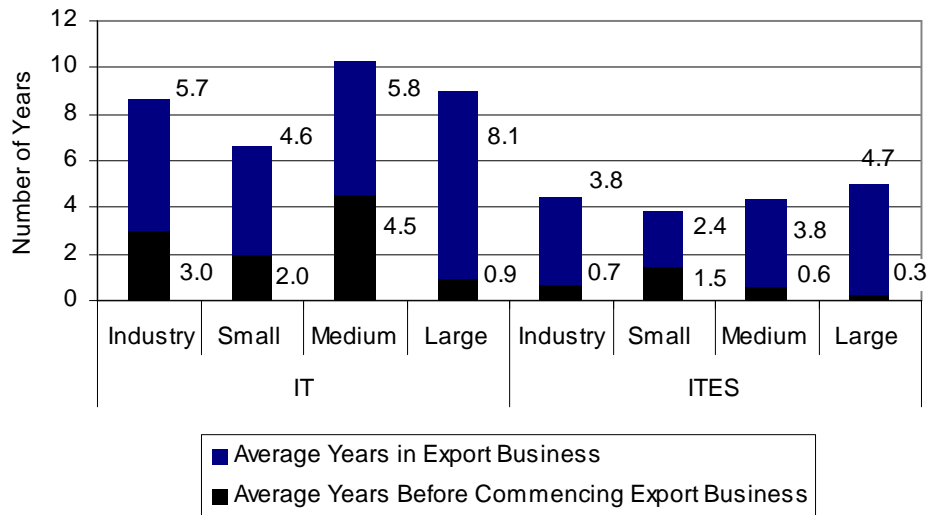
development centers, the overall costs of running the Sri Lankan operation was considered as the revenue for the company.

Companies involved in hardware exports and telecommunication service providers were not considered for this survey.

Through a listing exercise conducted prior to the survey it was established that there are an estimated 178 IT / ITES export companies that fall within the above definition. It is possible that several other companies in this industry exist, but have not been identified due to a lack of a mechanism to capture such information. Therefore for the purposes of this survey, extrapolation of the findings has been limited to the 178 pre-identified companies.

### 3. IT/ITES Export Industry Profile

Figure 01: Average Years in Business and Export Business of IT/ ITES Export Industries (2006/ 2007)



Source: Export Value Survey, 2008

There are 178 IT/ ITES exporters in Sri Lanka. 137 (77%) of these companies are engaged in IT, 34 (19%) in ITES and the remaining 7 (4%) are engaged in both IT and ITES. 117 of these companies are small companies, 42 are medium sized companies and 19 are large companies.

Small companies and medium sized companies account for almost 90% of the IT/ITES industries. The large presence of small and medium enterprises is indicative of the lack of entry barriers to this industry as key resources required to commence an operation are primarily human capital with basic infrastructure.

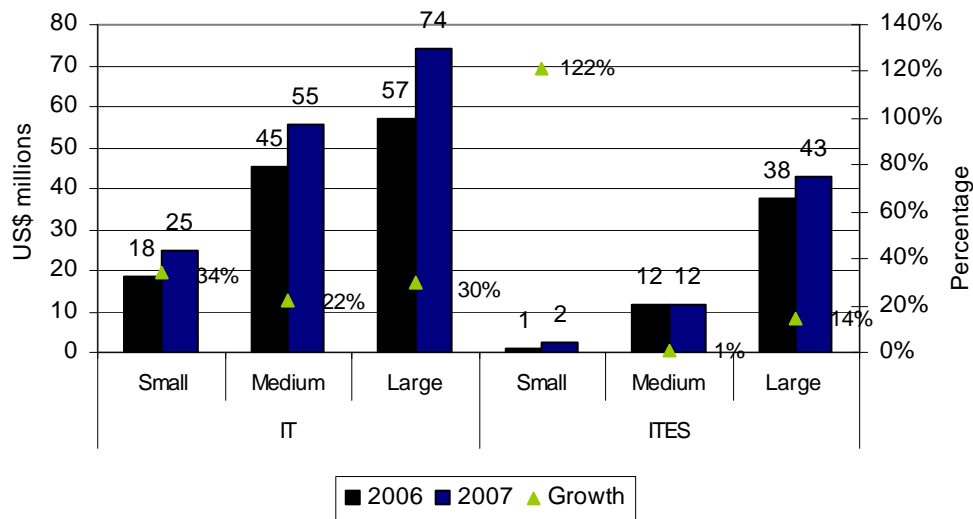
The survey reveals that the average period of existence of an IT company in Sri Lanka is 8 years, and on average companies started exporting in their third year of operation. For ITES, the average period of existence is 4.5 years. However, unlike the IT industry, exports commenced almost half a year after starting operations as illustrated in Figure 01. This could be attributed to the fact that 62% of ITES companies were established either through a joint venture or 100% foreign direct investment.

It is evident that the IT/ITES industry is primarily driven by IT companies. These companies contribute significantly to the industry both in relation to the value of exports and employment as well as in terms of the volume of companies engaged in the industry. The ITES sector is still at its nascent stage with a few large companies driving the sector in terms of investment, employment and export revenue. There also exist a handful of companies, mainly small in size, who engage in exporting both IT services and ITES.

The long term aim for the IT/ITES industry in Sri Lanka is to become the largest net foreign income earner for the country. Accordingly, the industry has set an ambitious target to become a US\$ 1 billion export industry by 2010 and a US\$ 2 billion export industry by 2012. The IT/ITES industry is also expected to have a workforce of over 100,000 by this date<sup>4</sup>.

<sup>4</sup> Sri Lanka: National IT/ BPO Workforce Capacity Development Strategy 2007

Figure 02: Revenue and Growth in IT/ ITES Export Industries (2006/2007)



Source: Export Value Survey, 2008

The total revenue generated by the whole IT/ ITES exporters in 2007 is estimated at US\$ 301 million, of which US\$ 213 million is generated from exports. This is an increase of US\$ 40 million, representing 23% growth in export revenues from 2006 (US\$ 173 million). The industry breakdown is as illustrated in Figure 02. and Table 01. below.

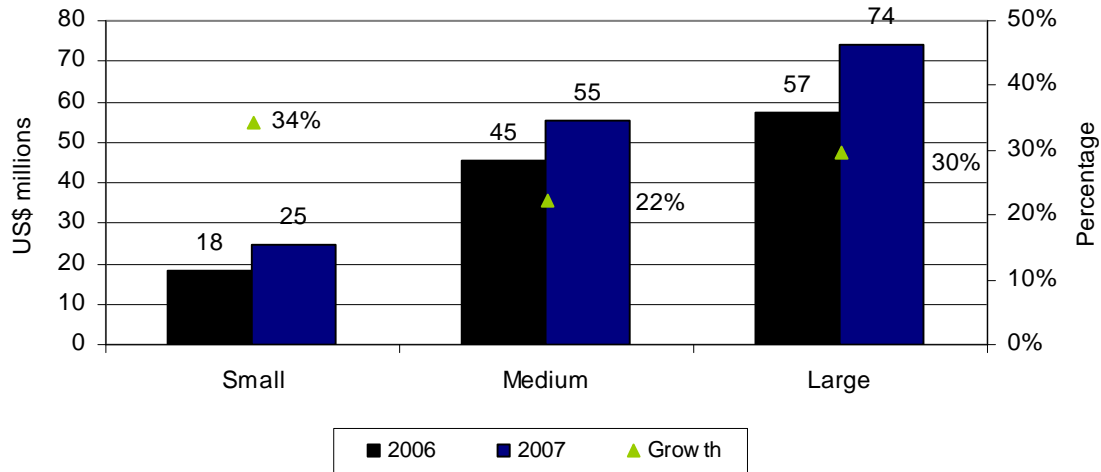
Export Revenue	IT Industry	ITES Industry	Both	Total
Year 2006 - USD	120,879,624	50,482,864	1,675,000	173,037,488
Year 2007 - USD	154,136,354	57,198,140	1,875,000	213,209,494
Growth %	28%	13%	12%	23%

Table 01: Export Revenue for the IT/ITES Industries for 2006 and 2007

## 4. Profile of IT Export Industry

### 4.1 Revenue and Growth

Figure 03: Revenue and Growth in IT Export Industry (2006/2007)



Source: Export Value Survey, 2008

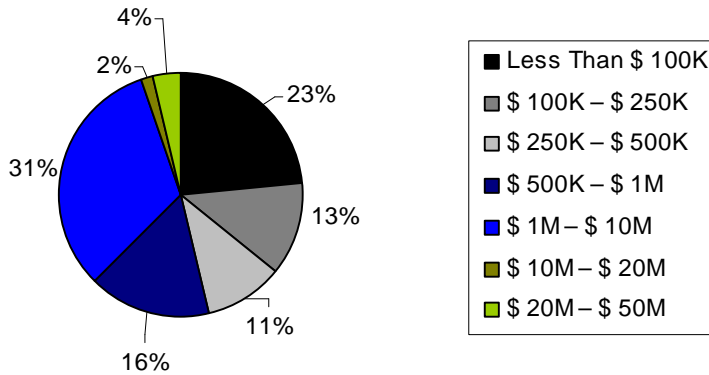
The IT export industry had grown by 28% from US\$ 120.8 million of revenue generated through exports in 2006 to US\$ 154.1 million in 2007 as shown in Table 01. Figure 03. illustrates that large companies accounted for nearly 50% of export revenues in both 2006 and 2007 whilst the contribution of small and medium sized companies was in the range of 15 – 38%. The major contributors to growth in absolute terms were also the large companies with an increase in export revenue of US\$ 16.9 million with overall growth of 30%. Medium sized companies with overall growth of 22% contributed to growth of US\$ 10.1 million in absolute terms. An analysis of the revenue contributions by size of companies is given below:

Export Revenue	Industry	Small	Medium	Large
Year 2006 – US\$	120,879,624 (100%)	18,426,024 (15%)	45,363,600 (38%)	57,090,000 (47%)
Year 2007 – US\$	154,136,354 (100%)	24,713,048 (16%)	55,466,640 (36%)	73,956,666 (48%)
Growth %	28%	34%	22%	30%

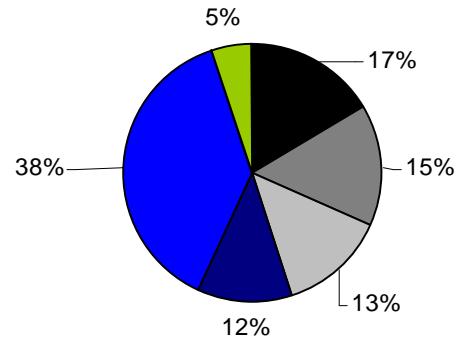
Table 02: Export Revenue for the IT Industry for 2006 and 2007

The overall IT industry export revenue profile has also seen a significant shift with several companies with total revenues between US\$500k - US\$1 million in 2006 moving into the US\$1 million – US\$10 million revenue bracket in 2007 as illustrated in Figure 04. and Figure 05.

**Figure 04: Export Revenue Brackets of IT Exporters (%) in 2006**



**Figure 05: Export Revenue Brackets of IT Exporters (%) in 2007**

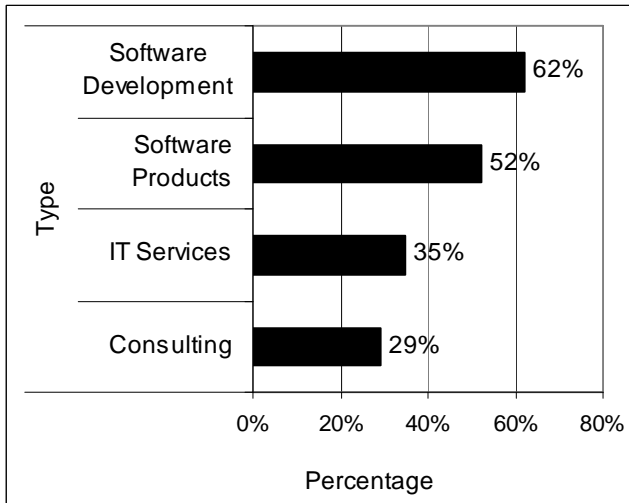


**Source: Export Value Survey, 2008**

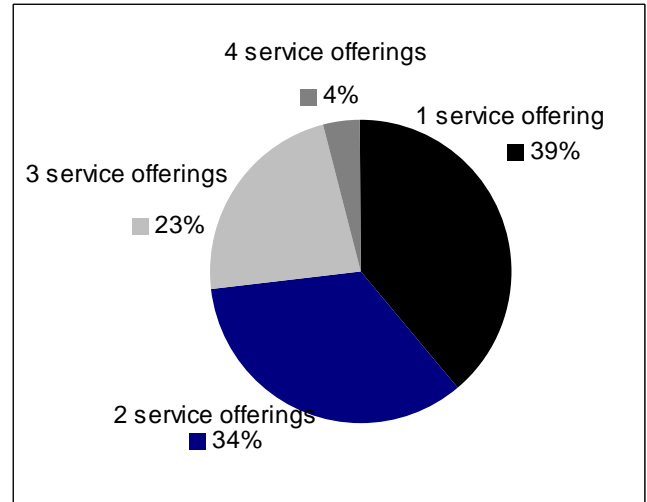
18% of the respondents believed that the growth of the local industry had been fueled by the global growth of the IT industry and the ability of Sri Lanka to offer unique products and technological enhancements to their clients. 30% also felt their competitive edge was the quality of the service they provided in terms of on time delivery, agility to respond to customer queries as well as the skills and experience of the staff. 13% of respondents felt that having formal quality certifications contributes to clients' confidence in the standard of service that can be provided.

## 4.2 Service Offerings

**Figure 06: Composition of Products in IT Export Industry (2007)**



**Figure 07: Number of Service Offerings by IT Exporters (2007)**



*Source: Export Value Survey, 2008*

As illustrated in Figure 06, the most predominant service offering in the IT industry is software development with 62% of companies providing this service. Further analysis of the IT industry illustrates that the majority of IT companies established in the last few years have not been export oriented from the time of inception as shown in the table below. Therefore, it is evident that in the formative years, such companies catered to the domestic market.

