Nottingham University Business School

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Analysis of market & business strategies of key players in UK professional services sector

For

Tata Consultancy Services

By

Ajay Don Pinto

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2012

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Abstract

This project is part of the Nottingham University Business School Management Project and TCS's Global Internship Program which provides an opportunity to work on challenging projects on information technology. The key areas include: improving operational efficiency and productivity; promoting business agility; simplification and transformation; managing enterprise risk and compliance; and enabling the understanding of markets and customers.

The project from Tata Consultancy Services (TCS) is to analyze six companies for their High Tech services vertical in the context of the UK / Europe market; generate a business intelligence report identifying areas in the companies analyzed, where TCS with its consulting and IT expertise could provide services.

The emerging service-dominant logic to marketing is based on the resource based view of the firm; the literature review is an attempt to understand the process of relationship building in professional business-to-business services. The report will look at companies from the core competency of the firm as proposed by Barney (1991) and support this with a review of literature on the service-dominant logic to marketing and relationship marketing.

The companies analyzed were KPMG Europe LLP; G4S plc; Rentokil Initial plc; Panasonic Europe Limited; Cisco International Limited and Bunge London Limited. An industry analysis was carried out for each of the companies using the Porters Five Forces and Pestle frameworks. This was supported with a review of the strategy and a core competency view of the companies to identify areas where TCS could make value addition proposals.

The report has discussion for the first three companies i.e. KPMG Europe LLP, G4S plc and Rentokil Initial plc. A full detailed report for each of these companies is included in annexures 2 to 7.

Acknowledgement

We would like to place on record our sincere thanks to Dr. John Colley for agreeing to supervise us. His valuable guidance and support has helped us craft this report. We would like to thank Mr. Amitkumar Shah from Tata Consultancy Services for his support. We would also like to express our gratitude to Dinwiddie Christine, Wilcoxson Gerrard and staff of MBA office for their support in executing this project.

We would like to thank our families for boosting our morale and supporting us during this course.

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1. Introduction:

This project is part of the Nottingham University Business School Management Project and TCS's Global Internship Program which provides an opportunity to work on challenging projects on information technology. The key areas include: improving operational efficiency and productivity; promoting business agility; simplification and transformation; managing enterprise risk and compliance; and enabling the understanding of markets and customers. The program provides the students to be a part of TCS' ongoing innovations to address business, organizational and social goals such as enriching user experiences; optimizing enterprise knowledge; fostering information ubiquity; enhancing healthcare; and conserving the environment.

The project from Tata Consultancy Services (TCS) was to analyze six companies for their High Tech services vertical in the context of the UK market, to find out business problems and build a case in order to gain access to these companies. Since the management project is on generating a business intelligence report for a consultancy firm, which is itself a professional services firm providing customized solutions to other firms, including other professional service firms, the report will cover first the professional services industry followed by a review of literature around initiation of business relationships especially in the service-dominant marketing settings.

The emerging service-dominant logic to marketing is based on the resource based view of the firm and the literature is an attempt to understand the process of relationship building in professional business-to-business services. The report will look at it from the core competency of the firm as proposed by Barney (1991) and support this with a review of literature on the service-dominant logic to marketing and relationship marketing.

2. Scope of the project:

The project from Tata Consultancy Services (TCS) is to analyze six companies for their High Tech services vertical. This vertical serves five segments – Computer Platforms and Services; Software Industry; Professional Services; Electronics Industry and Semiconductor Industry. The companies we will be analyzing are as below.

Table 1

Sl. No	Companies to be analyzed (Target Companies)	TCS Vertical
1	Cisco International Limited	Computer Platforms and Services
2	Panasonic Europe Limited	Electronics Industry
3	• G4S plc. • Bunge London Limited • KPMG Europe LLP • Rentokil initial plc.	Professional Services

The key objectives for this project are listed below with the project delivery being a business case for TCS to gain access to these companies.

- Strategic PESTLE analysis of professional services industry
- Management Analysis e.g. SWOT Analysis, Porter's 5 Force Analysis etc. of target organizations
- Organization structure and other organization details (Relationship Matrix)
- Financial analysis, forecasting, Key Performance Indicators etc.
- Target organizations people skill set including details of key individuals
- Detailed business strategy of the target organizations together with their business strategy for India, current interest exposure etc.
- Competitive landscape analysis among the target company's and other important related market players
- Each target company's business problem or pain areas. A detailed view on what the company is looking at for solutions to their business problems.
- Exposure of target companies to Tata especially TCS, are they doing business with Tata Industrial Services Limited (TISL), Tata Steel?
- Details of any major change program/ initiatives, what their targets are, and how they think they are going to achieve it

3. Management Consultancy Market

The management consultancy market in Europe is estimated to be worth €24.3bn with the United Kingdom and Germany being the biggest markets. The United Kingdom alone accounts for € 6bn. A service wise breakup of the management consultancy market shows that IT consulting with €6.8bn; Strategy formulation with €5.5bn and performance improvement consultancy with €2.3bn are the biggest markets and cover over half of the consultancy market by size.

The sector wise break up sees that the banking and capital markets employ services of the consultancy services the most with a market size of €4.8bn followed by the public sector with a market size of €3.2bn. These are the largest sectors and are closely followed by Energy, natural resources and utilities at €2.9bn and the telecoms and High-Tech services at €2.3bn. This project with the High Tech services vertical of Tata Consultancy Services is towards an effort to increase their market share in the €2.3bn European market.

4. Tata Consultancy Services (TCS)

(Source : Market Line report and TCS company website)

TCS, established in 1968, is a subsidiary of the Tata Group which is one of Asia's largest conglomerates with interests in energy, telecommunications, financial services, chemicals & engineering and material industries. TCS is headquartered in Mumbai, India and operates through 145 offices in 42 countries. Their service offerings include assurance services, business intelligence and performance management, business process outsourcing (BPO), cloud services, connected marketing solutions, consulting, engineering and industrial services, and IT services.

Their assurance services include consulting, implementation and solutions. They offer a broad range of consulting services in the areas of business process and change management, capital markets, information management, information risk management, infrastructure optimization, IT architecture and IT infrastructure, IT process and service management, program management, and technology performance management.

Business intelligence and performance management services include business process management, enterprise data management, and integration services. The company's BPO offers transaction processing services to its customers across multiple industry verticals. It also offers knowledge-based services focused on areas of research and analytics, such as biostatistics, customer insights, risk analytics and predictive analytics (Company's Annual Report - Directors Report, 2011).

TCS offers cloud computing services with strategic consulting and connected marketing solutions. The company's cloud services include cloud advisory services, cloud deployment and migration services, cloud development and assurance services, cloud environment build and management services, and disaster recovery cloud services. The company's IT services include custom application development, application management, application modernization, system integration, testing, and performance engineering.

In addition, TCS also offers technology products relating to customer relationship management, database integration, knowledge management and other processes that involve huge amounts of data.

The company operates through six business segments:

1. Banking and Financial Services
2. Insurance and Healthcare
3. Life Sciences, Energy, Resources & Utilities and Manufacturing
4. Telecom, Media and High Tech
5. Retail & Consumer packaged goods; Travel and Hospitality and
6. Government

TCS has been operating in the UK for more than 30 years and has 65 client sites. Over 170 UK customers work with TCS and its UK subsidiary, Diligenta Ltd, a business process outsourcing firm.

The project report is prepared for the High Tech services division of the company. This division provides customized and end-to-end solutions and service solutions across varied high technology industry segments, namely, computer platform and services companies, software firms, electronics and semiconductor companies, and professional services firms (legal, HR, tax & accounting and consulting & advisory/analyst firms).

5. Literature Review:

5.1 Background:

The three sector hypothesis in economic literature groups all economic activity into three distinct groups: 1. the extraction of raw materials, 2. Manufacturing goods and 3.Providing services. The services industry has gained importance in the recent years as it contributes a major share to the gross domestic product of developed countries. Schmenner in his article "How can businesses survive and prosper" (1986) grouped business services into a service process matrix. This was further improved in his 2004 article "Service Businesses and productivity". He made use of the theory of swift, even flow and grouped firms based on degree of variation and Relative throughput time. With these two variables he grouped firms into four groups 1. Service factory, 2. Service shop, 3. Mass service, 4. Professional services. He describes services which require a high degree of variation in the service in terms of degree of interaction with and customization for the consumer and a high time requirement to complete that service. Examples of firms in the professional services would be law firms, accounting firms, management consulting firms etc. Gummesson (as cited by Ragot and Brentnani, 1996) defines professional services as

"• A professional service is qualified; it is advisory and problem-solving, even though it may also encompass some routine work for clients.

• Professionals have a common identity as, for example, management consultants or lawyers, and are often regulated by traditions and codes of ethics.

• The service on offer involves the professional in taking on assignments that are themselves the limit of the professional's involvement. Such assignments are not undertaken merely as overtures to sell hardware or other services."

Professional service providers act as experts for clients. Their role is to assist clients in solving problems and making decisions, whether it is because clients want to save time, reduce costs or because they do not have all the required skills for making an effective decision (Maister and Lovelock, 1982).

The professional services sector can further be divided in to business-to-customer segment, where the firms provide their services to individual customers and business-to-business segment where the service firms work for other firms. Professional business-to-business services refer to industrial services that involve highly specialized skills and are of advisory nature (Ragot and Brentnani, 1996). The industrial service referred to by Ragot and Brentnani in a service-dominant (S-D) logic of marketing can be viewed as “application of specialized competencies (knowledge and skills) through deeds, processes and performances for the benefit of another entity” (Vargo and Lusch, 2004).

Until the early 1990s it was perceived that the service sector only consumed the technology developed by the manufacturing sector. The breaking down of work into smaller pieces and the ensuing division of labour led people to specialize in certain areas of work. This led to increased efficiencies in output and economies of scale. However as Vargo and Lusch (2004) suggest, specialization breeds micro specialization; people are constantly moving towards more specific specialties. Over time, activities and processes that were once routinely performed internally by a single economic entity become separate specializations, which are often outsourced (Shugan S, 1994) as referred by Vargo and Lusch, 2004. This is in line with the core competency view of a firm, under which a firm is seen as a hierarchy of core competencies, core products and market focused business units” (Prahalad and Hamel, 1990: 91) and the support or other functions can be outsourced to firms for a lower cost.

5.2 Core Competency

The critical task for the management of a company is to create an organization capable of infusing products with irresistible functionality or creating products that customers need but have not thought about it (Prahalad and Hamel 1990) but also at a price that is better than the competitors.

In order to achieve these companies will have to identify core competencies. Prahalad and Hamel (1990) defined this as satisfying three questions 1. It provides potential access to wide variety of markets. 2. It will make significant contribution to the perceived customer benefits of the end product and 3. It should be difficult for competitors to imitate. The acquisition and development of these competencies or resources as defined by Barney (1991) is path-dependent, i.e. dependent on the historical context of the firm. As firms get more competitive and focus on their core competencies, they outsource functions that are peripheral to the core to other firms. These firms known as vendors, service providers or partners themselves would have built their competencies in these sectors and be able to promise delivery of value. The concept of outsourcing non-core functions of a business has been used in one form or the other by the companies worldwide. Divesting a business process allows a company to focus on the core functions of its enterprise and alleviates the need to build skills in areas tangible to its business goals (Ghodeswar and Vaidyanathan, 2008).

Core competencies are built through a process of continuous improvement and enhancement over a period of time (Prahalad and Hamel, 1990) this is the knowledge advantage that a company carries over its competitors. As companies concentrate on their core competencies, many of them micro-specialize and develop extensive knowledge in them. Hence knowledge today is perceived as the basic core of enterprises, increasingly assuming a role in the recognition and capitalization of entrepreneurial opportunities (Andersson, et al., 2009). Knowledge intensity is perhaps the most fundamental distinctive characteristic of professional service firms (Nordenflycht, 2010). This has led to emergence of Knowledge Intensive Business Services (KIBS) within the professional services sector. The work of Miles et al. identifies three essential characteristics of KIBS: (i) the high importance that these organizations give to professional knowledge; (ii) the desire of these organizations to be primary resources to information and knowledge, or use their knowledge to produce services that serve as intermediaries between them, their clients and their production processes; and (iii) the great importance of the type of services that KIBS provide determines the level of competition and competitiveness(Miles et al, 1995).

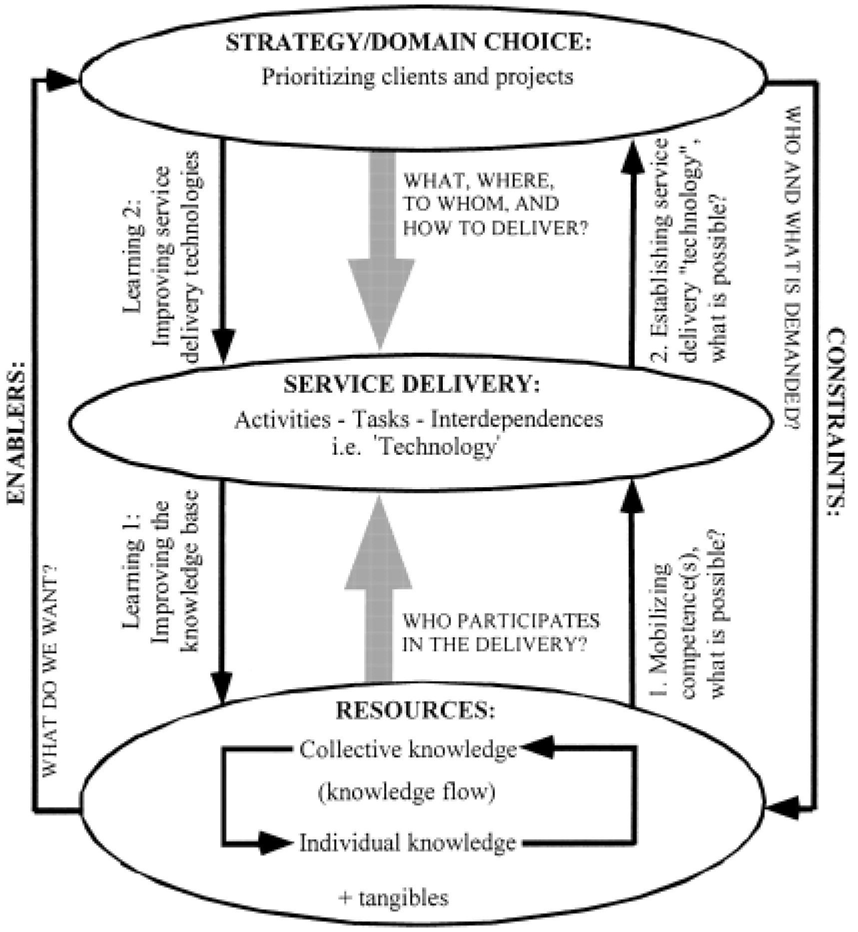
KIBS play three roles in supporting organizations in other sectors: facilitators of innovation, carriers of innovation (as they have a key role in the transfer of innovation) and sources of innovation (since they begin innovation) (Miles et al. 1995; Bilderbeek and den Hertog, 1997). Hence KIBS are firms which help other organizations to deal with problems which would require knowledge from external sources. So KIBS are dependent on their knowledge for value creation for its client's organization.

5.3 Value Creation Process:

To understand the value creation process both for the professional firms and its clients, we refer the framework suggested by Lwendahl, 2001. This gives a picture of the inter-relationship between various functions and the dynamic nature of the process.

This framework is made of three components, the choice of domain, the resource base and service delivery. The figure below illustrates the VCP at a point in time and highlights the dynamic nature of the value creation process. Professionals learn from the projects and clients they engage in, hence the professional firms need to have a portfolio of projects that allows for economic and knowledge gains. It is crucial to target and win the right kinds of projects and clients (Lwendahl, 1992, 1997). This is the strategy or domain choice that professional firms choose to operate in. The resource based view of the firm (Barney, 1991) sees the firm as a collection of resources that give it competitive advantage over its competitors. Not everything that is available to the firm is a resource; it is only those resources that deliver value that are of use to the firm. Resources play a key role in the development of superior value creating processes for clients as well as for owners (Greenwood et al, 1990 as referred by Lwendahl et al, 2001).The service delivery process depends on the type of professional service and the degree of customization.

Figure 1: **The value creation process**



(Source: Lowendahl et al,2001)

They further identify that value creation processes are the key bridge to client markets and that clients buy services that require specific combinations of knowledge (Lowendahl et al, 2001). The role of strategy / domain choice and service delivery is further emphasized by the work of Ragot and Brentani ,who found that product - market factors like market and marketing fit, product superiority and customer participation were critical factors for developing successful professional services in the business-to-business market (Ragot and Bretnani,1996).

5.4 Service-Dominant View of Marketing

In the service-centered view of marketing, the function of marketing is a continuous series of social and economic processes that is largely focused on operant (resources employed to act upon operand resources; operand resources are resources on which an operation or act is performed) resources with which the firm is constantly striving to make better value propositions than its competitors (Vargo and Lusch, 2004). Hence successful firms are not only market driven but also customer driven. The work of Haeckel (1999), as referred by Vargo and Lusch (2004), shows that firms are moving from practicing a "make-and-sell" strategy to "sense-and-respond" strategy. Seen from a business-to-business perspective, service interaction involves the reciprocal application of resources, knowledge and competencies for the benefit of another party (Aiten and Ballantyne, 2007).

The service – dominant logic for marketing views marketing as customer-centric and market driven (Sheth, Sisodia, and Sharma 2000, Day 1999 as referred by Vargo and Lusch). This means more than simply being consumer oriented; it means collaborating with and learning from customers and being adaptive to their individual and dynamic needs. A service-centered dominant logic implies that value is defined by and co-created with the consumer rather than embedded in output.

The service-dominant logic supports the notion of relationship development, through which all kinds of communicative interaction and co-created value might emerge (Ballantyne and Aitken, 2007). The customer is seen as integrating resources from various sources to create its own resources (Vargo, 2009) and hence has a vested interest to maintain relations with their suppliers too.

5.4.1 Relationship marketing

Relationship marketing constitutes a major shift in marketing theory and practice. Rather than focusing on discrete transactions, it emphasizes the establishment, development and maintenance of long-term exchanges (Hunt and Morgan, 1994). Relationship marketing evolved from the goods dominated logic to marketing and is now considered to be a sub-section or part of the service-dominated logic to marketing (Vargo and Lusch, 2004).The emphasis here is that the function of marketing is to develop and maintain relationships (Gronroos, 1990). Every single customer forms a customer relationship with the seller that is broad or narrow in scope, continuous or discrete, short or lasting in nature, which the firm has to develop and maintain and it begins with interaction and exchange of ideas. (Gronroos, 1990). Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges (Hunt and Morgan, 1994). Marketing is said to revolve around customer relationships, where the objectives of the parties involved are met through various kinds of exchanges, which takes place in order to establish and maintain such relationships (Gronroos, 1990). However there are costs involved in developing relationships and it is argued that customer relationships are viewed as investment decisions and customers as generators of revenue streams and resources be allocated according to the customer's lifetime value (Stahl et al, 2003), while close business relationship might appear beneficial and desirable, such connections can create interdependencies that reduce market responsiveness (Ford D 1997 as referred by Osborne and Ballantyne,2012).

An alternate definition of relationship marketing sees it as the process of identifying, developing, maintaining, and terminating relational exchanges with the purpose of enhancing performance (Palmatier, 2008) however this is seen as being unidirectional and centered on profit making. In practice relationship marketing is manifested through an ongoing management of relationship through the collection and use of customer-relevant information (Vargo, 2009).

5.4.2 Network view:

The underlying notion of relationship marketing as focused on one-to-one management of customer relationships (see Peppers and Rogers,1993 as referred by Osborne and Ballantyne,2012) has been questioned in a network context. The work of Wilkinson and Young, 2002 (as referred by Osborne and Ballantyne, 2012) illustrate that there is no single basis for understanding the degree of cooperativeness or competitiveness between B2B customers and suppliers. The view that marketing interaction occurs in multiple ways, within networks of relationships (See Gummesson,1999 as referred by Osborne and Ballantyne,2012) thus marketing will have to manage a broader range of potential stakeholders in the customers network (Osborne and Ballantyne,2012).

One of the foundational premise of service-dominant logic to marketing is that companies can make only value propositions (Vargo and Lusch, 2008) which are necessarily promises to perform (Ballantyne and Aitken, 2007). Customer solutions embody the new service-dominant logic (Vargo and Lusch,2004) and captures the shift in marketing outlook by the industries from offering products/services to offering solutions to improve their competitive position and profit margins (see Sawhney,2006 as referred by Cova and Salle,2008).

This movement towards offering solutions in business-to-business settings has evolved along two major points. The first point is related to the service dimension of offering (service), it stresses on the degree of integration of the service within the customers value chain. The second point deals with the combination of the elements which make up the service offerings. It concerns with the degree of integration and bundling of these elements giving rise to a unique and non-dissociable whole (Cova and Salle, 2008) solutions. The characteristics of solutions as described by Cornet et al, 2000 (as referred by Cova and Salle,2008) is that “solutions are co-created by a customer and a supplier and cover all aspects of the relationship (commercial, operational and financial); solutions are customized in one or more of the following aspects: design, assembly, delivery, operation or pricing”. With such solution selling approach, the focus shifts from answering customers operational needs to partnering a customer to develop his business in their markets.

5.5 Initiation of business relationships in a S-D logic

For a company to be successful, its ability to initiate new business relationships is crucial for both survival and business growth (Edvardson et al, 2008). For firms providing business-to-business professional services the nature of these services leads to the interaction being more relational in nature (Lain and Laing 2007). Management consulting services are characterized by a high degree of intangibility and non-standardization and they involve a high degree of interaction between the supplier organization and the purchaser (Darby and Kerner as referred by Edvardson et al, 2008). The critical role of relationships has been further illustrated in studies involving professional services where the complexity of services results in a premium being placed on relationships as a means of managing the purchasing process (Halinen Kaila, 1997; O'Malley & Harris, 1999).

The work of Laurids Hedaa (as referred by Edvardson et al, 2008) describes selling as a combination of sub processes – (a) pre call planning, (b) contact with the prospects, (c) presenting the product, (d) persuasion (e) closing sales and (f) following up.

Edvardson et al, 2008 in their research pointed out a few managerial activities that help in relationship building and progressing towards a sale.

1. “To be informed about the buyers activities, timetables and also to follow up on the weak signals in the market place
2. Analyze buyer’s key concerns and business processes and identify gaps in the market
3. Be informed about the changes in the buyers organization, merger and acquisitions and strategy changes
4. Create bonds to the buyer organization
5. Monitor competitors service offerings and service innovations”.

6. Methodology:

This chapter outlines the research design employed for this project. It will outline the process of this study and its relevant methodology. The objective and scope of this research study will also be defined. It covers comprehensive description of topics such as research design, research approach, data collection, and validation.

6.1 Research Design

This being a company based project with TCS, they wanted us to adopt a three step approach to the project – Data Collection; Validation and Insight (refer annexure 1).

Figure 2:

(Source: Tata Consultancy Services Project Brief – Professional Services)

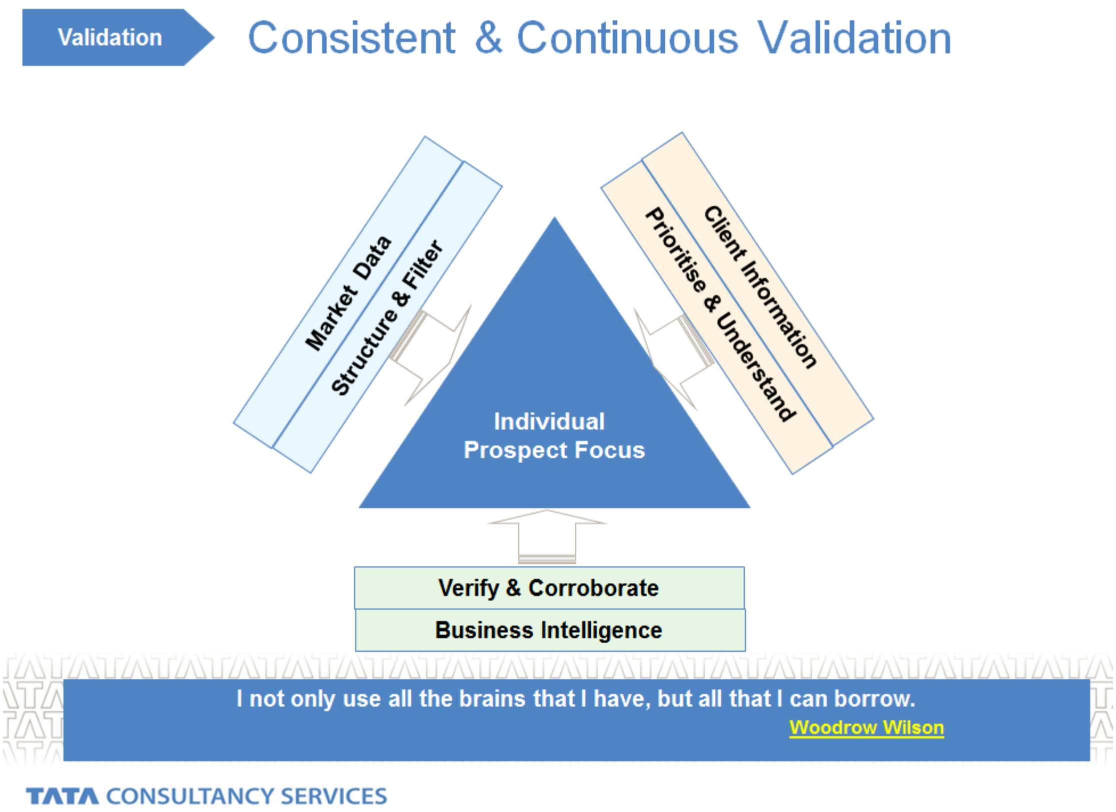
6.1.1 Data Collection

The data collection was aimed at gathering Market Data; Client Information and Business intelligence. The project relied on secondary data collected from external sources like reports from Industry analysts like Gartner/ Forrester, Data consolidators such as OneSource / Datamonitor / Factiva / MarketLine; Proprietary Client Databases like IDC / Nelson Hall and information available in the public domain accessible by Google search or the News agencies, industry publications web forums/blogs. Most of these reports were accessed from the resources available from the university databases; however we also had access through TCS to reports from client databases such as IDC and Gartner. Data collected was not only about the industry and company but also about key personnel in the companies, alliance partners, direct contacts like research programs; existing clients and relationships and industry events.

6.1.2 Validation

The validation of data was to integrate the data collected about the market, the client and business intelligence. The task here was to structure and filter the market data; prioritize and understand the client information; and verify and corroborate the business intelligence data gathered to generate an individual prospect focus (Figure 2).

Figure 3

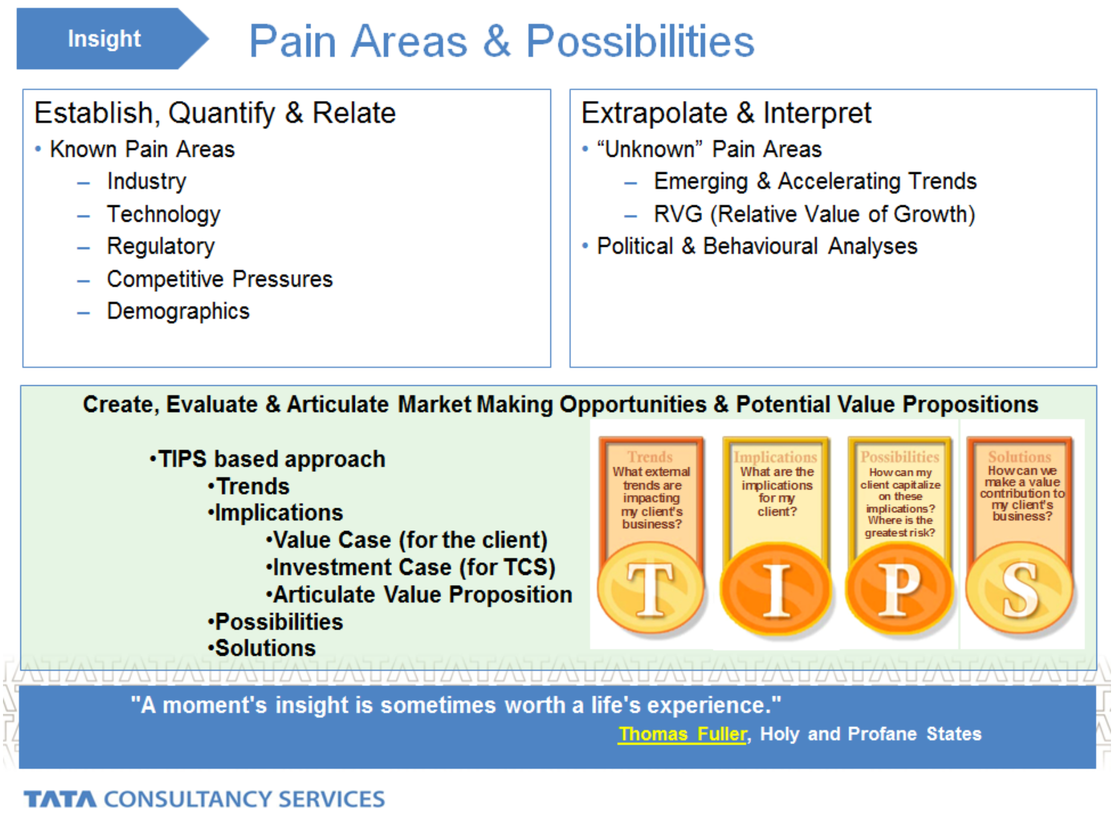


(Source: Tata Consultancy Services Project Brief – Professional Services)

6.1.3 Insight - Main Aim and Objectives of Research Study

The outcome that TCS wanted out of this project was identification of pain areas for the companies and possibilities for TCS to gain access to these companies. TCS wanted the report to follow their TIPS approach (refer Figure 3) to identify present and emerging trends affecting the target companies and understand its implications. Based on these we were to propose a value case for the client and an investment case for TCS with possibilities and solutions.

Figure 4



(Source: Tata Consultancy Services Project Brief – Professional Services)

6.2 The Approach

While we followed the TCS approach to data collection and boilerplate dashboard to validate data collected (Slide 7, Annexure 1). We noticed that to identify industry pain areas we needed to do PESTLE analysis and Porter's five forces analysis in order to understand the level of interaction and dependency of the company on its suppliers/customers.

The companies we were to analyze were big conglomerates with diversified interests. Analyzing these conglomerates would have meant analyzing multiple industries and sectors. Since the availability of time and resources constrain the depth of research, we in consultation with TCS narrowed down the scope of analysis (industry and company) to the division which generates the most revenue.

From our interaction with TCS staff, it was clear that they were looking for opportunities where the target company would be willing to outsource work. The target companies were analyzed from a core competence as put forward by Prahalad and Hamel,1990 and view on company resources as explained by Barney, 1991 to identify core functions and core resources. That a company would be willing to outsource other non-core functions as put forward by Ghodeswar and Vaidyanathan, 2008 was used to identify opportunities for TCS to gain access to these target companies.

This was followed by a review of the company strategy and its fit with the emerging trends for the industry. Data collected on their new initiatives and problem areas was further analyzed in light of this. Problem areas where TCS could bring in value addition were identified and a business case was built around it (refer annexures 2 to 7 for company reports submitted to TCS).

7. Findings: KPMG Europe LLP

7.1 Outcomes from Industry Analysis: Accounting Industry

The **Porters Five Forces** and **PESTLE** analysis was used to understand the accounting industry and the emerging trends in the this industry -

1. A leaked draft of proposals outlined that the European Commission intends to split up the auditing businesses of the Big Four or the companies might face huge fines.
2. Calls for reforms and stricter regulations to ensure past mistakes are not repeated have increased.
3. In several EU countries there is an increasing shortage of qualified accountants. Although the economic crisis has lowered this shortage, it is expected to become an important factor again once the economic situation recovers.
4. Nearshore providers are emerging fast - Companies in Central and Eastern Europe (CEE) such as Ukraine, Romania, Hungary, Poland and the Czech Republic, are becoming important BPO providers for EU companies.
5. Greater Liability for Professional Advice - Because of the greater involvement of professional firms in the operations of corporate customers, firms face greater risk of blame or liability if their advice proves faulty. Customers are quicker to blame advisers, and regulators are more likely to impose penalties. Accountants and lawyers, in particular, are subject to discipline from licensing authorities if professional standards are violated (Professional services industry challenges, www.Sikich.com).
6. Future Business Relies Heavily on Reputation **-** Name recognition and reputation are important in highly competitive professional services sectors. Just as a good reputation can help a company acquire new business, damage to a reputation can result in the loss of existing and potential clients, and hurt employee recruitment and retention. Any damage to a firm's reputation can be very costly to repair.
7. Increasing use of online accounting services - The increasing popularity of online accounting services/software, especially among European SMEs, lowers the demand for general accounting services and puts pressure on the turnover of accounting companies.
8. New auditing standards and regulations for EU countries result in a higher workload for EU accounting service providers.
9. International debate on how best to respond to climate change, and mitigate its effects have forced companies to think of environment friendly initiatives.

10. Organizations may need to comply with increasing demands for environmental reporting based on new regulations.
11. The industry faces a high level of attrition; the average being 10%. This especially high since this is a knowledge based industry depending on skilled personnel to deliver services.

7.2 Company Overview: KPMG Europe LLP

KPMG Europe LLP (referred to as KPMG or ELLP in this report) is a cross-border professional services organization that delivers audit, tax and advisory services. It was created in October 2007, initially through the merger of German and UK firms and now consists of 18 member firms. KPMG Europe LLP is part of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"). KPMG International (KPMG) is a Netherland-based cooperative firm with operations in 152 countries and employs more than 145,000 professionals.

KPMG Europe LLP headquartered in Frankfurt, Germany employs over 32800 partners and staff in 18 countries and 143 offices. They operate with a vision to be number one multidisciplinary professional services firm in Europe and be a quality service provider to all their clients.

KPMG operates through three business divisions: **audit, tax, and advisory services.**

The company's audit division provides independent auditing services to companies. KPMG provides resources and technological tools necessary to support internal controls. The company has established the audit committee institute (ACI) to provide resources to audit committee members to help them keep pace with evolving business issues related to governance, audit issues, accounting, and financial reporting. KPMG's audit services include attestation services and financial statement audit services.

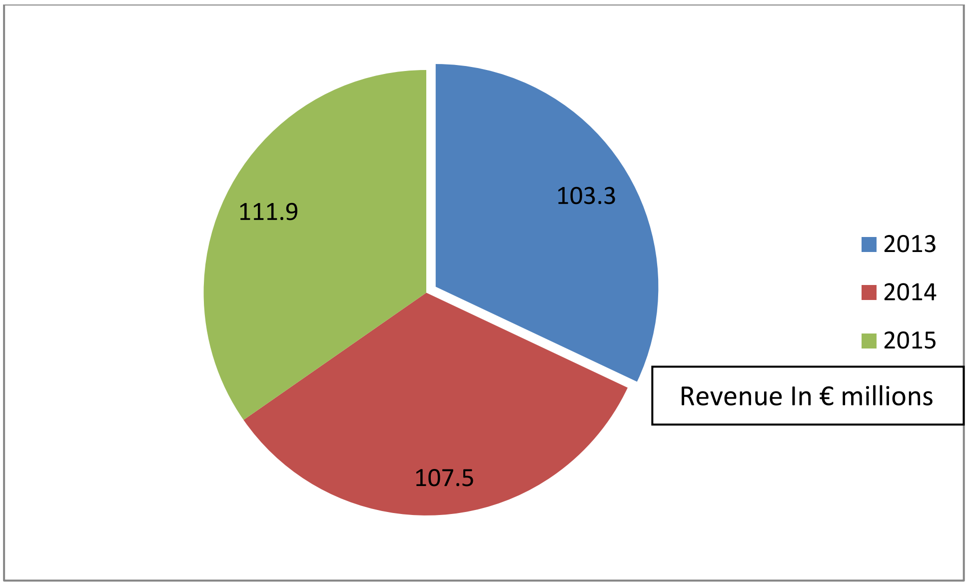
KPMG's tax services division offers services related to tax compliance and managing tax risks. The company's tax input is delivered through a number of global service lines. These include business tax, international corporate tax and indirect tax. These services assist clients in fulfilling compliance responsibilities, planning opportunities, and communicating between markets and regulators. KPMG's tax services include dispute resolution and controversy services, energy and natural resources tax, financial services tax, global compliance management services, global indirect tax, global transfer pricing services, international corporate tax, international executive services, and mergers and acquisitions.

The company's advisory services division provides advice and assistance to companies, intermediaries, and public sector bodies to mitigate risk and improve performance. It also provides risk and financial advisory services to clients, which helps them create strategies for the longer term. KPMG's advisory services include management consulting, risk consulting and transactions and restructuring services.

KPMG offers these services to various industries, including automotive; building and construction; chemicals and performance technologies; diversified industrials; energy and natural resources; financial services; food, drink and consumer goods; government and public sector; healthcare; infrastructure; media; private equity; real estate; retail; technology; telecommunications; and transport and logistics.

The revenue share by the three divisions for the FY2011 is shown in diagram below

Figure 5



(Source: KPMG Europe LLP Annual Report,2011)

Refer Organisation details in annexure 2

As per our research methodology agreed with TCS, we narrowed down the scope to the audit division for KPMG. The audit division was the largest contributor in terms of revenue and accounted for 42% of the total revenue. The company operates with a vision to be number one multidisciplinary professional services firm in Europe and be a quality service provider to all their clients. To achieve this, their strategy is to increase market share by 3% in the next three years in all their business function areas.

7.3 Business Strategy

To achieve this 3% growth in market share, KPMG has adopted a three pronged strategy of growing global accounts; focus on six growth sectors which they refer to as priority sectors and increase efficiencies on service delivery to clients.

7.3.1 Grow Global accounts

Audit is typically a steady business and publicly traded clients renew auditor services every year with increase in annual fees. However with increasing globalization and complexities in the organization structure of its clients, audit firms are faced with a need to have skilled manpower to address a wide range of competencies and across countries. Hence KPMG has embarked on a mission to develop dedicated account teams for global organizations. Their client approach is to be more sector-based and relevant for global clients. This is in line with the industry trend towards increased verticalisation – accounting service providers increasingly focus on specific industries, for example the banking industry, the travel industry, the health industry or the telecom industry. This also allows KPMG to take advantage of the emerging trend in the accounting sector towards providing more complementary services. EU companies increasingly use their accountants as confidants who perform added value services, such as consultancy.

7.3.2 Priority Sectors

Figure 6

Early in 2011, KPMG got a group of partners from across ELLP firms working with climatologists, futurologists and industry experts with a brief to understand what the world would look like in 2020. Their brief was also to understand what the implication would be for their clients, people and communities. These findings formed a core component of the business strategy.

Based on this vision of the future, they have identified six priority sectors (see diagram above) – Energy and Natural Resources; Public Sector; Financial Services; Healthcare; Communications and

Media; and Emerging Markets (Russia, Turkey and the Middle East). These are sectors that KPMG sees high growth potential and where they think they can provide significant value add to their clients. Within these sectors, KPMG has identified 42 global accounts. These companies are the largest operators in the European region - global businesses either headquartered in Europe or those based outside Europe that have significant inbound interests in the European market. These priority sector divisions are organized as separate business streams, giving CEO-status to each global lead partner with the power to allocate resources and operate the account as they see fit giving them greater flexibility and adaptability to client needs.

7.3.3 Increase efficiencies in Service Delivery

KPMG firms until 2007 operated as independent national firms loosely connected to KPMG International. KPMG Europe LLP was formed in 2007, initially by the merger of UK and Germany firms, to gain size and remove potential geographical obstacles to getting their best expertise to their clients. A demographic trend seen in the Europe is an increasing shortage of qualified accountants. Although the economic crisis has lowered this shortage, it is expected to become an important factor again once the economic situation recovers. To overcome this shortage of skilled manpower the integration provides a way of sharing intellectual property seamlessly across boundaries and the right people to be delivered to the right client at the right time, regardless of geography.

The Audit function is forecasted to continue facing a tough market and focus is hence on increasing market share and driving more efficiency in service delivery. Towards this KPMG has initiated integration processes since 2007. A shared service center has been opened in Prague, Czech Republic to manage parts of finance and HR to optimize back office costs and free resources at other member firms to deliver services at client locations. Integration of data bases among the member firms is also underway to enable sharing of data and knowledge between them. There were 30 data centers in Europe alone which is being moved a single data center to be housed at their headquarters in Frankfurt, Germany. KPMG is implementing a private cloud computing web in partnership with VMware, EMC^2 and T-Systems. They have also been working towards integrating various national IT resources including migration of each country's ERP system to a standardized SAP package. KPMG has also established "Centers of Excellence" to develop expertise in technical, function-specific areas which can help all member firms with shared knowledge and added value addition to its clients.

7.4 Core Competencies of KPMG Europe LLP

The audit division of KPMG was analyzed from a core competency view of the firm. Core competency of a firm is a bundle of skills and technologies that enables a company to provide a particular benefit to customers (Prahalad and Hamel, 1990). The **core competencies** for the audit division were identified as -

1. Financial Audit and Compliance Audit Processes

KPMG has made a name for itself in the auditing business and is among the top four auditing firms in the world. They have industry and regional experts to handle audit for the increasingly complex structure of global companies. The company has used this expertise to standardize audit processes and implemented e-audIT, a software application to provide the methodology, guidance and industry knowledge for an efficient audit.

2. Brand Reputation

The KPMG brand is a well-known brand, not just in the financial industry but globally too. It is one of the Big Four accounting firms in the world and is well respected in the financial markets. It has become a confidence building measure these days for big companies to be audited by one the Big Four audit firms.

3. Skilled Manpower

The auditing business involves deciphering client account statements and business processes. These vary by the industry and the region. Hence auditing depends heavily on skilled and experienced professionals to deliver their services.

4. Knowledge accumulated over the years

KPMG traces its history back to 1870 when William Barclay Peat formed an accounting firm in London. A company operating for a long period of time accumulates industry knowledge in terms of industry norms, practices and regulations. All this knowledge helps the company as it is involved with EU regulatory bodies in the formation of audit policies.

7.5 Discussion and Value Creation Opportunities

From a study of the company strategy and the industry trends, the following areas were identified where TCS with their expertise in IT solutions and business process outsourcing could make a pitch for value addition.

7.5.1 Shared Services Outsourcing:

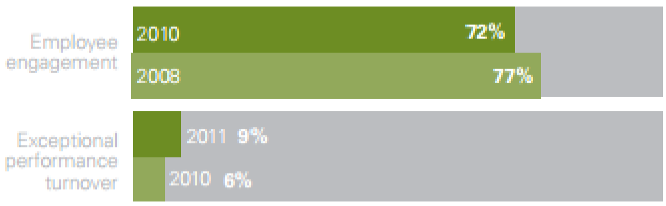
A review of KPMG reveals that audit processes are its core competency. The skilled manpower with knowledge and experience are resources that differentiate KPMG from other firms. Following the financial crisis in 2008, the audit industry has experienced high attrition levels with an industry standard of 10%.

At a time when competition for the best talent remains intense, they have been named second in the Universum index of the world's most attractive employers, for the second year running, based on a survey of 160,000 career seekers with a business or engineering background at the top academic institutions in 12 leading economies, worldwide. This group represents students graduating from college and would require significant training on the job. They at present employ over 32800 people in Europe with over 8500 recruited in the year ending September 2011.

In a customer survey, the attributes clients see from KPMG, when they are performing at their best, were highlighted as – expert, global mindset, forward thinking, value adding and passionate. As is true for any knowledge based company, it is skilled manpower that is the core asset for a company. They realise that it is the skill, talent and sheer hard work of the people they employ that will fulfill their aim to be number one multidisciplinary professional services firm in Europe and be a quality service provider to all their clients. The challenge they face is to harness these talents and expertise of their people and to bring those together, efficiently and effectively, to serve global and national market clients in better ways.

However employee engagement levels have fallen from 77% in 2008 to 72% in 2010. Worryingly, for KPMG, the attrition levels among employees rated for exceptional performance has risen to 9% in 2011 from 6% in 2010.

Figure 7



(Source : KPMG Europe LLP Annual report 2011)

The company's aim is to develop a high performance culture to help their clients overcome complex challenges. This serves to both motivate and develop their talented employees. In addition to this they invested heavily in recruitment and on-boarding senior external talent, developing career paths to give a clearer structure to its people's careers, and a new KPMG Business School in 2011.

They have also moved towards greater sharing of economic interests across ELLP (KPMG Europe LLP) firms which allows the leadership to reward positive partner performance regardless of the geography (or geographies) that directly profits from performance. This is a hugely positive step in their ELLP journey, as it removes potential geographical obstacles to getting the best expertise for their clients. They can now more positively reward geography-agnostic, client-centric partner behaviour. In a period of economic turbulence, for a multi-country and multi-disciplinary firm this ability to move people from areas where demand has been slow gives an added advantage against its competitors.

While KPMG has taken steps to reduce attrition, the expected shortage in qualified accountants in Europe will be difficult to counteract. KPMG has opened a shared services center in Prague which handles parts of finance and HR for KPMG. KPMG has implemented an audit tool - e-AudIT which should standardize many audit processes. This frees up qualified professionals to work closely with their clients. This standardization of processes enables these to be outsourced. These are aimed at both freeing resources for customer service and increasing efficiencies at the back office functions. KPMG is a financial institution and trust plays a big part on business decisions, hence TCS could play a part in the development of the shared services center in Prague with their expertise in IT solutions / cloud computing applications / business process outsourcing works and gain trust and recognition. This should then further open up new avenues for providing solutions for KPMG.

7.5.2 IT Initiatives:

Back Office IT:

KPMG acknowledge that they will be dealing huge amount of data. They have implemented e-AudIT across KPMG Europe LLP and they are also using new audit delivery centres to carry out standardised audit tasks. Hence the plans to move to a single data centre and cloud computing facilities. This is aimed at improving efficiencies and also to provide IT infrastructure to smaller member firms who otherwise could not afford computing facilities.

KPMG are aiming to improve the delivery of front-line services by developing efficient processes based on IT systems. They are using this not only to reduce costs and improve efficiencies but also to develop new innovative products. The use of IT allows analysing data in greater depth, leading to increased quality of processes.

KPMG makes use of its India based units KPMG Resource Centre Private Limited (KRC) and KPMG Global Services (KGS) for audit, tax and advisory service lines. It is envisaged that the offshore team will support the onshore team's audits of UK and German clients in a variety of areas, freeing up their best qualified professionals to work more closely with clients to ensure that quality is not compromised.

SAP implementation:

The independent nature of earlier national KPMG LLP firms meant that each of them had developed their own IT systems and processes. With the merger, work is on to integrate these onto a single platform. They have implemented the back-office IT platform, SAP, across United Kingdom, Germany and Spain with Netherlands next in line and will be rolled out progressively across the rest of the firms. This is an ongoing process, with only three member firms which have SAP implemented. TCS could look to put a value addition proposal in integrating existing ERP systems and implementing SAP across the rest of the fourteen members in KPMG Europe LLP.

Integrated Data Centre:

KPMG plans to consolidate their data centres for infrastructure, with the main centre based in Frankfurt, replacing 30 of its data centres across Europe. The move will see the company moving systems to a private cloud that will service all KPMG's European users, operating on a BT MPLS network, which will be the back bone. This will enable KPMG to offer new services to its clients, like the ERP based product explained earlier. The benefits of a single data centre and a private cloud based system will translate into important benefits when they begin to add the smaller countries. The marginal cost of adding smaller regions will become quite low, and they can start to give large-scale IT capabilities to branches. New products like the ERP based accounting tool KPMG has developed, work by mining data from client ERP systems, and process it on KPMG's end. Thus delivering on KPMG's aim to reduce costs and improve efficiencies on their service delivery. These are innovative processes and TCS could gain entry on their strengths in cloud computing applications.

8. Findings : G4S PLC

8.1 Outcomes from Industry Analysis: Security Services

The **Porters Five Forces** and **PESTLE** analysis was used to understand the accounting industry and the emerging trends in the this industry -

1. The structure of the Work Programme allows prime contractors like G4S to sub-contract many of their responsibilities to charities and other “delivery partners”.
2. The UK government also wants to move towards a payment by results model. By this the payout for all contracts will be against a measurable outcome.
3. Outsourcing of core police functions opens a new market. e.g., Lincolnshire police authority contract Dec 2011.
4. Use of cloud computing to drive down costs in security services and monitoring.
5. Mandatory licensing of individuals working in specific sectors in the UK.
6. Trend towards alternate payment systems. Decreasing use of cash to make payments.
7. Use of wireless technology for security systems is set to increase, since it enables remote monitoring without the need for costly wiring, thus potentially reducing costs of installation.

8.2 Company Overview: G4S plc.

G4S is an international security solutions group. The group provides outsourced business processes and facilities in sectors where security and safety risks are considered a strategic threat. It operates in more than 125 countries across the globe.

The group operates in two core product areas: secure solutions and cash solutions.

The secure solutions business provides a broad range of solutions to both commercial and government customers. It offers protection of critical national infrastructure, care and justice services, secure facilities and border protection services to government customers. The division provides integrated security solutions for commercial customers such as risk consulting, manned security and security systems.

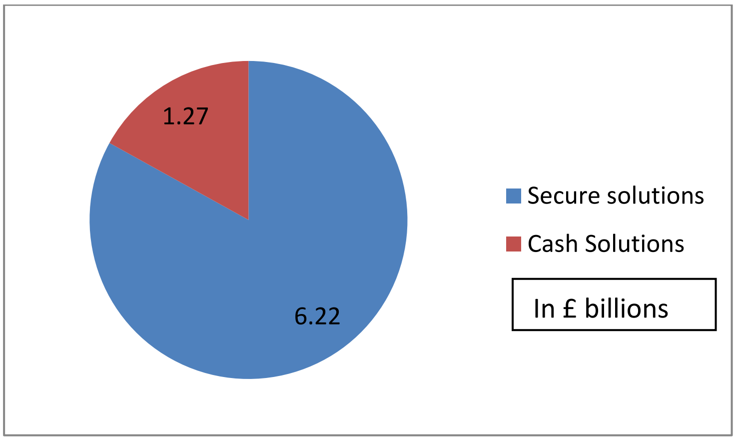
G4S offers a range of secure solutions to customers operating in sectors including governments, major corporations and industrial companies, financial institutions, energy and utility companies, retail, ports and airports, transport and logistics, and leisure and tourism. The service portfolio comprises risk management and consultancy services, secure facility outsourcing, electronic monitoring of offenders, manned security services, electronic security systems, monitoring and response services, management of adult and juvenile custody facilities, aviation security services, fire protection and emergency response, security training services, and project management.

The cash solutions business provides outsourcing of cash cycle management for central banks, financial institutions and retailers. It operates in more than 70 countries around the world. The cash solutions business offers a range of secure logistics, including financial institution cash outsourcing, ATM network management, ATM cash management services, ATM engineering services, retail cash management solutions - CASH360, data and document management services, cash logistics, and secure international transportation of cash and valuables.

It provides security at 14 UK airports and four ports. It also runs six prisons, four children's homes and two immigration centres, and tags 14,000 offenders. It is responsible for security at 500 police stations and 30 custody suites.

The revenue share by the two divisions for the FY2011 is shown in diagram below:

Figure 8



(Source: G4S Annual Report, 2011)

8.3 Business Strategy:

8.3.1 Drive outsourcing in key markets

G4S plans to use its expertise key services, sectors and countries to offer comprehensive solutions addressing multiple customer needs. By leveraging their capabilities across operating segments, G4S can effectively expand its presence and drive outsourcing in the markets in which it operates. The aim is to provide value creation to their clients in terms of 1. Increased revenues 2. Manage their costs, 3. Manage their risks, 4. Protect their assets and 5. Help them improve their delivery of service. Their focus is on the UK market for outsourcing as they see significant opportunities there.

8.3.2 Focus on sectors where security is a key consideration.

G4S secure solutions division has been main revenue generator for G4S. They have acquired expertise in securing government and critical national infrastructure, events, mining, oil and gas and financial institutions. These are sectors where security is a key consideration, which is also the strength of G4S. The business model of G4S is to start by providing single services to a high standard and then expand into providing other services. Hence by focusing on these sectors, G4S will be opening up new markets for their other divisions.

8.3.3 Develop long-term partnerships with customers.

The main elements of their strategy are to drive outsourcing across key sectors, customer base and garner long term contracts. They place importance on customer relationship development and measure this by using tools and software such as Net Promoter Score and salesforce.com. They want their customers to see G4S as a strategic partner, a solutions provider and an essential part of their own strategy delivery. This is an approach to garner long term contracts. They have created global account management programme to address the needs of international companies to ensure quality and consistency of service across markets. They have also created a number of global service excellence centres to work with country operations to focus on operational efficiencies, service standards and development of technology to support service delivery and share best practices.

8.3.4 Transfer skills developed in more mature markets into key developing markets.

Revenue from developing countries accounted for 30% of the groups revenues in 2011. The group's strategy calls for generating 50% of the revenues from developing countries by 2019 by leveraging on the company's ability to export its experience from operations in the developed countries and by pursuing a multi-product strategy. Substantial focus is on the developing markets on Brazil, India and China.

8.3.5 Acquire businesses to drive further growth potential.

G4S has followed a strategy of bolt-on acquisition strategy to improve market share and acquire expertise. They have earmarked £200 million each year for acquisitions. They plan to acquire facilities management services in developing markets, the UK and USA.

8.3.6 Financial Strategy

A cash conversion ratio of 85 % PBITA for the group and PBITA margin aimed at 7%. The company also aims for double digit EPS growth every year.

8.4 Core Competencies of G4S plc

G4S plc operates on a low cost high turnover model. Its strategy can be said to be that of cost-leadership strategy as explained by Porter, 1985. It strives to be the lowest cost supplier to win projects and profit from above-average price-cost margin. Their **core competencies** also reflect this-

1. Low Cost Manpower

G4S security services operate in a low skilled labour intensive business. This is true of their manned security service offerings. Their technology adoption is also aimed at automating processes and tasks to minimize need for human intervention. G4S competes on cost to deliver projects in a labour intensive industry where salaries account for a big chunk of revenues. G4S employs over 123,200 in Europe alone and approximately 90% of them are employed in front-line positions delivering services. Hence their low cost manpower is an important resource for them.

2. Security Services

G4S specializes in outsourced business processes and facilities in sectors where security and safety are major risk areas. It effectively uses its expertise in providing security (both manual and technological) services to gain access to outsourced business and facility management services.

3. Ability to handle big, complex projects.

In an effort to increase profit margins, G4S has pursued a strategy of bundling its services like, manned security, facility management, catering, cleaning, security systems etc. to handle bigger complex projects. The handling of Olympics security project was a setback; however G4S has built a reputation for handling complex projects. This effectively, moves them to complete solution provider and differentiates their products.

8.5 Discussion and Value Creation Opportunities:

From a study of the company strategy and the industry trends, the following areas were identified where TCS with their expertise in IT solutions and business process outsourcing could make a pitch for value addition.

8.5.1 Integration of the two divisions

G4S plc has traditionally operated as two divisions - secure solutions and cash solutions. The larger, more complex cash solutions businesses were managed under separate structure to ensure that best practices were shared, to develop new service lines, maximize efficiencies and to ensure a common approach to security and safety. The company plans to remove the separate divisional structure and integrate cash solutions businesses into their existing regional structure. This is an effort to reduce costs and simplify the management structure. The challenges here lie in integration of both back office and front office operations which includes implementation of common IT systems; sharing of HR resources; finances and integration of processes.

8.5.2 IT Initiatives:

The present economic downturn along with the uncertainty has seen companies trying to reduce costs while the security concerns remain same if not heightened. This has led to increased use of technology in security services. An integrated approach to security has gained momentum, the security officers more routine tasks are being replaced with technology, providing greater efficiency whilst reducing costs. Used in conjunction with traditional methods, video analytics is at a price-point where it is attractive to businesses and can deliver real security efficiencies. An increasing emergence of cloud-based 'hosted' access control systems, driven in part by the significant cost savings that can be realised over the life of the system, has hastened the adoption of technology.

G4S has signed a £32.9 million contract with Fujitsu UK & Ireland to provide business-critical IT infrastructure and services support over seven years. The company is looking to increase its overall agility and support business growth while reducing costs. The contract covers the three core G4S business units in the UK and Ireland: Cash Solutions UK; Secure Solutions UK; and the Group and UK & Ireland Regional Management teams. Fujitsu will migrate G4S systems and data to its own data centres, transform end-user computing to reduce operational costs and provide service desk support from its service centre in Wakefield.

The G4S server and storage estate will be split between two of Fujitsu's tier III data centres, with dual connections for disaster recovery. Fujitsu will use its cloud-based Infrastructure-as-a-Service (IaaS) architecture to deliver applications. The end-user experience will be boosted by Windows 7 migration and a Citrix desktop virtualisation, in conjunction with AppSense, across 3,500 desktops and laptops, and 10,500 email clients to facilitate and enhance remote working.

Account and contract management systems:

G4S had launched an £5.2bn attempt to take over its Danish rival ISS in 2011. This would have doubled the size of G4S and provided an opportunity to expand its range of services. Their operation overlapped in 40 countries and would have provided significant synergies. Among the synergies that G4S expected to realise by acquiring ISS was that it would be able to offer a fuller range of integrated security and facilities services, including for companies that need a single account management structure and "access to the latest technology". G4S operates with high volume and low margins, and access to accurate data will strengthen its business.

An insider said the root cause of the problem with G4S was its internal computer system which had failed to calculate staff rostering. This on extrapolation questions the information management systems at G4S. Comments by Nick Buckles made about 'digging into the data day by day', has led to doubts by the media, if the senior level management at G4S has access to real time data. If this is true then G4S lags behind in terms of analytics and communications systems.

Cash Management Systems:

The company's vision is to deliver Total Cash Management Solutions, integrating world class service at every stage of the cash cycle and providing innovative and compelling propositions for their customers. G4S Cash Solutions has embarked on a transformation project with SAP as the first phase of the project – financials, procurement and materials management – which went live, on budget, in August this year. Phase two, with CRM, billing and a customer self-service portal, will go live in the third quarter of 2012.

G4S Cash Solutions has selected Data Flux technology to help analyse, improve, control and consolidate its business data on a new single SAP system. The firm is modernising its business IT systems by consolidating operational, customer facing and finance applications onto a single SAP platform. Data Flux technology is being used to help migrate the company's legacy data into the new SAP system, to enable consistency and accuracy of data when amalgamated. G4S also uses Microsoft management software Net Promoter Score and Salesforce.com for customer relationship management.

The security industry has begun to realise the potential of technology, especially of using cloud computing in their services. Cloud computing has been used to not only reduce costs but also develop new and innovative services. The report identifies opportunities for TCS that arise from integration of G4S's two divisions; implementation of SAP systems, cloud computing and data management systems for G4S.

9. Findings: Rentokil Initial plc.

9.1 Outcomes from Industry Analysis: Facility Services

The **Porters Five Forces** and **PESTLE** analysis was used to understand the accounting industry and the emerging trends in the this industry –

1. Increasing regulations around environmentally safe processes.
2. Need for employment training.
3. Industry consolidation in progress – Acquisition of companies to garner market share and means to protect profit margins.
4. Emergence of small players providing niche services.
5. Innovative value sharing arrangements with clients.
6. Resource, energy and carbon management services are forming the core of facilities management services.
7. Bundled service offerings to provide complete service solutions.

9.2 Company Overview: Rentokil Initial plc

Rentokil Initial plc (Rentokil or "the company") is a provider of business support services. It offers a wide range of services including textiles and washroom services, pest control, tropical plants, parcels delivery and facilities services. The company has operations in over 50 countries.
The company provides fully integrated total facilities management to Government and commercial sector organisation of all sizes and across all business sectors. The company has comprehensive service capabilities in the field of catering, cleaning, security, building, M & E, and statutory compliance. The company holds long term partnering relations both at home and abroad.

The company operates its business through six divisions viz., textile and hygiene, pest control, Asia pacific, Ambius, City Link and facilities Services.

Figure 9

(Source: Rentokil Initial plc Annual report,2011)

The textiles and hygiene division of the company offers hygiene, linen hire, garment rental, floor care, medical services and specialist hygiene activities in continental Europe. This division caters to a wide range of industries including manufacturing, retail, banking and hospitality. Expert hygiene service includes the provision and maintenance of products such as air fresheners, sanitizers, feminine hygiene units, hand dryers, paper and linen towel dispensers, soap dispensers, toilet paper dispensers and floor protection mats.

The pest control division provides pest control services in international markets. It offers its services to both commercial and residential customers. This division has leading market positions in the UK, continental Europe and North America. Provides high level of risk management, reassurance and responsiveness to customers across 50 countries in which it operates. Property care, is a specialised division of Rentokil working in the field of remedial property surveying for timber treatment, damp proofing, wood boring insects and fungal decay, and has an insurance arm that can provide cover against further damage.

The Asia Pacific division covers all the company's activities in the region, mainly hygiene services, pest control and tropical plants.

The Ambius division provides interior landscaping, design installation and maintenance services in North America, the UK and continental Europe.

The company's City Link division offers parcel delivery services in the UK.

The facilities services division comprises a number of related businesses including cleaning, catering,

Hospital services, specialist hygiene and manned guarding in the UK.

9.3 Business Strategy

The company identified four key objectives for 2012 and these objectives are a follow up to its investments in people and systems for the last four years. They have marked 2012 to be the year, in which these investments will start to show some returns. The objectives for 2012 are –

1. To deliver €50 million cost savings from productivity, procurement and back office rationalization.
2. To achieve growth through marketing, innovation and acquisitions.
3. To drive greater customer satisfaction and retention.
4. To turnaround the financial performance of City Link.

They plan to achieve this by five initiatives or strategy aims as the company refers to them:

- Outstanding Customer Service

  They plan to achieve this by rolling out successful pilots at City Link; Pest and Hygiene units. These pilots included call center technology and customer account management processes. Customer Voice Counts survey is to be used to incentivize employees based on customer satisfaction.
- Developing Capability

  The plan is to focus on marketing and innovation in their service offerings, provide training and development programme to their employees to develop capabilities.
- Delivering Operational Excellence

  City Link has been a loss making unit for the last two years pulling down the group's earnings, the company aims to focus on operational excellence at City Link and cost management. They also plan to roll out shared service centers across the group to increase efficiencies.
- Lowest Cost and Maximum Cash

  The aim is to deliver £50 million in cost savings through direct materials procurement, service productivity, back office rationalization and efficiencies particularly City Link where the target is £20 million.
- Profitable Growth

  The company aims to grow their business through bolt-on acquisitions, primarily for the Pest division in the American continent and other high-growth areas. Emphasis is also on developing group sales capabilities.

9.3 Core Competencies of Rentokil Initial plc

An analysis of the company yielded the below core competencies for Rentokil Initial plc –

1. Low Cost Manpower

Facility services industry is a labour intensive industry and the company makes use of low skilled, low cost manpower. Employee retention levels are quite high which is also reflected in the employee engagement levels.

2. Presence in many sectors

The company operates in six divisions which cover a wide variety of services in the industry. The company also pursues an active bolt-on acquisition strategy to gain expertise in new fields.

3. Brand Recall

The company has been in existence for a long time and has a strong brand recall value in the UK. Its divisions too have a good brand name associated with them, the top among them being the pest control division.

9.4 Discussion and Value Creation Opportunities:

On analyzing the company structure and strategy a striking feature is that the company does not seem to have a single strategy for the full group. An impression that the analysis leaves is that the company acts like a loosely knit group of companies which provide services they specialize in. This goes against the industry trend of bundling services like its competitors (G4S plc and Mittie) are able to provide. This also limits their ability to win big complex projects – another industry trend that Rentokil is not in step with. The report forecasts that the company will have to integrate its divisions soon in order to bundle their services and compete better to win lucrative complex projects. With these observations TCS could make value propositions in the following areas:

9.4.1 Cost Saving

The company continues to focus on cost base with cost savings programmes in all countries and segments. During the previous year, the company felt short in cost saving by about 20% from its set target. Year on year the company focuses on cost reduction and during 2012 it aims £ 50 m mainly through saving opportunities in back office administration in all its divisions. In addition, in the pest control and Ambius division, the focus is also on service delivery and for the City Link division, the aim of £20 million cost saving is expected to be achieved through focused on driver productivity and supported by hub & trunking and warehouse in addition to back office administration. For the

Rentokil Initial division, the cost savings are planned to be achieved through application of LEAN cost saving initiatives to improve gross margin levels. TCS with its expertise in developing supply chain optimization applications can add value to Rentokil here.

9.4.2 Systems and IT integration

The company has embraced cloud based solutions including Google Apps software service for email and collaboration; Ariba as its main automated procurement tool and all these applications are stand alone and there seems to be no integration even in IT applications and solutions. Integration of IT application and solutions would help the company to achieve high cost savings on data management. The company is establishing shared services centers and integrated IT systems would reduce costs and increase efficiencies. TCS develops customized cloud applications along with IT applications for shared services like HR, finance, vendor management and could participate in this integration process.

9.4.3 Customer Relationship Management Packages

The next challenge for the group is managing the number, scope, complexity and interdependency of many initiatives to deliver improved capabilities of its people, excellence across the group's operations and outstanding service to its customers, as detailed in the initiatives towards the strategic aim. The company is structured divisionally and customer relationships focusing on specific needs of customers and markets are developed by each division also known as segmented customer proposition. There are no standard parameters applicable across divisions to measure customer satisfaction. Customer satisfaction is measured through Customer Voice Counts or CVC, based on the Net Promoter System, identifying both loyal and unhappy customers. Other measures include state of service and customer retention level. Though the company was able to maintain the customer retention level at 83.9% but the customer satisfaction score through the Customer Voice Count has reduced from 19% to 6%. The CVC score represents the net balance of those customers promoting Rentokil's service compared with those neutral or not promoting. Lack of integration among the divisions also shows that the company is unable to provide a complete view of the customer across the group firms. An integrated customer relationship management suit by TCS would be of much use here to provide a holistic view of the customer to the Rentokil.

10. Conclusions

The market and strategy analysis of the six firms has been carried out first by an industry analysis using the Porters five forces and PESTLE framework. This was combined with the TIPS approach of TCS (refer Annexure 1) to identify problem areas and possibilities for TCS to make value add propositions to the target companies.

A review of the strategy and core competency view of the firms has yielded problem areas which range from integration issues to customer relationship management. The increasing adoption of cloud computing by the corporate world can be seen here as all the target companies were exploring ways to benefit by implementing cloud computing.

The report identifies areas in shared services outsourcing, integration of national Enterprise Resource Planning (ERP) systems to a unified SAP platform and in the private cloud computing web that KPMG Europe LLP is planning with its integrated data center.

The problem areas for G4S plc were around the integration of their two divisions that had operated as independent units till 2011. The increased use of technology in security solutions, to reduce costs, opens this sector for cloud computing applications and integration of different technologies onto a single platform. The report also highlights that the accounts and contract management systems at G4S plc were attributed to be the cause for the £50 million fine from the London Olympics contract.

A review of Rentokil Initial plc's strategy showed a lack of unified direction. This was further strengthened by the independent nature of its divisions. This was in steep contrast to its competitor, Mittie Group plc, which is able to integrate its divisions and provide a bundled service. This has resulted in the Mittie Group having better operating margins. The report highlights issues with integration of divisions including IT infrastructure and Customer relationship management.

Full detailed reports for all six companies are in the annexures :

Annexure 2 : KPMG Europe LLP

Annexure 3 : G4S plc

Annexure 4 : Rentokil Initial plc

Annexure 5 : Cisco International Limited

Annexure 6 : Panasonic Europe Limited

Annexure 7 : Bunge London Limited

11. Limitations

The report is based primarily on secondary data collected from databases and news agencies. This places a constraint on the depth of the pain areas that are identified. For example the Big Four firms (auditing industry) provide only high level financial information with minimum commentary and the value add that we as external consultants can provide is debatable since we do not have inside information about the company or the industry. A certain amount of extrapolation within reason was applied to the problem areas identified and possible solutions.

The industry analysis was carried out with Porters Five Forces and PESTLE frameworks. While Porters Five Forces framework can be used to understand the role of the stakeholders, this does not really help in identifying problem areas common to the industry. The PESTLE framework did help with identifying problem areas and emerging trends, but again as outsiders and not being privy to knowledge gained by being part of the industry more depth to the PESTLE analysis would have been ideal. However the report does use industry publications, government publications and reports by databases to arrive at the PESTLE used in the analysis.

The last part of matching TCS services with problem areas has been in consultation with TCS staff. However we are not privy to the exact nature of service that TCS can provide to KPMG. This only highlights areas that TCS could gain access to KPMG with its expertise/ products. Despite these limitations, the feedback we have received from TCS based on the draft reports and presentation done midway through the research has been positive and encouraging towards the project.