Industry	Areas of Specialization	Composition %	Number of Years in Business		Number of Years in Export Business	
			Mean	Mode	Mean	Mode
IT Exports	Software Development	62%	7.9	7.0	5.6	3.0
	Software Products	52%	8.5	2.0	5.8	2.0
	IT Services	35%	10.1	10.0	6.1	3.0
	IT Consulting	29%	9.38	2.0	6.1	2.0

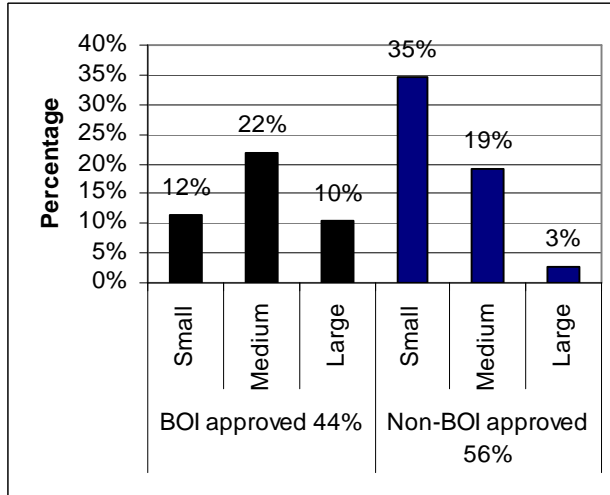
**Table 03: Number of Years in Business and Export Business by Product (2007)**

As illustrated in Figure 07, almost 61% of the IT companies engage in two or more service offerings. Companies seem to offer a wide range of services in order to adapt to changing customer requirements and demands. According to the respondents, though the companies engaged in a variety of services, not many were able to clearly apportion their revenue, time and effort to each of the service offerings as the companies were flexible in the deployment of their resources.

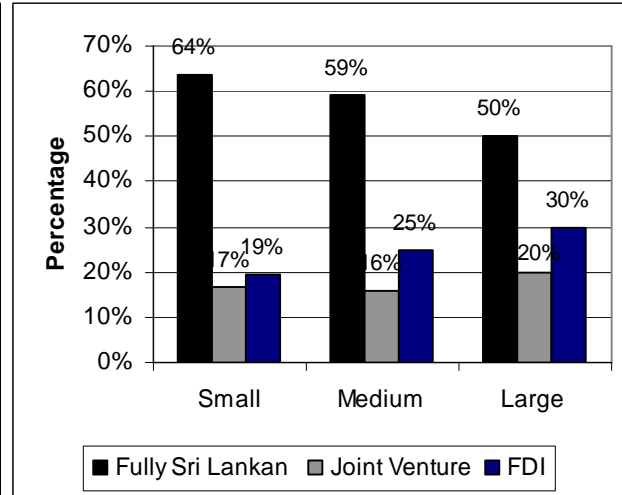
### 4.3 Ownership

**Figure 08: BOI Registration Composition of IT Companies**

**Figure 09: Ownership Composition**



**of IT Companies**



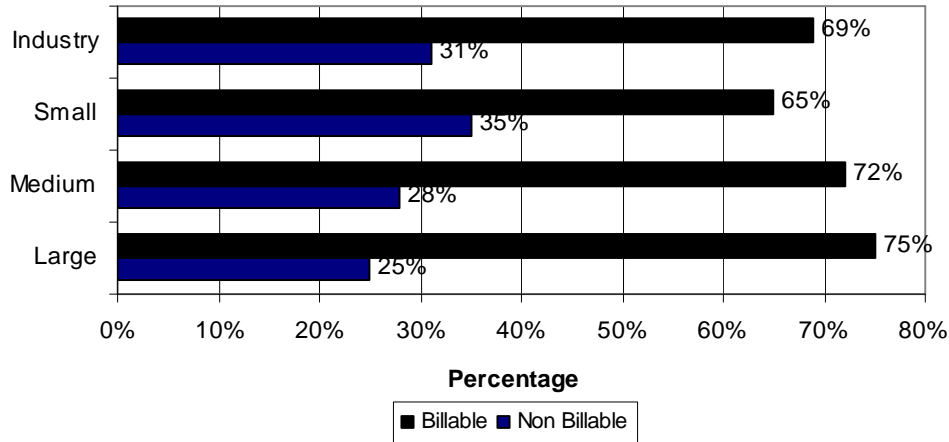
**Source: Export Value Survey, 2008**

Nearly 45% of the IT companies are incorporated with BOI approval, of which about 50% are medium sized companies. This could be attributed to investment and employment generation being criteria for concessions offered by the BOI in the form of incentives including tax holidays, concessionary tax and duty free import facilities.

Foreign collaboration is evident in 40% of the companies in the IT industry. Within this, 50% of the large companies have joint ventures or 100% FDIs, with 36% and 41% for small and medium sized companies respectively. Therefore it is evident that investments in small and medium sized companies are predominantly made by local investors. The average annual investment by a company in capital expenditure in 2006 was US\$ 14,758 whilst US\$ 18,334 is estimated to have been spent in 2007.

#### 4.4 Workforce

Figure 10: Ratio of Billable to Non-billable Employees in IT Industry



Source: Export Value Survey, 2008

According to the Workforce Survey of 2006<sup>5</sup>, the total IT industry<sup>6</sup> including export companies employed 11,564 in 2005, whilst in 2006 this number rose to 13,870.

According to our findings, the IT export industry is estimated to employ 8,400 in 2007. IT export companies employ an average of 83 personnel. Small companies operate their businesses with an average staff number of 23, whilst medium sized and large companies employ 64 and 367 personnel respectively as depicted in Table 04.

Total Number of Employees by Category	Industry	Small	Medium	Large
Average Number of Employees (total)	83	23	64	367
Management	5	3	5	12
Administration	6	2	5	20
Technical Staff (billable)	53	12	40	268
Quality Assurance (billable)	12	3	7	52
Other	7	3	8	15

Table 04: Average Number of Employees in the IT Industry (2007)

On average the management cadre in IT export companies have about 7 years of experience while the technical and quality assurance staffs have approximately 3 years of experience.

On a typical project, IT exporters attempt to maintain a ratio of 1 management personnel to 4.55 technical staff and 1 quality assurance staff to 4.76 technical staff. With regards to perceived contributions of time spent on a project, technical staff and quality assurance staff contribute about 61% and 16% respectively, with management contributing 17% and the balance 6% of contribution being made by the other staff in the company.

<sup>5</sup> ICT Workforce Survey, April 2007, SLICTA.

<sup>6</sup> Industry which employs personnel involved in producing IT related output as their primary job function.

Employee categories	Industry	Small	Medium	Large
Management	4.55	3.57	5.26	11.11
Administration	5.26	4.35	5.88	14.29
Quality Assurance	4.76	4.35	5.00	5.88
Other	2.38	1.67	2.94	5.88

**Table 05: Ratio of Technical Staff to Other Staff in the IT Industry (2007)**

Table 05. clearly indicates that the efficiency of large companies in managing the human resource is comparatively better than small and medium sized companies in the sector. There is a wide disparity in the efficiency levels despite the more experienced staff being deployed by small and medium sized companies as illustrated in Table 06. This could be attributed to owner-managers being more closely involved in projects for small and medium sized companies and to the fact that large organizations are benefiting from economies of scale, established lean processes and up-to-date management practices whilst small and medium companies may not have sufficient staff to clearly delineate between the roles of the management and technical staff.

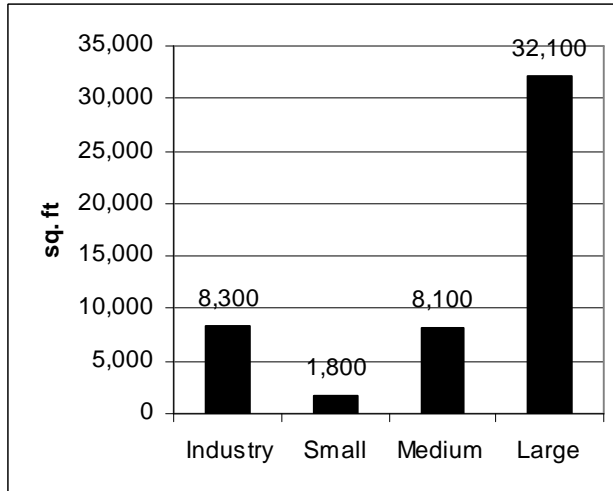
Employee categories	Industry	Small	Medium	Large
Management	7.2	8	6.5	6.4
Administration	3.5	4.1	3.1	2.8
Technical Staff	3.4	3.3	3.7	2.9
Quality Assurance	3.2	3.2	3.1	3.5
Other	3.5	3.7	3.3	3.3

**Table 06: Average Years of Experience for Employee Categories in the IT Industry (2007)**

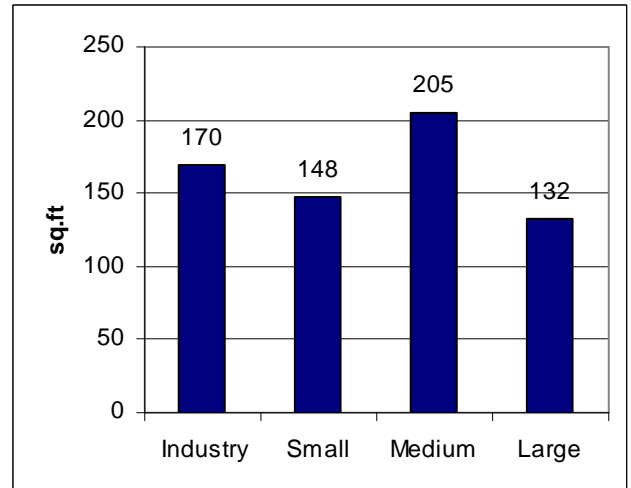
The lack of competent and skilled personnel in the industry were identified by the survey respondents as the key issue and a challenge faced more by the large companies than by small and medium sized companies. Of those who provided the information, approximately 22% of the companies spent more than 20% of the total cost on training their staff.

## 4.5 Workspace

**Figure 11: Average Floor Space for IT Industry**



**Figure 12: Average Floor Space per Employee for IT Industry**



*Source: Export Value Survey, 2008*

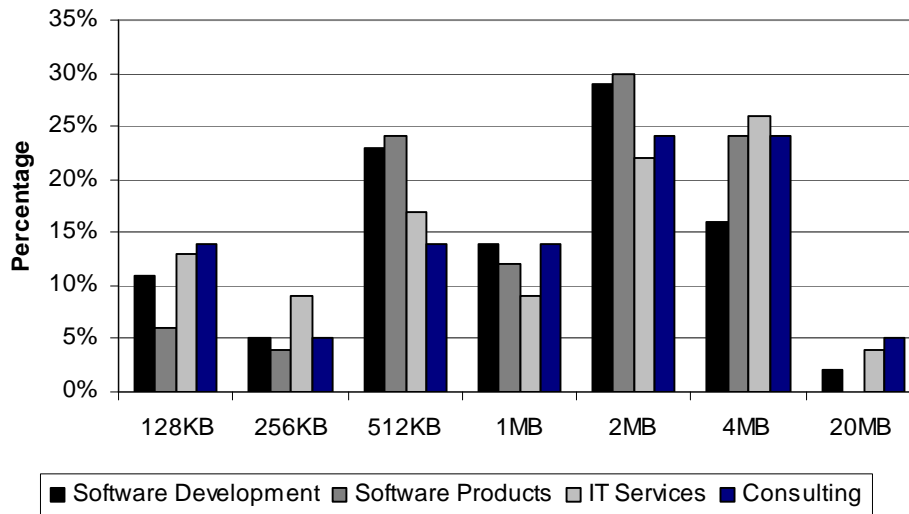
The average floor space utilized by the IT companies is 8,300 sq.ft. The utilization of floor space per employee by large companies is efficient compared to small and medium sized companies in the industry as illustrated in Figure 12.

One third of the companies surveyed indicated that the lack of suitable space and the high costs of available space as concerns that hindered expansion. Due to this limitation in the availability of suitable single-site office space, large companies are compelled to implement more efficient space management practices while providing cafeterias, training and recreation facilities for their staff. To reduce these concerns voiced by the industry players and to spur growth, the Government could facilitate investments in IT parks and related infrastructure.

Of the respondents who shared the information, over 30% of the respondents stated that rental costs accounted for more than 10% of their total costs in 2007, with about 7% stating that rent accounted for more than 20% of their total costs.

## 4.6 Bandwidth

Figure 13: Communication Bandwidths Used for Services in the IT Industry



Source: Export Value Survey, 2008

The most preferred bandwidth for the provision of IT services is 2MB followed by 512kB and 4MB. This is in line with the most preferred bandwidth amongst small and medium sized companies of 2MB, and large companies of 4MB bandwidth as described in Table 07. and also the services illustrated in Figure 13.

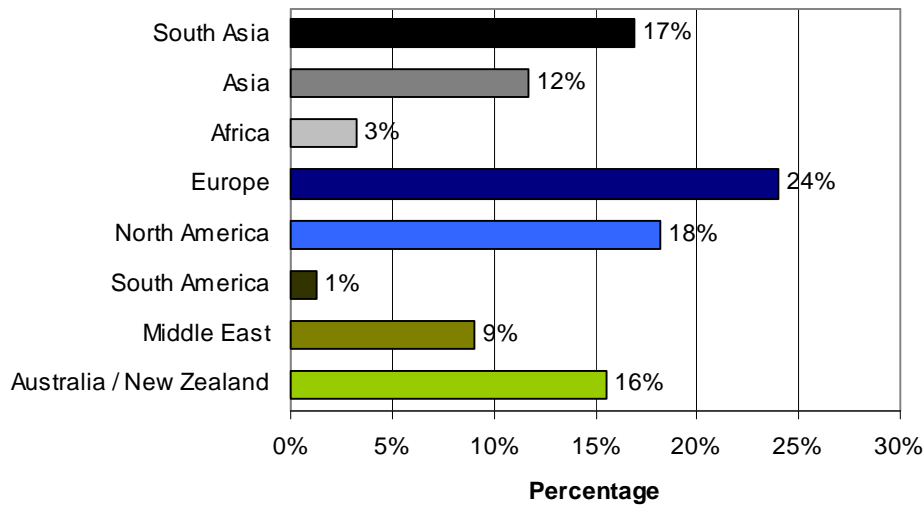
	Small	Medium	Large
Preferred Bandwidth (mode)	512kB and 2MB	2MB	4MB

Table 07: Average Bandwidths Used by IT Industry (2007)

The high cost of telecommunication and insufficient bandwidth were the challenges highlighted by the respondents of the survey. An analysis of the expenditure of respondents revealed that the cost of telecommunication was less than or equal to 10% of their total costs, with 42% stating that telecommunications costs are between 5% and 10% of their total costs. One of the primary reasons for the high perceived cost of telecommunication may be that almost all respondents have one or more back up lines to ensure continuous access to communication/data links.

## 4.7 Top markets

Figure 14: Composition of Existing Markets in IT Industry (2007)



Source: Export Value Survey, 2008

The top five existing markets catered to by the IT industry in 2007 as identified by the respondents were:

1. Europe
2. North America
3. South Asia
4. Australia / New Zealand
5. Asia

Sri Lankan companies whilst competing with each other in the said markets, consider the greatest threat as being from large international companies in terms of pricing and recognition. However, a significant number of respondents still felt that more than the competition for market share, the local competition to recruit and retain skilled staff to service the markets is the primary obstacle slowing down the industry's growth.

The growth rate perceived by the IT industry for the existing market was in the range of 20% – 30%. Asia was perceived to be the market with the highest prospect for growth by the large players. The rest of the existing markets were perceived to grow approximately at the rate of 20% - 40% (Please refer to Annex I for further information).

Existing markets	Small	Medium	Large
Europe	20% - 30%	20% - 30%	20% - 30%
North America	20% - 30%	20% - 30%	20% - 30%
South Asia	20% - 30%	30% - 40%	20% - 30%
Australia / New Zealand	20% - 30%	30% - 40%	20% - 30%
Asia	30% - 40%	30% - 40%	76% - 100%

Table 08: Perceived Potential Growth Rates in Existing Markets for the IT Industry

#### 4.8 Emerging Markets



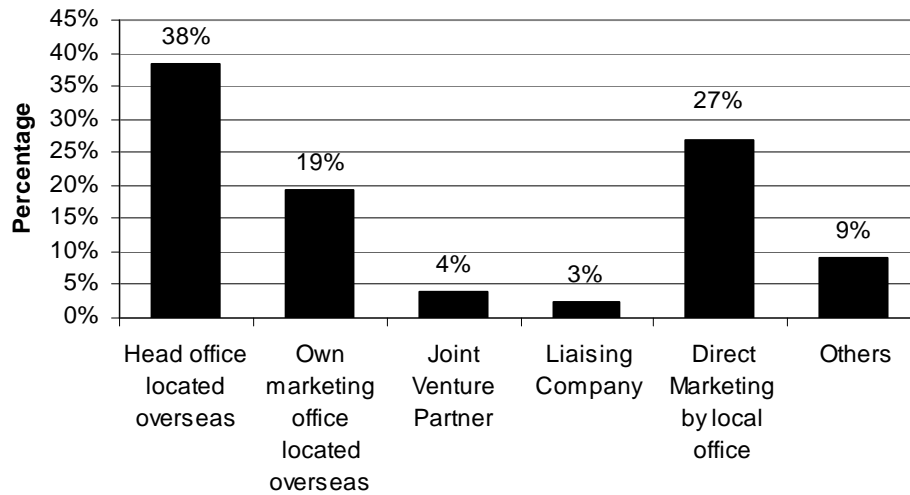
Africa, South America and the Middle East were identified as new target markets that are currently being explored by the IT export companies as stated by the survey respondents. The perceived potential for growth in each of these regions varies based on the size of the company as illustrated in the table below.

New markets identified	Small	Medium	Large
Africa	20% - 30%	0% - 20%	30% - 40%
South America	20% - 30%	N/A	N/A
Middle East	20% - 30%	30% - 40%	0% - 20%

**Table 09: Perceived Potential Growth Rates in Newly Identified Target Markets for the IT Industry**

## 4.9 Canvassing

Figure 15: Modes of Canvassing in the IT Industry



Source: Export Value Survey, 2008

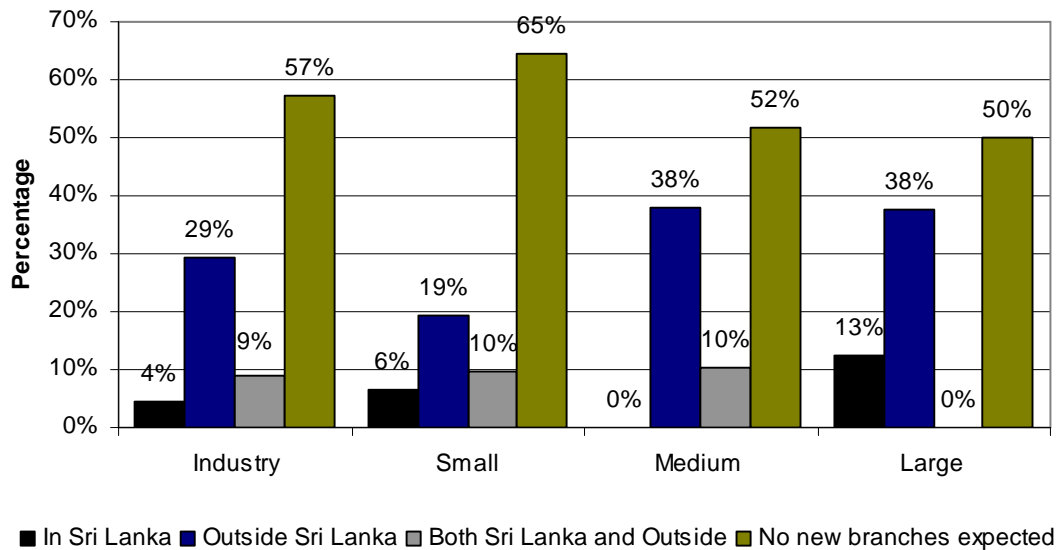
The business development activities for the IT companies are carried out either by the parent company or by the marketing office usually located overseas as seen above. However, a significant amount of canvassing is also done by the local office for IT exporters as illustrated in Figure 15.

Though limited access to markets was not identified as a burning issue by the IT industry, few players were of the opinion that an insufficient number of initiatives were undertaken to promote Sri Lanka as a destination for IT development. Such initiatives could be in the form of a structured approach to accessing target markets including access to marketing channels through participation in relevant industry exhibitions and outsourcing events. Current Government policies and interventions were not considered by the respondents to be significant facilitator or impediment of the future growth of the industry.

Further, respondents stated that potential clients lacked an awareness of Sri Lanka's capability as an IT services provider and were apprehensive regarding the current political situation faced by the country. This fear of an interruption in the provision of services has attributed to clients being reluctant to enter into long term contracts with companies based in Sri Lanka.

## 4.10 Expansion

Figure 16: Expected Expansions of IT Companies in 2008/2009



Source: Export Value Survey, 2008

Majority of the survey participants (57%) indicated that they do not intend to expand their operations in Sri Lanka or any other part of the world, by way of adding new branches. Of those planning to expand, 19% of small companies and 38% of medium sized and large companies indicated that they have plans to setup branches outside Sri Lanka. The regions under consideration for the new branches in order of preference include Europe (UK, France, Holland and Switzerland), Asia (India, China, Vietnam, Philippines, Japan and Singapore), Dubai, Australia and the USA.

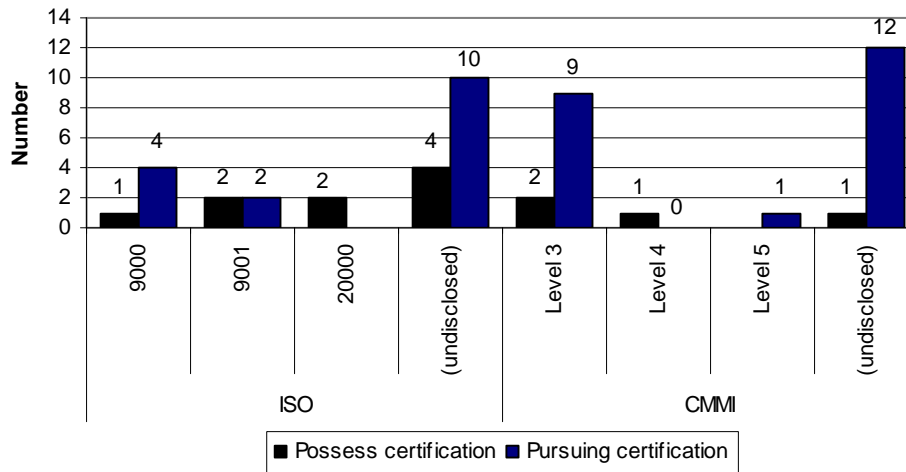
The majority of the new offices that are planned would be a mix of operational centers and marketing offices as illustrated in the table below:

Nature of new branches	Inside Sri Lanka	Outside Sri Lanka	Both
Operational Centers	1	4	3
Marketing Offices	0	9	0
Both	2	8	3

Table 10: Number of IT Companies Considering Geographical Expansion by Nature of Offices

### 4.11 Quality Certifications

Figure 17: Quality Certifications Possessed/Pursued by IT Exporters (2007/2008)



Source: *Export Value Survey, 2008*

The survey revealed that of the companies who participated in this survey, 9 are ISO certified and 4 are CMMI certified. A further 16 and 22 companies are currently pursuing ISO and CMMI certifications respectively. In addition, 1 company also possesses the W3C certification. This reflects that over 37% of the IT companies are currently on or are pursuing a quality pathway. (Please refer to Annex I for further information).

## 4.12 IT Industry at a Glance – Fact Sheet

IT INDUSTRY AT A GLANCE					
Indicator	IT Industry	Small	Medium	Large	
<b>1</b>	<b>Number of Companies</b>				
	Number of Companies	137	90	36	11
	(%)	100%	66%	26%	8%
<b>2</b>	<b>Revenue and Expenditure</b>				
2.1	Total ICT Industry Revenue (2006) - USD	173,037,488			
	Total ICT Industry Revenue (2007) - USD	213,209,494			
2.2	Export Revenue (2006) - USD	120,879,624	18,426,024	45,363,600	57,090,000
	Export Revenue (2007) - USD	154,136,354	24,713,048	55,466,640	73,956,666
2.3	Composition of Industry Revenue (2006) - USD	70%	15%	38%	47%
	Composition of Industry Revenue (2007) - USD	72%	16%	36%	48%
2.4	Growth - USD	33,256,730	6,287,024	10,103,040	16,866,666
2.5	Growth (%)	28%	34%	22%	30%
2.6	Composition of Growth	83%	19%	30%	51%
2.7	Average Revenue per Company (2006) - USD	882,333	204,734	1,260,100	5,190,000
	Average Revenue per Company (2007) - USD	1,125,083	274,589	1,540,740	6,723,333
2.8	Revenue per Employee (2007) - USD	14,908	10,812	18,942	15,137
	Revenue per Billable Employee (2007) - USD	21,220	17,099	25,762	19,676
2.9	Average Annual Capital Expenditure (2006) - USD	14,758	2,056	10,000	83,067
	Average Annual Capital Expenditure (2007) - USD	18,334	3,000	14,547	94,333
2.10	Gross Margin (%)	33%	39%	28%	31%

IT INDUSTRY AT A GLANCE					
Indicator	IT Industry	Small	Medium	Large	
<b>3 Company Profile</b>					
3.1	Average Years in Business	<b>8.7</b>	6.6	10.3	9.0
3.2	Average Years in Export Business	<b>5.7</b>	4.6	5.8	8.1
3.3	Types of Operations				
	Stand-alone Company	<b>78%</b>			
	Back Office - captive	<b>10%</b>			
	Back Office - non captive	<b>11%</b>			
3.4	Ownership Composition (%)				
	Fully owned Sri Lankan	<b>60%</b>	64%	59%	50%
	Joint Venture	<b>17%</b>	17%	16%	20%
	FDI	<b>23%</b>	19%	25%	30%
3.5	BOI Registration Composition (%)				
	BOI	<b>44%</b>	12%	22%	10%
	Non BOI	<b>56%</b>	35%	19%	3%
3.6	Average Number of Employees (Total)	<b>83</b>	23	64	367
	Management	<b>5</b>	3	5	12
	Administration	<b>6</b>	2	5	20
	Technical Staff (billable)	<b>53</b>	12	40	268
	Quality Assurance (billable)	<b>12</b>	3	7	52
	Other	<b>7</b>	3	8	15
3.7	Ratio of Technical Staff to Other Staff				
	Management	<b>4.55</b>	3.57	5.26	11.11
	Administration	<b>5.26</b>	4.35	5.88	14.29
	Quality Assurance	<b>4.76</b>	4.35	5.00	5.88
	Other	<b>2.38</b>	1.67	2.94	5.88

<b>IT INDUSTRY AT A GLANCE</b>					
	<b>Indicator</b>	<b>IT Industry</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
3.8	Average Experience of Staff (Years)				
	Management	<b>7.2</b>	8	6.5	6.4
	Administration	<b>3.5</b>	4.06	3.1	2.8
	Technical Staff (billable)	<b>3.4</b>	3.26	3.7	2.9
	Quality Assurance	<b>3.2</b>	3.18	3.06	3.5
	Other	<b>3.5</b>	3.67	3.25	3.3
3.9	Workforce				
	Billable	<b>69%</b>	65%	72%	75%
	Non Billable	<b>31%</b>	35%	28%	25%
3.10	Service Lines Offered				
	1 Service Line	<b>39%</b>			
	2 Service Lines	<b>34%</b>			
	3 Service Lines	<b>23%</b>			
	4 Service Lines	<b>4%</b>			
3.11	Quality Certification				
	CMMi Certified	<b>4</b>	0	1	3
	ISO Certified	<b>9</b>	0	4	5
	CMMi Pursuing	<b>22</b>	5	14	3
	ISO Pursuing	<b>16</b>	10	5	1

IT INDUSTRY AT A GLANCE					
	Indicator	IT Industry	Small	Medium	Large
<b>4</b>	<b>Infrastructure</b>				
4.1	Average Number of Terminals	<b>83</b>	22	65	344
4.2	Average Number of Servers	<b>14</b>	6	10	62
4.3	Average Floor Space (Sq. Ft)	<b>8,300</b>	1,800	8,100	32,100
4.4	Average Floor Space per Employee (Sq. Ft.)	<b>170</b>	148	205	132
4.5	Average Bandwidth		512KB, 2MB	2MB	4MB
<b>5</b>	<b>Markets</b>				
5.1	Composition of Existing Market (%)				
	South Asia	<b>17%</b>	13%	19%	25%
	Asia	<b>12%</b>	9%	16%	5%
	Africa	<b>3%</b>	5%	1%	5%
	Europe	<b>24%</b>	23%	24%	25%
	North America	<b>18%</b>	20%	16%	20%
	South America	<b>1%</b>	3%	0%	0%
	Middle East	<b>9%</b>	8%	11%	5%
	Australia/ New Zealand	<b>16%</b>	19%	13%	15%
5.2	Perceived Market Growth Rate 2008 - 2010	<b>20% - 30%</b>	20% - 30%	30% - 40%	20% - 30%
	South Asia		20% - 30%	30% - 40%	20% - 30%
	Asia		30% - 40%	30% - 40%	76% - 100%
	Africa		20% - 30%	0% - 20%	30% - 40%
	Europe		20% - 30%	20% - 30%	20% - 30%
	North America		20% - 30%	20% - 30%	20% - 30%
	South America		20% - 30%	-	-
	Middle East		20% - 30%	30% - 40%	0% - 20%
	Australia/ New Zealand		20% - 30%	30% - 40%	20% - 30%