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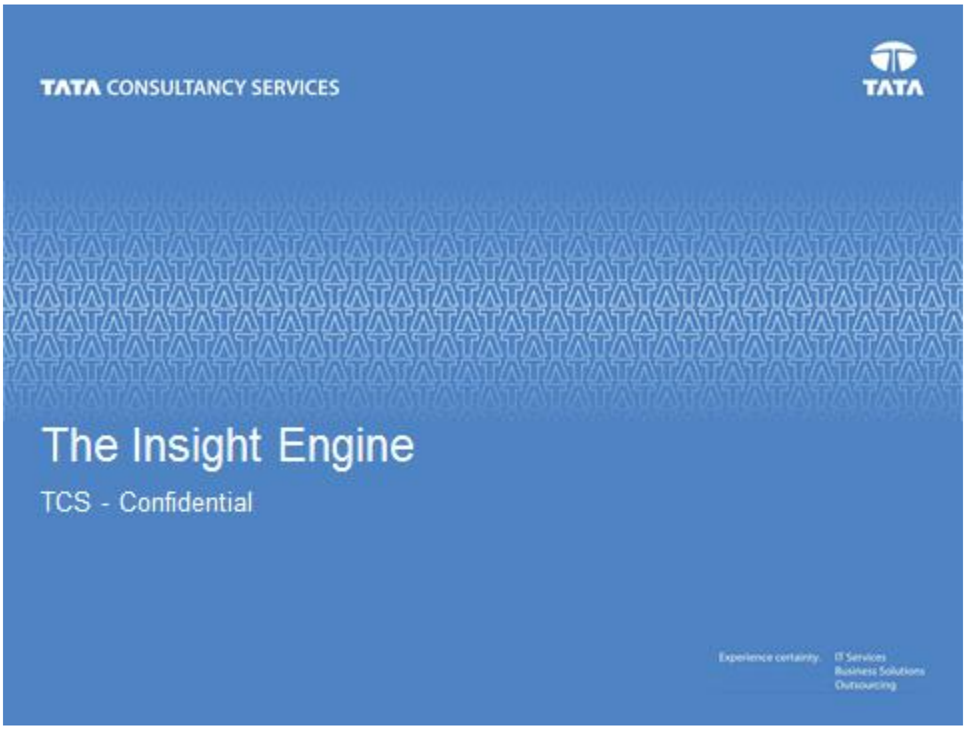
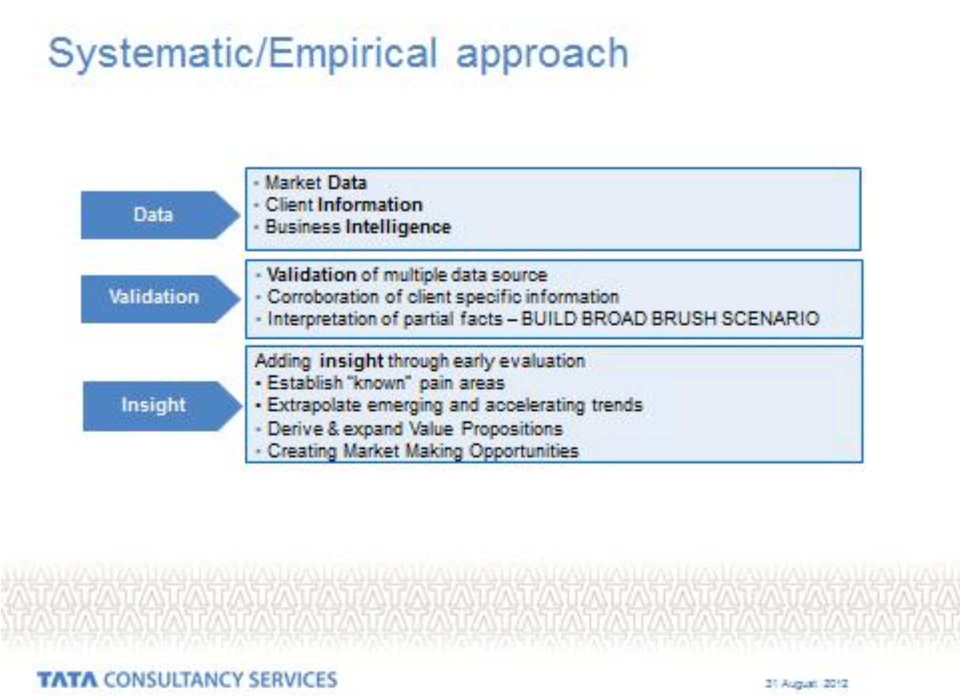
13 Annexures:

Annexure 1

Tata Consultancy Services – Professional Services Project Brief





Data

External Data Sources

Google Search/Other Serach Engines • Boilerplate Data • Slow • Unvalidated • Often inaccurate	**Industry Analysts (IT)** • Gartner/Ovum/Forrester • High Volume of output (50K+ reports) • Generic anonymous trends/forecasts • supporting information rather than primary data • magic quadrant stats
Data Consolidators • OneSource/Factiva/ Hoovers/ DataMonitor • Individual client reports • Usage or Subscription based charging	**Proprietary Client Databases** • IDC/Nelson Hall/D&B • High volume of data available • Selection/prioritisation challenges • Subscription based charging

The challenge has changed: From finding data to filtering & refining data

TATA CONSULTANCY SERVICES 31 August 2012

Data

Information Sources

Primary Web/Desk Research • Boilerplate Data • Time Consuming • Variable depth/recency	**News Agencies** • FT/Reuters/Computer Weekly • High Volume/Multiple Sources • Coverage issues	**Sourcing Advisors** • TPI/Albridge etc. • Specific Client Engagements • Level II / Commodity sales • Vested interests?

Web Forums/Blogs • eetimes.com/ Insurancenetwork.com beveragedaily.com etc. •Largely untapped source of data • Unvetted contributions	**Industry specific Publications** • Airframer Weekly/Information Age etc. • High volume of data available • Selection/prioritisation challenges • subscription based charging

Huge Resources with variable costs associated : Requires prioritisation and QC

TATA CONSULTANCY SERVICES 31 August 2012

Data

Sources of Business Intelligence

Companies
- Geographies/IP/SP/Snr Mgt
- Right person Right Time
- Relies on Informal Networks

Alliance Partners
- Microsoft/Oracle/SAP etc,
- Confidentiality & IPR issues

Direct Contacts
- Research programmes
- Iterative benchmarking & Value Prop testing
- Leveraging existing clients and relationships

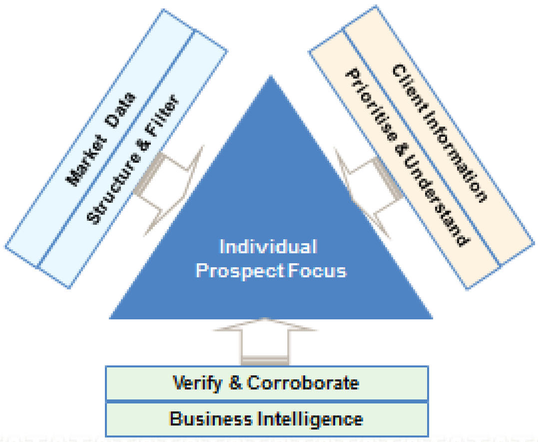
Events
- Industry / Technology
- Attendance rather than sponsorship
- Data Gathering not Dissemination
- Graduation to more active participation

Intelligence is the result of processing, manipulating and organising data in a way that adds to the knowledge of the person receiving it.

TATA CONSULTANCY SERVICES 31 August 2012

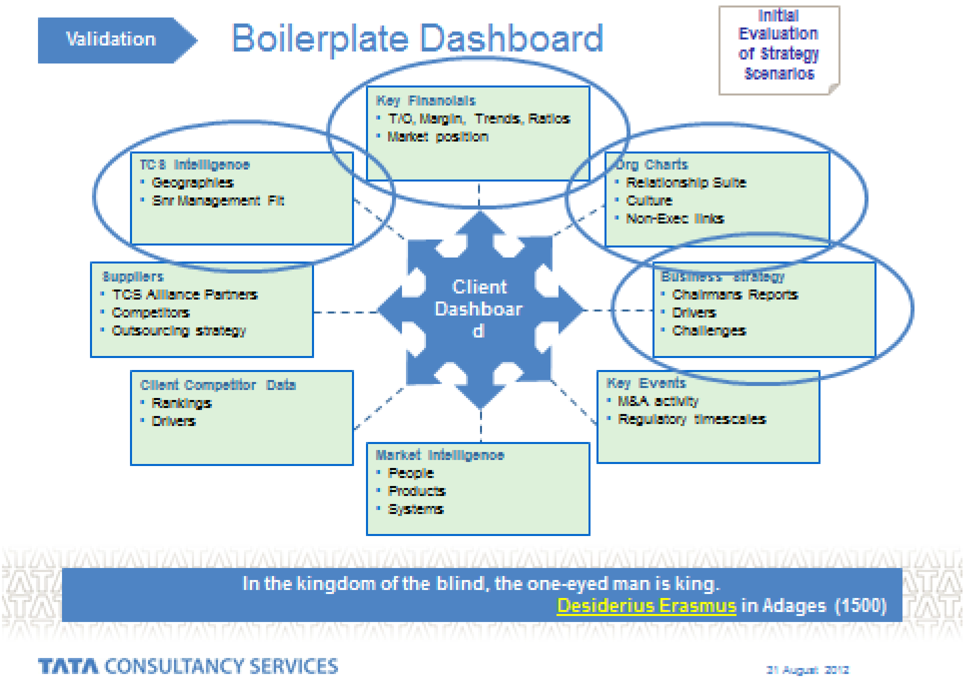
Validation

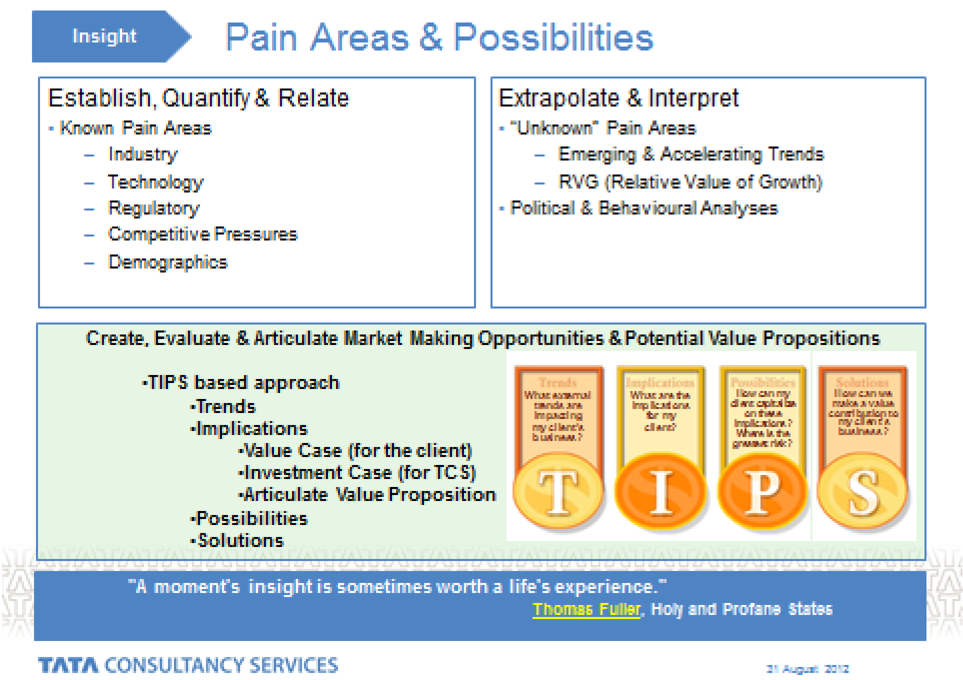
Consistent & Continuous Validation



I not only use all the brains that I have, but all that I can borrow.
Woodrow Wilson

TATA CONSULTANCY SERVICES 31 August 2012


Validation
Boilerplate Dashboard
Initial Evaluation of Strategy Scenarios
Key Financials
T/O, Margin, Trends, Ratios
Market position
TCS Intelligence
Geographies
Snr Management Fit
Org Charts
Relationship Suite
Culture
Non-Exec links
Suppliers
TCS Alliance Partners
Competitors
Outsourcing strategy
Client Dashboard
Business strategy
Chairmans Reports
Drivers
Challenges
Client Competitor Data
Rankings
Drivers
Key Events
M&A activity
Regulatory timescales
Market Intelligence
People
Products
Systems
In the kingdom of the blind, the one-eyed man is king.
Desiderius Erasmus in Adages (1500)
TATA CONSULTANCY SERVICES
31 August 2012


Insight
Pain Areas & Possibilities
Establish, Quantify & Relate
Known Pain Areas
Industry
Technology
Regulatory
Competitive Pressures
Demographics
Extrapolate & Interpret
"Unknown" Pain Areas
Emerging & Accelerating Trends
RVG (Relative Value of Growth)
Political & Behavioural Analyses
Create, Evaluate & Articulate Market Making Opportunities & Potential Value Propositions
•TIPS based approach
•Trends
•Implications
•Value Case (for the client)
•Investment Case (for TCS)
•Articulate Value Proposition
•Possibilities
•Solutions
T
I
P
S
"A moment's insight is sometimes worth a life's experience."
Thomas Fuller, Holy and Profane States
TATA CONSULTANCY SERVICES
31 August 2012

Annexure 1 : KPMG Europe LLP

Table of Contents

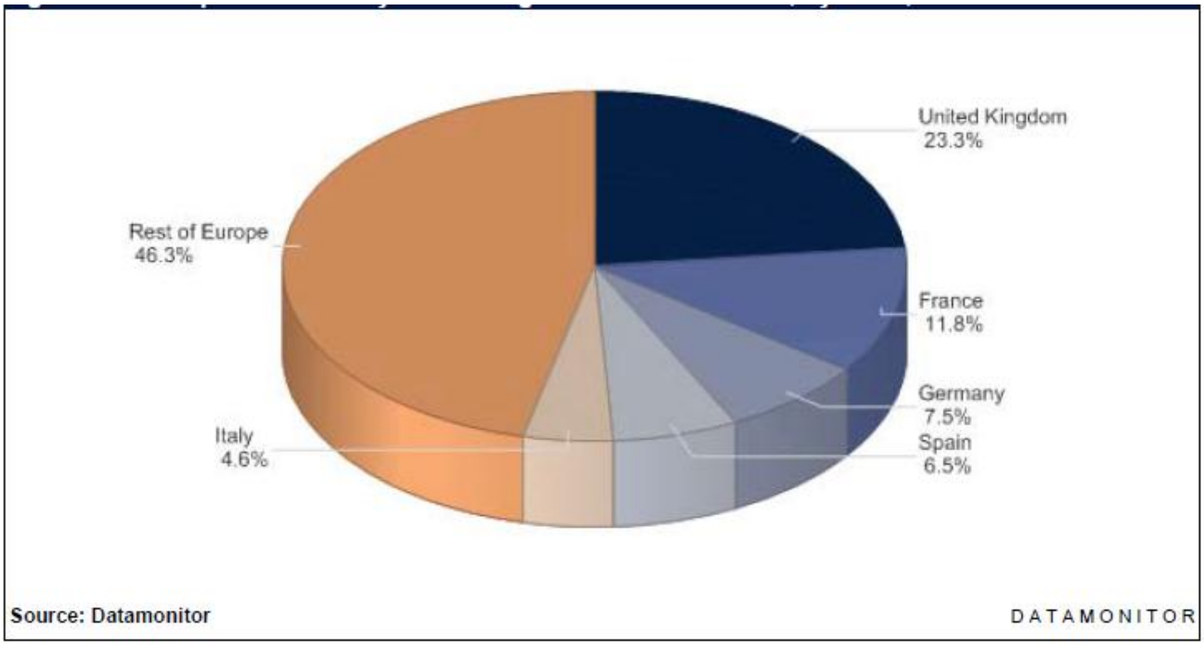
1. Introduction : Market Definition

The accountancy market is made up of four key sectors: audit and accounting; tax and legal services; corporate finance; and management consultancy. The first three of these sectors are perhaps the most traditional sectors in the industry, although management consultancy is by far the most lucrative in terms of market value.

2. Market Size: Accountancy Market Europe

The European accounting market is expected to be €126.7 billion in 2011 having grown at a rate of 4.1% from 2010. The United Kingdom and France are the largest markets and account for over a third of the market size. The accounting market

Figure 10

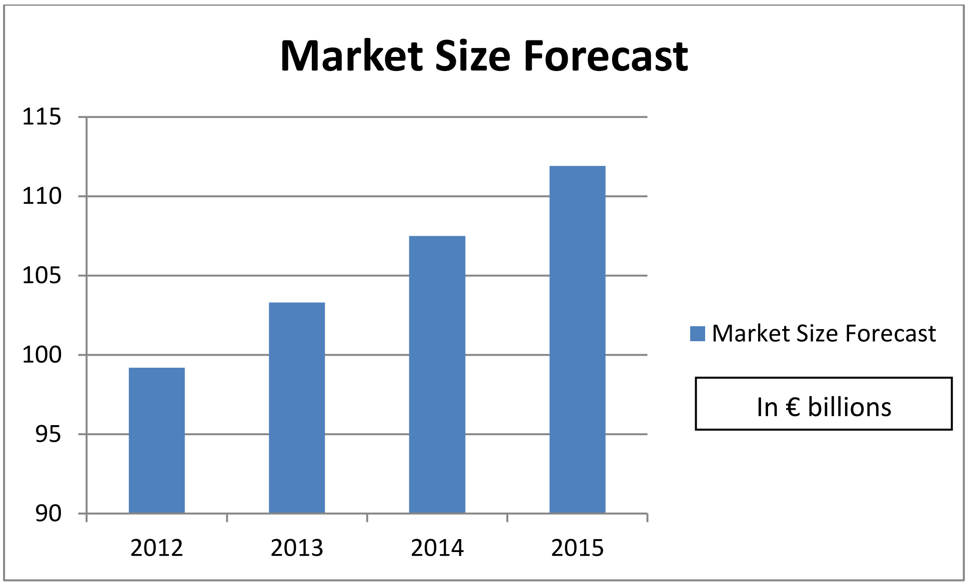


(Source: Datamonitor, 2010)

The United Kingdom is by far the largest market in Europe and accounts for 23.3% by value followed by France with 11.8%. However the Big Four firms have had spectacular growth in Eastern Europe as these high growth economies have matured into capitalistic markets requiring sophisticated audit, tax and transaction services.

2.1 Market Forecasts:

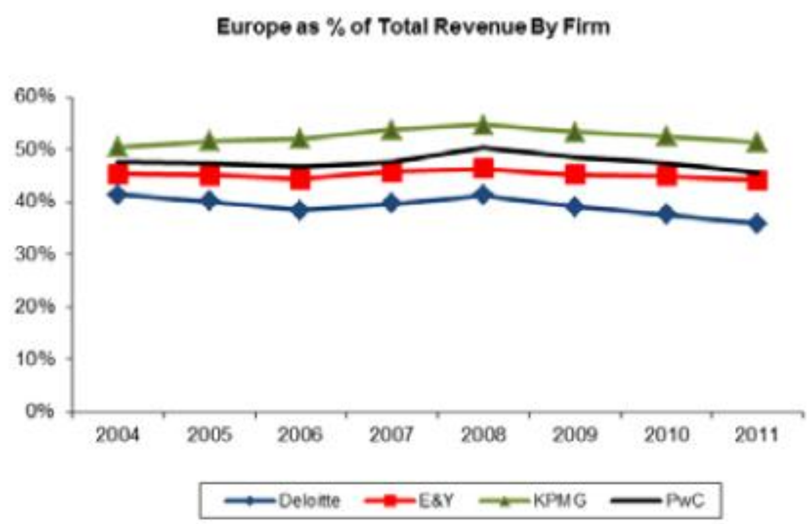
Figure 11



(Source : Datamonitor, 2011)

The accountancy market has recovered from the slump in 2008 and is expected to grow to 148.6 billion by 2015.Europe is the largest region by revenue for all Big Four firms. The Big Four firms typically combine the developed countries of Western Europe, the up and coming markets of Eastern Europe with the middle Eastern and African nations for a giant EMEA region and represents about 44% of global revenues (FY 2011) for the Big Four. The graph below shows the European revenues as a percentage of global revenues for the Big Four.

Figure 12



(Source: The 2011 Big Four Firms Analysis by www.Big4.com)

Although KPMG is the smallest of the Big Four firms, in Europe they rank number two by revenues behind PwC. PwC earned $13.14bn in 2011 with Deloitte and E&Y earning $10.3bn each. KPMG earned $11.8bn in revenues for KPMG from Europe with KPMG Europe LLP being the biggest contributor.

The Accountancy market in United Kingdom is forecasted to reach £27.25 billion by 2015, with tax and legal services expected to show strong growth rate of 9.4% in 2015.

Table 2: The Forecast UK Market for Accountancy and Related Services by Fee Income (£m), 2011-2015

	2012	2013	2014	2015
Audit and accounting	5100	5375	5650	6000
Tax and legal services	4100	4400	4800	5250
Corporate finance and business recovery	2800	2900	3025	3200
Management consultancy	11300	11725	12225	12800
Total	**23300**	**24400**	**25700**	**27250**

Source: Keynote report,2012

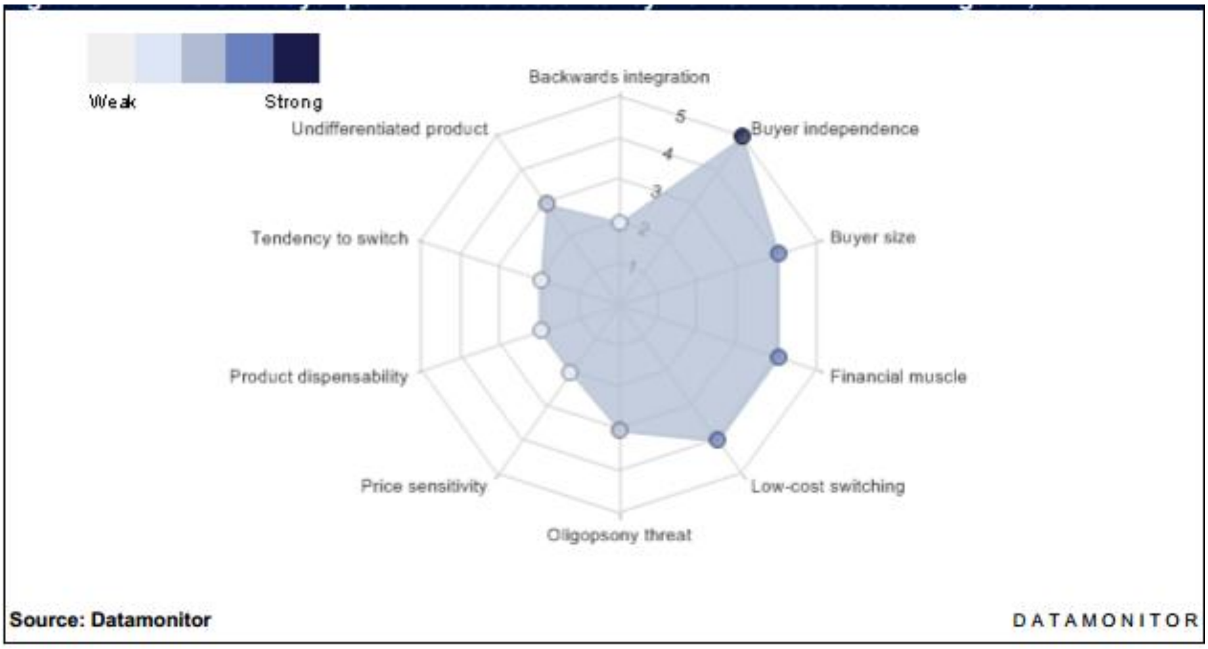
3. Five Forces Analysis: Accountancy Market in United Kingdom

(source : Datamonitor, Sept 2011)

The accountancy market will be analyzed taking accountancy firms as players. The key buyers will be taken as companies and individual consumers, and software providers, information & technology and office supplies as the key suppliers.

3.1 Buyer Power:

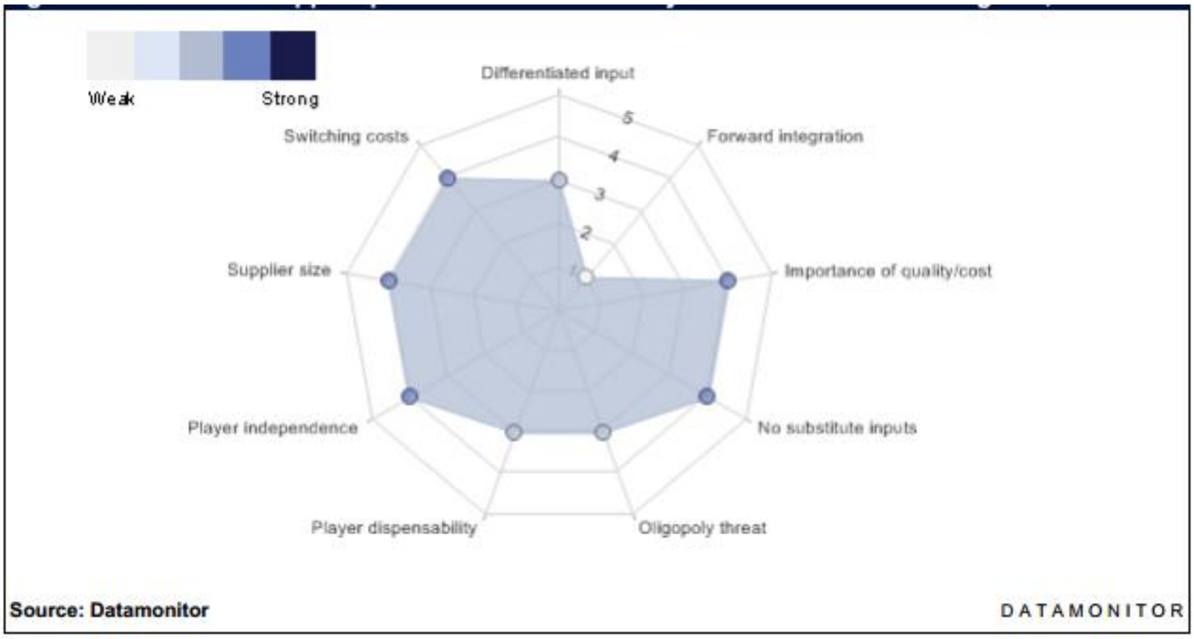
Figure 1: Drivers of buyer power



Buyers can vary in size but include many medium and large businesses, which strengthens buyer power considerably. For some businesses the service is a necessity, for example, most companies will be legally required to engage independent auditors, while it is less so for most private individuals. Four major players dominate the accountancy market: Price Waterhouse Coopers, KPMG, Deloitte Touche Tohmatsu, and Ernst & Young. For example, 99 of the FTSE 100 companies (all listed on the London Stock Exchange) are audited by these "big four" accountancy firms. There is limited choice of players for the largest corporate clients, as they will tend to need accountants that can offer a wide range of competencies, for example, a multinational client will need guidance on the tax regimes in all the countries it operates in. Also, to maintain investor confidence, a corporation needs to engage an accountancy firm with a high reputation for probity, which may tend to favour the more well-known majors. . Switching from a "big four" auditor to a smaller player may be viewed negatively by the capital markets – however unfairly - and it may be advantageous to retain one accountancy firm, which has a deep understanding of the client business, rather than switching. Buyer power is strengthened by the fact that accountants as such can rarely integrate forwards into their clients' businesses, while clients can carry out some accounting functions in-house. Overall, buyer power is **moderate.**

3.2 Supplier Power:

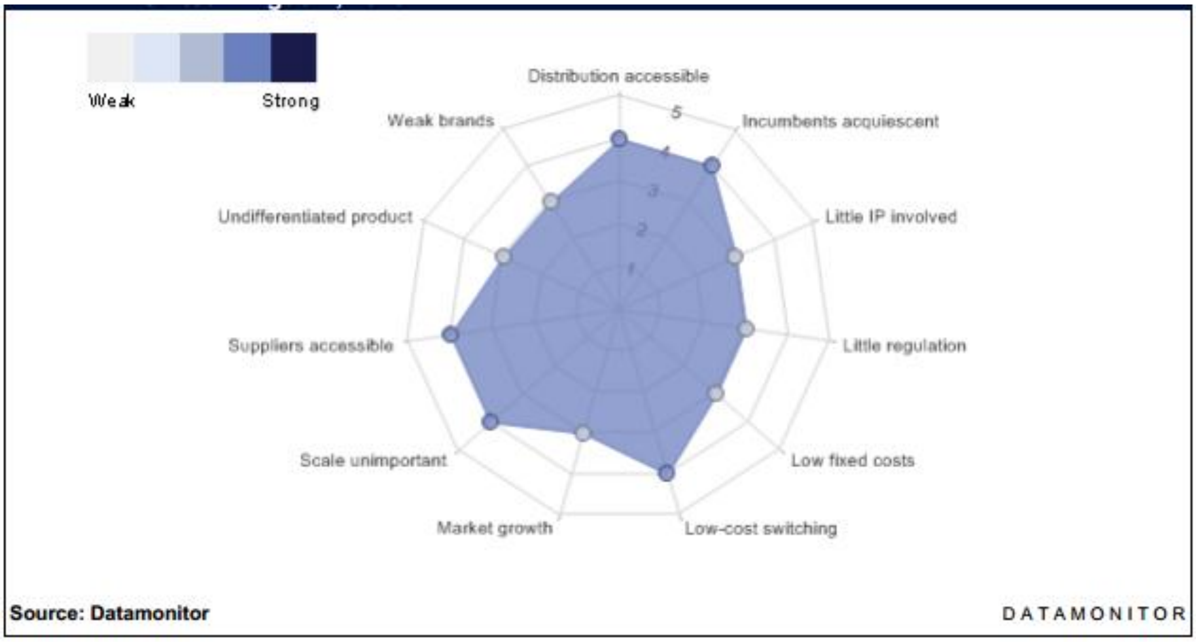
Figure 2: Drivers of supplier power



Suppliers in the accountancy market consist of specialized accountancy software publishers. These publishers provide computer software that records and processes accounting transactions. This is a necessity for most accounting firms, and varies in its cost and complexity. Furthermore, large accountancy firms need more specialized technology, and therefore rely on a limited range of suppliers to provide this. However, the wide range of low end and high end products on offer, such as ERP software, weakens supplier power. Other suppliers to accountancy firms will include manufacturers of PCs and office equipment. These firms require a reliable ICT infrastructure to be in place and therefore often commit to one supplier's product as they do not want to spend the money training staff on new software, again putting suppliers in a strong position through high switching costs. It is also vital for players in this market to recruit and retain highly skilled employees. Changing the labour supply (that is, experiencing staff turnover) incurs switching costs. This is not just the one-off expenditure needed to recruit replacements, but also the amount spent on training and development of staff, which is not recovered when an employee moves on, and may in fact benefit a competitor that takes on the same person. Overall, supplier power is **moderate.**

3.3 New Entrants:

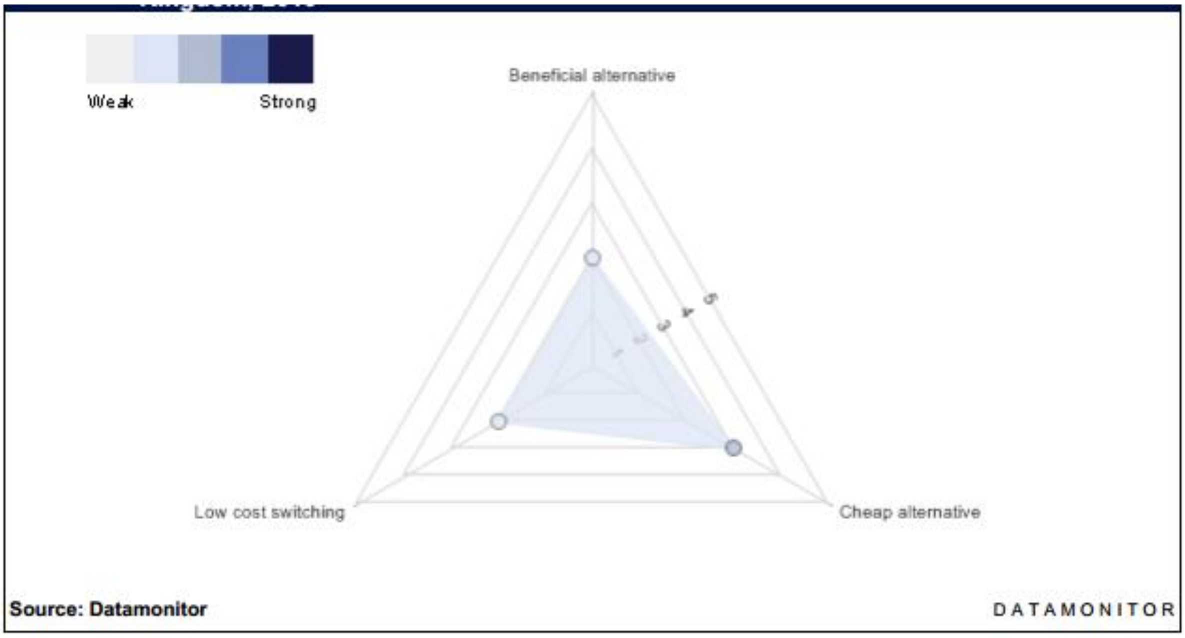
Table 3: Factors influencing the likelihood of new entrants into the market



The "big four" firms have a strong presence throughout the region. They are particularly significant players in the large public corporation auditing segment. These four firms can offer an appropriate range of expertise. Such competencies may not always constitute "proprietary knowledge" in the strict sense, since information on tax laws, accounting principles, industry practices, etc are usually in the public domain, but may have a function akin to intellectual property for the major accountancy firms, especially since the replication of such competencies can be costly, and constitutes a barrier to market entry. Also, it can be difficult for large clients to switch from a big four auditor to a smaller – though equally qualified – player, as investors may look askance at such a move. This represents an additional barrier to entry to this segment. However, there are many other accountancy functions accessible to new entrants, and overall the likelihood of new players is assessed as **strong.**

3.4 Substitutes:

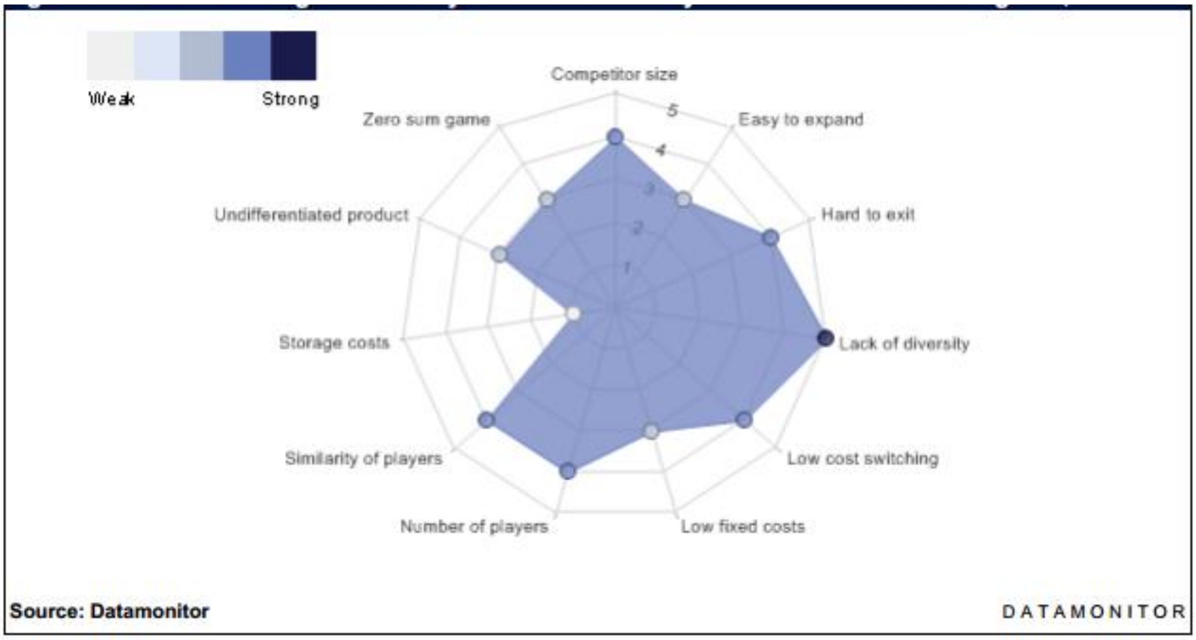
Table 4: Factors influencing threat of substitutes



While there are no obvious substitutes for the functions offered by accountants, specialized accountancy firms do face the threat of substitutes. For private individuals, "DIY" accounting is often a possibility. This substitute avoids costs in terms of fees paid to a third-party accountant, but may incur other costs, such as the time absorbed by the process, and the greater possibility of mistakes being made. There may also be switching costs, such as the need to purchase appropriate software. In a similar way, corporate clients can carry out many accounting processes in-house. However, for companies with complex business operations, perhaps covering several taxes and reporting jurisdictions, the costs of maintaining a suitably skilled in-house team will rise. Also, the important function of auditing cannot by its nature be performed in-house. Overall, the threat of substitutes is **weak.**

3.5 Degree of Rivalry:

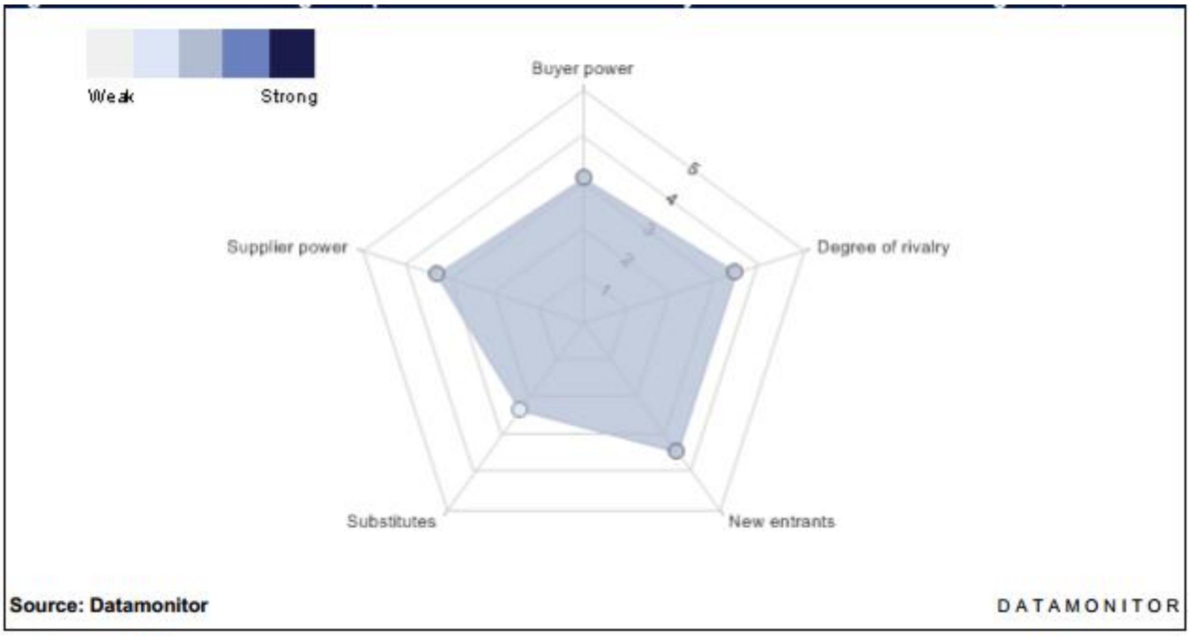
Figure 5: Drivers to the degree of rivalry



The "big four" firms have a significant presence in Europe. This is especially true of the large public company auditing segment. However, there are also many smaller firms, which increase rivalry. This is enhanced by the fact that many players are very similar to each other. Even for large firms that have diversified beyond accountancy into areas such as corporate advisory services, accountancy is quite central to the business of most players in the market. Further, although accountancy firms have few specialized physical assets to dispose of, their staff will tend to have specialized skills. Exiting the accountancy market would therefore incur costs: IT systems could be re-deployed in another business area, but laying off a large staff and recruiting a new one with different skills is not a trivial exercise. Overall rivalry in the European market is assessed as **strong.**

3.6 Summary:

Figure 6 :



Moderate market growth encourages market entry and tends to weaken rivalry to some degree, despite the difficulty of competing with the largest players. Buyers can vary in size but include many medium and large businesses, which strengthens buyer power considerably. The "big four" accountancy firms are established in this market, alongside several second tier and smaller players. The complex accounting and auditing needs of the most lucrative clients weaken buyer power. IT and skilled employees are important inputs in this market and supplier power is boosted.