IT INDUSTRY AT A GLANCE					
	Indicator	Total Industry	Small	Medium	Large
<b>5</b>	<b>Markets</b>				
5.3	Modes of Canvassing (%)				
	Head office located overseas	<b>38%</b>	33%	44%	40%
	Own marketing office located overseas	<b>19%</b>	22%	9%	40%
	Joint Venture Partner	<b>4%</b>	6%	3%	0%
	Liaising Company	<b>3%</b>	3%	3%	0%
	Direct Marketing by local office	<b>27%</b>	19%	38%	20%
	Others	<b>9%</b>	17%	3%	0%
5.4	Ownership of Branches				
	Yes	<b>33</b>	9	17	7
	No	<b>46</b>	27	15	4
5.5	Expected Expansions (%)				
	In Sri Lanka	<b>4%</b>	6%	0%	13%
	Outside Sri Lanka	<b>29%</b>	19%	38%	38%
	Both Sri Lanka and Outside	<b>9%</b>	10%	10%	0%
	No new branches expected	<b>57%</b>	65%	52%	50%
5.6	Nature of new branches - Composition (%)				
	Operational Centers	<b>24%</b>	27%	21%	25%
	Marketing Offices	<b>31%</b>	36%	29%	25%
	Both	<b>45%</b>	36%	50%	50%

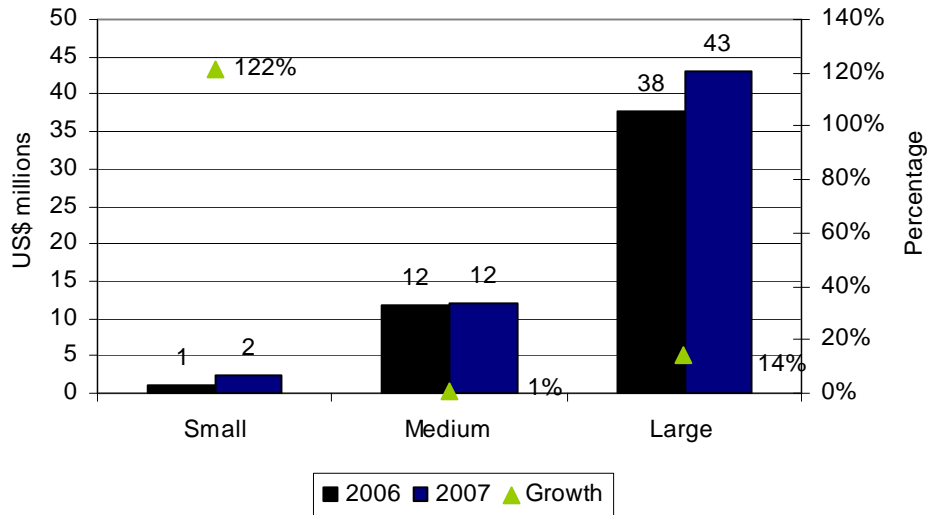
Notes:

1. Export Revenue: the weighted export revenue averages for small, medium sized and large companies were generated extrapolating information obtained from the survey respondents.
2. Composition of Industry Revenue (Industry): percentage of Export Revenue earned by the IT industry as a percentage of total ICT Industry Revenue.
3. Composition of Industry Revenue (companies): percentage of Export Revenue earned by the small, medium sized and large companies as a percentage of total revenue in each industry.
4. Composition of Growth (Industry): growth of the IT industry as a percentage of total ICT Industry Growth.
5. Composition of Growth (companies): growth of the small, medium sized and large companies as a percentage of total growth in each industry.
6. Billable employees defined as technical staff and quality assurance staff for IT Industry
7. Revenue for billable/total employees: average of revenues for billable/total employees excluding outliers
8. Workforce: Average of ratios of billable and non-billable employees for small, medium sized and large companies in the IT industry.

## 5. Profile of ITES Export Industry

### 5.1 Revenue and Growth

Figure 18: Revenue and Growth in ITES Export Industry (2006/2007)



Source: Export Value Survey, 2008

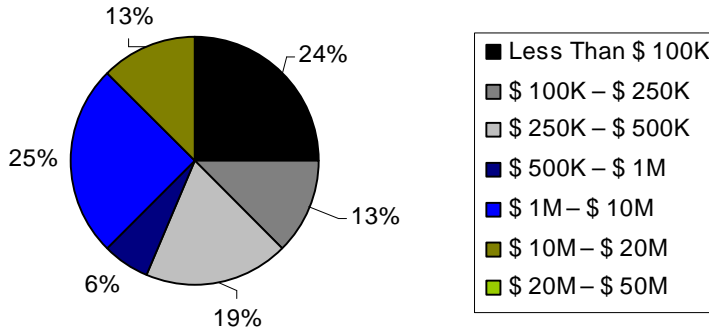
The ITES export industry had grown by 13% from US\$ 50.4 million in 2006 to US\$ 57.2 million in 2007. The large companies continued to be the significant contributor to export revenue both in 2006 and 2007 accounting for 75% of export revenue, whilst the contribution of small and medium sized companies were in the range of 2% – 23%. The contributors to growth in absolute terms were the large companies with an increase in export revenue of US\$ 5.3 million with overall growth of 14%. Small and medium sized companies export value increased by US\$ 1.2 million and US\$ 0.1 million respectively. An analysis of the revenue contributions by size of companies is given below:

Export Revenue	Industry	Small	Medium	Large
Year 2006 – US\$	50,482,864 (100%)	1,035,364 (2%)	11,822,500 (23%)	37,625,000 (75%)
Year 2007 – US\$	57,198,140 (100%)	2,293,500 (4%)	11,950,715 (21%)	42,953,925 (75%)
Growth %	13%	122%	1%	14%

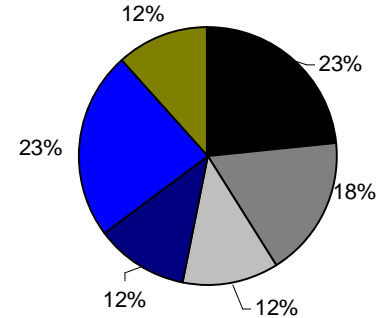
Table 11: Export Revenue for the ITES Industry for 2006 and 2007

Though a handful of companies have increased their revenues and therefore now fall in the higher revenue brackets, majority of the companies have dropped below the US\$ 1 million export revenue mark as illustrated in Figure 19. and Figure 20.

**Figure 19: Export Revenue Brackets of ITES Exporters (%) in 2006**



**Figure 20: Export Revenue Brackets of ITES Exporters (%) in 2007**

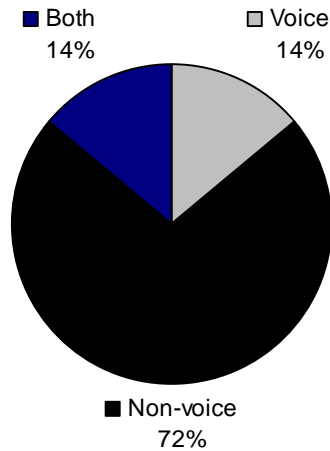


*Source: Export Value Survey, 2008*

The primary factor fueling the growth in the ITES industry in the last three years as perceived by 40% of the respondents is the quality of the service rendered, through the experience and knowledge of the staff. Thirty five percent of the respondents attributed the growth of the local industry to a spill over effect of the overall growth of the market experienced globally. The cost advantage offered by Sri Lanka as a service provider and its innovative products and concepts were also perceived as key influential factors by 25% and 10% of the respondents respectively.

## 5.2 Service Offerings

Figure 21: Composition of Products in ITES Export Industry



Source: Export Value Survey, 2008

Approximately 72% of the ITES export companies in Sri Lanka offer non-voice related services while only 14% offer voice related services with the balance 14% offering a hybrid model of both voice and non-voice related services as illustrated in Figure 21.

The significantly higher numbers of small enterprises in the ITES industry is a possible indication of the low entry barriers to this industry, similar to those faced by the IT exporters. However, it may also be a reflection of the fact that the Sri Lankan ITES industry focuses on providing specialized services requiring a highly skilled workforce as opposed to basic high volume, low margin voice-only services.

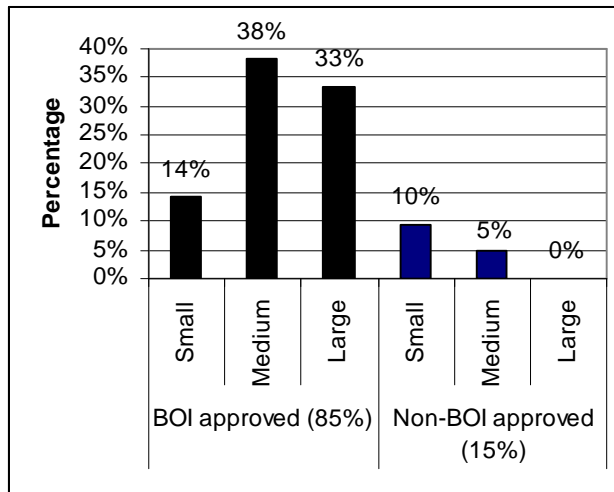
While non-voice processing services have been offered for almost 6 years, the last two to three years has seen an emergence of ITES companies offering voice processing for the export market.

Industry	Areas of Specialization	Composition %	Number of Years in Business		Number of Years in Export Business	
			Mean	Mode	Mean	Mode
ITES Industry	Voice Processing	14%	2.7	3.0	2.0	1.0
	Non Voice Processing	72%	5.8	4.0	5.4	4.0

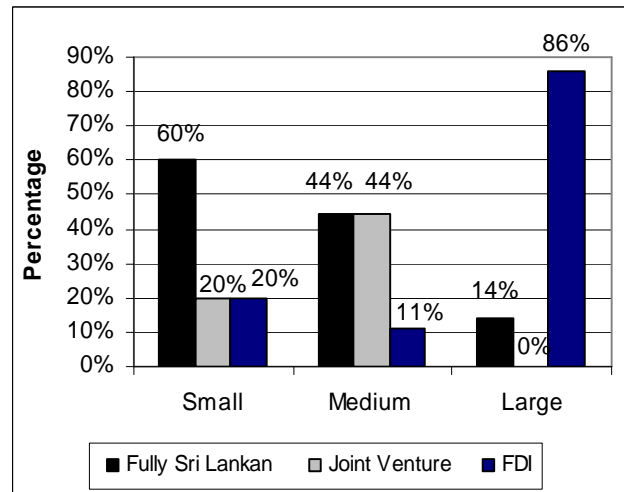
Table 12: Types of Services Offered by ITES Industry (2007)

### 5.3 Ownership

**Figure 22: BOI Registration Composition of ITES Companies**



**Figure 23: Ownership Composition of ITES Companies**



Source: Export Value Survey, 2008

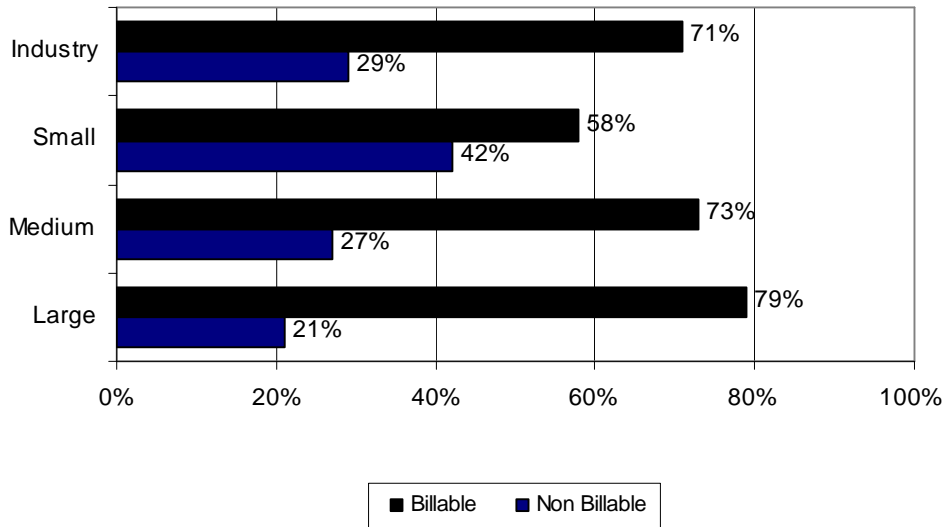
In the ITES industry, approximately 85% of the companies are incorporated with BOI approval, 38% of which are medium sized companies. ITES companies which are incorporated with BOI status enjoy several government incentives similar to the IT industry, including tax holidays, concessionary tax and duty free import facilities. However, ITES<sup>7</sup> units are required to generate at least 70% of their revenue through exports to benefit from the BOI incentives.

ITES companies have existed in Sri Lanka for fewer years than similar sized companies in the IT industry. Large ITES companies on average have been in existence for about 5 years. 86% of the large companies are 100% FDIs and hence were designed to cater to the export market from inception. As 44% of medium sized ITES companies were established through joint ventures with international partners and 11% through 100% FDI, the majority of the medium ITES companies commenced exports within their second year of operation. In contrast, of the small companies, which comprise approximately 65% of the total number of ITES export oriented companies, 60% are Sri Lankan-owned. On average small companies therefore only enter the export market after about two to two and half years of operations.

<sup>7</sup> [http://www.boi.lk/BOI2008/ls\\_it\\_industry\\_incentives.asp](http://www.boi.lk/BOI2008/ls_it_industry_incentives.asp)

## 5.4 Workforce

Figure 24: Ratio of Billable to Non-billable Employees in ITES Industry



Source: Export Value Survey, 2008

Our survey reveals that the total workforce for the ITES export industry is estimated to be around 5450 employees. This figure is consistent with the Baseline Sector Analysis of the BPO Industry published in 2006<sup>8</sup>, where the then workforce number was calculated to be around 4,000 personnel with an expected increase of 30% for the year 2007.

According to our findings, ITES companies on average employ 250 personnel. Small companies operate their businesses with an average staff number of 26, whilst medium sized and large companies employ an average of 66 and 648 personnel respectively. Additional information on employees by category of staff is provided in the table below.

Total Number employees by categories	Industry	Small	Medium	Large
Average Number of Employees (total)	250	26	66	648
Management	10	4	5	21
Technical Staff (billable)	192	15	48	503
Quality Assurance (billable)	24	2	5	62
Other	24	5	8	62

Table 13: Average Number of Employees in the ITES Industry (2007)

The ITES companies surveyed did not have separate quality assurance teams other than for the four largest companies in the ITES export sector. Quality assurance was either done by the technical staff themselves or by the management team.

On average, management staff had about 7 years of experience with technical and quality assurance staff averaging about 4 years. Further information is provided in the table below:

<sup>8</sup> "Baseline Sector Analysis of the Business Process Outsourcing Industry of Sri Lanka", 2006, LIRNEasia and ICTA

Employee categories	Industry	Small	Medium	Large
Management	6.6	5.3	6.5	8.0
Technical Staff	3.7	2.0	3.4	5.3
Quality Assurance	4.0	3.0	2.6	6.2
Other	3.8	3.5	4.0	3.8

**Table 14: Average Years of Experience for Employee Categories in the ITES Industry (2007)**

Considerably higher overall efficiency is observed in the manner in which the ITES industry manages the support function compared with IT exporters as illustrated in Table 15 below. This may be due to the revenue structure applicable in the ITES industry, where the billing is mostly done on 'per seat' basis.

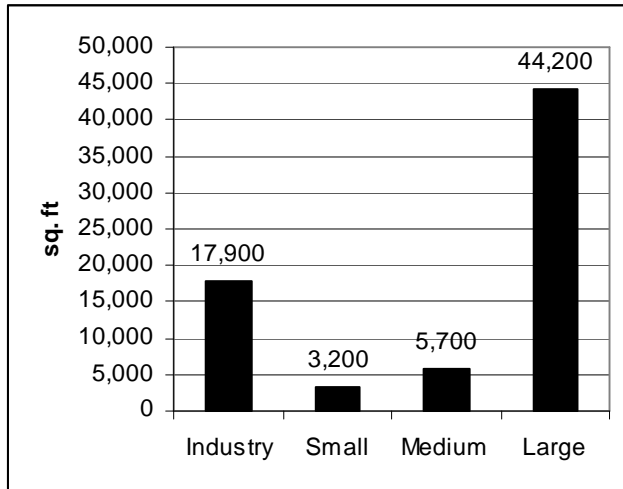
Employee categories	Industry	Small	Medium	Large
Management	5.88	2.33	9.09	16.67
Quality Assurance	6.25	16.67	9.09	3.23
Other	4.17	2.70	4.55	6.25

**Table 15: Ratio of Technical Staff to Other Staff in the ITES Industry (2007)**

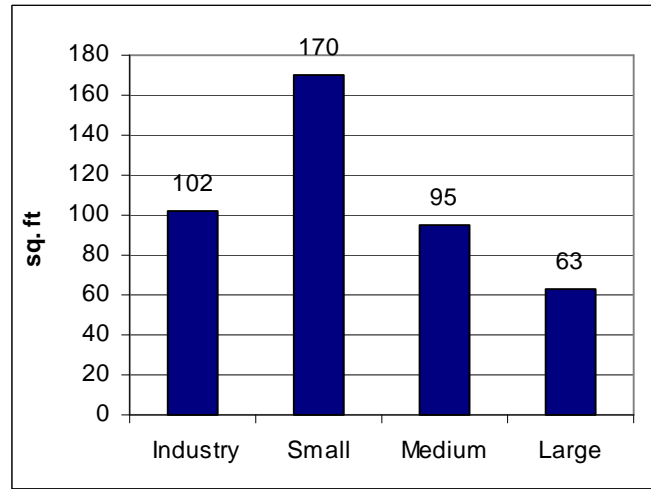
Insufficient English knowledge was identified by 38% of the ITES companies surveyed as one of the critical factors hampering the growth and expansion of the ITES export industry. Domain knowledge being specific to each vertical, the ITES export industry spend considerable time in training new recruits on the domain as well as on improving their English skills.

## 5.5 Workspace

**Figure 25: Average Floor Space for ITES Industry**



**Figure 26: Average Floor Space per Employee for ITES Industry**



*Source: Export Value Survey, 2008*

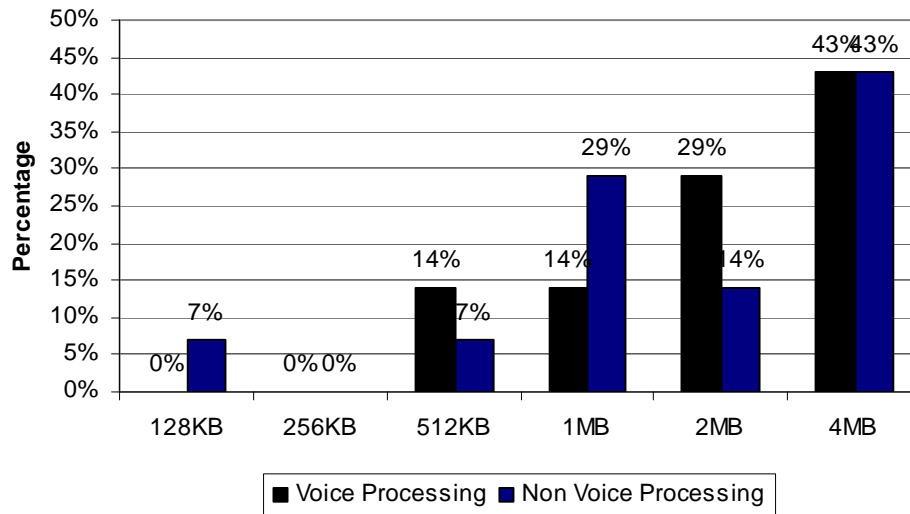
The average floor space utilized by the companies in the ITES industry is 17,900 sq.ft. The utilization of floor space per employee by small companies is significantly less efficient when compared to medium sized and large companies in the industry as illustrated in Figure 26.

Over 28% of the companies surveyed stated that there was a lack of suitable space for ITES operations. In general ITES companies showed a preference for open floor plans over a multi-storey space. Similar to the IT industry, a possible solution could be for the Government to facilitate investments in IT parks and related infrastructure to address these concerns.

All the companies who were willing to share their cost information stated that more than 10% of their total cost in 2007 was spent on rent with 38% of the ITES respondents stating that the rental costs were too high.

## 5.6 Bandwidth

Figure 27: Communication Bandwidths Used for Services in the ITES Industry



Source: Export Value Survey, 2008

For ITES companies, the most preferred bandwidth amongst small and large sized companies is 4MB, whilst surprisingly medium sized companies used 1MB of bandwidth.

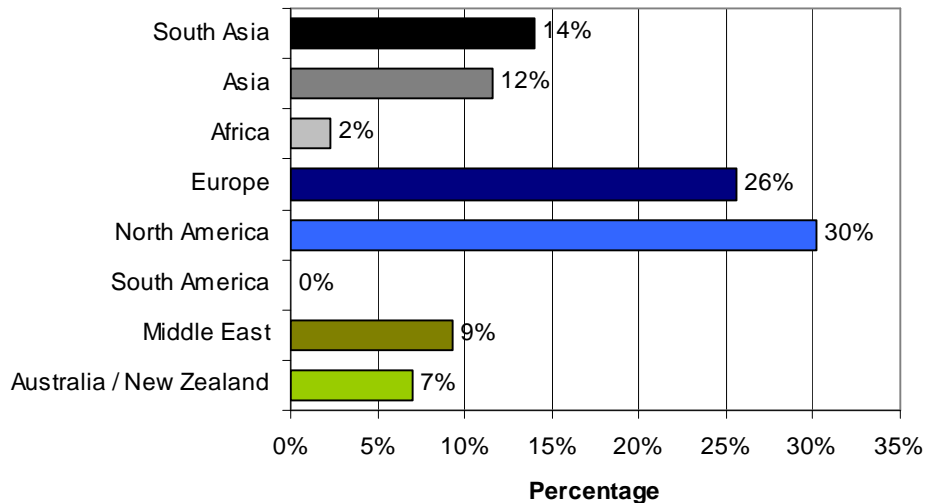
	Small	Medium	Large
Preferred Bandwidth (mode)	2MB, 4MB	1MB	4MB

Table 17: Average Bandwidths Used by ITES Industry (2007)

The high cost of telecommunication and insufficient bandwidth were two of the challenges highlighted by 33% and 23% of the respondents respectively. Of the respondents who provided their cost information, on average ITES companies spent approximately 13% of their total costs on telecommunications.

## 5.7 Top markets

Figure 28: Composition of Existing Markets in the ITES Industry (2007)



Source: Export Value Survey, 2008

The top five existing markets catered to by the ITES industry in 2007 as identified by the respondents were:

1. North America
2. Europe
3. South Asia
4. Asia
5. Middle East

The growth rate perceived by the ITES industry for the existing markets in 2008 is in the range of 20% – 40%. North America, Asia and the Middle East are perceived to be the markets with the highest prospect for growth by the medium players, while the smaller companies see more potential in Europe and South Asia (*Please refer to Annex I for further information*).

Existing markets	Small	Medium	Large
North America	20% - 30%	30% - 40%	0% - 20%
Europe	30% - 40%	20% - 30%	0% - 20%
South Asia	30% - 40%	20% - 30%	-
Asia	-	30% - 40%	20% - 30%
Middle East	-	30% - 40%	20% - 30%

Table 16: Perceived Potential Growth Rates in Existing Markets for the ITES Industry

## 5.8 Emerging Markets



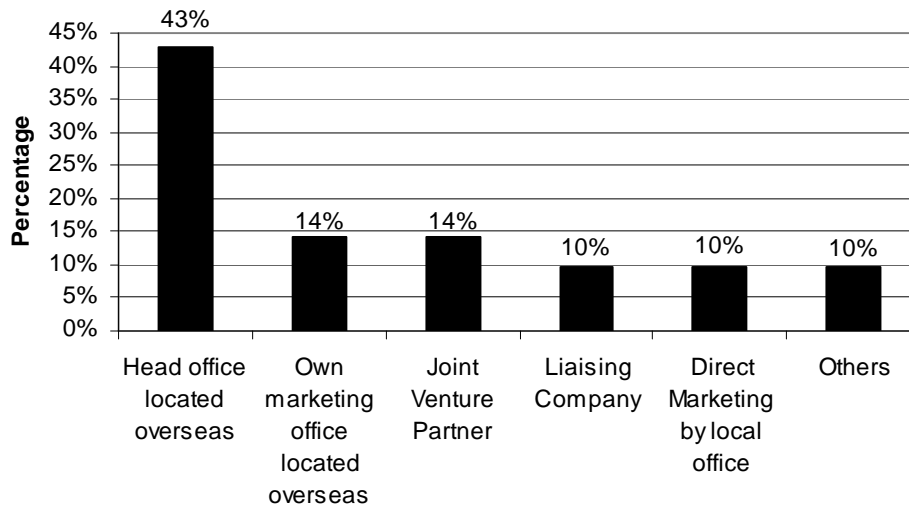
Africa and Australia/New Zealand were identified as new target markets by survey respondents that are currently being explored by the ITES exporters with Africa showing a potential of over 100% growth for medium sized companies. As with the IT industry, the perceived potential for growth in each of these regions varies based on the size of the company as illustrated in table below:

New markets identified	Small	Medium	Large
Africa	N/A	>100%	N/A
Australia/New Zealand	N/A	20% - 30%	0% - 20%

**Table 17: Perceived Potential Growth Rates in Newly Identified Target Markets for the ITES Industry**

## 5.9 Canvassing

Figure 29: Modes of Canvassing in the ITES Industry



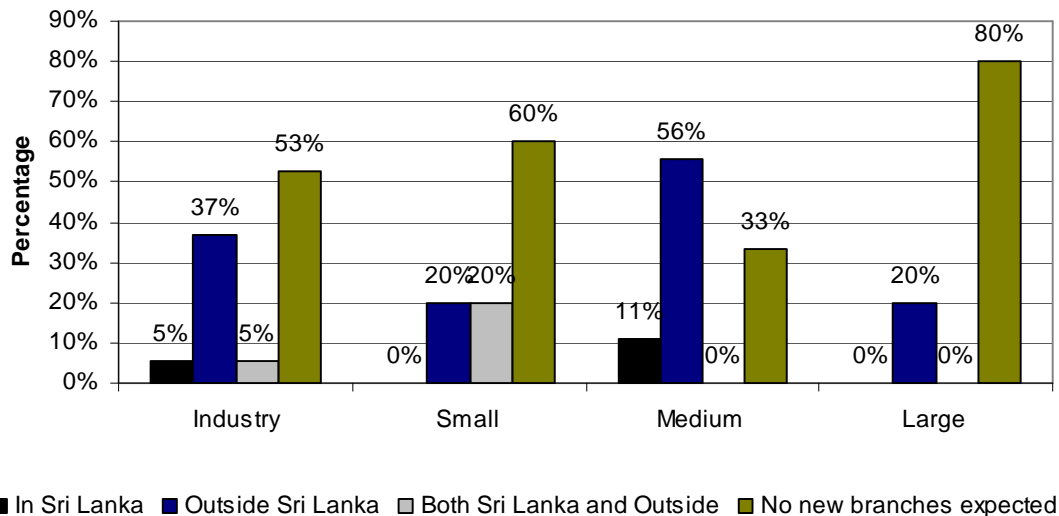
Source: *Export Value Survey, 2008*

Unlike the IT industry which carries out a significant component of their marketing activities from Sri Lanka, the ITES industry relies heavily on offices based abroad whether it be their head office, own marketing office or joint venture partner to canvass for business. Only about 10% of the business development activities are conducted from the local offices.

In the ITES industry, the most significant method for canvassing for business, at 43%, is through head offices located in foreign countries. This is significantly skewed by large companies which secure 71% of their business through head offices located overseas. The primary channel for small ITES companies is through joint venture partners while medium sized companies appear to use all channels available to them.