For large businesses, with a presence in multiple countries and across sectors, the choice of auditors narrows down to the "Big Four" firms. There are a lot of regulatory restrictions in terms of the service that an auditor can provide hence most audit firms provide similar services. Also since most of these large firms are listed entities, continuity in auditors is seen as a positive measure. This industry is based on relationships all these factors have translated into limited competition and higher returns.

3.7 Key Factors for success in the Industry:

1. Reputation / Brand Name.
2. Business decisions are based more on relationships.
3. Skilled manpower to address a wide range of competencies.
4. Presence across countries.
5. Specialised software to process accounting transactions.
6. Reliable Information and Communications (ICT) Technology.

4. PESTLE Analysis – Accountancy Industry

4.1 Political:

12. The euro crisis, the payment crisis and the recent libor fixing scandal has dented the reputation of financial services.
13. Establishment of a Euro central bank will lead to new regulations and reporting schedules.
14. Insolvency reforms planned - The Insolvency Service wants to introduce an independent body to review complaints about fees levied by administrators and liquidators, amid concerns that unsecured creditors are being overcharged.
15. A leaked draft of proposals outlined that the European Commission intends to split up the auditing businesses of the Big Four or the companies might face huge fines.

4.2 Economic:

1. The euro crisis continues, the Greek exit could lead to a dominos effect and the eventual break-up of the Euro.
2. No imminent recovery is anticipated in the Mergers & Acquisitions (M&A) and IPO markets.
3. Verticalisation - Accounting service providers increasingly focus on specific industries, for example the banking industry, the travel industry, the health industry or the telecom industry.
4. Switch to added value services -There is a trend in the accounting sector towards more complementary services. EU companies increasingly use their accountants as confidants who perform added value services, such as consultancy.
5. Government spending is expected to decline further.

4.3 Social:

1. Calls for reforms and stricter regulations to ensure past mistakes are not repeated have increased.
2. In several EU countries there is an increasing shortage of qualified accountants. Although the economic crisis has lowered this shortage, it is expected to become an important factor again once the economic situation recovers.
3. Near shore providers emerging fast - Companies in Central and Eastern Europe (CEE) such as Ukraine, Romania, Hungary, Poland and the Czech Republic, are becoming important BPO providers for EU companies of among others accounting services.
4. It seems that more accountants have been facing legal action in the past few years than ever before, and that this trend looks set to increase in the coming years.

4.4 Technological:

1. Cloud computing is witnessing an ever-increasing uptake in the accountancy world and many companies will start using this feature in the future to create an easily accessible system for its employees.
2. Increasing use of online accounting services - The increasing popularity of online accounting services/software, especially among European SMEs, lowers the demand for general accounting services and puts pressure on the turnover of accounting companies.
3. There has been a spate of high-profile security breaches reported in the media and accountancy firms could become a target because of their access to sensitive documents and important data.

4.5 Legal:

1. New auditing standards and regulations for EU countries result in a higher workload for EU accounting service providers.
2. Increased reporting and accountability regulations to improve transparency.
3. Accountancy firms also have to take account of the money laundering legislation, designed to clamp down on organised crime, corporate fraud and terrorism. Accountants, lawyers, and many others who are bound by these regulations have to keep records showing that they have ensured that their clients are not laundering money.
4. Cross-border implications of global, regional and national regulatory changes.
5. The UK government is currently considering the introduction of proportionate liability for auditors. When the new legislation is implemented, it should make the UK market more attractive to new entrants, by reducing the risks for auditing firms.

a. Environmental:

1. International debate on how best to respond to climate change, and mitigate its effects have forced companies to think of environment friendly initiatives.
2. Move towards implementation of sustainable IT practices.
3. Organizations may need to comply with increasing demands for environmental reporting based on new regulations.

5. Competitor Analysis

(Source: Market Line, Datamonitor and Keynote reports)

There are thousands of accountancy firms and practitioners in the UK, making for an extremely varied marketplace. The leading companies in the market, also known as the Big Four, are: Deloitte Touche Tohmatsu, Ernst & Young International, KPMG International and PricewaterhouseCoopers. There are currently eight companies outside of the Big Four that have a UK fee income of over £100m. Outside of the Big Four and the mid-tier firms is a network of smaller firms and sole practitioners that are working independently. Many of these smaller firms choose to use their expertise and focus on a particular industry or market. Furthermore, many sole practitioners choose to focus on a discipline such as tax or accounting.

Table 3: The Big Four Leading Accountancy Firms by UK Fee Income (£ million) 2011

	UK Fee Income	Change on 2010	UK Profit
PwC	2331	4.0%	680
Deloitte	1953	-0.8%	593
KPMG	1602	-1.5%	432
Ernst & Young	1356	-2.0%	-

Source: Accountancy Age, Oct 2011

Table 4: Comparison of the Big Four

	UK Fee Income	UK Profit	UK offices	No. of Partners	Fees per partner (£ mn)
PwC	2331	680	40	845	2.76
Deloitte	1953	593	23	953	2.05
KPMG	1602	432	22	576	2.78
Ernst & Young	1356	-	21	534	2.54

Source: Accountancy Age, Oct 2011

Table 5: Revenue Share by segments **(£ millions)** - 2011

	Audit account	Tax	Consultancy	Insolvency	Corporate Finance
PwC	893	634	804	-	-
Deloitte	628	511	459	-	355
KPMG	458	350	794	128	219
Ernst & Young	403	360	309	-	284

Source: Accountancy Age, Oct 2011

a. Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu is an organization of member firms around the world, providing a broad range of professional services including audit, tax, consulting and financial advisory services. The company operates in nearly 150 countries through 70 member firms. The company serves national and middle market enterprises, public institutions, privately owned companies and public sector organizations. It provides its services to all major sectors including aviation and transport services; consumer business, energy and resources, financial services, life sciences and health care, manufacturing, public sector and technology, and media and telecommunications. The separate units of the company are Deloitte & Touche; the US accounting arm; and Deloitte Consulting.

Deloitte's services can be categorized into four broad functional areas: audit, consulting, tax and advisory services.

Deloitte's audit services segment offers audit technology, addresses new regulatory requirements, incorporates multiple generally accepted accounting principles (GAAP) compliance, and facilitates the auditor's understanding of business processes, controls, and risks. Its core competencies encompass risk management, capital markets, control assurance, internal audit, regulatory consulting, and security and privacy services.

The consulting services of the company range from strategy formulation to technology implementation. It also offers industry and functional business performance knowledge. The company has consulting alliances with leading companies such as 3M Company, BEA Systems, HP, IBM, Oracle Corporation, SAP, Siemens Medical Solutions USA and Sun Microsystems.

The company's tax services include corporate tax, indirect tax, international assignment services, international tax, mergers and acquisitions (M&A) transaction services, research and development credits, tax technology solutions and transfer pricing. The company's Global Backbone is a locally delivered, centrally coordinated global tax compliance and reporting service, scalable to meet each client's specific needs.

The advisory services are composed of four global service lines: corporate finance advisory, dispute consulting/forensic services, reorganization services, M&A transaction services, and valuation services.

The corporate finance advisory unit provides M&A advice to corporate clients, private equity/venture capital firms, entrepreneurs and governments. It has 90 partners and more than 900 employees. Its main services include acquisitions and disposals; capital raising-private equity or capital markets; valuations; strategic and general corporate advice; and business modelling. The dispute consulting/forensic services range from litigation consulting provided locally and globally to forensic investigations encompassing fraud and accounting investigations. The reorganization services include lender solutions, restructuring services, corporate exit management and insolvency services. M&A transaction services provide tax, accounting and advisory services in business combinations to buyers or sellers. Valuation services provide business valuation, intangible asset valuation, tangible asset advisory services, transaction advisory, and capital allocation.

5.1.1 Strengths:

1. Industry recognition reinforcing market position

Deloitte member firms in US, UK, Japan, Russia, Germany, and several other countries were ranked Tier 1 or 2 in the International Tax Review list of tax service providers in 2008 through 2010. For the fifth consecutive time, Euromoney's 2009 Guide to the World's Leading Transfer Pricing Advisers recognized Deloitte member firms as having the highest number of leading transfer pricing advisers. Top tier rankings are assigned to firms that have the greatest depth of resources, experience, and range of specialties. Leading individuals are those that are well recognized in their particular area of expertise, with only high rankings assigned if they are market leaders. The firm's ability to sustain rankings helps it attract steady business flow to its member firms.

2. Ability to manage in downturn

Deloitte has maintained strong business flow during good and difficult times as well. The organization reported aggregate member firm revenues of $26.6 billion for the fiscal year ended May 31, 2010. In US dollar terms the firm's revenue registered an annual increase of 1.8% over 2009. Moreover, the aggregate compounded annual growth rate (CAGR) was 7.9% for the period 2005-

2010. The firm is expected to register high single digit growth or double digit growth, in case of economic recovery.

3. Recent acquisitions have strengthened the firm in some industry practices

Deloitte has a successful history of inorganic growth. For instance, Deloitte United Kingdom acquired Drivers Jonas, the nation's oldest property advisory Firm, and ReportSource, the nation's leading business performance and information management consultancy, in January 2010. Deloitte Australia announced expansion of the Deloitte Analytics group with the acquisition of leading marketing and business insights specialist boutique firm Pathfinder Solutions, in February 2010. In March 2010, Deloitte United Kingdom acquires dcarbon8, a leading carbon and sustainability consultancy. These acquisitions have strengthened the firm by bringing in additional capabilities which will help it serve more clients in their respective practices.

5.1.2 Weaknesses:

1. Weak presence in outsourcing market

Deloitte has a weak presence in the business process outsourcing (BPO) as compared to its main competitors such as KPMG, McKinsey which figure in the top ten global BPO advisors. Price Waterhouse Coopers, one of the Deloitte's major competitors across business functions, ranks in the top ten global full servicing outsourcing advisors. Similarly, several of Deloitte's direct competitors have a strong presence in outsourcing market. Global BPO market is expected to register an impressive CAGR of more than 12% over the years 2008-2012, to reach $980 billion by 2012. Deloitte's weak presence in outsourcing market doesn't enable it to benefit from one of the fast growing global services.

b. Ernst & Young International

Ernst & Young Global (EYG) is one of the largest professional services companies in the world. It is a global organization of member firms and provides a range of services, including accounting and auditing, tax advisory, tax reporting and operations, technology and security risk, human capital, business risk, and transaction advisory services.

Globally, Ernst & Young focuses on the 16 major industry groups, including automotive; consumer products; financial services; the government and public sector; life sciences; media and entertainment; mining and metals; oil and gas; power and utilities; private equity; technology; and telecommunications. Ernst & Young's service lines primarily consist of assurance, tax, advisory, and transaction advisory services.

Assurance services encompass four services, accounting and financial reporting; external audit services; financial accounting advisory services; and fraud investigation & dispute services. The accounting and financial reporting services include a range of guidance and services concerning accounting standards. The external audit services includes external audit of companies from a multidisciplinary team. The financial accounting advisory services includes assistance on critical issues, including IFRS conversion support, implementation of new accounting standards, accounting experience during financial due diligence, accounting control or process support and assistance with public offerings. The fraud investigation and dispute services offers ways to manage risk, investigates alleged misconduct, and measures the financial implications of disputes. Ernst & Young's fraud investigation and dispute service offerings primarily focus on anti-fraud, corporate compliance, and investigations and disputes, including fraud and investigations, dispute services, forensic technology and discovery. The company's tax services cover business tax, human capital, indirect tax, international tax, and transaction tax services.

Business tax services enable the clients in meeting business tax compliance and advisory needs. These services include business tax advisory, business tax compliance, cash tax planning, personal tax, tax accounting and risk advisory, tax performance advisory, and tax policy and controversy. Human capital assists companies in getting the right people at the right places. It comprises global mobility, which advises many of the world's largest global employers as well as those just venturing into their first foreign country; and performance and reward, which enables clients in meeting executive tax compliance obligations, managing regulatory changes and global talent.

Ernst & Young provides assistance in identifying risk areas and sustainable planning opportunities for Indirect taxes throughout the tax life cycle. It provides services in the areas of customs and international trade; value added tax (VAT), goods and services tax (GST), and sales tax.

The company's advisory services include performance improvement, risk, information technology risk and assurance, and advisory for financial services. Ernst & Young's primary performance improvement services include assessment, transformation and process efficiency in finance, supply chain, and customer. Its risk services comprise enterprise-wide governance, risk and compliance, internal audit, and internal controls. IT risk and assurance services include IT enterprise-wide governance, risk and compliance, IT internal audit, IT internal controls, and external audit IT support.

Ernst & Young's advisory for financial services covers performance improvement, risk, IT risk and assurance, actuarial and financial services and risk management. Transaction advisory services support corporate development initiatives of the clients and enable them in managing capital and transactions. These services include lead advisory, restructuring, transaction integration, transaction support, transaction tax, and valuation and business modelling.

In addition, for growth companies, Ernst & Young offers a range of services, including approach and services, entrepreneur of the year, exceptional enterprise, initial public offering, venture capital, cleantech, and private equity. Further, it also provides specialty services, including The China Overseas Investment Network, which offers services to Chinese companies going overseas and doing business overseas; climate change and sustainability services; Japanese Business Services, a global network of bilingual professionals dedicated to providing personalized service for the company's Japanese clients around the world; and knowledge management.

5.2.1 Strengths:

1. Global presence and broad service offerings helps the company attract bigger clients

Ernst & Young has global presence and broad services portfolio. Its operations span across 709 offices in 140 countries with a headcount of over 152,000 as of FY2011.The Company is one of the Big Four global audit companies around the world. It offers a full spectrum of services related to assurance, tax, advisory, and transaction advisory services (TAS). Its assurance services encompass four services: accounting and financial reporting; external audit services; financial accounting advisory services; and fraud investigation and dispute services. The company's tax services include business tax, human capital, indirect tax, international tax, and transaction tax services. Advisory services provided by Ernst & Young include performance improvement, risk, information technology (IT) risk and assurance, and advisory for financial services. TAS comprises lead advisory, restructuring, transaction integration, transaction support, transaction tax, and valuation and business modelling.Global presence coupled with a broad services portfolio insulates the company from fluctuations inbusiness operations and enables it to attract bigger clients.

2. Diversified revenue stream reducing business risk

The company's revenue stream is diversified in terms of business lines and geographies. Ernst & Young serves 16 major industry groups. In addition, in FY2011, the company generated approximately 46.2% of the total revenues from assurance, its core business line. Revenues from tax services accounted for 26.3% and the revenues from advisory services and TAS accounted for 18.2% and 8.8%, respectively.

5.2.2 Weaknesses:

1. Regulatory fines may tarnish image

Ernst & Young has incurred fines in various legal disputes in recent times. For instance, in February 2012, the US watchdog board for corporate auditors imposed a $2 million penalty, on EYG's Ernst & Young LLP in a settlement involving past audits of Medicis Pharmaceutical Corp. In December 2011, Ernst & Young LLP was sued for $900 million by the liquidators of a fund which once directed money to the imprisoned swindler Bernard Madoff. In 2010, it incurred £0.5 million (approximately $0.8 million) fine and also payment of £2.4 million (approximately $3.7 million) in costs for its role in the near-collapse of troubled life assurer Equitable Life in 2000.

2. Lack of transparency is perceived to affect client turnover

Being a private company, EYG lacks transparency. The company does not publish consolidated balance sheets and is under no obligation to comment on its financial status. These aspects of EYG's operations may make some customers wary, and may result in EYG losing business to public companies, whose business and financial performance are more transparent.

c. PricewaterhouseCoopers:

PricewaterhouseCoopers International is one of the world's largest professional services companies. It comprises a network of member firms which operate and provide services under the brand PricewaterhouseCoopers. PwC offers assurance, tax, and business consulting services. It is one of Accounting's "Big Four", along with Deloitte Touche Tohmatsu, Ernst & Young, and KPMG. The company has operations in 154 countries spanning Europe, North America and the Caribbean, Asia, Australia and Pacific Islands, the Middle East and Africa, and South and Central America.

The company's member firms offer services under three service lines: assurance, tax, and advisory. These service lines comprise six service divisions: audit and assurance, consulting, deals, human resources, legal, and tax.

The audit and assurance division provides services in financial accounting issues related to matters such as valuations, pensions and share plans, listings, international financial reporting standards (IFRS) conversions, and corporate treasury and company secretarial functions. This division also offers solutions related to Sarbanes Oxley and IFRS. Other services offered by this division include actuarial insurance services, assistance with capital market transactions, corporate reporting improvement, financial accounting, financial statement audits, sustainability reporting, independent controls and systems process assurance, internal audits, and regulatory compliance and reporting.

Under the consulting division, PwC offers services related to areas including strategy, finance, operations, technology, people and change, risk, and forensic services.

Through the tax division, PwC assists businesses, individuals and organizations with tax strategy, planning, and compliance, whilst also delivering a range of business advisory services. The division’s services include global compliance services, indirect taxes, international assignments, international tax services, legal services, M&A's, sustainability and climate change tax, tax accounting services, tax function effectiveness, and transfer pricing.

5.3.1 Strengths:

1. Prominent market position enhancing the brand image

PwC has a strong market position in the professional services industry. PwC, along with Deloitte, Ernst & Young and KPMG are known as the Big Four accounting and auditing firms. It is marginally behind Deloitte among the Big Four in terms of revenue. PwC reported revenues of $27.5 billion in FY2011 whereas Deloitte reported revenues of $28.8 billion during the financial year ending May 2011. Ernst & Young and KPMG reported revenues of $22.8 billion and $22.7 billion, respectively, during the same financial year. In addition, IDC, a leading consulting research and analytics firm, rated PwC as a worldwide business consulting leader in June 2011. PwC has been ranked with the strongest positioning in terms of strategy. According to the industry sources, the company holds top position in business consulting. PwC's prominent position among the Big Four will enhance its brand image and allows it to sustain growth momentum.

2. Strong clientele enabling the company win repeat mandates

The company has a strong client base. In FY2011, PwC member firms provided services for 419 of the companies in the Fortune Global 500 and 443 of the companies in the FT Global. In addition, PwC member firms served more than half of the largest companies in each regional market during the year. In FY2011, the member firms of PwC audited 33% of the FT Global 500; 29% of the Fortune Global 500; 33% of the FT Europe 500; 30% of the Fortune 500 (US), 40% of the S & P Latin America 40; 36% of the S & P Asia 50; 29% of the Fortune 500. Strong clientele enable PwC to win repeat mandates.

3. Diversified revenue stream lessening business risk

PwC's revenue stream is diversified in terms of business lines and geographies. It has member firm offices in 771 locations in 158 countries. The company's member firms offer services under three service lines: assurance, tax, and advisory. These service lines comprise six service divisions: audit and assurance, consulting, deals, human resources, legal, and tax. Through these service offerings, PwC caters to a range of industries.

In FY2011, the company generated 48.4% of the total revenues from assurance, its core business line. Revenues from tax services accounted for 26.1% and the revenues from advisory services accounted for the remaining total. Further, in FY2011, PwC generated 39.4% of the total revenues from Western Europe. North America and Caribbean accounted for 33.8% of revenues in FY2011 while the remaining was spread across other regions including Asia (11.7%), Australasia and Pacific Islands (5.7%), Middle East and Africa (3.4%), South and Central America (3.3%), and Central and Eastern Europe (2.7%). The company's global presence coupled with diversified revenue stream enables it to attract bigger clients and also reduces its business risk.

5.3.2 Weaknesses:

1. Adverse publicity due to lawsuits

The company has been facing adverse publicity due to some of the lawsuits filed against it. During September 2011, a federal judge ruled to move a lawsuit against PwC and SemGroup LP back to Tulsa County District Court in Oklahoma as a result of the eight months of being subject to a federal jurisdiction. This suit was filed by local investors Cottonwood Partnership and others. During June 2010, the Financial Services Authority in the UK has referred PwC to its regulators, Financial Reporting Council (FRC) and the Institute of Chartered Accountants in England and Wales (ICAEW). PwC failed to spot that its client JP Morgan had accidentally placed nearly 23.3 billion of client funds into the wrong bank accounts.

2. Lack of transparency is perceived to affect client turnover

Being a private company, PwC lacks transparency. The company does not publish consolidated balance sheets and is under no obligation to comment on its financial status. These aspects of PwC's operations may make some customers wary, and may result in PwC losing business to public companies, whose business and financial performance are more transparent. Adverse publicity may tarnish PwC's brand image which may reduce the company's client base.

6. COMPANY OVERVIEW: KPMG Europe LLP

KPMG Europe LLP (referred to as KPMG or ELLP in this report) is a cross-border professional services organisation that delivers audit, tax and advisory services. It was created in October 2007, initially through the merger of German and UK firms and now consists of 18 member firms. KPMG Europe LLP is part of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"). KPMG International (KPMG) is a Netherland-based cooperative firm offering audit, tax and advisory services. The company has operations in 152 countries and more than 145,000 professionals working in member firms around the world.

KPMG International headquartered in Amstelveen, Netherlands. It operates as a network of member firms offering audit, tax and advisory services. The company's clients include business corporations, governments and public sector agencies and not-for-profit organizations. KPMG operates in Europe, the Middle East, Africa, Asia Pacific and the Americas.

The company is a Swiss cooperative that operates as an umbrella organization for its member firms. It has organized its structure into five operating regions: Europe, the Middle East, Africa, Asia Pacific and the Americas. KPMG Europe LLP headquartered in Frankfurt, Germany employs over 32800 partners and staff in 18 countries and 143 offices.

KPMG operates through three business divisions: **audit, tax, and advisory services.**

The company's audit division provides independent auditing services to companies. KPMG provides resources and technological tools necessary to support internal controls. The company has established the audit committee institute (ACI) to provide resources to audit committee members to help them keep pace with evolving business issues related to governance, audit issues, accounting, and financial reporting. KPMG's audit services include attestation services and financial statement audit services.

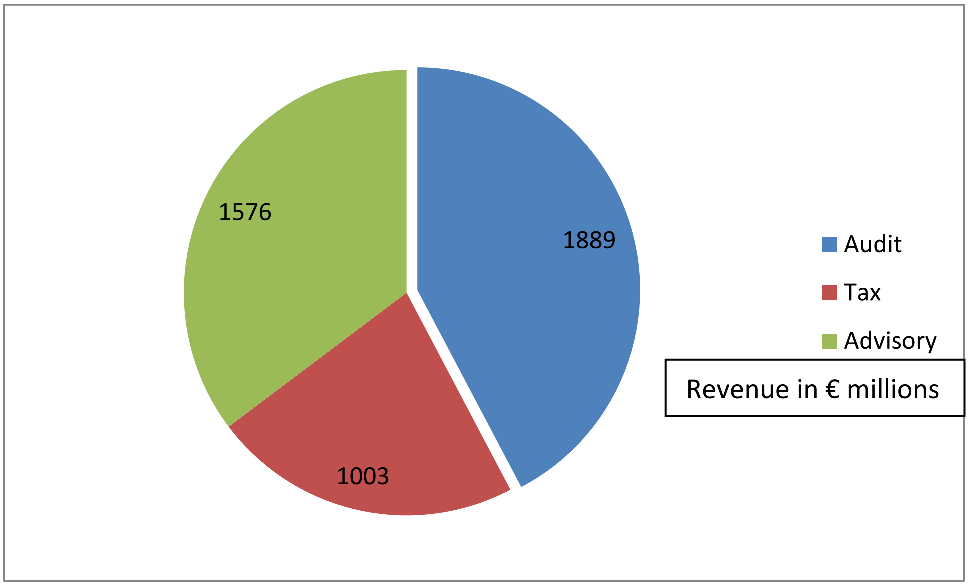
KPMG's tax services division offers services related to tax compliance and managing tax risks. The company's tax input is delivered through a number of global service lines. These include business tax, international corporate tax and indirect tax. These services assist clients in fulfilling compliance responsibilities, planning opportunities, and communicating between markets and regulators. KPMG's tax services include dispute resolution and controversy services, energy and natural resources tax, financial services tax, global compliance management services, global indirect tax, global transfer pricing services, international corporate tax, international executive services, and mergers and acquisitions.

The company's advisory services division provides advice and assistance to companies, intermediaries, and public sector bodies to mitigate risk and improve performance. It also provides risk and financial advisory services to clients, which helps them create strategies for the longer term. KPMG's advisory services include management consulting, risk consulting and transactions and restructuring services.

KPMG offers these services to various industries, including automotive; building and construction; chemicals and performance technologies; diversified industrials; energy and natural resources; financial services; food, drink and consumer goods; government and public sector; healthcare; infrastructure; media; private equity; real estate; retail; technology; telecommunications; and transport and logistics.

The revenue share by the three divisions for the FY2011 is shown in diagram below

Figure 13



(Source: KPMG Europe LLP Annual Report, 2011)

6.1 Organisation Details

KPMG Europe LLP operates their business in a matrix form of organisation, comprising of market sectors, functions and countries.

6.1.1 Business Functions

- Audit
- Tax
- Advisory Services
  - Management Consulting
  - Transactions & Restructuring
  - Risk Consulting

6.1.2 Countries

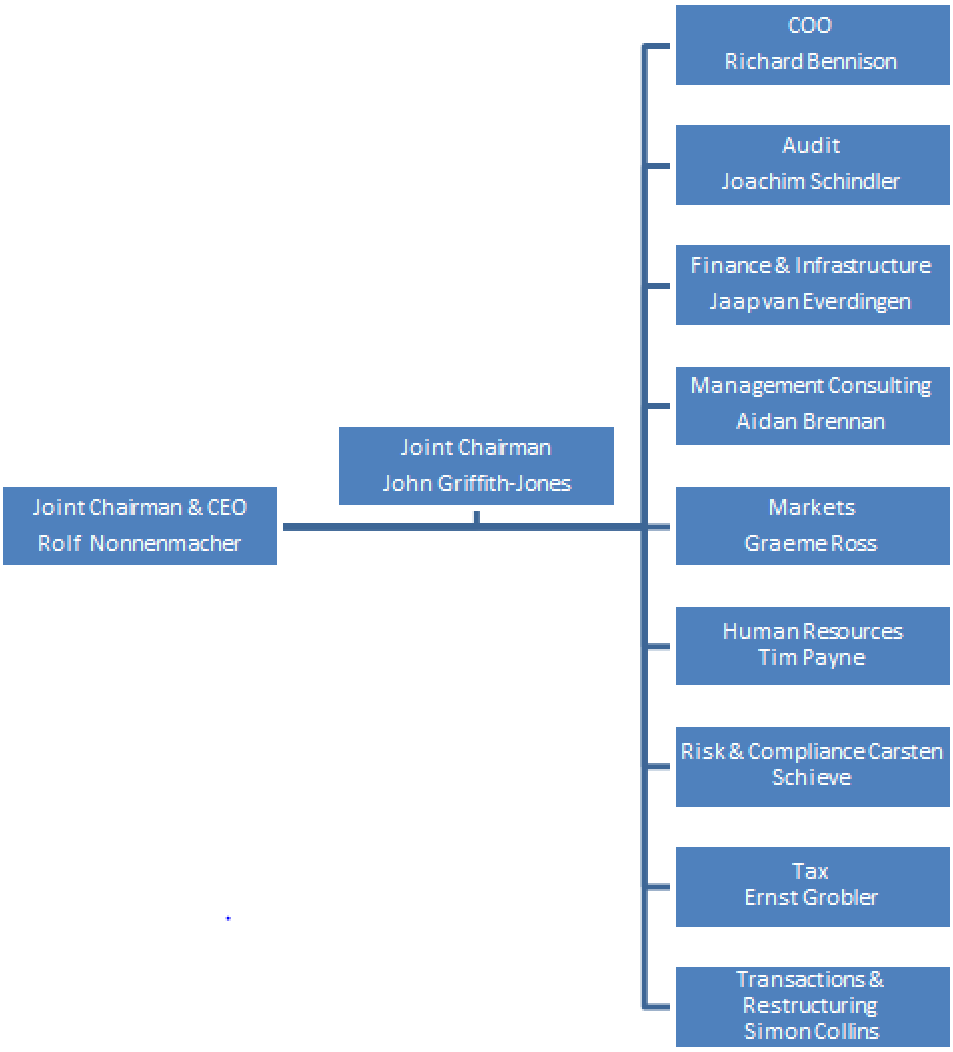
- Belgium
- CIS (Armenia, Georgia, Kazakhstan, Kyrgyzstan, Russia and Ukraine)
- Germany
- Gulf (Kuwait and Saudi Arabia)
- Jordan
- Luxembourg
- Netherlands
- Norway
- Spain
- Switzerland
- Turkey
- United Kingdom

6.1.3 Market Sectors

- Public Sector
  - Government
  - Healthcare
- Private Equity
  - Private Equity & Sovereign Wealth
- Financial Services
  - Investment Management
  - Insurance
  - Banking
- Corporates
  - Automotive
  - Diversified Industrials
  - Consumer Markets
  - Chemical & Pharmaceuticals
  - Energy & Natural Resources
  - Communications & Media
  - Technology & Business Services
  - Transport & Leisure
  - Infrastructure, Building & Construction

6.2 Organisation Chart:

Figure 14



- Rolf Nonnenmacher

  CEO and Joint Chairman

  Rolf joined KPMG in 1981 and became Audit partner in 1987. In 1998 he became Head of the German Banking and Finance practice. He was promoted to Head of Audit in Germany and EMA in 2001. Rolf was appointed Senior Partner in Germany in 2005 and became a member of the Global Executive Team and Global Board of KPMG. Since 2007 he has co-chaired the

Board of KPMG Europe LLP. Rolf is Chairman of EMA region and a member of the Board of KPMG International (where he chairs the global Quality & Risk Committee). He has been a partner at KPMG for 24 years and served on the Board for four years.

- John Griffith-Jones

  Joint Chairman and UK Senior Partner

  John joined KPMG in 1975. He spent eleven years in Audit in London including a year in Professional Practice. His clients covered a wide range of sectors, and included several listed companies. His specialisation was in the shipping industry.

  John spent fifteen years in Corporate Finance, joining at its inception in 1986. He made Partner in 1987 and was acting as a mid market M&A practitioner and government advisor on privatisations and PFI before running the function in the UK and Chairing the European network. He had various overseas client projects in; inter alia, the US, Sweden, Bahrain, Greece and Hong Kong

Please refer annexure 1 for profile of the full list of board of directors.

6.3 Strategic Intent

"To be the number one multidisciplinary professional services firm in Europe and to be a quality service provider to all their clients"

6.3.1 Strategy

To increase market share by 3% in the next three years in all business function areas.

6.3.2 Business Strategy

- Grow Global accounts.
- Focus on six priority sectors and 42 global accounts within the priority sectors.

  - These companies are the largest operators in the European region, global businesses either headquartered in Europe or those based outside Europe that have significant inbound interests in the European market.

- Priority sectors are organised as separate business streams, giving CEO-status to each global lead partner with the power to allocate resources and operate the account as they see fit.

Figure 15

- Establishment of "Centres of Excellence" and targeted acquisitions of companies and to develop expertise.
- Client approach to be more sector-based and relevant for the largest global clients.
- Develop dedicated account teams for global organisations.
- Introduction of integrated back-office platform SAP across member LLPs (implemented in UK, Germany and Spain, with Netherlands to go live in 2012).
- Shared service centre to be opened in Prague to manage parts of finance and HR to optimise back office costs.
- To consolidate data centres for infrastructure in Frankfurt replacing individual centres located in each of their markets.
- They forecast significant growth in Russia, Turkey and the Middle East and plan to invest in these markets.
- Expansion of expertise in technical, function-specific areas where they see increased demand from their clients.
- Targeted acquisitions that are help them to enhance its capabilities in areas of critical importance to clients.
- To replicate the success of Management consulting and Risk consulting in markets outside UK.

6.3.3 Marketing Strategy

- Specific pricing panels in operation in parts of the group.
- Risk Consulting and Management Consulting businesses to continue to capitalise on the market opportunities across all sectors together with realising the benefits of the acquisitions made during the year.

6.3.4 Operations Strategy

- Increasing use of resource in lower cost territories to support service delivery.
- An established plan within KPMG Europe LLP for regulatory liaison.
- Contingency planning for key potential changes arising from the recent EU proposals on Audit Policy and the impact of other foreseeable regulatory change.
- Monitoring of resource levels and functional hot spots

6.3.5 Human Resources

- Partner career paths and development
- Partner succession planning programme
- Global mobility programme in place

6.3.6 Business strategy for India

- They continue to look at KPMG Global Services (KGS) and KPMG Resource Centre Private Limited (KRC) and changes to their audit model to improve both the quality and efficiency of service delivery. Similarly, they plan to implement further IT infrastructure and the Shared Service Centre in Prague (to be opened in late 2012) to help optimise back office costs.

6.3.7 Objectives 2012

- Develop account teams for global organisations.
- To bring national practices under the KPMG Europe LLP umbrella in order to gain size and remove potential geographical obstacles to getting the best expertise for their clients.
- A key ambition behind the integration programme of change is to achieve operational excellence – both in front- and back- office functions.