## 5.10 Expansion

Figure 30: Expected Expansions of ITES Companies in 2008/2009



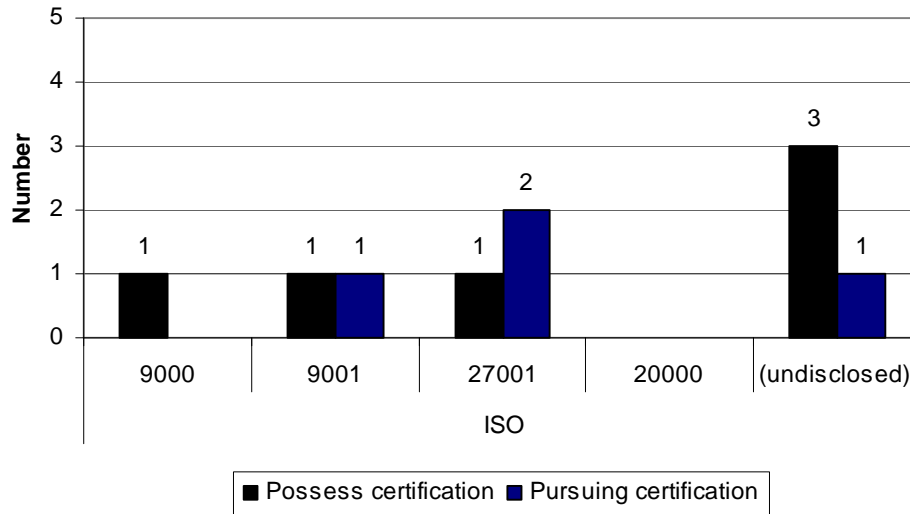
Source: Export Value Survey, 2008

Almost half of the survey participants (47%) indicated that they intend to expand their operations by way of adding new branches with 42% indicating that they have plans to set up branches outside Sri Lanka.

Of those setting up branches, five companies indicated that they are looking at setting up new operational centers, one stated they intend to set up a marketing office with another three companies looking at setting up branches that will serve as both operational centers and bases for marketing activities. The regions outside Sri Lanka that have been considered as locations for these new branches include UK and Dubai.

### 5.11 Quality Certifications

Figure 31: Quality Certifications Possessed/Pursued by ITES Exporters (2007/2008)



Source: Export Value Survey, 2008

As illustrated in Figure 29, of the ITES companies who participated in the survey a total of 6 are ISO certified with another 4 in the process of obtaining ISO certifications. This reflects that 30% of the ITES companies are currently on or are pursuing a quality pathway.

The most sought after accreditation was Microsoft with 8 either accredited or in the process of obtaining accreditation (*Please refer to Annex I for further information*).

## 5.12 ITES Industry at a Glance – Fact Sheet

ITES INDUSTRY AT A GLANCE				
Indicator	ITES Industry	Small	Medium	Large
<b>1</b>	<b>Number of Companies</b>			
	Number of Companies	<b>34</b>	22	5
	(%)	<b>100%</b>	65%	15%
				21%
<b>2</b>	<b>Revenue and Expenditure</b>			
2.1	Total ICT Industry Revenue (2006) - USD	<b>173,037,488</b>		
	Total ICT Industry Revenue (2007) - USD	<b>213,209,494</b>		
2.2	Export Revenue (2006) - USD	<b>50,482,864</b>	1,035,364	11,822,500
	Export Revenue (2007) - USD	<b>57,198,140</b>	2,293,500	11,950,715
2.3	Composition of Industry Revenue (2006) - USD	<b>29%</b>	2%	23%
	Composition of Industry Revenue (2007) - USD	<b>27%</b>	4%	21%
				75%
				75%
2.4	Growth - USD	<b>6,715,276</b>	1,258,136	128,215
				5,328,925
2.5	Growth (%)	<b>13%</b>	122%	1%
				14%
2.6	Composition of Growth	<b>17%</b>	19%	2%
				79%
2.7	Average Revenue per Company (2006) - USD	<b>1,484,790</b>	47,062	2,364,500
	Average Revenue per Company (2007) - USD	<b>1,682,298</b>	104,250	2,390,143
				5,375,000
				6,136,275
2.8	Revenue per Employee (2007) - USD	<b>8,057</b>	2,627	8,145
	Revenue per Billable Employee (2007) - USD	<b>10,595</b>	3,956	11,016
				11,588
				14,601
2.9	Average Annual Capital Expenditure - 2006 (USD)	<b>40,632</b>	5,000	9,000
	Average Annual Capital Expenditure - 2007 (USD)	<b>53,143</b>	1,800	7,444
				97,143
				148,571
2.10	Gross Margin (%)	<b>27%</b>	26%	37%
				14%

ITES INDUSTRY AT A GLANCE					
	Indicator	ITES Industry	Small	Medium	Large
<b>3</b>	<b>Company Profile</b>				
3.1	Average Years in Business	<b>4.5</b>	3.9	4.4	5.0
3.2	Average Years in Export Business	<b>3.8</b>	2.4	3.8	4.7
3.3	Types of Operations				
	Stand-alone Company	<b>57%</b>			
	Back Office - captive	<b>10%</b>			
	Back Office - non captive	<b>33%</b>			
3.4	Ownership Composition (%)				
	Fully owned Sri Lankan	<b>38%</b>	60%	44%	14%
	Joint Venture	<b>24%</b>	20%	44%	0%
	FDI	<b>38%</b>	20%	11%	86%
3.5	BOI Registration Composition (%)				
	BOI	<b>86%</b>	14%	38%	33%
	Non BOI	<b>14%</b>	10%	5%	0%
3.6	Average Number of Employees (Total)	<b>250</b>	26	66	648
	Management	<b>10</b>	4	5	21
	Technical Staff (billable)	<b>192</b>	15	48	503
	Quality Assurance	<b>24</b>	2	5	62
	Other	<b>24</b>	5	8	62
3.7	Ratio of Technical Staff to Other Staff				
	Management	<b>5.88</b>	2.33	9.09	16.67
	Quality Assurance	<b>6.25</b>	16.67	9.09	3.23
	Other	<b>4.17</b>	2.70	4.55	6.25

<b>ITES INDUSTRY AT A GLANCE</b>					
	<b>Indicator</b>	<b>ITES Industry</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
3.8	Average Experience of Staff (Years)				
	Management	<b>6.6</b>	5.3	6.5	8
	Technical Staff (billable)	<b>3.7</b>	2	3.4	5.3
	Quality Assurance	<b>4</b>	3	2.6	6.2
	Other	<b>3.8</b>	3.5	4	3.8
3.9	Workforce				
	Billable	<b>71%</b>	58%	73%	79%
	Non Billable	<b>29%</b>	42%	27%	21%
3.10	Service Types Offered				
	Voice	<b>14%</b>			
	Non-voice	<b>72%</b>			
	Both	<b>14%</b>			
3.11	Quality Certification				
	ISO Certified	<b>6</b>	0	2	4
	ISO Pursuing	<b>4</b>	0	4	0
<b>4</b>	<b>Infrastructure</b>				
4.1	Average Number of Terminals	<b>262</b>	28	61	600
4.2	Average Number of Servers	<b>8</b>	3	7	15
4.3	Average Floor Space (Sq. Ft)	<b>17,900</b>	3,200	5,700	44,200
4.4	Average Floor Space per Employee (Sq. Ft.)	<b>102</b>	170	95	63
4.5	Average Bandwidth		2MB, 4MB	1 MB	4MB

ITES INDUSTRY AT A GLANCE					
	Indicator	ITES Industry	Small	Medium	Large
<b>5</b>	<b>Markets</b>				
5.1	Composition of Existing Market (%)				
	South Asia	14%	43%	14%	0%
	Asia	12%	0%	14%	14%
	Africa	2%	0%	5%	0%
	Europe	26%	29%	14%	43%
	North America	30%	29%	32%	29%
	South America	0%	0%	0%	0%
	Middle East	9%	0%	14%	7%
	Australia/ New Zealand	7%	0%	9%	7%
5.2	Market Growth Rate 2008 - 2010	30% - 40%	30% - 40%	30% - 40%	20% - 30%
	South Asia		30% - 40%	20% - 30%	-
	Asia		-	30% - 40%	20% - 30%
	Africa		-	> 100%	-
	Europe		30% - 40%	20% - 30%	0% - 20%
	North America		20% - 30%	30% - 40%	0% - 20%
	South America		-	-	-
	Middle East		-	30% - 40%	20% - 30%
	Australia/ New Zealand		-	20% - 30%	0% - 20%
5.3	Modes of Canvassing (%)				
	Head office located overseas	43%	20%	33%	71%
	Own marketing office located overseas	14%	0%	22%	14%
	Joint Venture Partner	14%	40%	11%	0%
	Liaising Company	10%	20%	11%	0%
	Direct Marketing by local office	10%	20%	11%	0%
	Others	10%	0%	11%	14%
5.4	Ownership of Branches				
	Owns	5	1	0	4
	Does not own	16	4	9	3

ITES INDUSTRY AT A GLANCE					
Indicator	ITES Industry	Small	Medium	Large	
<b>5</b>	<b>Markets</b>				
5.5	Expected Expansions (%)				
	In Sri Lanka	5%	0%	11%	0%
	Outside Sri Lanka	37%	20%	56%	20%
	Both Sri Lanka and Outside	5%	20%	0%	0%
	No new branches expected	53%	60%	33%	80%
5.6	Nature of new branches - Composition (%)				
	Operational Centers	56%	0%	67%	100%
	Marketing Offices	11%	50%	0%	0%
	Both	33%	50%	33%	0%

Notes:

1. Export Revenue: the weighted export revenue averages for small, medium sized and large companies were generated extrapolating information obtained from the survey respondents.
2. Composition of Industry Revenue (Industry): percentage of Export Revenue earned by the ITES industry as a percentage of total ICT Industry Revenue.
3. Composition of Industry Revenue (companies): percentage of Export Revenue earned by the small, medium sized and large companies as a percentage of total revenue in each industry.
4. Composition of Growth (Industry): growth of the ITES industry as a percentage of total ICT Industry Growth.
5. Composition of Growth (companies): growth of the small, medium sized and large companies as a percentage of total growth in each industry.
6. Billable employees defined as technical staff for ITES Industry
7. Revenue for billable/total employees: average of revenues for billable/total employees excluding outliers
8. Workforce: Average of ratios of billable and non-billable employees for small, medium sized and large companies in the ITES industry.

## 6. Expectation at Policy Level

As a part of the survey, the respondents were asked to comment on their expectations from some of the industry stakeholders. Their responses have been summarized below.

### 6.1 Export Development Board (EDB)

Twenty three percent of respondents felt that the EDB could do more in terms of promoting the Sri Lankan ICT industry abroad through participation in exhibitions and trade fairs, while 25% of respondents requested that the EDB also focus its promotional activities at a company level. However 3% of the respondents acknowledged that EDB has limited funding available for their efforts.

### 6.2 Board of Investment of Sri Lanka (BOI)

Eleven percent of the respondents felt that the BOI should invest more in infrastructure, however about 6% felt that the BOI has insufficient budget to effectively market Sri Lanka as an offshoring destination. Four percent of the respondents felt that the BOI was helpful to the local companies.

### 6.3 ICT Agency of Sri Lanka (ICTA)

Thirteen percent of respondents felt that the ICTA has the potential to improve with almost 21% of the respondents were of the opinion that ICTA is in a prime position to do a great deal for the industry. Almost 10% of the respondents felt that there was insufficient visibility of ICTA activities therefore feeling that ICTA's initiatives are not effective. Fifteen percent suggested that the ICTA focus on building capacity in terms of an appropriately technically qualified workforce with adequate soft skills.

### 6.4 Industry Associations

Twelve percent of the respondents felt that the associations could be more active than they currently are but may be constrained by insufficient support and facilities from higher authorities.

### 6.5 Universities

Thirty percent of respondents felt that the universities and training institutes should improve the relevance of the education by changing their curriculums to meet the industry's skill requirements. Nine percent requested that the universities and training institutes invest more in conducting IT/ITES career development programs for their students in order to attract more students to IT/ITES careers thereby building an immediately employable workforce.

### 6.6 Vendors

Forty one percent of respondents requested an improvement in the telecommunication services currently available to them in terms of service levels and prices in order for them to remain regionally competitive. Fourteen percent suggest that Sri Lanka focuses on providing cost effective infrastructure for use by IT/ ITES companies.

## 6.7 Government

Almost 17% of respondents requested that the Government look at providing better infrastructure facilities for the industry with 16% requesting a change in Government policies to provide a more conducive environment for the industry. Further, they suggested that incentives be provided to encourage more investment through tax concessions, modifications in labor laws and financial assistance.

## 7. Approach and Methodology

We outline below the approach and methodology we used for the Export Value Survey of the IT/ ITES export sector in Sri Lanka.

### 7.1 The Approach

The primary objective of the study is to estimate the value of IT/ ITES exports from Sri Lanka for the years 2006 and 2007. The secondary objective as defined by the Steering Committee is to obtain an “as is” assessment of the industry in terms of industry-wise indicators that can be used as a benchmark for IT/ ITES export companies and also as a baseline to measure the growth and health of the industry in the coming years.

The prerequisites to the survey were identified as:

- The standardization of definitions to be used. Currently the definitions used by the industry vary on the markets they cater to or the vertical within which they operate. In order to establish baseline industry level indicators the definitions needed to be standardized.
- The definition of the population of the IT/ ITES export companies in Sri Lanka. Prior to this study, a single consolidated database of IT/ ITES export companies in Sri Lanka did not exist with the EDB, ICTA, BOI or with any of the industry associations. In order to correctly extrapolate the findings from the survey it was important to establish a listing and profile of the entire industry.

### 7.2 Methodology

#### (a) Standardization of the Definitions

In order to standardize the definitions, a two-pronged method was used:

##### 1) Desk Research

This was carried out to understand the components and nature of business, and identify various types of organizations through the various reports and publications by the industry associations or any other related body.

Reports reviewed in the context of the study include:

- Strategic Review 2007, NASSCOM
- Strategic Review 2008, NASSOM
- Rising demand: ICT Workforce Survey 2007, Sri Lanka Information and Communication Technology Association
- ICT Workforce Survey 2006, Sri Lanka Information and Communication Technology Association
- A Baseline sector analysis of the Business Process Outsourcing industry in Sri Lanka, 2006, LIRNEasia and ICTA
- Top 50 Emerging Outsourcing Cities 2007, Global Services – Tholons
- Top 50 Emerging Outsourcing Cities 2008, Global Services – Tholons
- Offshore to Sri Lanka: Finding Sri Lanka’s Off-shoring Niche, 2006, The World Bank

- Offshoring for Long Term Advantage, the 2007 A. T. Kearney Global Services Location Index
- Sri Lanka: National IT/ BPO Workforce Capacity Development Strategy, 2007
- Training Needs Analysis for the ICT Industry in Sri Lanka, 2007, KPMG and ICTA

## **2) Depth Interviews**

The Steering Committee as a focus group comprising of representation of the relevant industry associations, Government bodies and flagship IT/ ITES companies was consulted regarding the definitions, categorizations and scope limitations for use in the study. Using the feedback provided by the Steering Committee, the study sought to validate the definitions and categorizations through a series of depth interviews with experts from industry. The validated definitions were then used for the development of the survey questionnaire.