6.3.8 If any top priorities for 2012

- In addition to continuing ‘core activity’ of growing the global accounts over the next three years they will focus on six priority growth sectors and 42 global accounts within those sectors. Furthermore, KPMG while dealing with these large global businesses need deep sector specialists with a wide array of expertise to help them with their most complex challenges.

- Risk Consulting and Management Consulting businesses to continue to capitalise on the market opportunities across all sectors together with realising the benefits of the acquisitions made during the year.

6.4 Challenges

- The European Commission has raised concerns on the level of competition and the quality of audit by the accounting firms. It is argues that the dominance of the big four accounting firms should be broken in order to increase competition and also increase the quality of work. This is a debate that traces its origins to the financial crisis in 2008.
- To attract, develop and retain the best expertise – regardless of geography.
- Audit and Transactions & Restructuring to continue to face a tough market but these functions should be able to drive **more efficiency in delivery**.
- Expansion of Risk consulting and Management consulting businesses beyond the UK.
- Sharing of intellectual property seamlessly across boundaries and the right people to be delivered to the right client at the right time, regardless of geography.
- Big data processing – KPMG acknowledge that they will be dealing huge amount of data. Hence the plans to move to a single data centre and cloud computing facilities to provide IT infrastructure to smaller member firms. However there is no plan on big data analytics.

6.5 Core Competencies of KPMG Europe LLP

The audit division of KPMG was analyzed from a core competency view of the firm. Core competency of a firm is a bundle of skills and technologies that enables a company to provide a particular benefit to customers (Prahalad and Hamel, 1990). The **core competencies** for the audit division were identified as -

5. Financial Audit and Compliance Audit Processes

KPMG has made a name for itself in the auditing business and is among the top four auditing firms in the world. They have industry and regional experts to handle audit for the increasingly complex structure of global companies. The company has used this expertise to standardize audit processes and implemented e-audIT, a software application to provide the methodology, guidance and industry knowledge for an efficient audit.

6. Brand Reputation

The KPMG brand is a well-known brand, not just in the financial industry but globally too. It is one of the Big Four accounting firms in the world and is well respected too, by the financial markets. It has become a confidence building measure these days for big companies to be audited by one the Big Four audit firms.

7. Skilled Manpower

The auditing business involves deciphering client account statements and business processes. These vary by the industry and the region. Hence auditing depends heavily on skilled and experienced professionals to deliver their services.

8. Knowledge accumulated over the years

KPMG traces its history back to 1870 when William Barclay Peat formed an accounting firm in London. A company operating for a long period of time accumulates industry knowledge in terms of industry norms, practices and regulations. All this knowledge also helps the company as it is involved with EU regulatory bodies in the formation of audit policies.

7. Discussion and Value Creation Opportunities

From a study of the company strategy and the industry trends, the following areas were identified where TCS with their expertise in IT solutions and business process outsourcing could make a pitch for value addition.

7.1 Shared Services Outsourcing

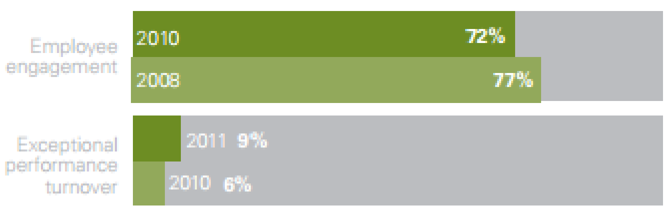
A core competency view of KPMG reveals that audit processes are its core competency. The skilled manpower with knowledge and experience are resources that differentiate KPMG from other firms. Following the financial crisis in 2008, the audit industry has experienced high attrition levels with an industry standard of 10%.

At a time when competition for the best talent remains intense, they have been named second in the Universum index of the world's most attractive employers, for the second year running, based on a survey of 160,000 career seekers with a business or engineering background at the top academic institutions in 12 leading economies, worldwide. This group represents students graduating from college and would require significant training on the job. They at present employ over 32800 people in Europe with over 8500 recruited in the year ending September 2011.

In a customer survey, the attributes clients see from KPMG, when they are performing at their best, were highlighted as – expert, global mind-set, forward thinking, value adding and passionate. As it is true for any knowledge based company, it is skilled manpower that is the core asset of a company. They realise that it is the skill, talent and sheer hard work of the people they employ that will fulfil their aim to be the number one multidisciplinary professional services firm in Europe and to be a quality service provider to all their clients. The challenge they face is to harness these talents and expertise of their people and to bring those together, efficiently and effectively, to serve global and national market clients in better ways.

However employee engagement levels have fallen from 77% in 2008 to 72% in 2010. Worryingly, for KPMG, the attrition levels among employees rated for exceptional performance has risen to 9% in 2011 from 6% in 2010.

Figure 16



(Source : KPMG Europe LLP Annual report 2011)

The company aims is to develop a high performance culture to help their clients overcome complex challenges. This serves to both motivate and develop their talented employees. In addition to this they invested heavily in recruitment and on-boarding senior external talent, developing career paths to give a clearer structure to its people's careers, and a new KPMG Business School in 2011.

They have also moved towards greater sharing of economic interests across ELLP (KPMG Europe LLP) firms which allows the leadership to reward positive partner performance regardless of the geography (or geographies) that directly profits from performance. This is a hugely positive step in their ELLP journey, as it removes potential geographical obstacles to getting the best expertise for their clients. They can now more positively reward geography-agnostic, client-centric partner behaviour. In a period of economic turbulence, for a multi-country and multi-disciplinary firm this ability to move people from areas where demand has been slow gives an added advantage against its competitors.

While KPMG has taken steps to reduce attrition, the expected shortage in qualified accountants in Europe will be difficult to counteract. KPMG has opened a shared services center in Prague which handles parts of finance and HR for KPMG. KPMG has implemented an audit tool - e-AudIT which should standardize many audit processes. This frees up qualified professionals to work closely with their clients. This standardization of processes enables these to be outsourced. These are aimed at both freeing resources for customer service and increasing efficiencies at the back office functions. KPMG is a financial institution and trust plays a big part on business decisions, hence TCS could play a part in the development of the shared services center in Prague with their expertise in IT solutions / cloud computing applications / business process outsourcing works and gain trust and recognition. This should then further open up new avenues for providing solutions for KPMG.

7.2 IT Initiatives

7.2.1 Back Office IT

KPMG acknowledge that they will be dealing huge amount of data. They have implemented e-AudIT across KPMG Europe LLP and they are also using new audit delivery centres to carry out standardised audit tasks. Hence the plans to move to a single data centre and cloud computing facilities. This is aimed at improving efficiencies and also to provide IT infrastructure to smaller member firms who otherwise could not afford computing facilities.

KPMG are aiming to improve the delivery of front-line services by developing efficient processes based on IT systems. They are using this not only to reduce costs and improve efficiencies but also to develop new innovative products. The use of IT allows analysing data in greater depth, leading to increased quality of processes.

KPMG makes use of its India based units KPMG Resource Centre Private Limited (KRC) and KPMG Global Services (KGS) for audit, tax and advisory service lines. It is envisaged that the offshore team will support the onshore team’s audits of UK and German clients in a variety of areas, freeing up their best qualified professionals to work more closely with clients to ensure that quality is not compromised.

7.2.2 SAP implementation

The independent nature of earlier national KPMG LLP firms meant that each of them had developed their own IT systems and processes. With the merger, work is on to integrate these onto a single platform. They have implemented the back-office IT platform, SAP, across United Kingdom, Germany and Spain with Netherlands next in line and will be rolled out progressively across the rest of the firms. This is an on-going process, with only three member firms which have SAP implemented. TCS could look to put a value addition proposal in integrating existing ERP systems and implementing SAP across the rest of the fourteen members in KPMG Europe LLP.

7.2.3 Integrated Data Centre

KPMG plans to consolidate their data centres for infrastructure, with the main centre based in Frankfurt, replacing 30 of its data centres across Europe. The move will see the company moving systems to a private cloud that will service all KPMG's European users, operating on a BT MPLS network, which will be the back bone. This will enable KPMG to offer new services to its clients, like the ERP based product explained earlier. The benefits of a single data centre and a private cloud based system will translate into important benefits when they begin to add the smaller countries. The marginal cost of adding smaller regions will become quite low, and they can start to give large-scale IT capabilities to branches. New products like the ERP based accounting tool KPMG has developed, work by mining data from client ERP systems, and process it on KPMG’s end. Thus delivering on KPMG’s aim to reduce costs and improve efficiencies on their service delivery. These are innovative processes and TCS could gain entry on their strengths in cloud computing applications.

8. Annexure

Board of Directors:

- John Griffith-Jones
  Joint Chairman and UK Senior Partner
  John joined KPMG in 1975. He spent eleven years in Audit in London including a year in Professional Practice. His clients covered a wide range of sectors, and included several listed companies. His specialisation was in the shipping industry.
  John spent fifteen years in Corporate Finance, joining at its inception in 1986. He made Partner in 1987 and was acting as a mid-market M&A practitioner and government advisor on privatisations and PFI before running the function in the UK and Chairing the European network. He had various overseas client projects in; inter alia, the US, Sweden, Bahrain, Greece and Hong Kong

  John is UK senior partner and a member of the Board of KPMG International. He has been a partner within KPMG for 24 years and served on the Board of KPMG Europe LLP for four years.

- Rolf Nonnenmacher
  Joint Chairman
  Rolf joined KPMG in 1981 and became Audit partner in 1987. In 1998 he became Head of the German Banking and Finance practice. He was promoted to Head of Audit in Germany and EMA in 2001. Rolf was appointed Senior Partner in Germany in 2005 and became a member of the Global Executive Team and Global Board of KPMG. Since 2007 he has co-chaired the Board of KPMG Europe LLP. Rolf is Chairman of EMA region and a member of the Board of KPMG International (where he chairs the global Quality & Risk Committee). He has been a partner at KPMG for 24 years and served on the Board for four years.

- Richard Bennison
  Chief Operating Officer and UK Chief Operating Officer
  Richard is also the CEO of the UK firm. He has been a partner at KPMG for 20 years and served on the Board for three years.

- Hubert Achermann
  Swiss Senior Partner and non-executive Board Member
  Hubert is the Swiss senior partner, chairs the group's Remuneration Committee and is a member of the Board of KPMG International. He has been a partner for 19 years and served on the Board of KPMG Europe LLP for three years.

- Graeme Ross
  Head of Markets
  Graeme is Head of Markets for KPMG Europe LLP. He has been a partner at KPMG for 17 years and has served on the KPMG Europe LLP Board since 1 June 2011.

- Tim Payne
  Head of People
  Tim is Head of People for KPMG Europe LLP having previously been the Chief Operating Officer of People for KPMG Europe LLP. Tim has been a partner for one year, and joined the KPMG Europe LLP Board on 1 October 2011.

- Joachim Schindler
  Head of Audit
  Joachim has been a partner for 16 years and served on the Board of KPMG Europe LLP for four years. He is also Global Head of Audit.

- Mike Ashley
  Head of Risk
  Mike serves as Head of Quality & Risk for the UK firm as well as KPMG Europe LLP and is a member of the Global Quality & Risk Management Steering Group. He has been a partner for 14 years and served on the Board for four years.

- Abdullah Al Fozan
  Senior Partner

Abdullah joined KPMG in 2000 and is the Senior Partner of KPMG Saudi Arabia as well as a Joint Deputy Chairman of KPMG Gulf Holdings. He joined the Board of KPMG Europe LLP on 1 October 2011.

- Guy L Bainbridge
  Non-executive partner
  Guy is the Chair of the group's Audit Committee. He has been a partner for 17 years and served on the Board of KPMG Europe LLP for four years.

- Klaus Becker
  Senior partner
  Klaus is the senior partner for the German firm and became a member of the Remuneration Committee on 1 January 2011. He joined the KPMG Europe LLP Board on 1 October 2011.

- Aidan J Brennan
  Head of Management Consulting
  Aidan is also the Global Head of Management Consulting. He has been a partner for 13 years. Aiden joined the KPMG Europe LLP Board on 1 October 2010.

- Simon Collins
  Head of Transactions & Restructuring
  Simon is also the Global Head of Transactions & Restructuring. He has been a partner for 12 years. Simon joined the KPMG Europe LLP Board on 1 October 2010.

- Andrew Cranston
  Senior partner

Andrew is the senior partner for the CIS region, a member of the Remuneration Committee and the Board of KPMG International. He has been a partner for 14 years and served on the KPMG Europe LLP Board for two years.

- Herman Dijkhuizen
  Senior partner
  Herman is the senior partner for the firm in the Netherlands, a member of the Remuneration Committee and the Board of KPMG International. He has been a partner for 17 years and served on the KPMG Europe LLP Board for two years.

- Ernst Grobl
  Head of Tax
  Ernst took over the role as Head of Tax for the group on 1 October 2010 and he is currently the Head of Tax for the EMA region. He has been a partner for 19 years. He joined the KPMG Europe LLP Board on 1 October 2010.

- Harald von Heynitz
  Non-executive partner
  Harald has been a partner for 12 years and served on the Board of KPMG Europe LLP for four years. He is also Chairman of the Nominations Committee.

- John Maclean Scott
  Senior partner
  John has been a partner for 19 years and served on the KPMG Europe LLP Board for three years. He is also the senior partner for the Spanish firm, a member of the Remuneration Committee and the Board of KPMG International.

- Mathieu Meyer
  Non-executive partner
  Mathieu joined the KPMG Europe LLP Board as a non-executive partner on 1 January 2011 and he also became a member of the Quality & Risk Committee. Mathieu has been a partner for nine years.

- Iain Moffat
  Non-executive partner

Iain joined the KPMG Europe LLP Board as a non-executive partner on 1 January 2011 and he also became a member of the Remuneration Committee. Iain has been a partner for 14 years.

- Johannes Pastor
  Non-executive partner
  Johann has been a partner for 16 years and served on the Board of KPMG Europe LLP for four years. He is also a member of the Audit Committee.

- Stein-Ragnar Noreng
  Senior partner
  Stein-Ragnar is also the senior partner of the Norwegian firm, a member of the Remuneration Committee and the Global Council. He has been a partner for 13 years and was appointed to the Board of KPMG Europe LLP on 1 April 2011.

- Karin Riehl
  Senior partner
  Karin has been a partner for 18 years and served on the Board for two years. She is also the senior partner of the firm in Luxembourg and a member of the Remuneration Committee and the Global Council.

- Carsten Schiewe
  Head of Risk Consulting
  Carsten has been a partner for nine years. Carsten joined the KPMG Europe LLP Board on 1 October 2010.

- Patrick Simons
  Senior partner
  Patrick is the senior partner for the Belgian firm. He is also a member of the Quality & Risk Committee, the Remuneration Committee and the Global Council. He has been a partner for 21 years and served on the KPMG Europe LLP Board for one year.

- Jurgen Van Breukelen
  Non-executive partner
  Jurgen is a member of the Audit Committee. He has been a partner for 11 years and served on the Board of KPMG Europe LLP for two years.

- Jaap Van Everdingen
  Head of Finance and Infrastructure
  Jaap is also a board member of the firm in the Netherlands. From 1 October 2010 he has been the Head of Finance & Infrastructure for the group. He has been a partner for 18 years and served on the KPMG Europe LLP Board for two years.

- Jack Van Rooijen
  Non-Executive partner
  Jack has been a partner for 19 years and served on the Board of KPMG Europe for two years. He is also a member of the Quality & Risk Committee which he has chaired from 1 October 2010.

- Stefan Zwicker
  Non-executive partner
  Stefan has been a partner for 19 years and has currently served on the Board of KPMG Europe LLP for three years. He also acts as Chief Operating Officer for the Swiss firm and is a member of the Investment Committee.

- **Simon Collins**
  The current UK chairman John Griffith-Jones is set to retire by October 2012, post that Simon Collins assume the role of UK chairman and senior partner (KPMG Website)

Sector Heads:

- Jeremy Anderson
  Head of Financial Services

- Rustom Kharegat
  Head of Private Equity

- Alan Downey
  Head of Public Sector

- Graeme Ross
  Head of Markets and Corporates

- Joachim Schindler
  Head of Audit

- Ernst Gröbl
  Head of Tax

- Simon Collins
  Head of Transactions & Restructuring

- Carsten Schiewe
  Head of Risk Consulting

- Aidan Brennan
  Head of Management Consulting

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Simon Collins to be the next KPMG UK chairman and senior partner: Viewed on 20/07/2012; available at https://www.kpmg.com/uk/en/issuesandinsights/articlespublications/newsreleases/pages/kpmg-announces-new-uk-chairman-senior-partner.aspx

KPMG embarks on massive datacentre consolidation programme available at http://www.computing.co.uk/ctg/news/2041269/kpmg-embarks-massive-datacentre-consolidation-programme

Interview: KPMG CIO Bryan Clark: Viewed on 21/07/2012.Available at http://www.computing.co.uk/ctg/interview/2069347/interview-kpmg-cio-bryan-clark/page/2?WT.rss_a=interview%3A+kpmg+cio+bryan+clark&WT.rss_f=cloud-computing

Annexure 2: G4S plc

Contents

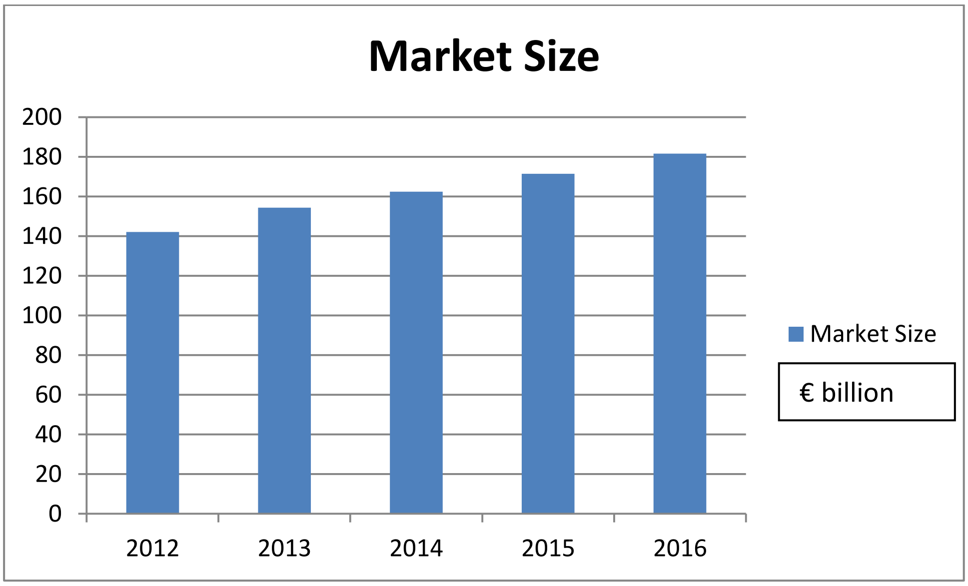
1. Introduction:

The security services market incorporates five key segments: manned security services, electronic security systems, physical security equipment, vehicle security and fire-protection equipment. Manned security includes: guarding; cash-handling; outsourced work for the police and public security sector; and a variety of other services, including consultants and secure information destruction. Electronic security includes intruder alarms, closed-circuit television (CCTV), access control and other electronic devices or integration of systems. Physical security covers locks, safes and physical barriers, such as screens. Vehicle security comprises: locks for motor vehicles; mechanical security devices; security marking; vehicle tracking systems; and electronic immobilisers and alarms. The fire-protection market covers active fire-protection (detection and alarm systems) and fire-extinguishing products. Manned security services account for nearly half (48.8%) of the security industry by value, and rely upon a trained, licensed workforce.

2. Market Size: Security Services

The global security industry has recovered and has started recording strong growth and is expected to maintain the positive growth in 2012 through to the period of 2016. The industry had total revenue of $184.7 billion in 2011 representing a compounded annual growth rate (CAGR) of 3.4% between 2007 and 2011.

Figure 17 : Global Security Market size – Forecast 2012-16



(Source: Marketline report, 2012)

The outsourced personnel segment was the industry's most lucrative in 2011, with total revenues of $114.4 billion, equivalent to 61.9% of the industry's overall value. The electronic security segment contributed revenues of $64.3 billion in 2011, equating to 34.8% of the industry's aggregate value.

The performance of the industry is forecast to accelerate, with an anticipated CAGR of 6.5% for the five-year period 2011- 2016, which is expected to drive the industry to a value of $252.6 billion by the end of 2016.

From a global perspective, North America (mainly the US) is the largest security market, with a current market share of around 40% or more. Europe is ranked 2nd with a market share ranging approximately from 25% to 35%. Despite the financial crisis, global demand for security equipment is expected to grow at a minimum of around 5% per annum, with the fastest growth in coming years expected to be mainly in Asia and the Middle-East.

A Key Note report forecasts that the value of the UK security to be at £7.19 bn in 2011, reaching £8.8bn by 2014.

Table 1:The Forecast UK Security Industry by Value 2011-2014

	2011	2012	2013	2014
Manned security services	3654	3895	4057	4219
Electronic security systems	1398	1574	1749	1926
Physical security equipment	744	793	836	877
Vehicle security	286	324	347	367
Fire-protection equipment	1108	1205	1310	1414

(Source: Keynote Market Report 2011)

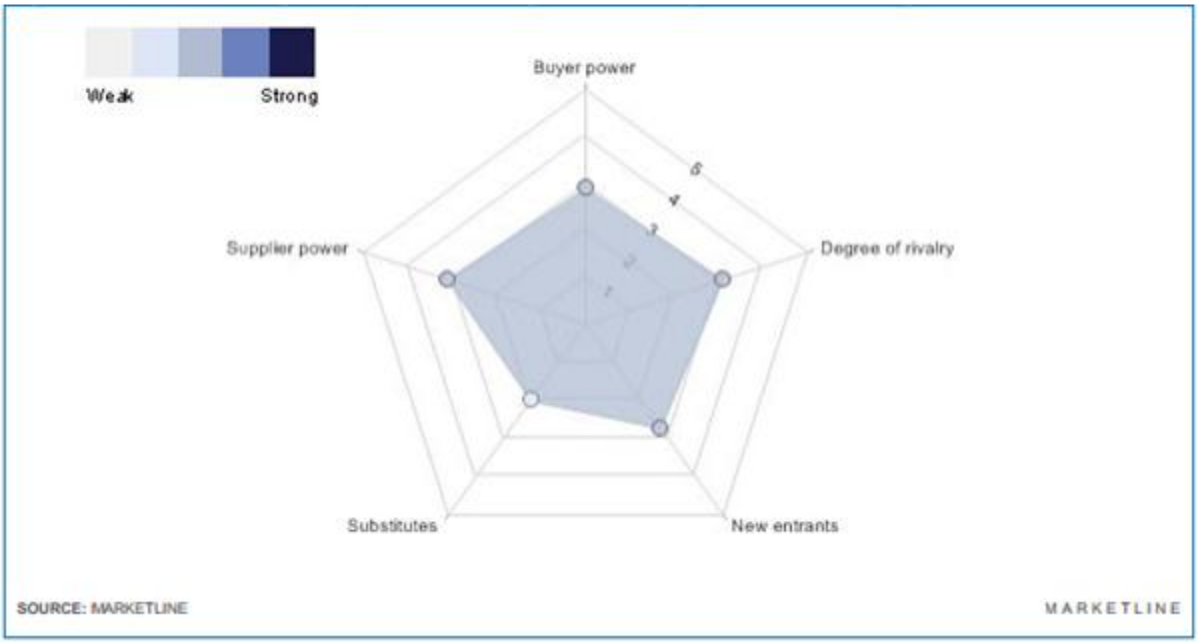
3. Five Forces Analysis

(Source: MarketLine report, 2012)

The security services market will be analysed taking managed security services (IT security companies), electronic security services (CCTV and fire alarm surveillance companies) and outsourced personnel security services (companies providing persons to guard particular physical environments etc.) as players. The key buyers will be taken as end users such as governments, financial institutions and retailers, and electronic surveillance equipment manufacturers, software programmers and suitable personnel as the key suppliers.

3.1 Summary

Figure 18

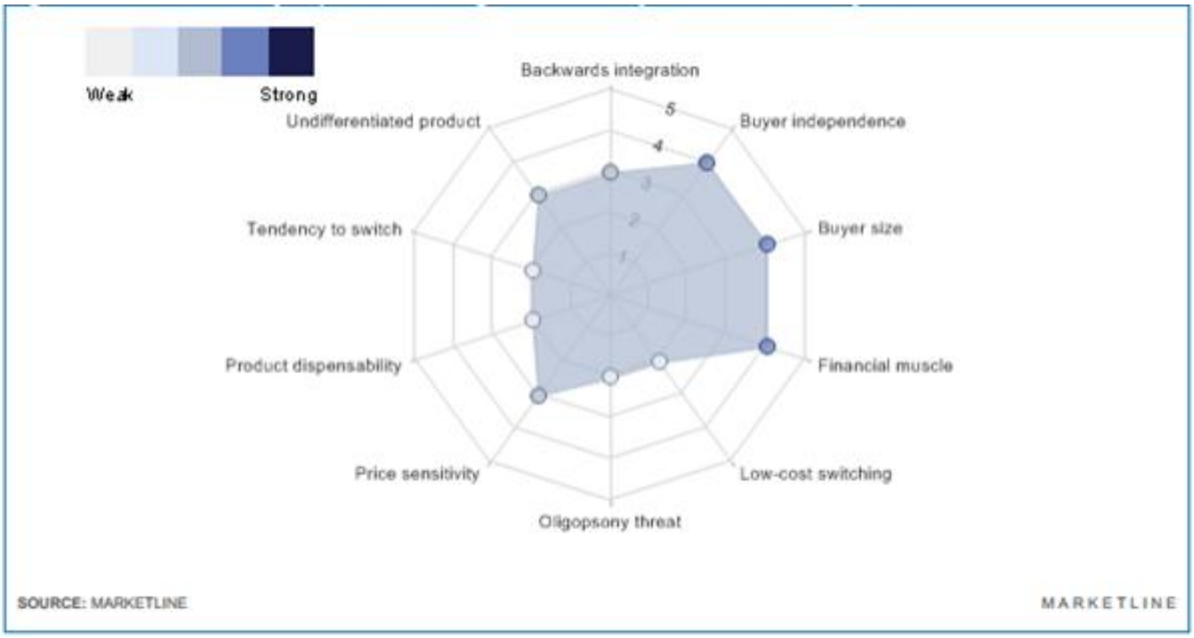


Security service players are able to supply their products and services to a wide range of industries, both in the private and public sector, so although they tend to lack diversity, the demand for their services from such a diverse customer base offsets this and mollifies rivalry.

Many aspects of security are legal requirements, such as the protection of electronically held customer data and fire alarm surveillance systems, creating a necessity for the industry and reducing buyer power as a result. The security services industry is fragmented, although there are a number of multi-national companies operating, which results in a competitive environment.

3.2 Buyer Power

Figure 19



Buyers, in the case of managed security services, tend to be organizations with large volumes of sensitive data to protect; this can be personal data of customers which has to be suitably protected by law in a majority of countries, or government departments with secret/sensitive information to protect. Similarly, electronic security services cover the full spectrum of organizations, for example governments wishing to purchase CCTV systems to monitor urban areas or government buildings or retailers wishing to monitor their merchandise to aid theft prevention. Finally, outsourced personnel security services are again used across all spectrums, many government departments will outsource their personnel security needs whilst high street banks and retailers will use this form of security in the prevention of theft or anti-social behaviour and to collect and deliver money to branches. As a result, buyers tend to be large in size with a relatively high degree of bargaining power due to their financial muscle. Furthermore, the relative lack of differentiation in the services provided allows buyers to base their decisions on price. There is a strong possibility of buyers backwards integrating when it comes to personnel security, increasing buyer power, however the likelihood of backwards integration into managed security services or electronic security is much lower, thus negating this buyer power. Equally, player's forward integration is highly unlikely, increasing buyer power. The nature of the industry requires contracts between buyers and players, often long term, which increases switching costs, reducing buyer power and the likelihood of customers switching regularly. Additionally the security services provided are usually essential, particular in regards to protecting customer information which serves to further erode buyer power. Buyer power is assessed as **moderate.**

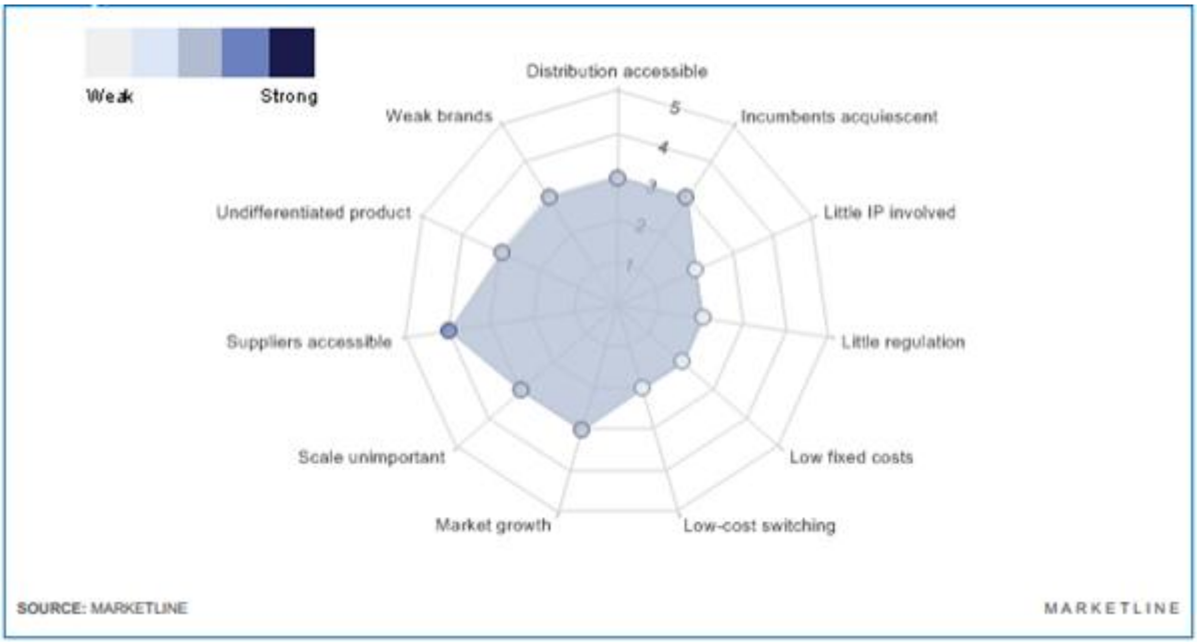
3.3 Supplier Power

Figure 20

Suppliers of electronic surveillance equipment are often large multinational corporations (such as Siemens and Mitsubishi Electric) who manufacture a broad portfolio of electronic products and as a result do not rely on the security services industry for revenue, strengthening supplier power. There is a moderate likelihood of suppliers in the security services industry integrating forwards, for example in the personnel security services an individual may take all the necessary training and gain the required qualifications and hire themselves out instead of working for another company. Backwards integration by players is also possible, although relatively unlikely, for example managed security services would require significant investments if an organization was to provide its own IT security. The low levels of differentiation impacts on supplier strength; however this is offset by the lack of substitute inputs. Switching costs can be relatively low as players are able to shop around for the best deal, usually based on price due to the lack of differentiation, resulting in decreased supplier power. Supplier power is assessed as **moderate.**

3.4 New Entrants

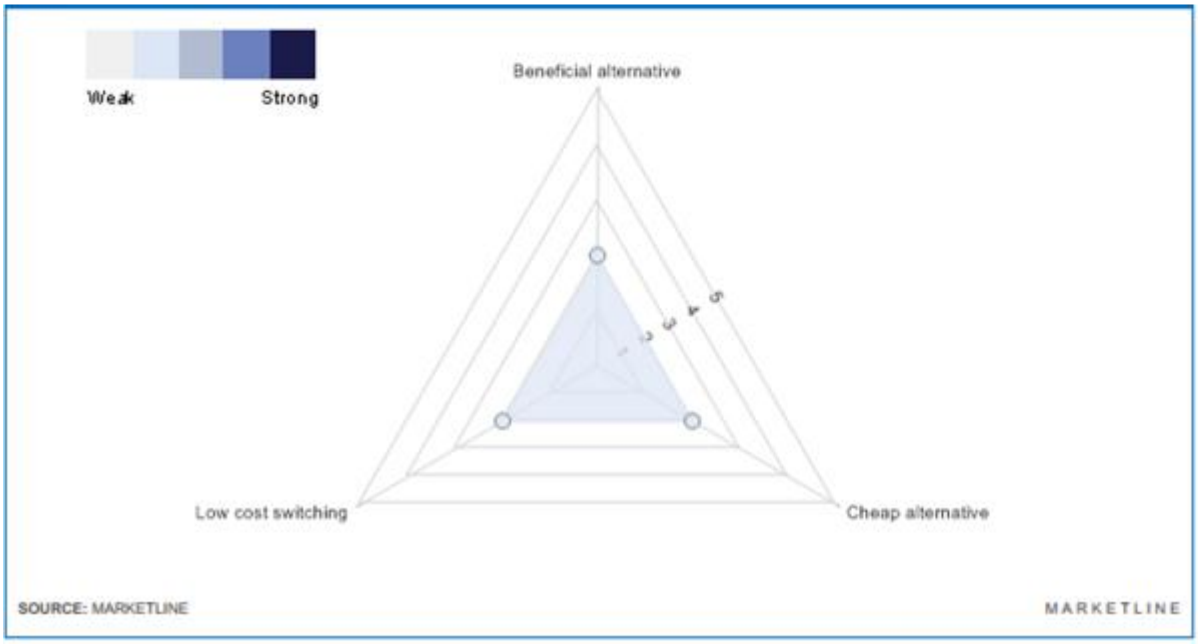
Figure 21



Moderate market growth in the recent past and strong growth forecasted for the 2011-2016 period, may be attractive for new entrants. However, high switching costs in the security services industry can be off-putting to new entrants as can the high degree of intellectual property required in the managed security and electronic security services. These forms of security can also be capital intensive with high fixed costs, although personnel security doesn't require such high fixed costs. There is also a high risk of retaliation from well-established incumbents if they feel any new entrants are encroaching on their business. Regulation is also an issue, with legal requirements and standards in regards to managed security and the protection of customer data, whilst many governments require personnel security services to be regulated, in the UK the government's Security Industry Authority (SIA) is responsible for this. Suppliers are accessible, with a wide range of manufacturers of electronic surveillance equipment being available and the availability of potential employees suitable for personnel security can be increased if new entrants train recruits themselves; however the availability of skilled programmers for managed security is not as prevalent. The threat from new entrants is assessed as **moderate.**

3.5 Threat of Substitutes

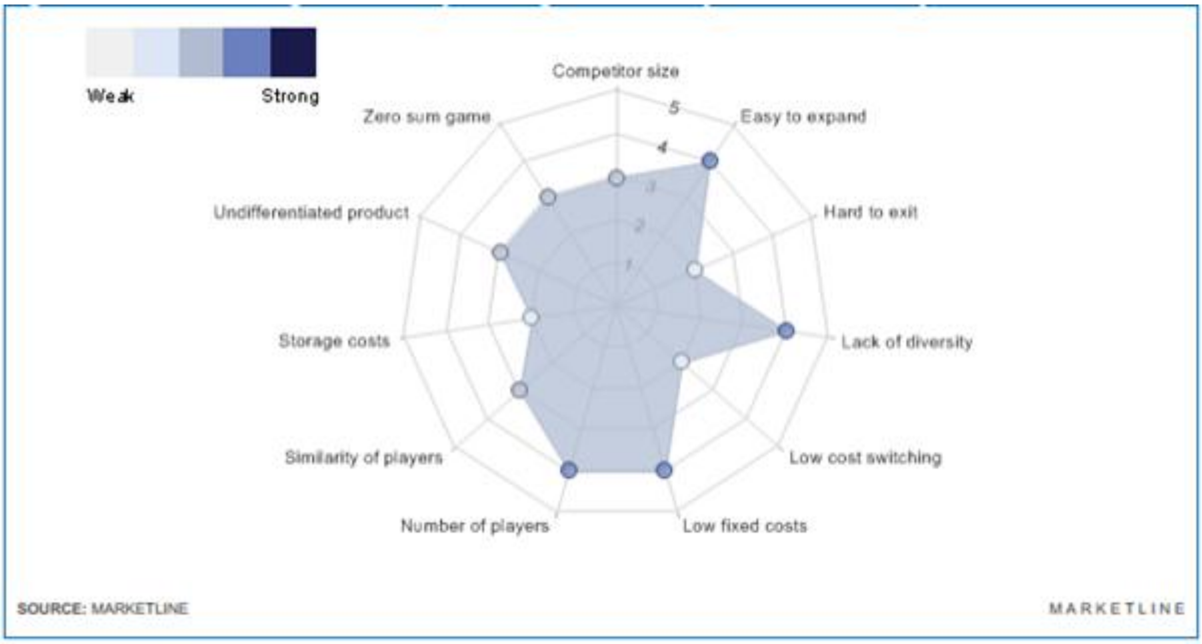
Figure 22



There are no discernible substitutes for managed security, a majority of governments enforce strict data protection laws and all electronic data, regarding customers in particular, requires protection in this way. Electronic surveillance could in theory be substituted with increased personnel, such as extra police, on the ground, however this is neither practical nor cost effective, and so any threat from substitutes is minimal. Likewise, substitutes for personnel security can comprise electronic surveillance; however when a physical presence is required cameras etc., are of little use which again minimalizes substitute threats. The threat from substitutes is assessed as **weak.**

3.6 Conclusion: Degree of Rivalry

Figure 23



The security services industry is fairly fragmented, with four of the leading companies (G4S, Securitas AB, Tyco International and Secom) accounting for over 25% of global revenues. There are a large number of competitors, usually smaller national businesses, which intensifies rivalry, however there are a number of global incumbents which are large in size and increase rivalry. Further factors that intensify rivalry include the relatively commoditized nature of the industry with buyers utilizing price as one of the primary influences when making security service decisions. Fixed costs are moderate, especially when compared with manufacturing industries, and this serves to temper rivalry as does the relatively low exit barriers. Security service players are able to supply their products and services to a wide range of industries, both in the private and public sector, so although they tend to lack diversity, the demand for their services from such a diverse customer base offsets this and mollifies rivalry. The level of rivalry is assessed as **moderate.**

3.7 Key Factors for success in the Industry:

1. Company Reputation & ethics
2. Ability to execute big and complex projects.
3. Confidentiality of customer data.
4. Ability to compete on price - Lack of differentiation and commoditised nature of services means price is the deciding factor for customers.
5. Adherence to regulations – Security industry is subject to lots of regulations.