### **(b) Definition of the Population of the IT/ ITES Export Companies**

In order to estimate total size of the industry and the basic classification of the same, a listing exercise was conducted using the databases of the EDB, BOI and ICTA combined with industry association membership and the databases maintained by private sector companies. In addition, recruitment advertisements in the national media pertaining to the ICT sector were also tracked to identify companies. Through this exercise over 900 companies were identified in the ICT sector in Sri Lanka. This was necessitated as there was no single source of obtaining population information as highlighted in paragraph 7.1 above.

The listing exercise entailed individual calls with senior members of each of the ICT companies identified to verify the contact information, the sectors in which they operate and whether they have been involved in IT/ ITES exports for 2006 and/ or 2007 as per the established definitions. Further the snowballing technique was employed to identify unregistered companies. Out of this exercise, 178 companies were identified as IT/ ITES exporters and therefore were considered in the profiling.

### **(c) Sampling Framework**

The sample of those selected to participate in the survey was selected based on the 178 companies identified through the listing exercise. Where the segment of the industry contained less than 30 companies, a census was carried out of all companies within the segment. Where the size of the segment was larger than 30, systematic random sampling was used to select respondents.

### **(d) Survey Design**

A structured questionnaire was designed to collect individual company information in each of the following areas:

- Overview of the structure of company
- Workforce profile
- Infrastructure usage
- Service offerings
- Export Markets
- Future expansion plans
- Challenges faced

- Expectations of the EDB, ICTA, BOI and industry associations
- Cost breakdown for 2006 and 2007
- Revenue for 2006 and 2007

Feedback on the questionnaire design was obtained from the Steering Committee after which the survey was tested through a pilot run with 5 companies. The pilot run assisted the enumerators to identify appropriate questioning techniques that would overcome possible reluctance of the interviewee in terms of sharing the required information.

#### **(e) Rollout of the Survey**

The survey was promoted to the individual companies through a series of notifications circulated by the Associations. In order to overcome any apprehensions companies may have in sharing their sensitive information the following measures were taken:

- Official introductions were made by the EDB to validate the authenticity of the survey
- A non-disclosure agreement was signed between PwC and each respondent regarding the information provided for the survey
- Emphasis was placed on the fact that this was an industry-wide initiative and on EDB's intention of using the report as a basis for the development of the IT/ ITES export industry
- Interviews were scheduled with high-level personnel authorized to share information
- Individual encouragement was given by the members of the Steering committee to companies for them to participate in this initiative

A total of 103 companies were interviewed of which 77 were IT exporters and 22 were ITES exporters with 4 companies offering both IT and ITES services. The responses provided by these 103 companies have been used as the basis for the analysis in this report.

#### **(f) Analysis and Reporting**

Statistical Package for Social Science (SPSS) software was used to analyze the responses against the analysis requested by the Steering Committee. During this phase it was noted that some detailed analyses would reveal individual company information while others would not hold statistically. In these instances the analyses has not been reported.

#### **(g) Revenue Calculations**

The industry revenue figures were calculated using the following approach.

- The sample interviewed was segmented in to IT, ITES and companies who do both IT and ITES export
- Each segment was then further stratified into small, medium sized and large companies
- Company revenue figures were validated using the cost information, margins, project values and the number of projects handled by the company
- Separate average revenue per company was calculated for this final stratum (e.g. IT - small companies or IT medium sized etc. In the event a company did not directly

disclose its revenues, two alternate methods were used to estimate the annual revenue figures:

- The first of these methods was to estimate revenue based on the total costs incurred by the company and the average margins maintained.
- In the event this information was not available second method was used. This used the average number of projects done in 2007 and the average project values reported by the respondent to estimate revenue.

In the event that the company did not disclose any of the information required to estimate its revenue, then the company was excluded from the average revenue per company calculation.

- The total of 178 companies was also stratified similar to the stratification used for the sample base
- Average revenues derived for each sample segment was used to extrapolate to the revenue of all the companies in each stratum.
- The total revenue was calculated as the summation of the sub-total revenues for each stratum.

### 7.3 Limitations of the Approach

This report has been prepared based upon data obtained from the IT/ ITES companies, industry sources and professionals associated with the industry through survey interviews. We have not endeavoured to seek any independent confirmation of the reliability, accuracy or completeness of this information. For the purpose of analysis it is assumed that the respondents have answered the survey accurately, completely and honestly and that their responses are a true reflection of the actual situation.

It should not be construed that we have carried out any form of detailed market census which is outside the scope of this study, audit or other verification of financial and other information that has not been relied upon, nor that the suggested methodology would be necessarily acceptable to external bodies or robust to legal challenge. Accordingly, while the statements made and the methodology in this report has been given in good faith, we accept no responsibility for any errors in the information on which they are based, nor the effect of any such errors on our analysis, suggestions or report.

The population for the survey was estimated as a result of the listing exercise carried out by PwC. Therefore, it is possible that certain IT/ ITES business entities exist which may have not have been captured through the listing exercise. The export value derived through this survey is subject to this limitation of the population information being understated.

#### **7.4 Limitations on Usage of Report**

We shall not be called upon to provide or defend the information provided in the document in any forum within the scope of the current engagement.

The scope of services excludes responding to any third party queries and any subsequent work resulting from the conclusion of our Services. Our Services are solely for the purposes of deriving the export value of the IT/ ITES Industry of Sri Lanka for the Export Development Board (EDB) from a survey. Our report has been prepared for the sole use of the EDB to which it had been addressed to. We understand that this report could be shared with third parties, but in no event will PwC accept any responsibility or liability to third parties to whom our report may be shown or whose hands it may come in to.

Economic conditions, market factors and performance change may result in the information contained in the document becoming quickly outdated and may require updating from time to time or before any major decisions are taken based on the report/ workings.

No Partner, director of, or any person in the employment of PricewaterhouseCoopers has any authority to make or give any representations, warranty, indemnity or undertaking, expressed or implied, in respect of the report

## 8. Annexes

### 8.1 Annex I – Additional Information

The overall growth rates expected by the players in the IT industry already catering to each of the markets over the period 2008 through 2010 is illustrated in the table below.

IT Exporters		Expected Year on Year Growth Rate of Revenue	
		21% - 30%	31% - 50%
South Asia	2008	X	
	2009		X
	2010		X
Asia	2008		X
	2009		X
	2010		X
Africa	2008	X	
	2009	X	
	2010	X	
Europe	2008		X
	2009		X
	2010		X
North America	2008		X
	2009		X
	2010		X
South America	2008	X	
	2009	X	
	2010	X	
Middle East	2008		X
	2009		X
	2010		X
Aus/NZ	2008		X
	2009		X
	2010		X

Table 18: Expected Year on Year Growth Rate of Revenue for IT Exporters

The most sought after accreditation by the IT exporters surveyed is Microsoft with 31 out of the 78 IT exporters currently Microsoft accredited with a further 5 pursuing accreditation.

Accreditations	Number of companies that possess the accreditation	Number of companies pursuing the accreditation
6D TELECOM	1	
ADOBE	2	
CISCO	2	
CONTINAIN		1
DIALOGIC	2	1
ENTERPRISE DB	1	
FAST SEARCH	1	
FIDELITY	1	
HYPERIC HQ	1	
HP	4	
IBM	9	
INFRASYS	1	1
JAVA		1
MICROSOFT	31	5

Accreditations	Number of companies that possess the accreditation	Number of companies pursuing the accreditation
MYSQL	1	
NETSTAR	1	
NETAURIS	1	
ORACLE	10	1
PRG		1
RED HAT	4	
SUN PARTNER ADVANTAGE	3	
TALENT DE	1	
VIGNETTE	2	

Table 19: Accreditations Possessed/Pursued by the IT Exporters Surveyed (2007)

The overall growth rates expected by the players in the ITES industry already catering to each of the markets over the period 2008 through 2010 is illustrated by in table below.

ITES Companies		Expected Year on Year Growth Rate of Revenue		
		21% - 30%	31% - 50%	51% - 75%
South Asia	2008		X	
	2009		X	
	2010		X	
Asia	2008		X	
	2009		X	
	2010		X	
Africa	2008			X
	2009			X
	2010			X
Europe	2008	X		
	2009	X		
	2010	X		
North America	2008		X	
	2009		X	
	2010		X	
South America	2008		X	
	2009		X	
	2010		X	
Middle East	2008		X	
	2009		X	
	2010		X	
Aus/NZ	2008	X		
	2009	X		
	2010	X		

Table 20: Expected Year on Year Growth Rate of Revenue for ITES Exporters

The most sought after accreditation was Microsoft with 8 either accredited or in the process of obtaining accreditation.

Accreditations	Number of companies that possess the accreditation	Number of companies pursuing the accreditation
CISCO	2	
HP	2	
MICROSOFT	5	3
ORACLE	1	
RED HAT	1	
SA 8000	1	

Table 21: Accreditations Possessed/ Pursued by the ITES Exporters Surveyed (2007)

## 8.2 Annex II – Abbreviations and Definitions

### (a) Abbreviations

<b>BOI</b>	Board of Investment
<b>BPO</b>	Business Process Outsourcing
<b>EDB</b>	Export Development Board
<b>FDI</b>	Foreign Direct Investment
<b>ICTA / ICT Agency</b>	Information and Communication Technology Agency of Sri Lanka
<b>IP</b>	Intellectual Property
<b>IT</b>	Information Technology
<b>ITES</b>	Information Technology Enabled Services
<b>ITESA</b>	IT Enabled Services Association
<b>NASSCOM</b>	National Association of Software and Services Companies (India)
<b>SEA</b>	Software Exporters Associations
<b>SLASI</b>	Sri Lanka Association for the Software Industry
<b>SLASSCOM</b>	Sri Lanka Association of Software and Services Companies
<b>SLCVA</b>	Sri Lanka Computer Vendors Association
<b>SLICTA</b>	Sri Lanka Information and Communication Technology Association
<b>US\$</b>	United States Dollars
<b>USA</b>	United States of America

## (b) Definitions

- **Back office Captive:** A company that is owned by a parent company overseas and is set up to undertake work only for the parent's global operations
- **Back office Non-Captive:** A company that is owned by a parent company overseas and is set up to undertake work for the parent's global operations as well as external clients channeled through the parent.
- **Business Process Outsourcing/ IT Enabled Services:** The outsourcing of processes that may be IT-enabled, but as they do not necessitate on-shore presence, are offshore-able.
- **Company size:** The size of a company is been categorized based on the size of its workforce using the parameters already in use by ICTA's private sector development program. Though these parameters would not in general be applicable to ITES companies internationally, where ITES companies are characterized by the sheer scale of their workforce, the nature of the local ITES industry make these acceptable. The parameters are –
  - **Small Company:** A company with a total workforce of less than 40 individuals.
  - **Medium Sized Company:** A company with a total workforce of equal to or greater than 40 individuals but less than 100.
  - **Large Company:** A company with a total workforce of equal to or greater than 100 individuals.
- **Foreign Direct Investment Ownerships:** Companies established with 100% foreign investment.
- **Information and Communication Technology (ICT):** An umbrella term that includes computer and network hardware and software, satellite systems, communication devices as well as the various services and applications associated with them.
- **Information Technology (IT):** A subset of the ICT focusing on the computer and network hardware and software as well as the various services and applications associated with them.
- **IT Company:** A company that provide services relating to their own software product, software development, IT services and IT consulting.
- **IT Consulting Company:** A company that offers IT consulting services including IS strategy, IT and network planning, architectural assessments, IS operational analysis, technical system and network designs, product-specific consulting, supplier assessment and maintenance planning.
- **IT Services Company:** A company that offers IT services such as infrastructure management services, reseller activities, security services, network solutions, disaster recovery services and security services.
- **Joint Venture Ownership:** Companies formed with foreign investment

- **Outsourced Non-Voice Processing Company:** An ITES company whose services include the processing of outsourced non-voice related business processes such as research analytics, finance and accounting services, legal services and engineering services.
- **Outsourced Voice Processing Company:** An ITES company whose services include the processing of outsourced voice related business processes such as call centers and transcription services.
- **Software Development Company:** A company that functions as a research and development outfit for a parent company or specified clients and therefore does not own the Intellectual Property rights for the software it develops.
- **Software Product Company:** A software company that owns the Intellectual Property rights for the software it develops.

8.3 Annex III - Survey Questionnaire

Questionnaire No  
Project Name  
Classification

S	M	L	

**CENSUS of ICT Export Companies in Sri Lanka**  
Conducted by  
**PricewaterhouseCoopers (Pvt) Ltd**

Sample Point No.	Province	District		U/R	Company Category	Business. Number	
Office Use Only							

Respondents Report:

Name of the respondent	:	.....
Name of the Business.....		.....
Address:	:	.....
Street/Lane/by lane	:	.....
Town	:	.....
District	:	.....
Postal Code	:	.....
Landmark	:	.....
Office Tel	:	.....
Tel:	:	.....

**Investigator: Please note that all statements in 'CAPITAL LETTERS' are instructions for you and should not be read out loud to the respondent.**

My name is ----- and, I am from PwC. We are an Audit and Consulting company that offers a variety of services. Currently we are doing a census on ICT export companies in Sri Lanka on behalf of the Export Development Board and the ICT Industry.

The survey has the following benefits:

1. Your company will be listed in the EDB ICT Exports Portal,
2. The information you provide will be useful for making Government policy decisions in the future regarding the ICT industry,
3. It will provide a summary report on the ICT export industry in Sri Lanka. This can be used for global and regional comparisons in various international forums.