4. PESTLE Analysis

4.1 Political:

8. Increasing pressure from UK Government to help reduce expenses on contracts already signed.
9. G4S's contracts with Israel w.r.t prisons, apartheid wall, checkpoint and police work in the West Bank have raised human rights issues for the company.
10. Open public services white paper (published in July 2011) aimed at reforming public services including police.
11. The structure of the Work Programme allows prime contractors like G4S to sub-contract many of their responsibilities to charities and other "delivery partners".
12. The UK government also wants to move towards a payment by results model. By this the pay-out for all contracts will be against a measurable outcome.
13. Outsourcing of core police functions opens a new market. e.g., Lincolnshire police authority contract Dec 2011
14. Imminent withdrawal of troops from Afghanistan.

4.2 Economic:

1. Low interest rates translate to reduced cash cycles ➔ leading to reduced revenues to G4S Cash management team trying to reduce costs to overcome this.
2. The UK Government has sought to revolutionise procurement of services from the private sector. It aims to publish £50 billion of business opportunities online.
3. There have been instances of G4S cash depots being robbed – which lead to loss of reputation and business – higher insurance costs.
4. Expected to lose £50 million for falling short on the Olympics contract.

4.3 Social:

1. Concerns over private prisons and moral implications of it.
2. Increasing resistance or social awareness being created against using prisoners for work at cheap rates – protests have come from social organisations and competitors as well.
3. Populus polling (July 2012) has found that the public are more supportive of private sector provision if it frees up police time so that more officers are able to be out on the beat, or if it saves money and makes the police more efficient.
4. Founder signatory of the international code of conduct for private security service providers
5. In the UK, G4S runs six private prisons at which 400 prisoners are made to work 40 hours a week for as little as £2 a day. The company also runs three immigration detention centres,

where detainees have made repeated claims of abuse and assault by G4S guards. It is also a provider of controversial workfare schemes, and is taking over more and more public services, including policing, housing and healthcare provision.

6. Complaints about racial abuse / use of excessive force / abuse and mistreatment of prisoners affect the reputation of G4S.
7. In April 2012, the European Union decided not to renew a security contract with G4S after MEPs and campaign groups raised concerns over the company's role in equipping Israeli prisons in which Palestinian political prisoners are held in violation of International law.
8. Increased outsourcing of government jobs are at the expense of government employees – the contracts are won on the basis of lower costs – lower costs are due to reduced benefits to employees.
9. Taking over of facility services for public utilities also involves taking on employees already on roll and continuing the payroll scheme for them.

4.4 Technological:

1. Use of technology to drive down costs in security services and monitoring.
2. Trend towards alternate payment systems. Decreasing use of cash to make payments.

4.5 Legal:

1. Mandatory licensing of individuals working in specific sectors in the UK.
2. Numerous compliance with Regulatory requirements.

5. Future Trends

(Source: Keynote Market Report 2011)

5.1 Public-Sector Investment

The UK Government with its Open Public Services White paper has indicated that there are to be major cuts to public-sector spending, and that budgets would be reduced across a variety of different sectors, from public-sector administration to defence, education and health. There is a potential for a severe reduction in public-sector staff, especially in 'back-office' functions. Since the Government is also a key purchaser of security products and services, these cuts may ultimately affect the performance of the security industry. However, the continued threat from terrorism means that public safety is not likely to be compromised.

5.2 Consolidation within the Security Industry

The global economic crisis has meant that some companies have had to scale down operations to maintain profit margins, with some divesting of non-core operations as well as staff. There is likely to be further consolidation within the industry as customers now require a cross-section of skills and integration of systems, rather than separate solutions for particular areas. For example, security and fire protection are likely to be increasingly combined with other building facilities, such as access control and heat/air conditioning. The greater emphasis on electronic surveillance is also likely to result in manpower reductions within the industry and more cost-effective staff deployment.

5.3 More Affordable Security

There is likely to be greater uptake of electronic and IP solutions by businesses, which can represent a highly cost-effective means of providing security, compared with manned guarding, for example. As technology advances and electronic systems become more mainstream, it is likely that the cost of installing home and commercial security systems may diminish. However, the training, monitoring and servicing of systems still represents a key area for security providers, although advances in technology may reduce requirements for maintenance.

5.4 Trend towards Partnerships and Communications Inter-Operability

Companies with specialist skills are likely to form partnerships with complementary technologies to enable different types of equipment and different types of communication to join up as 'open standard products'. This may include radio, computer, IP and mobile technologies. Flexibility will therefore become a significant issue.

Integrated solutions, rather than single systems, are also likely to lead to overall cost efficiencies within organisations on a national and international scale.

5.5 Technology

Use of wireless technology for security systems is also likely to increase, since it enables remote monitoring without the need for costly wiring, thus potentially reducing costs of installation. Some maintenance can also be undertaken remotely, which also reduces the on-going system operating costs.

The move from analogue to IP systems has implications for the type of equipment purchased, as well as staffing within the security industry. However, the move from analogue to digital is likely to be gradual, given budgetary limitations and the fact that analogue systems can link into IP networks, improving functionality without the need to completely replace existing systems upfront.

The ability to migrate to newer and more secure technologies is growing in importance within the access-control market. In the past, a particular system often had to be repaired, upgraded or fixed by the manufacturer it was purchased from. Recently, however, there have been calls for universal and standardised control panels in order to increase competitiveness and to facilitate an easier technological migration path.

5.6 Counter-Terrorism

Rather than diminishing, the threat of terrorism is likely to remain, with government counter-terrorism measures having to become increasingly sophisticated in order to prevent further attacks. Transportation security will therefore remain a key issue, and stronger security measures may be extended from airlines to rail and sea.

5.7 Prison Management

Capacity issues in prisons may result in a greater number of criminals being monitored within the community. This provides wider opportunities for electronic tagging.

5.8 Training

Given the move towards IP-based systems and electronic security becoming increasingly important, there may be a need to re-train security personnel on the latest systems. Additionally, the balance of decision-making within companies procuring security is likely to move from managers with control of a physical site to wider facilities management, i.e. IT and human resources (HR) departments.

5.9 Multiple Card Applications

The ability to combine the technology of access cards is an increasingly important feature for many users. Integration is common at present, with users able to have combinations such as magnetic-stripe technology with Wiegand technology, which would provide efficient data access and a high level of security. Biometric information can also be introduced into systems such as these, providing a higher level of security and more intelligent systems. This trend of integrated technologies is likely to continue.

5.10 Increased Card-to-Reader Security

With access cards containing an increasing amount of information, and being used for more applications, a greater degree of privacy protection is required. This has created a demand for access cards that can validate and secure identities, and for biometric templates that must be stored on the card. There is also a demand for hardware that can update the card's security if the current technology were to be hacked, as well as software updates to improve security as threats emerge.

5.11 Mobile Phone Access Keys

Access-control and identification technology has recently been developed to be compatible with mobile phones, allowing consumers to use their mobile phones instead of traditional plastic access cards or fobs to verify identity. Mobile phones that are fitted with Near Field Communications (NFC) short-range wireless technology will be able to use the device in place of cards or tokens, with all major phone manufacturers announcing new smartphones will have this technology.

5.12 Sustainability

Sustainability is a major issue in almost all sectors, with increasing governmental concern over sustainable material and energy management. While this issue is not quite as pressing in the access-control industry as it is in other sectors, there is growing discussion around energy management via access control and to how to integrate features.

5.13 Green Issues

A reduction in wired technologies and movement of manpower due to remote operation helps to improve the carbon footprint of security systems. IP-based security offers the advantages of reduced cabling and potentially reduced energy consumption, given the reduction in the number of pieces of equipment and the ability to only activate when triggered. Sustainable, environmentally friendly issues are likely to become more important in the future as companies seek to achieve competitive advantage.

5.14 Personal Data Protection

Personal data protection is a major issue within the access-control market, with access cards and other devices carrying an increasing volume of data. Both the Government and businesses will need to ensure transmitted and recorded data is kept secure and preventative measures against misuse have been taken, in order to ensure consumer confidence.

6. COMPETITOR ANALYSIS:

6.1 Tyco International Ltd.

Tyco International (Tyco) is a diversified manufacturing and service company that provides a range of products and services to its customers throughout the world. The company provides security products and services, fire protection and detection products and services, valves and controls, and other industrial products. The company operates from its headquarters in Manchester and employs over 2,000 people across 19 additional locations across the UK, the Republic of Ireland, Azerbaijan, Abu Dhabi, Dubai and Qatar.

Tyco operates through three segments: Tyco Security Solutions, Tyco Flow Control, and Tyco Fire Protection.

During the first quarter of FY2011, Tyco realigned their Safety Products segment between the ADT Worldwide and Fire Protection segments to create two new segments: Tyco Security Solutions and Tyco Fire Protection. Tyco Security Solutions consists of the former ADT Worldwide segment as well as the portion of the former Safety Products segment which manufactures security products including intrusion, security, access control and video management systems. Tyco Fire Protection consists of the former Fire Protection Services segment as well as a number of businesses from the former Safety Products segment including the fire suppression, fire detection and life safety products businesses. In addition, various businesses were realigned between Tyco Security Solutions and Tyco Fire Protection.

Tyco Security Solutions designs, sells, installs, services, and monitors electronic security systems for residential, commercial, educational, industrial, and government customers. It has a significant presence in North and South America, Europe, and the Asia Pacific region. The segment also provides electronic security services, including monitoring of burglar alarms, fire alarms, and other life safety conditions as well as maintaining electronic security systems.

The segment also designs and manufactures electronic security products, including integrated video surveillance and access control systems to enable business organizations to manage their security and enhance business performance. Its global access control solutions include integrated security management systems for enterprise applications, access control solutions for mid-size applications, alarm management panels, door controllers, readers, keypads, and cards. Its global video system solutions include digital video management systems, matrix switchers and controllers, digital multiplexers, programmable cameras, monitors, and liquid crystal displays. Its intrusion security products provide advanced security products for homes and businesses ranging from burglar alarms to a full range of security systems including alarm control panels, keypads, sensors, and central station receiving equipment used in security monitoring centres.

The Tyco Fire Protection services segment designs, sells, installs, and services fire detection and fire suppression systems for commercial, industrial, and government customers. The alarm and detection systems include fire alarm control panels; advanced fire alarm monitoring systems; smoke, heat, and carbon monoxide detectors; voice evacuation systems; and emergency lighting systems. The company also offers a range of fire suppression systems, the majority of which are water-based sprinkler systems. In addition, the company provides special hazard suppression systems, which incorporate specialized extinguishing agents such as foams, dry chemicals, and gases, in addition to spill control products designed to absorb, neutralize, and solidify spills of hazardous materials. These systems are suited to fire suppression in certain manufacturing, power generation, petrochemical, offshore oil exploration, transportation, data processing, telecommunications, commercial food preparation, mining, and marine applications.

7. Company Overview – G4S Plc.

G4S is an international security solutions group. The group provides outsourced business processes and facilities in sectors where security and safety risks are considered a strategic threat. It operates in more than 125 countries across the globe.

The group operates in two core product areas: secure solutions and cash solutions.

The secure solutions business provides a broad range of solutions to both commercial and government customers. It offers protection of critical national infrastructure, care and justice services, secure facilities and border protection services to government customers. The division provides integrated security solutions for commercial customers such as risk consulting, manned security and security systems.

G4S offers a range of secure solutions to customers operating in sectors including governments, major corporations and industrial companies, financial institutions, energy and utility companies, retail, ports and airports, transport and logistics, and leisure and tourism. The service portfolio comprises risk management and consultancy services, secure facility outsourcing, electronic monitoring of offenders, manned security services, electronic security systems, monitoring and response services, management of adult and juvenile custody facilities, aviation security services, fire protection and emergency response, security training services, and project management.

The cash solutions business provides outsourcing of cash cycle management for central banks, financial institutions and retailers. It operates in more than 70 countries around the world. The cash solutions business offers a range of secure logistics, including financial institution cash outsourcing, ATM network management, ATM cash management services, ATM engineering services, retail cash management solutions - CASH360, data and document management services, cash logistics, and secure international transportation of cash and valuables.

It provides security at 14 UK airports and four ports. It also runs six prisons, four children's homes and two immigration centres, and tags 14,000 offenders. It is responsible for security at 500 police stations and 30 custody suites.

Company Vision:

“To be recognised as the global leader in providing security solutions, to help customers achieve their own strategic goals and to deliver sustainable growth for G4S and long-term value for shareholders."

7.1 Acquisitions:

G4S is arguably the most acquisitive company on the FTSE 100, continually snapping up smaller organizations in markets or territories were it is keen to build its presence.

2008 – Tocuhcom - a US security systems provider that specialised in integration.
2008 – Rock Steady – an event security firm.
2009 – All Star International (All Star) for a cash consideration of US$59.9 million. All Star provides facilities management and base operations support to the US Government agencies.
2009 – Adesta (renamed as G4S Technology). Provider systems integration and project management services for integrated security systems and communication systems.
2010 – Instalarme, a Brazilian electronic security solutions company predominantly working in the banking sector.
2010 – Nuclear Security Services Corporation. It specializes in evaluation and assessment, design engineering, and installation and testing of security systems internationally for critical corporate and national infrastructure
2011 – Chubb Emergency Response for £17m, a key holding and mobile patrol business that covers 22,000 sites.
2011 – Cotswold Group Limited, the UK's market leader in surveillance, fraud analytics, intelligence and investigations services.
2011 – Guidance Monitoring, an offender monitoring technology business in the UK
2011 – A facilities services company in Brazil
2011 – Munt Centrale Holland B.V., a coin management service company based in the Netherlands.
2011 – Protekt B.V. It specializes in safety training and consultancy

7.2 Key Strengths:

Integrated Security Solutions:

G4S is able to design and manage security solutions that bring together its capabilities in project management, risk consultancy, secure facilities services, physical security, intelligent systems and high quality security-trained personnel to address the security challenges faced by a broad range of customers around the world.

Cash solutions expertise:

Understanding and managing cash cycles is one of the group's core skills. Central banks, commercial banks and retailers outsource their cash management to G4S as the group has the capability and experience to drive substantial efficiencies in the system, whilst achieving maximum return for its customers over the longer term.

Government partnerships:

Government outsourcing is a strong, long-term source of growth as public sector spending remains under pressure and governments turn to the private sector to provide a number of outsourced services. Government contracts, which represented approximately 27% of group revenues for the year ended 31 December 2011, tend to be long-term strategic partnerships, with recurring revenues.

Strong developing markets presence:

G4S's global presence, market share and experience of working in developing markets constitute key strengths. Relatively high levels of GDP growth in certain developing markets, increasing demand for security services and G4S's ability to export its experience from its operations in more developed markets drive positive revenue and margin development for the group in developing markets.

Solutions approach:

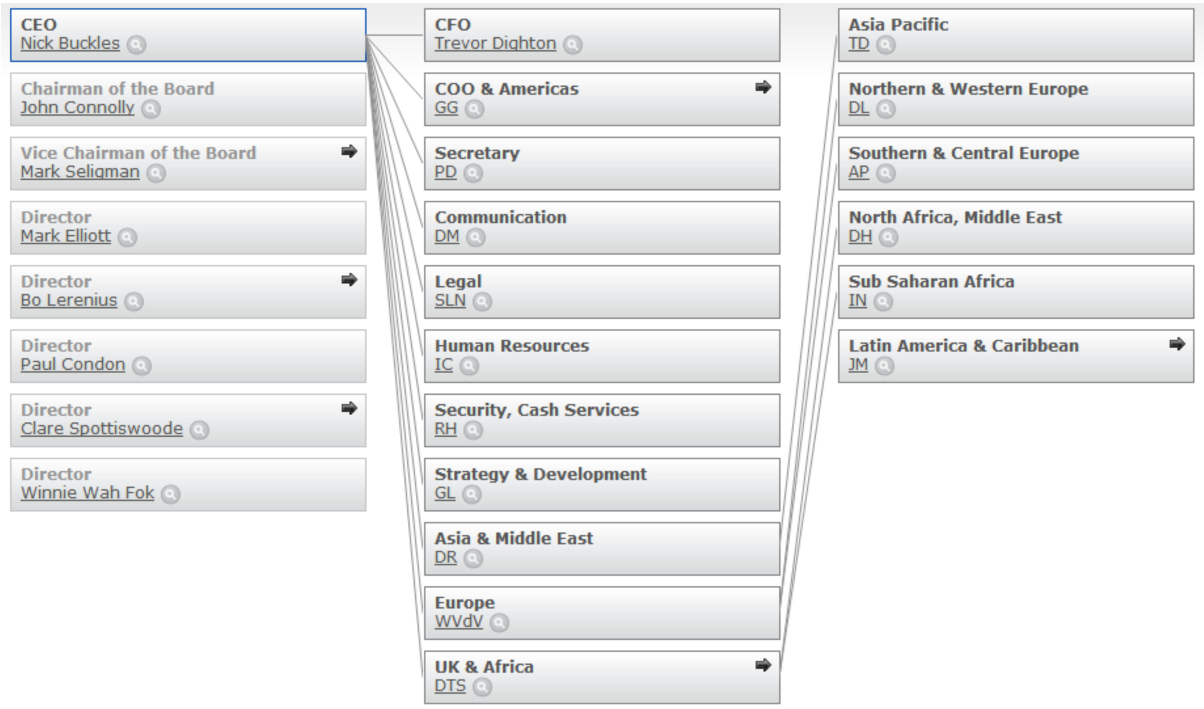
Each individual area of the business is a driver of value for the group; however it is when they come together that they truly make a difference. Exporting G4S's government expertise to new countries, leveraging its cash solutions model across developing markets and using its global risk management and security capabilities to protect some of the world's best known brands across international markets, drive even greater value for the group.

7.3 Olympics Contract Impact on G4S:

The London Olympics contract worth £280 million has seen the company embarrass itself for falling short on delivering the promised number of security guards. This shortage has also dented its public reputation with reports of Hundreds of British soldier's face being stuck in Afghanistan for weeks longer than planned because of the knock-on effect of delays to training and holidays. The disclosure that G4S will fall short of the target by 3000 security guards less than a month before the Olympics have raised concerns on the information systems, specially the account and contract management systems at G4S. The company stands to lose about £50 million for falling short on the Olympic security guard shortfall.

7.4 Management Structure:

Figure 24



7.5 Strategy:

1. Drive outsourcing in key markets

G4S plans to use its expertise key services, sectors and countries to offer comprehensive solutions addressing multiple customer needs. By leveraging their capabilities across operating segments, G4S can effectively expand its presence and drive outsourcing in the markets in which it operates. The aim is to provide value creation to their clients in terms of 1. Increased revenues 2. Manage their costs, 3. Manage their risks, 4. Protect their assets and 5. Help them improve their delivery of service. Their focus is on the UK market for outsourcing as they see significant opportunities here.

2. Focus on sectors where security is a key consideration.

G4S secure solutions division has been main revenue generator for G4S. They have acquired expertise in securing government and critical national infrastructure, events, mining, oil and gas and financial institutions. These are sectors where security is a key consideration, which is also the strength of G4S. The business model of G4S is to start by providing single services to a high standard and then expand into providing other services. Hence by focussing on these sectors, G4S will be opening up new markets for their other divisions.

3. Develop long-term partnerships with customers.

The main elements of their strategy are to drive outsourcing across key sectors, customer base and garner long term contracts. They place importance on customer relationship development and measure this by using tools and software such as Net Promoter Score and salesforce.com. They want their customers to see G4S as a strategic partner, a solutions provider and an essential part of their own strategy delivery. This is an approach to garner long term contracts. They have created global account management programme to address the needs of international companies to ensure quality and consistency of service across markets. They have also created a number of global service excellence centres to work with country operations to focus on operational efficiencies, service standards and development of technology to support service delivery and share best practices.

4. Transfer skills developed in more mature markets into key developing markets.

Revenue from developing countries accounted for 30% of the groups revenues in 2011. The group's strategy calls for generating 50% of the revenues from developing countries by 2019 by leveraging on the company's ability to export its experience from operations in the developed countries and by pursuing a multi-product strategy. Substantial focus is on the developing markets on Brazil, India and China.

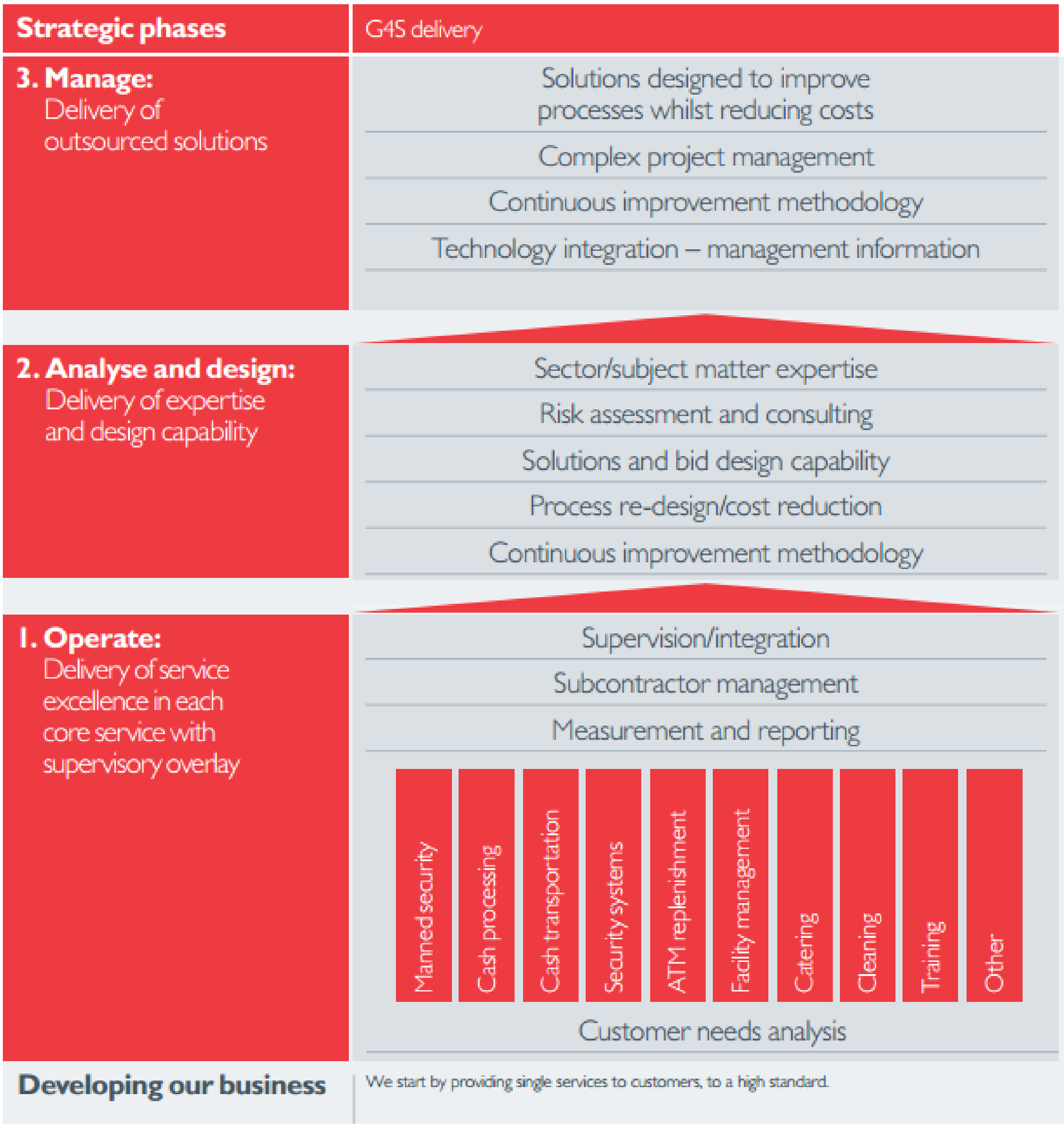
5. Acquire businesses to drive further growth potential.

G4S has followed a strategy of bolt-on acquisition strategy to improve market share and acquire expertise. They have earmarked £200 million each year for acquisitions. They plan to acquire facilities management services in developing markets, the UK and USA.

6. Financial Strategy

A cash conversion ratio of 85% PBITA for the group and PBITA margin aimed at 7%. The company also aims for double digit EPS growth every year.

7.6 Business Model:



7.7 Core Competencies

G4S plc operates on a low cost high turnover model. Its strategy can be said to be that of cost-leadership strategy as explained by Porter, 1985. It strives to be the lowest cost supplier to win projects and profit from above-average price-cost margin. Their **core competencies** also reflect this-

4. Low Cost Manpower

G4S security services operate in a low skilled labour intensive business. This is true of their manned security service offerings. Their technology adoption is also aimed at automating processes and tasks to minimize need for human intervention. G4S competes on cost to deliver projects in a labour intensive industry where salaries account for a big chunk of revenues. G4S employs over 123,200 in Europe alone and approximately 90% of them are employed in front-line positions delivering services. Hence their low cost manpower is an important resource for them.

5. Security Services

G4S specializes in outsourced business processes and facilities in sectors where security and safety are major risk areas. It effectively uses its expertise in providing security (both manual and technological) services to gain access to outsourced business and facility management services.

6. Ability to handle big, complex projects.

In an effort to increase profit margins, G4S has pursued a strategy of bundling its services like, manned security, facility management, catering, cleaning, security systems etc. to handle bigger complex projects. The handling of Olympics security project was a setback, however G4S has a built a reputation for handling complex projects. This effectively, moves them to complete solutions provider and differentiates their products.

7.8 Challenges:

From a study of the company strategy and the industry trends, the following areas were identified where TCS with their expertise in IT solutions and business process outsourcing could make a pitch for value addition.

7.8.1 Integration of the two divisions

G4S plc has traditionally operated as two divisions - secure solutions and cash solutions. The larger, more complex cash solutions businesses were managed under separate structure to ensure that best practices were shared, to develop new service lines, maximize efficiencies and to ensure a common approach to security and safety. The company plans to remove the separate divisional structure and integrate cash solutions businesses into their existing regional structure. This is an effort to reduce costs and simplify the management structure. The challenges here lie in integration of both back office and front office operations which includes implementation of common IT systems; sharing of HR resources; finances and integration of processes.

7.8.2 IT Initiatives

The present economic downturn along with the uncertainty has seen companies trying to reduce costs while the security concerns remain same if not heightened. This has led to increased use of technology in security services. An integrated approach to security has gained momentum, the security officers more routine tasks are being replaced with technology, providing greater efficiency whilst reducing costs. Used in conjunction with traditional methods, video analytics is at a price-point where it is attractive to businesses and can deliver real security efficiencies. An increasing emergence of cloud-based ‘hosted’ access control systems, driven in part by the significant cost savings that can be realised over the life of the system, has hastened the adoption of technology.

G4S has signed a £32.9 million contract with Fujitsu UK & Ireland to provide business-critical IT infrastructure and services support over seven years. The company is looking to increase its overall agility and support business growth while reducing costs. The contract covers the three core G4S business units in the UK and Ireland: Cash Solutions UK; Secure Solutions UK; and the Group and UK & Ireland Regional Management teams. Fujitsu will migrate G4S systems and data to its own data centres, transform end-user computing to reduce operational costs and provide service desk support from its service centre in Wakefield.

The G4S server and storage estate will be split between two of Fujitsu's tier III data centres, with dual connections for disaster recovery. Fujitsu will use its cloud-based Infrastructure-as-a-Service (IaaS) architecture to deliver applications. The end-user experience will be boosted by Windows 7 migration and a Citrix desktop virtualisation, in conjunction with AppSense, across 3,500 desktops and laptops, and 10,500 email clients to facilitate and enhance remote working.

7.8.2.1 Account and contract management systems:

G4S had launched an £5.2bn attempt to take over its Danish rival ISS in 2011. This would have doubled the size of G4S and provided an opportunity to expand its range of services. Their operation overlapped in 40 countries and would have provided significant synergies. Among the synergies that G4S expected to realise by acquiring ISS was that it would be able to offer a fuller range of integrated security and facilities services, including for companies that need a single account management structure and "access to the latest technology". G4S operates with high volume and low margins, and access to accurate data will strengthen its business.

An insider said the root cause of the problem with G4S was its internal computer system which had failed to calculate staff rostering. This on extrapolation questions the information management systems at G4S. Comments by Nick Buckles made about 'digging into the data day by day', has led to doubts by the media, if the senior level management at G4S has access to real time data. If this is true then G4S lags behind in terms of analytics and communications systems.

7.8.2.2 Cash Management Systems:

The company's vision is to deliver Total Cash Management Solutions, integrating world class service at every stage of the cash cycle and providing innovative and compelling propositions for their customers. G4S Cash Solutions has embarked on a transformation project with SAP as the first phase of the project – financials, procurement and materials management – which went live, on budget, in

August this year. Phase two, with CRM, billing and a customer self-service portal, will go live in the third quarter of 2012.

G4S Cash Solutions has selected Data Flux technology to help analyse, improve, control and consolidate its business data on a new single SAP system. The firm is modernising its business IT systems by consolidating operational, customer facing and finance applications onto a single SAP platform. Data Flux technology is being used to help migrate the company's legacy data into the new SAP system, to enable consistency and accuracy of data when amalgamated. G4S also uses Microsoft management software Net Promoter Score and Salesforce.com for customer relationship management.

The security industry has begun to realise the potential of technology, especially of using cloud computing in their services. Cloud computing has been used to not only reduce costs but also develop new and innovative services. The report identifies opportunities for TCS that arise from integration of G4S's two divisions; implementation of SAP systems, cloud computing and data management systems for G4S.

8 Exposure to Tata Group:

1. G4S secure solutions has a three year contract with Tata Steel to protect 5 UK sites.

Sites to receive G4S services include; Scunthorpe (North Lincolnshire), Immingham Bulk Terminal (South Humberside), Dalzell (Lanarkshire), Clyde bridge (Lanarkshire), and Skinningrove (North Yorkshire).

G4S will be responsible for managing visitor entry for all contractors and employees: for patrolling the sites; administering alcohol testing; enforcing site speed limits and other security related services.

2. G4S technology has a contract with Tata Steel in the UK.
3. G4S has a contract with Tata Steel in the Ivory Coast.

9 Board of Directors:

- Nick Buckles
  Executive Director
  Chief Executive Officer

Key strengths and specific G4S role: Long experience in the group and its predecessor companies with a background as a commercial manager before taking on line management roles and then divisional and group executive responsibilities. In addition to his board role, participates regularly in Nomination and Remuneration Committee meetings and chairs the Executive Committee.

Joined G4S board: May 2004

Previous experience: Joined Securicor in 1985. Became managing director of its UK cash solutions business in 1996, chief executive of its security division in 1999 and was appointed to the board of Securicor plc in 2000 before becoming its chief executive in 2002. He was the company's deputy chief executive and chief operating officer from its formation in 2004 and was appointed chief executive in 2005. He also served as a nonexecutive director at Arriva Group plc from 2005 until 2010.

Current external commitments: Chairman of the Ligue Internationale des Sociétés de Surveillance, the international association of leading security companies.

- Trevor Dighton
  Executive director
  Chief financial officer

Key strengths and specific G4S role: Wide knowledge of both the group and other service businesses, as well as the accountancy profession. In addition to his board role, participates regularly in Audit Committee meetings as well as sitting on the Executive Committee.

Joined G4S board: May 2004

Previous experience: An accountant, he joined Securicor in 1995 having previously worked in the accountancy profession and in industry, including five years in Papua New Guinea, three years in Zambia and seven years with BET plc. After joining Securicor's vehicle services division in 1995 was appointed finance director of its security division in 1997 and became its deputy group finance director in 2001. Appointed to the board of Securicor plc as group finance director in 2002, he became the company's CFO when it was formed in 2004.

Current external commitments: None

- Grahame Gibson
  Executive director
  Chief operating officer

Key strengths and specific G4S role: Extensive knowledge of the group and its predecessor companies in many different markets and in a number of executive functions. In addition to his board role, is also joint chief operating officer and CEO of the Americas region.

Joined G4S board: April 2005

Previous experience: Joined Group 4 in 1983, starting as finance director (UK) followed by a number of senior roles, including deputy managing director (UK), vice president (corporate strategy), vice president (finance and administration), vice president operations (central and south eastern Europe and UK) and chief operating officer of Group 4 Falck A/S. In 2004 he became the company's divisional president for Americas and New Markets and became chief operating officer in 2005.

Current external commitments: Board member of the Ligue Internationale des Sociétés de Surveillance, the international association of leading security companies.

- Mark Seligman
  Non-executive director
  Deputy Chairman
  Chairman – Audit Committee

Key strengths and specific G4S role:

Extensive financial and management experience having worked in the financial services sector, with a particular focus on investment banking. Takes particular interest in the financial performance of the company, including its financing and transactional activity.

Joined G4S board: January 2006

Previous experience: Qualified as a chartered accountant with Price Waterhouse. Senior roles at SG Warburg & Co Ltd and Barclays de Zoete Wedd; Head of UK Investment Banking at CSFB; Chairman of UK Investment Banking at Credit Suisse; member of the Credit Suisse Global Investment Banking Executive Board and senior advisor to Credit Suisse Europe.