**INTERVIEWER: SPEAK TO THE DECISION MAKER ON OPERATIONS OF THE ORGANISATION**

**MAIN QUESTIONNAIRE**

- Q1. When did you commence your business?  
\_\_\_\_\_
- Q2. Can you please tell us how long you have been in the ICT export business?  
\_\_\_\_\_
- Q3. I would like to know more about the nature of your business entity. Is it: **(Single Answer)**
1. Fully Owned Sri Lankan Company (100% Sri Lankan Shareholder base)
  2. Joint Venture
  3. Foreign Direct Investment (100% owned by non-Sri Lankan citizens)
- Q4. Can you please tell us how you canvas for your export business? **(Single Answer)**
1. Through your head office located overseas
  2. Through your own marketing office/ subsidiary located overseas
  3. Through your joint venture partner
  4. Through a liaising company (franchisee)
  5. Direct marketing from your local office
  6. Other (Specify) \_\_\_\_\_
- Q5. Is your organization a member of any international associations or federations related to your business?
1. Yes
  2. No **(GO TO Q7)**
- Q6. Can you tell us which associations/ federations you are members of?  
\_\_\_\_\_  
\_\_\_\_\_
- Q7. Is your organization:
1. A BOI
  2. A Non-BOI company
- Q8. I would like to know the nature of your business. Is it primarily a:
1. Software development company
  2. Software product company (e.g. own IP)
  3. IT services company (e.g. security services, network solutions, back up, disaster recovery, reseller etc.)
  4. IT consulting company (e.g. ERP implementation, project management)
  5. Outsourced Voice processing company
  6. Outsourced Non-Voice processing company
  7. Other (Specify) \_\_\_\_\_

**(CHECK Q8, IF ANSWERS 1, 2, 3, 4, 7 THEN GO TO Q10)**

Q9. **(FOR ITES COMPANIES)** What kind of services do you offer?

---

Q10. Do you have any branches?

1. Yes
2. No **(GO TO Q12)**

Q11. How many of your branches are local and overseas? **(Please check with Q.10)**

Local

Overseas

Q12. Can you please tell us which of the following best describes your export business model:  
**(Single Answer)**

1. Its a full stand alone company
2. Back office – captive
3. Back office – non captive

Q13. Can you please tell me about any quality certifications such as CMMI, ISO or COPC certifications that your company possess or are pursuing?

Currently possess

Pursuing

Q14. Can you please tell me about any accreditations/ partnerships such as with Microsoft, Oracle that your company currently possess or are pursuing?

Currently possess

Pursuing

**NOW I WOULD TO KNOW SOMETHING ABOUT YOUR WORK FORCE**

Q15. Can you tell me the total number of employees you have?

---

**(CHECK Q8, IF ANSWERS 5, 6 THEN GO TO Q18)**

**INT: IF SOFTWARE EXPORT COMPANY ASK Q16, Q17**

Q16. Can you also tell me the total number of employees in the following categories:

Senior Managem ent (non- billable)	Administration	Technical Staff (billable)	Quality Assurance Staff (billable)	Other Support Staff
---	----------------	-------------------------------	---	------------------------

Q17. Can you please tell us about the qualification requirement for each of these categories of the staff:

	Management	Administration	Technical staff	Quality Assur ance staff	Other Supp ort Staff
Education					
No. of years of Experi ence					

**(GO TO Q20)**

**INT: IF ITES COMPANY ASK Q18, Q19**

Q18. Can you also tell me the total number of employees in the following categories:

Management	Technical billable staff	Quality Assurance (non-billable)	Other Support Staff
------------	--------------------------	----------------------------------	---------------------

Q19. Can you please tell us about the qualification requirement for each of these categories of the staff:

	Management	Technical billable staff	Quality Assurance (non-billable)	Other Support Staff
Education (incl. part qualification)				

	Management	Technical billable staff	Quality Assurance (non-billable)	Other Support Staff
No. of years of Experience				

**IF IT IS A SRI LANKAN OWNED COMPANY, PLEASE CHECK Q3, AND Q12**

Q20. Can you please tell us your total employee strength in your overseas branches?

Location	No. of employee
----------	-----------------

Location

No. of employee

Q21. I would like to further know about the percentage of time spent by each category of staff on a typical project or contract. Lets say that the time spent adds up to 100%, what would be the time spent of management staff, project staff... etc

**(CHECK Q8, IF ANSWERS 5, 6 COMPLETE SECOND TABLE)**

**INT: READ OUT THE CATEGORIES AND ASK THIS QUESTION**

Can you tell me in a typical project or contract how many staff are involved, say how many management staff and what would be their time spent on the total project... etc.

**INT: IF SOFTWARE EXPORT COMPANY FILL**

Employee Category	No. of Staff in a Typical Project	% contribution (total = 100%)
Management		
Technical Staff		
Quality Assurance		
Other Support Staff		

**INT: IF ITES COMPANY FILL**

Employee Category	No. of Staff in a Typical Contract	% contribution (total = 100%)
Management		
Technical billable staff		
Quality Assurance (non-billable)		

Other Support Staff

**NOW I WOULD LIKE TO KNOW MORE ABOUT THE INFRASTRUCTURE OF YOUR BUSINESS**

Q22. Can you please tell us how many terminals (computers) and servers are used in your business (including local branches)?

	Number
Terminals	
Servers	

Q23. Can you please tell us the average capacity of a terminal and a server?

	Hard Disk Space	Processor Speed
Terminals		
Servers		

Q24. Can you please tell us the approximate floor size of your organization (including local branches)?

---

Q25. Can you please tell us the total communication bandwidth used by your company?  
**(Single Answer)**

- 128 KB
- 256 KB
- 512 KB
- 1 MB
- 2 MB
- 4 MB

**INT: EXPLAIN SERVICE LEVEL AGREEMENTS**

Q26. Do you have a service level agreement with your company's communication service provider? **(Single Answer)**

- 1. Yes
- 2. No

**NOW I WOULD LIKE TO KNOW MORE ABOUT YOUR BUSINESS**

Q27. What percentage of your business caters to the export market?

---

Q28. Can you tell me what are the key products/ services **exported** by your organization?

1. 

---

2. 

---

3. 

---

4. 

---

5. 

---

Q29. **INT: SELECT EACH PRODUCT/ SERVICE AND ASK THIS QUESTION.** Can you also tell me for which markets are you **exporting** these products/ services to? And what percentage of your business is covered by this market for this product/ service?

Services offerings (exported)	South Asia	Asia (Excl. S. Asia)	Africa	Europe	North America	South America	Middle East	Australia/ New Zealand
1.								
2.								
3.								
4.								
5.								

Q30. Can you please tell us the number of projects that you have handled for the year 2006 and year 2007?

	2006	2007
Regular Projects/ contracts		
Special Projects/ contracts		

Q31. What do you feel are the key factors that fueled your growth over the last three years (2004 – 2007)?

Q32. Have you observed any annual cycles or peaks in demand?

1. Yes (specify) \_\_\_\_\_
2. No

**NOW I WOULD LIKE TO KNOW MORE ABOUT YOUR VIEWS ON THE FUTURE GROWTH OF YOUR BUSINESS**

Q33. Considering the past years performance how likely is your business to grow. I will read out some statements what organizations like yours said, can you tell me which response suits you better. I would like to know this answer in terms of the market you are operating in and also the products offered. **(Single answer for each column)**

**INT: REFER THE RESPONSES GIVEN FOR Q28**

Service offerings	1.			2.			3.			4.			5.		
	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10
It is likely to grow by <b>less than 20%</b>															
It is likely to grow by between <b>21% to 30%</b>															
It is likely to grow by between <b>31% to 50%</b>															
It is likely to grow by between <b>51% to 75%</b>															
It is likely to grow by between <b>76% to 100%</b>															
It is likely to grow by <b>more than 100%</b>															

Export to Countries	South Asia			Asia (Excl. S. Asia)			Africa			Europe			North America			South America			Middle East			Australia/ New Zealand			
	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	
It is likely to grow by <b>less than 20%</b>																									
It is likely to grow by between <b>21% to 30%</b>																									
It is likely to grow by between <b>31% to 50%</b>																									
It is likely to grow by between <b>51% to 75%</b>																									
It is likely to grow by between <b>76% to 100%</b>																									
It is likely to grow by <b>more than 100%</b>																									

Q34. Are you planning to expand your business or diversify into new areas?

1. Yes
2. No (**GO TO Q36**)

Q35. Can you please tell us in which areas you are planning to expand or diversify?

Expand (Expansion of the capacity or into new markets)

Diversify (Expand the  
 business  
 offerings)

Q36. What is your recruitment plan for year 2008 and what are you projections over the next two years?

**(CHECK Q8, IF ANSWERS 5, 6 COMPLETE SECOND TABLE)**

**INT: READ OUT THE CATEGORIES AND ASK THIS QUESTION**

**INT: IF SOFTWARE EXPORT COMPANY FILL**

<b>Employee Category</b>	<b>No. of New Employees</b>	<b>Growth % over next two years</b>	<b>Required qualifications</b>
Management			
Administration staff			
Technical			
Quality Assurance staff			
Other Support Staff			

**INT: IF ITES COMPANY FILL**

<b>Employee Category</b>	<b>No. of New Employees</b>	<b>Growth % over next two years</b>	<b>Required qualifications</b>
Management			
Technical billable staff			
Quality Assurance (Non billable)			
Other Support Staff			

- Q37. Are you planning to open up new branches?
1. Yes
  2. No (**GO TO Q41.**)
- Q38. Can you tell me whether the new branches will be located within Sri Lanka or outside Sri Lanka or both?
1. Inside Sri Lanka (**GO TO Q41.**)
  2. Outside Sri Lanka
  3. Both
- Q39. Can you tell me whether the new branches will be operational centers, marketing offices or both?
1. Operational centers
  2. Marketing offices
  3. Both
- Q40. You said that you are planning on opening a branch/s outside Sri Lanka, can you please tell me which countries that you have considered?

- Q41. Are you planning to acquire new accounts?
1. Yes
  2. No (**GO TO Q43.**)
- Q42. Have you devised or started your marketing activities to acquire new accounts?
1. Yes
  2. No
- Q43. Are you planning to increase the number of terminals/ computers in your organizations?
1. Yes
  2. No (**GO TO Q45.**)
- Q44. How many new terminals/ computers are you planning to include?
- 

**NOW I WOULD LIKE TO KNOW MORE ABOUT YOUR VIEWS ON THE CHALLENGES  
FACED BY THE ICT EXPORT SECTOR**

- Q45. I will mention some areas, can you please tell me what are the key challenges you are facing under these areas.

Infrastructure –  
Space

Infrastructure –  
Telecommunications

Competency/ Skills

Workforce

Access to markets

Country visibility

Barriers to market entry

Competition – local/  
global/ in country

Government Policies

Other (Specify)

### EXPECTATIONS

Q46. Similar to the previous question I will read out some key institutions in Sri Lanka, can you tell me what key supportive program or two you would like from them.

EDB

BOI

ICTA / ICBP

Associations

Universities/ Educational  
Institutes

Vendors (e.g.  
Infrastructure)

Government

## EXPENDITURE

Q47. We would like to have some information on the expenditure of ICT export companies. This is mainly to categorize, in terms of expenditures and also to understand the financial commitments, of companies like yours. I will read out certain areas of expenditure, can you please tell me what your expenses were for the year 2006 and 2007 for your Sri Lankan operations.

<b>Cost Elements</b>	<b>2006 (LKR)</b>	<b>2007 (LKR)</b>
Total Employee Costs (incl. Project salary for outsourced consultants, Insurance, Medical, Transport, Communications etc.)		
Training of Employees (Software, Project Management etc.)		
Space (e.g. rent)		
Electricity		

Cost Elements	2006 (LKR)	2007 (LKR)
Communication		
Maintenance		
Financial Costs (loans and interest)		
Business Development & Advertising costs		
Marketing Expenses		
Overseas marketing office/liaising office expenses		
Annual Capital Expenditures		
Any other notable expenses		

## INCOME

Q48. Similar to the expenditures we would also like to know to which income bracket your organization belongs. Can you look at this card and tell us.

Net Annual Income	2006	2007
≤ USD 10,000		
USD 10,001 – USD 20,000		
USD 20,001 – USD 50,000		
USD 50,001 – USD 75,000		
USD 75,001 – USD 100,000		
USD 100,001 – USD 250,000		
USD 250,001 – USD 500,000		
USD 500,001 – USD 1M		
USD 1M – USD 2M		
USD 2M – USD 3M		
USD 3M – USD 4M		

Net Annual Income	2006	2007
USD 4M – USD 5M		
USD 5M – USD 6M		
USD 6M – USD 7M		
USD 7M – USD 8M		
USD 8M – USD 9M		
USD 9M – USD 10M		
USD 10M – USD 20M		
USD 20M – USD 30M		
USD 30M – USD 40M		
USD 40M – USD 50M		
USD 50M – USD 60M		
USD 60M – USD 70M		
USD 70M – USD 80M		
USD 80M – USD 90M		
USD 90M – USD 100M		
USD 100M – USD 200M		

Q49. We also would like to categorize the organizations by your capacity, please can you tell us on what basis you quote for business, for example on an “man-hour basis” or on a “per seat per active minute” etc?

---

Q50. What would the average value of a typical project/ contract be?

---

Q51. Can we also know what the average gross margin for a typical project/ contract would be?

---

**INT: THANK AND TERMINATE THE INTERVIEW**

## 9. Key Contacts

### Export Development Board

Representative: Mr. Saman Maldeni  
Designation: Deputy Director  
Telephone: 2300 678  
Email: maldeni@edb.tradenets.lk  
Website: www.srilankabusiness.com

### Board of Investment

Representative: Mrs. Gowri Rajapakse  
Designation: Acting Executive Director -  
Investment  
Telephone: 2438972  
Email: gowrir@boi.lk  
Website: www.boi.lk

### ICT Agency of Sri Lanka

Representative: Mr. Reshan Dewapura  
Designation: Chief Operating Officer  
Telephone: +94 11 2369099  
Email: reshan@icta.lk  
Website: www.icta.lk

### Sri Lanka Association for the Software Industry

Representative: Mr. Nayane Gunawardana  
Designation: President  
Telephone: +94 11 2665261  
Email: slasi@infotel.lk  
Website: www.slasi.com

### Software Exporters' Association

Representative: Mr. Mano Sekeram  
Designation: Chairman  
Telephone: +94 77 2245697  
Email: mano@eurocenter.lk  
Website: www.softwaresrilanka.com

### IT Enabled Services Association

Representative: Mr. Ravi Abeyesuriya  
Designation: President  
Telephone: +94 77 7599799  
Email: ravia@slasscom.lk

### PricewaterhouseCoopers, Sri Lanka

Representative: Mr. Channa Manoharan  
Designation: Chief Operating Officer  
Telephone: +94 11 4719838  
Email: channa.manoharan@lk.pwc.com  
Website: www.pwc.com