Current external commitments: Alternate member of the Panel on Takeovers and Mergers; chairman of the Industrial Development Advisory Board; member of the Regional Growth Fund Advisory Panel; non-executive director of BG Group plc and senior independent director of Kingfisher plc.

- Lord Condon
  Non-executive director
  Senior independent director
  Chairman – Remuneration Committee

Key strengths and specific G4S role:
Extensive experience of high profile security issues, the workings of the public sector and law making. Has broad involvement with the UK businesses within the group, particularly those serving public sector customers. Has particular focus on the group's involvement with sporting events. Leads the Nomination Committee's exercise for the recruitment of a new Chairman of the board.
Joined G4S board: May 2004
Previous experience: Senior appointments in the police force, including Chief Constable of Kent and Commissioner of the Metropolitan Police, as well as at the British Security Industry Association and the International Cricket Council's anticorruption unit.
Current external commitments: Cross bench member of the House of Lords; advisor to international sports governing bodies; member of the Advisory Board of Vidient Systems Inc. and Deputy Lord Lieutenant for Kent.

- Mark Elliott
  Non-executive director
  Chairman – CSR Committee
  Member – Nomination and Remuneration Committees

Key strengths and specific G4S role:
Extensive International board and executive experience, having held a number of senior management positions in Europe, the Middle East and Africa with responsibility for operations in more than 110 countries. Has particular involvement with the group's businesses in the Americas region.
Joined G4S board: September 2006
Previous experience: General manager IBM Global Solutions; managing director of IBM Europe, Middle East and Africa; member of the board of IBAX, a hospital software company jointly owned by IBM and Baxter Healthcare; chairman of the Dean's Advisory council of the Kelly School of Business, Indiana University.

Current external commitments: Nonexecutive chairman of QinetiQ Group plc; non-executive director of Reed Elsevier PLC and chairman of Reed Elsevier's remuneration committee.

- Winnie Kin Wah Fok
  Non-executive director
  Member – Audit and CSR Committees

Key strengths and specific G4S role:

International board and senior management experience with extensive knowledge of Asian markets and strong connection with Scandinavia. Has particular involvement with the group's businesses in Asia.

Joined G4S board: October 2010

Previous experience: An auditor by training was involved in management positions in finance, audit and corporate advisory work and a wide range of roles in asset management firms investing with a focus in Asia. Senior partner of EQT and CEO of EQT Partners Asia Limited; managing director of CEF New Asia Partners Limited.

Current external commitments: Senior advisor to Investor AB and Husqvarna; nonexecutive director of Volvo Car Corporation; non-executive director of AB SKF and nonexecutive director of Kemira Oyj.

- Bo Lerenius
  Non-executive director
  Member – Audit and CSR Committees

Key strengths and specific G4S role:

Extensive international board and executive management experience. Has a great deal of knowledge of the ports sector and of many European markets. Has particular involvement with the group's businesses in Europe.

Joined G4S board: May 2004

Previous experience: Chief executive of Ernstromgruppen AB; a Swedish building materials company; chief executive and chairman of Stena Line AB; group chief executive of Associated British Ports Holdings plc; non-executive director of Land Securities Group plc; non-executive director and chairman of Mouchel Group plc; non-executive director of Thomas Cook Group plc.

Current external commitments: Nonexecutive chairman of Knight Infrastructure II; chairman of Brunswick Rail Limited; honorary vice president of the Swedish Chamber of Commerce for the UK and senior advisor to the infrastructure fund of Swedish venture capital group EQT.

- Clare Spottiswoode
  Non-executive director
  Member – CSR and Remuneration Committees

Key strengths and specific G4S role:
Considerable experience in the public sector, the energy markets and the financial services sector as well as through setting up and managing her own businesses. Has particular involvement with the group's businesses in the UK and Africa region.

Joined G4S board: June 2010

Previous experience: A mathematician and economist by training, worked for the UK Treasury, director general of Ofgas, the UK gas regulator; policyholder advocate for Norwich Union's with-profits policyholders at Aviva; non-executive director of Tullow Oil plc; and a member of the Independent Commission on Banking and the Future of Banking Commission.

Current external commitments: Chairman of Gas Strategies Group Limited; non-executive director of Energy Solutions Inc.; non-executive director of Ilika plc; independent director of the Payments Council and non-executive director of Seven Energy International Limited.

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Annexure 3: Rentokil Initial plc

Table of Contents

1. Introduction

The environmental and facilities services market is made up from the revenues of companies providing environmental and facilities maintenance services. The global environmental & facilities services market had total revenues of $235.6 billion in 2011, representing a compound annual growth rate (CAGR) of 1.7% for the period spanning 2007-2011. The European market reached $68.3 billion in 2011. The performance of the market is forecast to accelerate, with an anticipated CAGR of 2.1% for the five-year period 2011-2016, which is expected to drive the market to a value of $261.4 billion by the end of 2016.

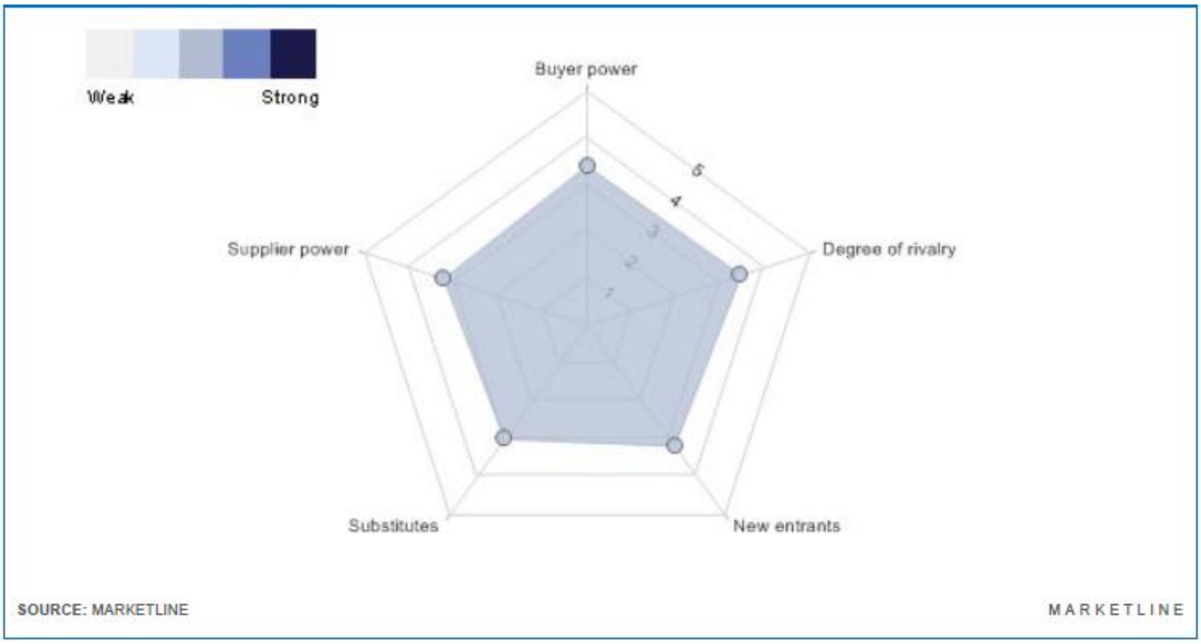
2. Five Forces Analysis:

(source : Market Line Report, 2012)

The environmental & facilities services market will be analysed taking companies engaged in providing environmental and facilities management services (including waste management, facilities management and pollution control services) as players. The key buyers will be taken as end-users (individual businesses, households and public authorities or councils), and suppliers of fuel, vehicles, facilities and land as the key suppliers.

2.1 Summary

Figure 25

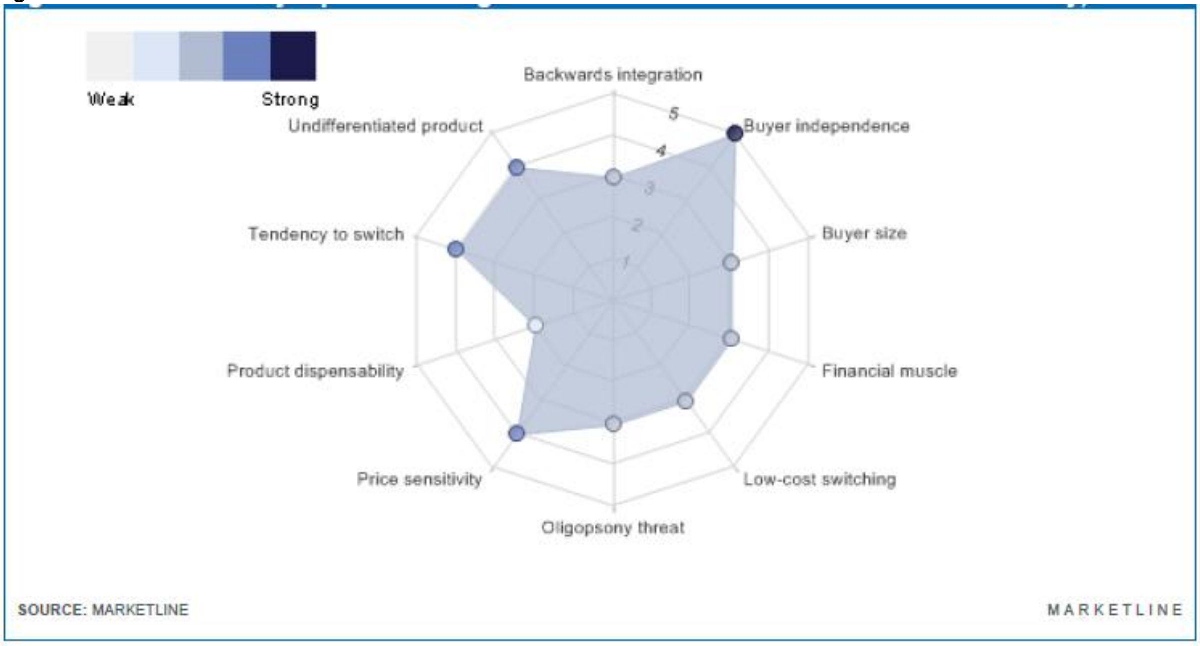


The global environmental & facilities services market is fragmented with numerous small, local companies; however, there are large national and international incumbents present, creating a fiercely competitive environment. As larger organizations often have the capability to carry out their own environmental and facilities management, buyers may backward integrate and are consequently not reliant on out-sourcing to third parties. However, recent awareness regarding environmental demands and the necessity of a global approach to the management of activities has prompted a demand for integrated environmental management services.

Fluctuations in fuel prices, caused by international, political and economic circumstances, actions taken by oil and gas producers, regional production patterns, weather conditions and environmental concerns, put rising pressure on market players.

2.2 Buyer Power

Figure 26



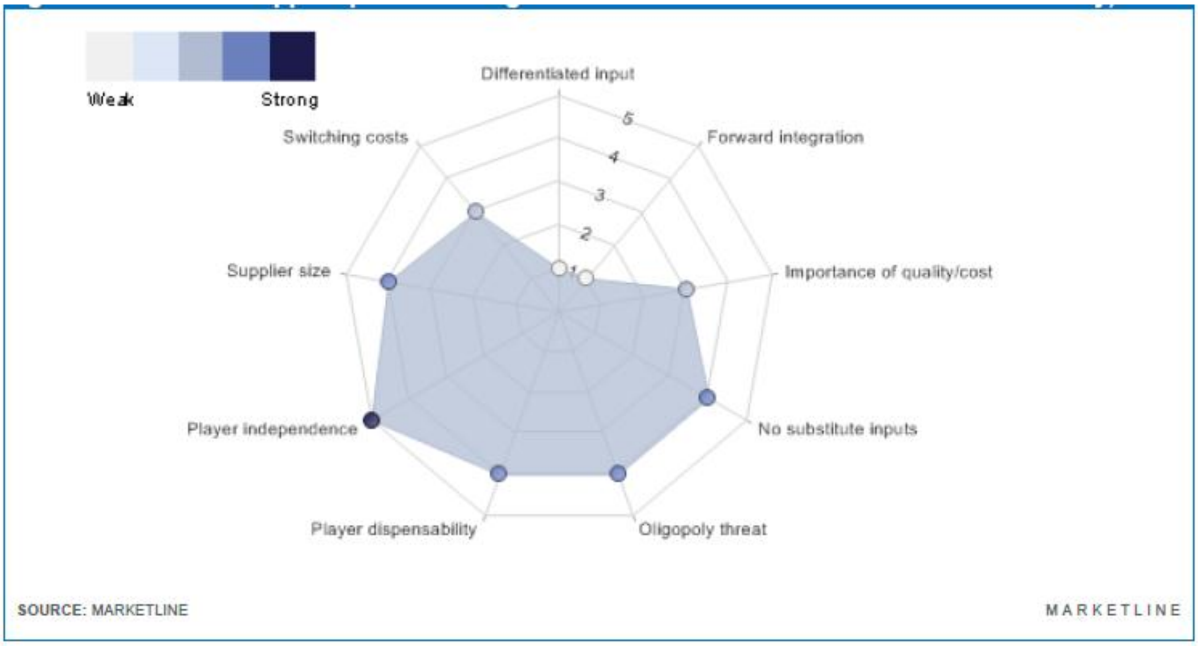
There are a large number of diverse buyers in this market. Many of these buyers are fairly small, such as individual businesses and households. The existence of such buyers diminishes buyer power, as they hold little financial muscle. However, large organizations, such as public authorities, possess considerable financial strength. Buyer power is boosted by these companies, as the loss of such buyer would have an adverse effect on players' revenues.

Backwards integration is possible; larger organizations often have the capability to carry out their own environmental and facilities management and are consequently not reliant on out-sourcing to third parties. This strengthens buyer power. However, with regards to smaller buyers, such as individual businesses and households, who are not able to carry out their own environmental and facilities services, the services offered by players are largely indispensable, meaning buyer power is weakened.

Players are extremely unlikely to forwards integrate in this market, which strengthens buyer power significantly. High switching costs may be incurred by buyers, as market players tend to hold long-term contracts (e.g. to remove waste on a regular basis). However, as buyers are rather price sensitive, and the services on offer are largely undifferentiated, they are thus sold based primarily on price, which increases buyer power. Despite this, the effect of branding can play a role by heightening the public profile of companies. Overall buyer power is **moderate**.

2.3 Supplier Power

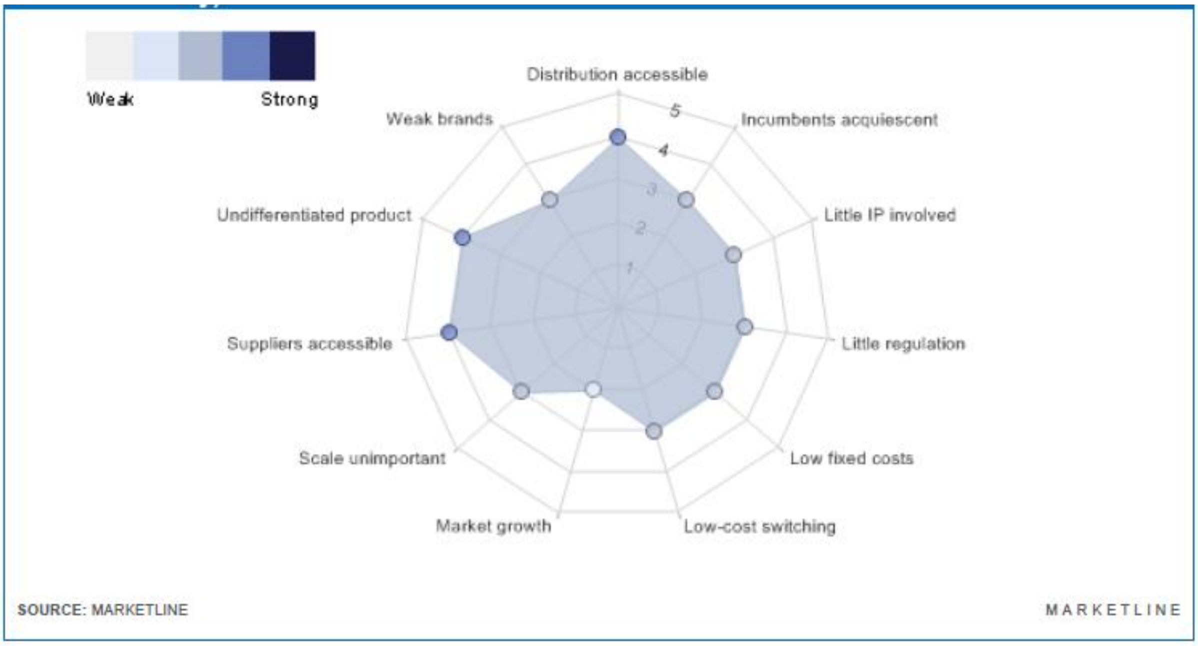
Figure 27



Fuel is a primary raw material within this market. Suppliers of fuel are usually large and limited in number. Fluctuations in fuel prices put rising pressure on market players. Suppliers are not highly dependent on the revenues generated from the environmental and facilities services market, which strengthens supplier power. Additionally, there are no real substitute inputs: fuel and vehicles are needed to collect waste, and land is needed to dispose of said waste. Supplier power is strengthened by the fact that suppliers are not highly dependent on the revenues generated from the environmental and facilities services market. Additionally, players are not likely to integrate backwards into the businesses of suppliers. However, suppliers are also unlikely to forwards integrate into the businesses of players, mitigating this threat. Overall, supplier power is assessed as **moderate**.

2.3 New Entrants

Figure 28

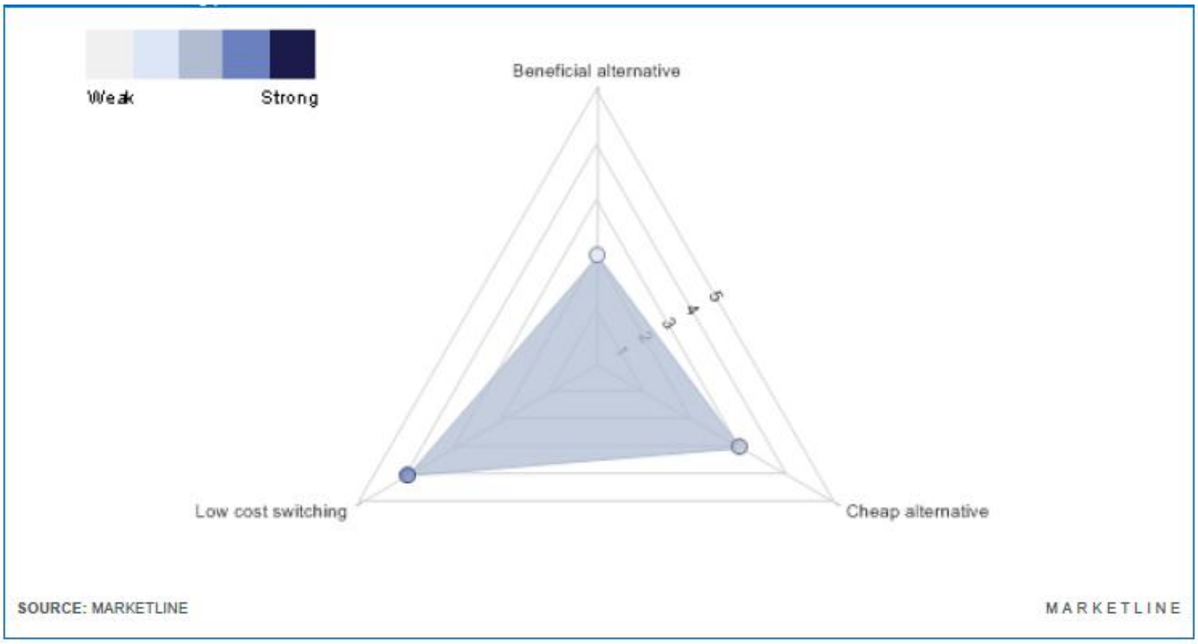


Traditionally, environmental and facilities services were considered as independent services outsourced to individual providers. Public authorities and industrial and commercial companies typically met many of their own environmental needs without looking to private firms that specialize in these areas. This situation has changed fundamentally in recent years. Recent awareness regarding environmental demands and the necessity of a global approach to the management of activities has prompted a demand for integrated environmental management services.

Newcomers must bear in mind that profitability of individual companies depends on efficient operations as the service is a commodity sold mainly based on price, big companies benefit from significant scale economies. However, smaller companies can compete by offering specialized services or servicing local markets. A large number of complex laws and regulations govern environmental protection, health, safety, land use, zoning, transportation and related matters globally. Overall, the likelihood of new entrants is assessed as **moderate**.

2.4 Threat of Substitutes

Figure 29



A possible substitute to services offered by a company engaged in providing environmental and facilities services could be for buyer companies to opt to carry out such services themselves. This alternative may be cheaper for clients. However, not all buyers have the facilities or the capacity to carry out such services. In addition, the disposal of certain types of waste, such as hazardous substances, generally requires special permits that only players may obtain. Overall, the threat of substitutes is assessed as **moderate**.

2.5 Degree of Rivalry

Figure 30

SOURCE: MARKETLINE

The global environmental and facilities service market remains fragmented, despite the presence of international players. Many of the leading market players are vertically integrated with presence in all segments of the value chain: collection, transport, processing, recycling or disposal, and monitoring of waste material. However, a large number of market players operate only in local markets. The presence of large players strengthens the competition level within this market. Additionally, the services offered by players are relatively undifferentiated, which intensifies rivalry further. Players benefit from the existence of long-term contracts whereby buyers may incur high switching costs. Overall, rivalry in this market is strong.

3. Support Services Industry Analysis

Support Services also known as business services, is a broadly defined sector that encompasses a wide range of sub-sectors. It is generally defined as the provision of services to private or public sector organisations that enable them to focus on their primary or core activities, or that enable the client organisation to perform key functions more effectively. For this report the sector is divided into four major sub-sectors: Facilities Management; Consulting, Advisory and Compliance Services; Business Process Outsourcing; and Operational Support. Support services play a key role in supporting a vast variety of industries. Support services industry is a people business and hence motivation and commitment are essential ingredients for business success and need to go hand-in-hand with a high level of skills (BSA).

3.1 Training:

Training is a key part of this industry's commitment to developing skills. Training people not only significantly improves their future opportunities; it also enables the industry to deliver its services to the highest standards. There is also considerable evidence that shows appropriate training motivates employees and will lead to greater loyalty and therefore satisfaction in the workplace.

3.2 Transparency:

To be able to achieve the status of a responsible business, transparency is very important. Whilst open reporting has a role to play, the ability to allow employees to report any concerns, particularly ethical, they may have, without fear of any reprisal is a clear sign that a business is committed to acting responsibly.

According to BSA, this industry is a success story in UK and the industry is a world leader and services are being exported successfully around the globe. This makes the industry a significant engine for growth in the UK economy. The key players of this industry have experience in working across the private and public sector to innovate, to extend opportunity and to create jobs and value to the economy. Sixty per cent of the industry's work is business to business and the remaining 40% to the public sector.

3.3 Economic Trends

The UK economy has slipped back into recession with the official data suggesting that GDP contracted by 0.3% q-o-q in both Q4 of 2011 and Q1 of 2012. The distortionary impact of events in 2011 viz., the Japanese Tsunami and Royal wedding and Olympics and Diamond Jubilee holidays in 2012 will result in uneven quarterly GDP growth pattern. Nevertheless UK GDP remains at 4.4%

below its previous peak due to concerns about the escalating Eurozone sovereign debt crisis and the pace of global economic recovery. The UK unemployment has eased back to 8.2% in Q1 of 2012 and is estimated to be in the range of 8.4% y-o-y 2012. Fiscal tightening will also continue to bear down on the economy. The corporate sector has been running a sizeable aggregate financial surplus, raising hopes that investment might provide a catalyst for both the recovery and rebalancing of the UK economy. However, business investment is still 14.5% below its peak prior to the global recession and firms remain cautious as a result of spare capacity and/ or the uncertain outlook.

UK economic forecast have been revised downwards with a growth of just 0.3% this year and 1.7% year next. The recovery is likely to be protracted and weak, with risks heavily weighed on the down side, given the euro crisis and slowing growth in key emerging markets, as well as uncertainty over the US recovery and political impasse.

3.4 Market Outlook

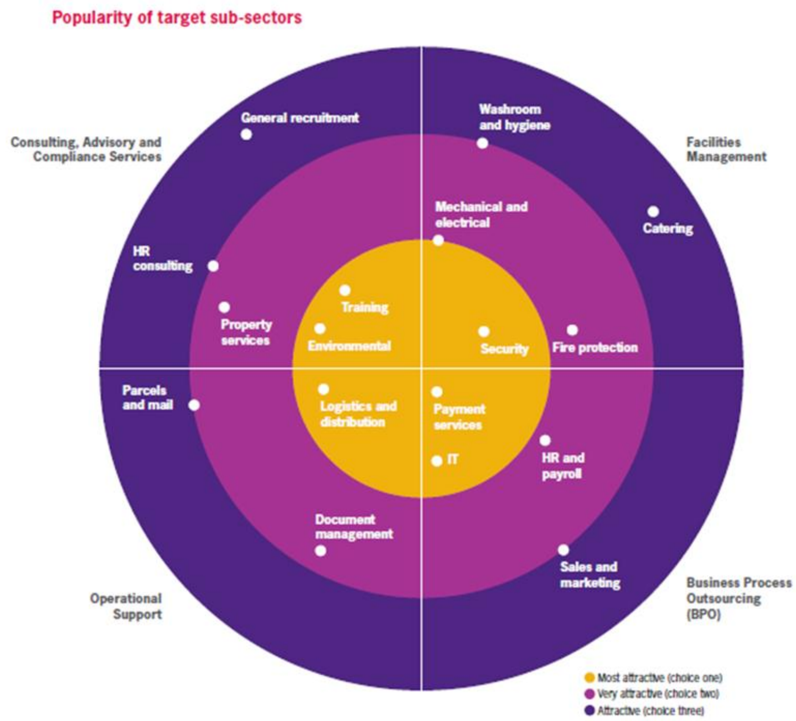
Support services industry is relatively new in the UK – yet is almost as big as financial services sector generating about 8% of the total UK economic output and employing roughly about 10% of the British work force (MITIE CEO at Think FM Conference, 18th June 2012) and contribute more than 11% of tax revenue to the exchequer (Oxford Economics, 2010 – the size of the outsourcing market – across the private and public sector). The sector remained buoyant in 2011, following a strong recovery in 2010. Although the recovery has been stronger than the wider economy, growth has continued to slow in recent quarters easing back to 3% y-o-y in Q1 in 2012. Contracting activity in 'other professional, scientific and technical activities' was the main drag on growth in Q1, whilst administration and support services remained relatively buoyant (source: UK Business Services - Sector Outlook – second quarter 2012 by Barclays).

The slowdown in the wider economy and the uncertain outlook has undermined business confidence in recent quarters, with fiscal austerity also likely to impact on business services activity (both directly and indirectly). A squeeze on Government contracts (a key source of income for many business services firms) could offset the positive impact of increased public sector outsourcing and recovery in private sector demand. Business will also be affected by the impact of public spending cuts on consumer and corporate spending.

According to MITIE CEO, outsourcing has a huge role to play in the on-going recovery of the UK economy by providing better quality, more innovative services in a more efficient way.

Despite significant levels of M & A activity, the support services sector remains highly fragmented. While there are a number of well established, multidisciplinary larger corporates, there are also a very large number of smaller businesses, providing services in a particular niche, or operating in a specific geography. It is this fragmented structure that has supported the high volumes of mid-market deal activity historically, expect most investment activity in the sector over the next 12 months to fall into the £15m–£100m deal size range. (Source: Grant Thornton – Where is the Smart money going in support services?)

Figure 31



(Source: Where is the smart money going in Support Services? Grant Thornton)

The sector is forecasted to reach £127 billion in 2013, with cleaning and catering services being the highest volume services and security, mechanical and electrical, energy and environment services seen as growth “hotspots”. (KPMG)

The FM businesses most likely to survive and prosper in the longer term will be those with many of the following characteristics: (KPMG)

• Effective business development and contract-retention functions;

• Strong cost, supply chain and capex control systems for every aspect of the business;

• Attention to cash flow and focus on cash recovery;

• Innovative value-sharing arrangements with clients to secure on-going business and to incentivise performance;
• Viable contracts and a track record of meeting performance criteria.

3.5 Emerging Trends

The market still anticipates growth but there are a number of factors around the corner that are yet to be fully incorporated. While outsourcing provides opportunities for organisations to simplify their businesses and potentially save costs, the significant pressures on cost-reduction are reducing the attractiveness of FM service contracts and reducing margins. In addition to these simple economic factors, the variable performance record for outsourced contracts, particularly those in the public sector and therefore the public eye, continues to result in hesitance on the part of management in many organisations to accept outsourcing as the preferred option (KPMG report – Alert Business Services). The principle challenge for FM providers in the coming years will be to grow revenues profitably in an increasingly commoditised and competitive environment (Catalyst).

4. Company Overview: Rentokil Initial PLC

The company was found in the year 1924. It is a provider of business support services and is headquartered in UK. It offers a wide range of services including textiles and washroom services, pest control, tropical plants, parcels delivery and facilities services. The company has operations in over 50 countries.

The company provides fully integrated total facilities management to Government and commercial sector organisation of all sizes and across all business sectors. The company has comprehensive service capabilities in the field of catering, cleaning, security, building, M & E, and statutory compliance. The company hold long term partnering relations both at home and abroad.

The company operates its business through six divisions viz., textile and hygiene, pest control, Asia pacific, Ambius, City Link and facilities Services.

Figure 32

(Source: Company's website)

The textiles and hygiene division of the company offers hygiene, linen hire, garment rental, floor care, medical services and specialist hygiene activities in continental Europe. This division caters to a wide range of industries including manufacturing, retail, banking and hospitality. Expert hygiene service includes the provision and maintenance of products such as air fresheners, sanitizers, feminine hygiene units, hand dryers, paper and linen towel dispensers, soap dispensers, toilet paper dispensers and floor protection mats.

The pest control division provides pest control services in international markets. It offers its services to both commercial and residential customers. This division has leading market positions in the UK, continental Europe and North America. Provides high level of risk management, reassurance and responsiveness to customers across 50 countries in which it operates. Property care, is a specialised division of Rentokil working in the field of remedial property surveying for timber treatment, damp proofing, wood boring insects and fungal decay, and has an insurance arm that can provide cover against further damage.

The Asia Pacific division covers all the company's activities in the region, mainly hygiene services, pest control and tropical plants.

The Ambius division provides interior landscaping, design installation and maintenance services in North America, the UK and continental Europe.

The company's City Link division offers parcel delivery services in the UK.

The facilities services division comprises a number of related businesses including cleaning, catering, Hospital services, specialist hygiene and manned guarding in the UK.

4.1 Company Milestones

1925 Rentokil is born

1957 British Ratin acquired Rentokil, with matching of synergies

1962 Name changed to Rentokil Limited

1969 Rentokil Group Limited was listed in London Stock Exchange. City Link was founded in the same year.

1990 Rentokil embarked on geographic expansion

1996 Rentokil made its largest acquisition, acquiring British Electric Traction and the initial brand passed on to Rentokil

2007 Rentokil launched RADAR – the Rodent Activated Detection and Riddance device which combines CO_2 and infrared technology.

2009 Rentokil agreement with Google to deploy Google Apps Premier Edition across countries.

2010 Acquisition of Knightsbridge Guarding Holdings Limited and Perception UK LLP, won £200m five year from London Underground.

2012 Rentokil launched UltraProtect

The company has won a Best Business Award for best business innovation in the private sector for its ground breaking pest treatment in 2010. "The Best Cleaning Company" at the Golden Service Awards 2011, and is the market leader (Source: Oxford Economics, April 2011).

In September 2010, for the fifth successive year, Rentokil was included in both the Dow Jones Sustainability World Index (DJSI World) and in its European equivalent (DJSI Europe).

Strategic Intent:

To deliver value added services to its customers in pest control, washrooms, hygiene, textiles, facilities, plants and parcels through its network of offices.

Vision:

To be the best at what they do by doing what's right for its colleagues and customers.

4.2 Business Model

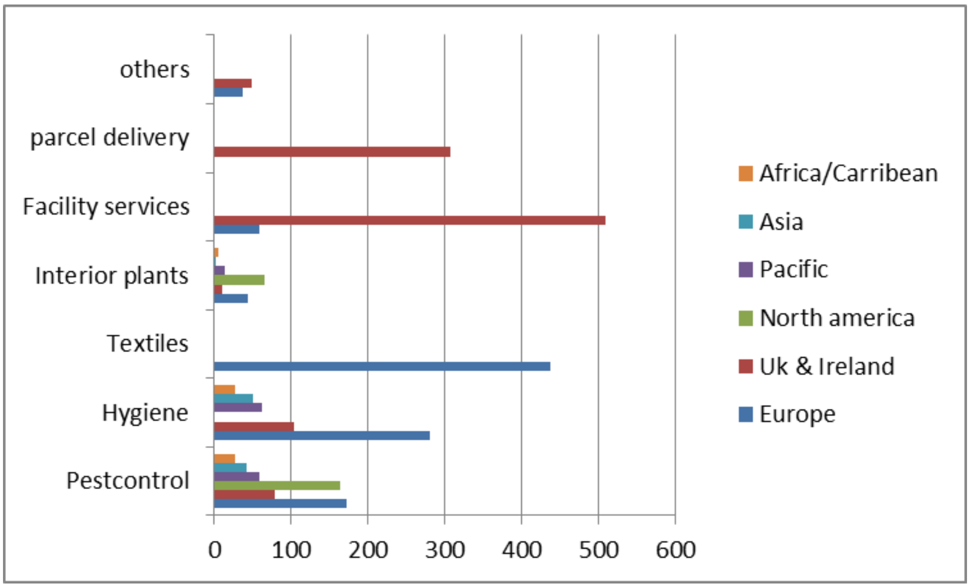
Group organisation:

Rentokil Initial is organized to deliver services by local people around the world. The company also has a small corporate centre team which sets group strategy, policy and direction and to provide functional expertise in areas such as talent management, procurement and information technology.

Key markets

The company has strong presence in UK followed by continental Europe and North America. An analysis of product performance by geography for 2011 –

Figure 33

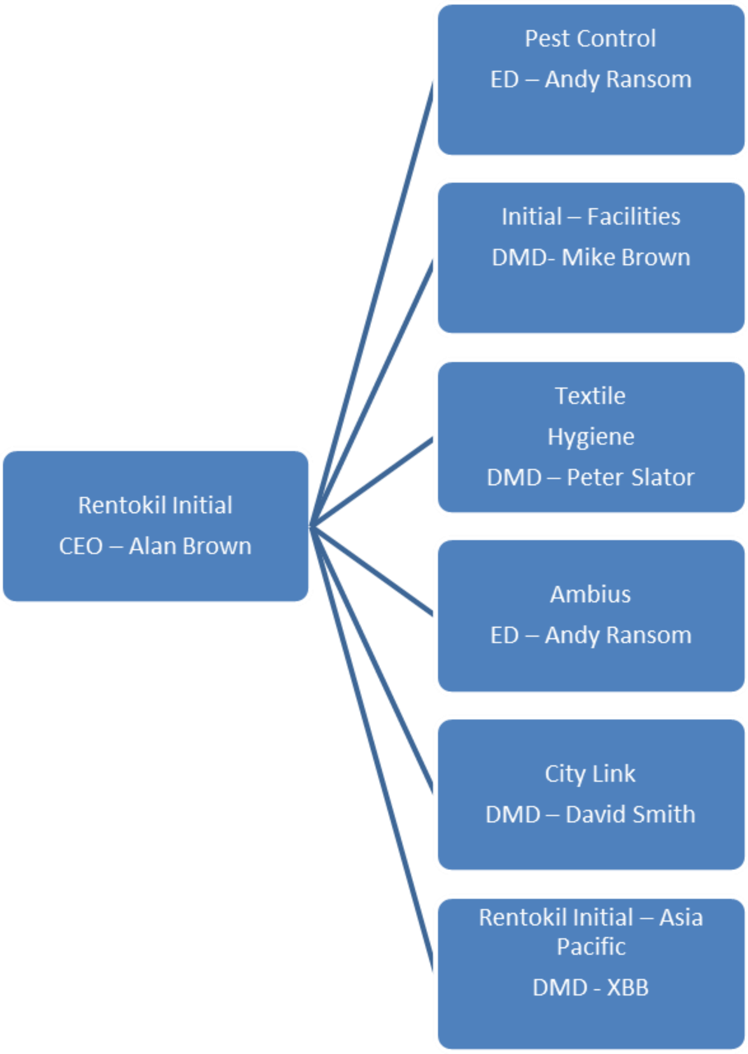


(Data source: Rentokil Annual Report 2011)

4.3 Management Team

(Refer Annexure for profiles of board members)

Figure 34



(Source: www.theofficialboard.com)

(Please refer Annexure for profile of members of the board)

4.4 Business Strategy

Table 3

Strategy aim	**key objectives 2012**	**Key initiatives**
Outstanding customer service	To drive greater customer satisfaction and retention through customer care and Customer Voice Counts (CVC) initiatives	• Begin group roll-out of customer care initiatives piloted in City Link during 2011 including call centre technology and organisation •Roll-out proactive customer account management processes following successful UK Pest and Hygiene pilots • Incentivisation for relevant employees based on customer satisfaction, gauged through Customer Voice Counts surveys
Delivering Operational Excellence	To turnaround the financial performance of City Link	•Turnaround financial performance of City Link through focus on operational excellence and cost management and delivery of sales pipeline • Roll-out of Programme Olympic shared service centres across group
Lowest cost and maximum cash	Deliver £50m cost savings from productivity, procurement and back office rationalisation initiatives	•Deliver £50 million cost savings through direct materials procurement, back office rationalisation and efficiencies and service productivity, particularly in City Link • City Link savings target £20 million, through driver productivity, supported by hub and trunking, warehouse and back office cost reductions
Developing capability & profitable growth	To achieve growth through marketing and innovation, programme Olympic and	•Focus on Marketing and Innovation (following creation of new management team),

	acquisitions	particularly in Pest, Textiles & Hygiene categories, to drive pace of innovation and implementation • Launch of "U+", the group's new training and development body in Q2, offering combination of physical and web-based learning and development programmes •Continued development of group sales capability • Development of Programme Olympic pilots across other group categories; deployment in key geographies outside UK • Bolt-on acquisitions, primarily Pest, with emphasis on US, MENAT, Latin America and other high-growth markets

4.5 SWOT Analysis of Rentokil Initial plc

With business strategy and objectives and the proposed initiatives to reach the objectives, a SWOT of the company would be of use to us at this stage.

Table 4

Strengths	**Weaknesses**
Diverse portfolio of offerings and geographic presence Outstanding customer service	Weak performance of City Link division Declining financial performance
Opportunities	**Threats**
Increased adoption of cloud-based solutions Strategic acquisitions	Intense competition Economic conditions may impact its profitability

The company's main **strength** lies in diverse portfolio of offerings and geographic presence. It offers business support services in the areas of hygiene, security, facilities management, and parcels delivery. The company operates its business through six divisions including: textiles and hygiene, pest control, Asia Pacific, Ambius, City Link and facilities services.

The **weakness** of the company is its City Link division, which is experiencing weak performance since 2008 and the overall good performance has been neutralised by City Link's performance. Also the company's financial performance has been declining over the past few years. The company's operating profit declined gradually from £249.1 million in 2006 to operating loss of £10.2m in 2011, although the revenue recorded a marginal growth.

There lies **Opportunities** for increased adoption of integrated technology which would reduce branch technology use, substantial cost saving across the group, proactive customer management and efficiency improvements across divisions. The recent investment in cloud computing for its HR division globally is a right step in this direction.

On the strategic acquisitions, the recent times may boost its revenue and also expand its group offerings and strengthen its position in the existing markets. In November 2011, it acquired the building services business and MSS Facilities Management from Managed Support Services Plc, which will provide excellent synergies with Initial Facilities' existing mechanical and electrical engineering building services business. In February 2011, the company acquired the services division of Santia Group. Santia's services division consists of three business units including fumigation & pest control; water treatment & hygiene; fire safety & prevention. Earlier in 2010, Rentokil acquired Knightsbridge Guarding Holdings and Perception UK. Knightsbridge Holdings is the 17th largest security provider in the UK and will build upon Rentokil's existing manned guarding offering. Perception UK is a 'front of house' business which provides services to flagship buildings throughout London.

The **threat** for the company is in the form of intense competition from several companies across all its business segments and the economic conditions, which may impact its profitability. The competition is primarily on the basis of service, recognition, pricing, customer satisfaction and reputation. The principal competitors of the company include ARAMARK, Davis Service, Ecolab, ISS, Alsco, and MITIE Group. Some of the company's competitors have greater financial resources, resulting in greater purchasing power, increased financial flexibility and more capital resource for expansion and improvement, which enabled them to compete more effectively. Intense competition may increase pricing pressure, and therefore affect the margins of the company. As the company operates in over 50 countries, it is exposed to economic and geopolitical risks. The UK represents a large proportion of the group's businesses; furthermore, UK's GDP is forecasted to grow by only

1.6% in 2012. Also the Euro area encountered major financial turbulence, global markets suffered a major sell-off of risky assets, and there are growing signs of spill over to the real economy.

4.6 Challenges

4.6.1 Cost Saving

With this in background, a look at the strategy and key objectives of the company, the company continues to focus on cost base with cost savings programme on going across all countries and all segments. During the previous year, the company felt short in cost saving by about 20% from its set target. The next objective is on continued refinement in the pricing policy to reflect European market conditions, which looks very uncertain and fluctuations in cost inflation.

Year on year the company focuses on cost reduction and during 2012 it aims £ 50 m mainly through saving opportunities in back office administration in all its divisions. In addition, in the pest control and Ambius division, the focus is also on service delivery and for the City Link division, the aim of £20 million cost saving is expected to be achieved through focused on driver productivity and supported by hub and trunking, warehouse in addition to back office administration. For the initial division, the cost savings are planned to be achieved through application of LEAN cost saving initiatives to improve gross margin levels.

4.6.2 Standalone Service

From the data available it is found that the company has not integrated its business model and all the services and the related business processes are stand alone. The company has not looked at integrating all the services and bundle it.

But according to industry sources innovative, value sharing arrangements with clients, by enabling the clients to outsource those services which are not core to them and also meeting the performance criteria would not only ensure continued long term business relations, but also allow the company to prosper in the long run. Also the competitor's model, discussed under the next head, also shows that they have grown their business mainly through integration of various services and also innovative services in a more efficient way.

4.6.3 Systems and IT integration

As already stated the company has moved only their HR function to cloud. Also, earlier in 2010, the company rolled out other cloud based solutions including Google Apps software service for email and collaboration; Ariba as its main automated procurement tool and all these applications are stand alone and there seems to be no integration even in IT applications and solutions. Integration of IT application and solutions would help the company achieve cost savings on data management. This would also lead to an efficient big data management which would help grow the organisation.

4.6.4 Customer Satisfaction and Customer retention

The next challenge for the group is managing the number, scope, complexity and interdependency of many initiatives to deliver improved capabilities of its people, excellence across the group's operations and outstanding service to its customers, as detailed in the initiatives towards the strategic aim. The company is structured divisionally and customer relationships focussing on specific needs of customers and markets are developed by each division also known as segmented customer proposition. There are no standard parameters/ yardsticks applicable across divisions to measure customer satisfaction. Customer satisfaction is measured through Customer Voice Counts or CVC, based on the Net Promoter System, identifying both loyal and unhappy customers. Other measures include state of service and customer retention level. Though the company was able to maintain the customer retention level at 83.9% but the customer satisfaction score through the Customer Voice Count has reduced from 19% to 6%. The CVC score represents the net balance of those customers promoting Rentokil's service compared with those neutral or not promoting.

Performance indicators

KPI	2011	2010	2009	2008
State of Service	98%	97%	98.1%	88.5%
Customer Voice Counts (CVC)	6%*	19%	n/a	n/a
Customer Retention	83.9%	83.9%	80.8%	81.0%

– State of Service is the total number of service visits performed divided by the total number of visits due

– The CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting.
*CVC score for 2011 is based on a more extended measurement (including City Link and Initial Facilities) than for 2010

– Customer Retention is the reciprocal of closing portfolio (after reductions and terminations) as a percentage of opening portfolio

The continuous loss in City Link division could be attributed to loss of small and medium sized customers due to poor service quality, a competitive market and lack of investment in account management. The company's declining financial performance is likely to affect investors' confidence and future expansion in the near term.

4.7 Competitors and their performance

Let us understand the competitor MITIE and their business model to see how they have managed this and compare Rentokil.

4.7.1 MITIE Group plc

MITIE specialises in strategic outsourcing and energy services, bringing together the expertise and capabilities to help the clients achieve their organisational goals and make their property portfolios more efficient. The company is one of the largest private sector employers with more than 63000 people. The current major revenue markets is split into public sector 35% and private sector 65% and the order book on hand has a revenue split of 60% from public sector and the balance from private sector. The company operates through four divisions:

- Facilities Management – security, business services, managed services, catering, PFI, cleaning, landscaping and pest control.
- Technical facilities Management – energy management, electrical and mechanical engineering maintenance, carbon care, lighting design, building maintenance systems and controls
- Property management – building refurbishment, roofing, plumbing and heating, plastering and dry lining, painting and repairs residential and new house fit-outs
- Asset Management – energy centre development, low carbon data centre development, renewable energy generation, community infrastructure and energy performance contracting.

There is shift of focus in terms of service outsourced and energy services contribute 34% to the group revenues. The company adopts a model designed to generate value through efficiency by

Organising people – efficiently manages and motivates large and diverse work force

Technology – integrate, analyse and act on the company's own data and clients' data to make sure that best services are provided at appropriate time and for the right cost

Client Strategy – hear from the clients what is really important to them and help them achieve it.

Being the second largest energy services company in UK, the company has made niche acquisitions that will help the company to enter new and specialist market. The focus remains on achieving organic growth in their primary market of the UK, supplemented by selective acquisitions and the development of their integrated business model overseas. The company will continue to invest in people, technology and new markets, all of which differentiate them as a business. Financially robust, they have a clear strategy for the development of business, supported by a record order book and buoyant sales pipeline (Chairman Statement – Annual Report 2012).

4.7.2 Business Strategy:

In the early 1990, all the activities of FM were offered as single service and it started bundling as business services in the 2000s as a single point contact and standardised provision, which led to broader cost savings for the clients. In 2010, the strategy was Integrated FM including management information system, property management, and supply chain and project management. For 2015, the strategy is strategic outsourcing to include wide spectrum of activities including BPO, data management, and energy / carbon management i.e., taking over of all those services which are not core to their clients' operations.

Major Contracts:

In April this year the company signed a £775m, five year contract to deliver integrated facilities and energy management for Lloyds Banking Group (LBG). The LBG estate encompasses over 3,000 buildings.

Successful rebid with the Cumbrian Collaboration, with the new expanded contract to provide integrated FM and energy services valued at over £200m over five years.

Awarded two major contracts: for Her Majesty's Courts and Tribunal Service in the South of England; for Brixton and Isis prisons. The total value will be £200m-£455m over five to seven years. Furthermore, the company formed a ten year partnership with Essex County Council to service over 350 sites to deliver transformational outsourcing services which include facilities, property and energy management, with a total value of up to £100m. Contract from Diageo, world's leading premium drinks business to provide integrated facility management and hospital services throughout its entire UK and Irish property, with a value of up to £120 m over a period of 5 years. Accepted as a partner of NHS Carbon and Energy Fund (£200m capital fund), to upgrade their energy infrastructure to save energy, carbon and money.

4.7.3 Divisional performance:

	£ million	£ million	growth
	2012	2011	%
facilties management	937.3	882.2	6.2
technical facilities management	472.8	437.1	8.2
property management	524.3	509.7	2.9
asset management	68.1	62.4	9.1
Total	**2002.5**	**1891.4**	**5.9**

Out of the total revenue of £ 2002.5 m, UK accounts for £ 1953.8m and other counties £48.7m.

4.7.4 Business Model

Competitor MITIE's business model

The 'MITIE Model' is for entrepreneurial management teams who have an idea for growing a business as a part of MITIE and it remains a key differentiator for the group. It's structured so that the management team takes an equity stake of up to 49% in a business which they grow over a five to ten year period, and is eventually acquired by MITIE in full. They look to start businesses that expand the range of services they offer to their existing clients, or that will lead them into new markets. The range of services is incredibly broad and open to all ideas that fit with MITIE's strategy and have the potential to attract a growing client base. They always look to enter rapidly growing markets that have huge potential for outsourcers to provide new and innovative solutions. The demand for integrated facilities management is a key driver for the company's business, and these contracts bring together specialist services from all of its divisions.

Key drivers to success – MITIE's Story

(Source: MITIE Annual Report 2012)

The business is underpinned by a model designed to generate value through efficiency. In simple terms what they do is to find out what their clients want and use the people and technology to help them get it as efficiently as possible, Whether that is lower occupancy costs, energy performance improvements or international outsourcing solutions. By taking on those services which are not core to the clients' operations, the company improve standards and save them money, giving clients more choices over how to spend their budgets. Getting the specification and agreed service levels absolutely right are the keys to a successful contract. However, the company believes that their success is also down to continually investing in innovative IT solutions that transform the notion of customer service. They have made significant investments in innovative IT solutions that transform the notion of customer service and are fundamental to the company's ability to deliver the most efficient service.

In particular, MiWorld, a web based management information platform, gives clients 'live' visibility over exactly what MITIE is doing for them, when and how well. MiWorld presents an overview of the client's portfolio in one centralised location, whether that's a PC, laptop or tablet, it helps them identify asset and facility performance issues which can be acted upon to improve efficiencies and reduce costs. They have also recently launched Operation Exodus which aims to reengineer all of their processes to make them electronic over the next two years. Delivering an efficient and cost effective operation to the clients is a top priority. Using the benefits of technology, they want to make all of their processes simpler and more efficient for its people, its customers and the supply chain.

All these has led the company achieve a customer retention within facilities management to 94% as against 84.2% in 2011, as against the set target of 90%. The company has also moved from generating substantial revenue from single service through expanding relationship with existing clients by providing other services and revenue generation from the multi service and integrated FM contract has been progressively increasing and is presently at 59% in 2012. The company targets operating profit margin to be retained between 5% to 6% per annum and achieved it consistently for the last 5 years.

4.8 Ways to address the challenges

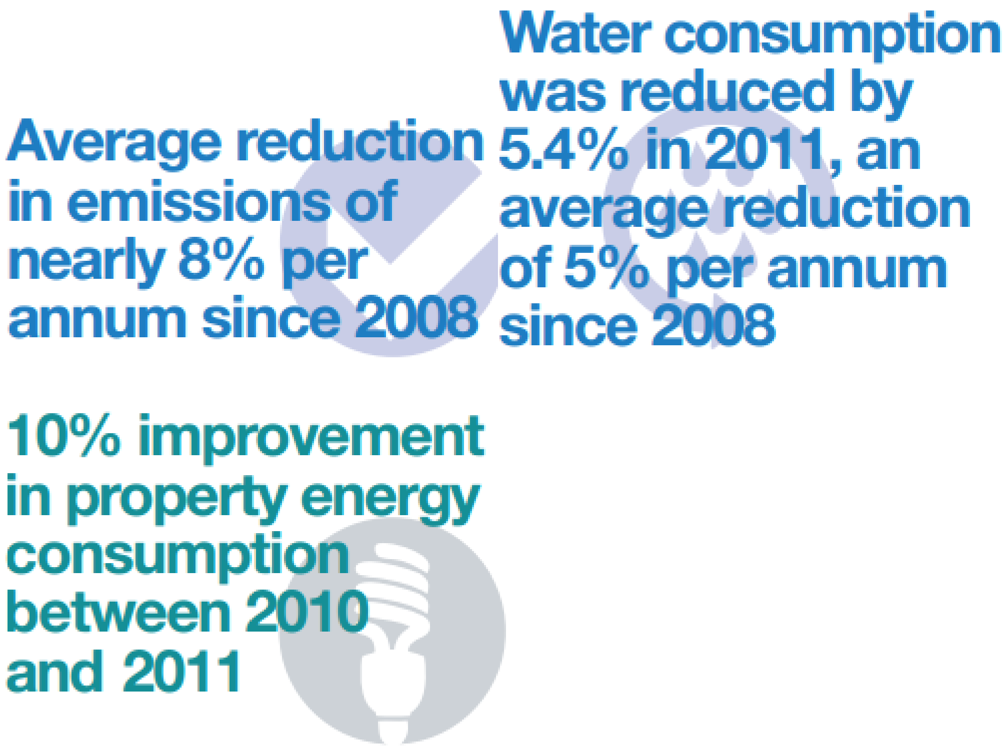
Competitor's business model shows how they have moved themselves up the value chain from single standalone solution to an integrated solution and for Rentokil to sustain and grow in this business, needs integration of their divisions and offer its products as a complete solution.

As a first initiative towards this is an investment in Information Technology to integrate its data in terms of customers and business and to transform the notion of customer satisfaction. This would lead to achieve the next aim of cost reduction as well.

4.9 Green Initiatives

Operational excellence is important to the company's strategy to ensure long-term business sustainability. Its focus is on better utilisation of materials, equipment, processes and people. It covers minimising the company's environmental impacts; ensuring a healthy and safe working environment for its employees and having an effective supply chain. Product stewardship involves considering the environmental and health & safety impacts of a product (or a service) through its entire lifecycle. At the forefront of legislative review is Rentokil, particularly because of toxic substances used in its service delivery. Rentokil has placed great importance in developing its Authorised Product List (APL). The selection of 'which bait is best', through a rigorous evaluation procedure which includes input and field testing from their global network of technical managers. This approach ensures unacceptable toxic products are not used, chemical compliance aspects are controlled and excessive dosage avoided.

The company's focus is to improve carbon emissions and its impacts in two areas – its premises and process plants and its vehicle fleet in each division. Emissions reporting covers all energy used in company owned property and all fuel used by the worldwide fleet of vehicles.



(Source: Corporate Responsibility report of the company, 2011)

5. Annexure

Board Members

John McAdam

Board: Executive Board

Job Title: Chairman

Since: 2008

Mr.McAdam has been the Chairman at Rentokil Initial plc (Rentokil or “the company”) since 2008. He also serves as the Chairman at United Utilities Group and Non-Executive Director at Rolls-Royce. Mr.McAdam served as the Senior Independent Director at J Sainsbury and Non-Executive Director at Sara Lee (USA). From 2003 to 2008, he was the CEO at ICI. Prior to joining ICI in 1997, Mr.McAdam held a number of positions at Unilever, within its Birds Eye Walls, Quest International and Unichema International businesses.

External: Chairman of United Utilities Group plc and non-executive director of Rolls-Royce PLC, J Sainsbury plc and Sara Lee Corporation (USA).

Alan Brown

Board: Executive Board

Job Title: CEO

Since: 2008

Mr. Brown has been the CEO at Rentokil since 2008. He also serves as the Non-Executive Director at Intertek Group since 2011. Previously, Mr. Brown was the Chief Financial Officer at ICI from 2005 to 2008. Prior to that, he held various corporate and operational roles in the Unilever group from 1980 to 2005 including Senior Vice President Finance, Unilever Food and Beverage Europe and latterly Executive Chairman of Unilever China.

External: A non-executive director of Intertek Group plc.

Jeremy Townsend

Board: Executive Board

Job Title: Chief Financial Officer

Since: 2010

Mr. Townsend has been the Chief Financial Officer at Rentokil since 2010. He was the Finance Director at Mitchells & Butlers and served as an Executive at J Sainsbury where he held various finance roles including Group Financial Controller, Corporate Finance Director and Strategy Director.

Prior to joining Sainsbury, Mr. Townsend was with Ernst & Young, working in audit and corporate finance.

Andy Ransom

Board: Executive Board

Job Title: Director

Since: 2008

Mr. Ransom has been a Director at Rentokil since 2008. He heads Pest Control and Ambius division and the group legal and M&A function. Previously, he was the Senior Executive at ICI from 1987 to 2008 where he was responsible for a number of group functions and international businesses including ICI's and industrial divisions.

Peter Long

Board: Non Executive Board

Job Title: Director

Since: 2002

Mr. Long has been a Director at Rentokil since 2002. He also serves as the CEO at TUI Travel. Mr. Long served as a Non-Executive Director at Debenhams and CEO at Sunworld.

External: Chief Executive of TUI Travel PLC.

Duncan Tatton-Brown

Board: Non Executive Board

Job Title: Director

Since: 2005

Mr. Tatton-Brown has been a Director at Rentokil since 2005. He also serves as the Chief Financial Officer at Fitness First Group. Previously, Mr. Tatton-Brown was the Group Finance Director at Kingfisher plc, Finance Director at B&Q and Chief Financial Officer at Virgin Entertainment Group. As a recently serving chief financial officer, he brings current and relevant experience of the financial management of large complex international service businesses.

Alan Giles

Board: Non Executive Board

Job Title: Director

Since: 2006

Mr. Giles has been a Director at Rentokil since 2006. He is the Chairman at Fat Face World and a Director of the Office at Fair Trading and of Book Tokens. Mr. Giles held various other positions including the CEO at HMV Group, Managing Director at Waterstone's, Director at WH Smith, Non-Executive Director at Somerfield and Wilson Bowden. He has extensive commercial and strategic service industry experience, having led two major retail brand businesses through significant periods of change.

External: Chairman of Fat Face Group Ltd, a director of the Office of Fair Trading and Book Tokens Ltd.

Peter Bamford

Board: Non Executive Board

Job Title: Director

Since: 2006

Mr. Bamford has been a Director at Rentokil since 2006. He also serves as the Chairman at SuperGroup plc and MCPC PRS Alliance & Six Degrees Technology Group Limited. Previously, Mr. Bamford was the Chief Marketing Officer and Director at Vodafone Group having held other senior executive roles at Vodafone, including the CEO of Northern Europe, Middle East and Africa operations and CEO at Vodafone UK. He brings extensive experience to the board over the developing marketing agenda for Rentokil Initial's brands.

External: Chairman of SuperGroup plc, Chairman of MCPC-PRS Alliance Ltd (known as PRS Music) and of Six Degrees Technology Group Ltd.

Richard Burrows

Board: Non Executive Board

Job Title: Director

Since: 2008

Mr. Burrows has been a Director at Rentokil since 2008. He is the Chairman at British American Tobacco and a Non-Executive Director at Carlsberg (Denmark). Previously, Mr. Burrows was the Governor at the Bank of Ireland and joint Chief Executive (and latterly a Non-Executive Director) at Pernod Ricard (France). He was also the Chairman and Chief Executive at Irish Distillers; and a Director at CityJet (Ireland) and Mey Icki (Turkey). He has significant international business experience ranging from leading successful manufacturing and service businesses in the drinks industry to banking and financial services roles.

External: Chairman of British American Tobacco plc and Voicesage Global Holdings Ltd. Non-executive director of Carlsberg A/S (Denmark).

William Rucker

Board: Non Executive Board

Job Title: Director

Since: 2008

Mr. Rucker has been a Director at Rentokil since 2008. He also holds various other positions including the CEO at Lazard & Co. (UK), Deputy Chairman at Lazard and the Chairman at Quintain Estates and Development. Mr. Rucker joined Lazard in 1987 from Arthur Andersen. A leading UK corporate financier, bringing to the board a contemporary financial market perspective as well as bringing added expertise over company financing.

External: Chief Executive of Lazard & Co. Ltd in the UK, Deputy Chairman of Lazard LLC. Chairman of Quintain Estates and Development plc and Chairman of Crest Nicholson Holdings Ltd.

Angela Seymour-Jackson

Board: Non-Executive Director

Since: 2012

Angela Seymour-Jackson joined the board in March 2012 as Non-executive Director. Until recently she was Chief Executive of RAC Motoring Services. Prior to RAC she held roles as Distribution Director of Aviva UK Life and Distribution Director of Norwich Union Insurance. She has extensive knowledge of service focused organisations with a strong track record of improving customer care, which will be particularly valuable to Rentokil Initial.

Bryan Kinsella

Senior Management

Global Chief Information Officer

Since: 2007

Mr. Kinsella serves as the Chief Information Officer at Rentokil. He joined the company in 2007. Prior to that, Mr. Kinsella was the Senior Vice President and Chief Information Officer at the Society of International Telecommunications and Aeronautics. He also held board positions at Vertex (part of United Utilities), the Computer Science and executive roles at ASDA and International Computers. A proven problem-solver in senior roles at ICI, BPO giant Vertex, and at airline solutions provider Sita, Kinsella arrived just as the aggressive global merger-and-acquisition strategy begun by former chairman Sir Clive Thompson was threatening to pitch the group – once voted Britain’s most admired company – into chaos.

Xuemei Bennink-Bai (XBB)

Senior Management

Job Title: Divisional Managing Director, Asia Pacific

Since: 2009

Ms. Bennink-Bai has been the Divisional Managing Director, Asia Pacific at Rentokil since 2009. Previously, she was the Managing Director at Unilever Food Solutions China and a Member at the Unilever Food Solutions Board for Asia, Africa and the Middle East. Prior to that, Ms. Bennink-Bai held a wide range of positions with Unilever in general management, sales, project management and research in China, Vietnam, the Netherlands and the UK.

Mike Brown

Senior Management

Job Title: Divisional Managing Director, Facilities Services

Since: 2010

Mr. Brown has been the Divisional Managing Director, Facilities Services at Rentokil since 2010. He was the Group Director of Operations and the CEO of Integrated Services at Serco Group. Prior to that, Mr. Brown was with BOC Group as the Managing Director in Europe, China and South East Asia and globally. He also held positions at Nestle and GKN. Currently, Mr. Brown serves as a Non-Executive Director at N G Bailey.

Martin Sawkins

Senior Management

Job Title: Group HR Director

Since: 2008

Mr. Sawkins serves as the Group HR Director at Rentokil. He joined the company in 2008. Previously, Mr. Sawkins was the Group HR Director at HomeServe; Group HR Director at The AA and HR Director at Centrica Home and Road Services. He also held a number of senior positions in HR and operations at British Aerospace and United Biscuits.

Peter Slator

Senior Management

Job Title: Divisional Managing Director, Textiles & Hygiene Services

Since: 2009

Mr. Slator is the Divisional Managing Director, Textiles & Hygiene Services at Rentokil since 2009. He spent 28 years with Unilever, holding various positions including the Executive Chairman in Australasia, the Group Head of IT and the Managing Director of the Foods business in Japan.

David Smith

Senior Management

MD – City Link

Since: 2011

Mr Smith is the Managing Director, City Link since 2011. He served Royal Mail Group from 2002 and finally before he joined City Link he was Chief Customer Officer for the Royal Mail Group. He was Managing Director of Post Office Limited and Parcel Office. He also held senior roles at RS Components UK Limited.

Robert Peto

Finance Director – City Link

Since: 2011

Mr Peto joined as Finance Director, City Link in 2011. He served as Finance Director of Parcelforce since 2006. He joined Parcelforce in 2003 as Finance Controller. He spent nine years in Geopost UK Limited holding various positions including Financial Controller.

6. Reference:

Catalyst, Corporate Finance report on - Facilities Management - Sector Report

Barclays, corporate Banking - UK – Business Services – Sector Outlook – Second Quarter 2012.

Grant Thornton – “Where is the smart money going in support Services” – Private Equity Support Services Sector.

Martin Kelly, Director (International Corporate Rescue) – “The UK Facilities Management Sector”, KPMG LLP, London, UK

Annexure 4: Cisco International Limited

Table of Contents

1. Introduction: Market Definition

The industry encompasses the manufacture, sale and provision of integrated telecom products and networking equipment, including data routing and switching devices, interconnects and equipment to link workstations with local area networks and wide area networks. The network equipment division of Cisco accounts for 62% of its total revenue. This report, due to time constraints, will focus on this industry.

2. Economic Trends

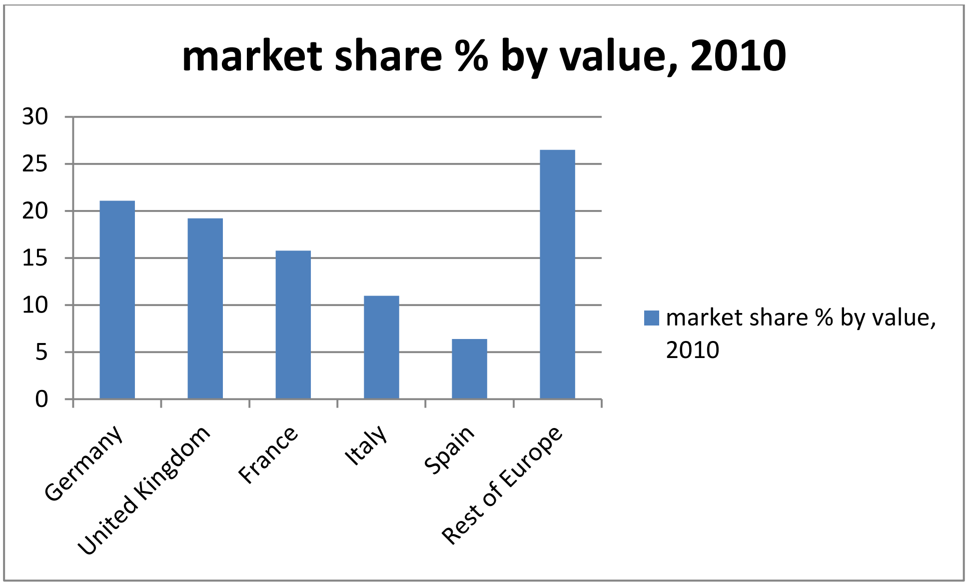
2.1 Market Size

The global networking market had total revenue of $137.8 billion in 2010 representing a CAGR of 3.2% between 2006 and 2010. Switch & router sales proved the most lucrative for the global networking equipment market in 2010, with total revenues of $60.9 billion, equivalent to 44.2% of the market's overall value. In comparison, sales of client connection devices generated revenues of $30.9 billion in 2010, equating to 22.4% of the market's aggregate revenues. The world network equipment industry is expected to exceed $184 billion in 2015, according to research from Market Line, representing a near 34% increase compared to 2010, with an anticipated CAGR of 6% for the five year period 2010 -2015.

The UK networking equipment market had total revenue of $10.3 billion in 2010, representing a Compound annual growth rate (CAGR) of 3.7% between 2006 and 2010. Switch & router sales proved the most lucrative for the UK networking equipment market in 2010, with total revenues of $4.1 billion, equivalent to 40% of the market's overall value. In comparison, sales of client connection devices generated revenues of $3.1 billion in 2010, equating to 30.1% of the market's aggregate revenues.

The performance of the market is forecast to accelerate, with an anticipated CAGR of 5.4% for the five year period 2010 - 2015, which is expected to drive the market to a value of $13.4 billion by the end of 2015.The UK market accounts for close 20% of the European networking market (Source: Data monitor Aug 2011).

Figure 35

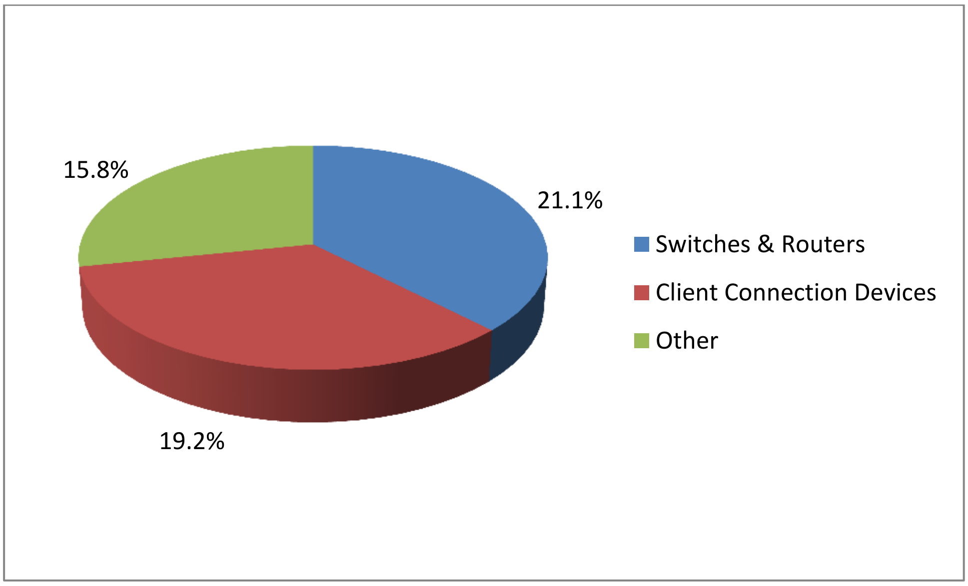


Source: Datamonitor, 2011

2.2 Market Segmentation:

Switches & routers is the largest segment of the networking equipment market in the United Kingdom, accounting for 40% of the market's total value. The client connection devices segment accounts for a further 30.1% of the market.

Figure 36: Networking Equipment - Europe Segmentation: % share by value, 2010



Source : Datamonitor,2011

3. Porters Five Forces:

Despite consolidation and some differentiation amongst players' operations, most incumbents operate similar business models; coupled with high fixed costs and low switching costs for buyers, rivalry is heightened in this market.

3.1 Buyer Power:

Buyer power is weakened by the large number of buyers and the importance of the products offered to them; however, this is mitigated by the presence of larger buyers with greater financial muscle and low switching costs. Some suppliers may exert strong bargaining power as networking equipment manufacturers outsource the production of inputs to contract manufacturers. Third-party manufacturing contracts may be complex and involve higher switching costs. In addition, lower control over delivery schedules makes networking equipment manufacturers vulnerable to component shortages.

The sheer number of buyers present in this market, as well as the importance of the products offered (as many buyers conduct their businesses through web channels), tends to weaken buyer power within the networking equipment market. Leading players within this market sell not only directly to end customers, but also through channels such as resellers and system integrators, ensuring their products are widely distributed. The increasing commoditization of networking equipment somewhat increases buyer power. However the market still retains a high level of product differentiation, with product specifications varying greatly which weakens buyer power to some extent. These effects are however mitigated somewhat due to the range of buyers: consumers wishing to set up home networks, as well as large corporations, service providers such as telecommunication companies, and government agencies. The presence of large buyers with strong financial muscle boosts buyer power as they are able to make large purchases and negotiate more effectively on price. Buyer power is additionally strengthened by low switching costs and the fact that, triggered by the continual increase in broadband penetration, the sale of items of networking equipment has entered more mainstream channels with a perceptible shift from brand to value. One of the drivers of market growth is the continuous transformations of networks from TDM to packet IP in order to handle rapidly growing internet, mobile, data, broadband, and video traffic. Overall the buyer power within the network equipment market is assessed as **moderate**.

3.2 Supplier Power:

Key raw materials for networking equipment manufacturing are electrical components. Some suppliers within this market may exert strong bargaining power as players outsource the production of inputs to contract manufacturers like Flextronics. Third-party manufacturing contracts may be complex, with terms covering cost, quality, and use of intellectual property; and switching between contract manufacturers may therefore be a more costly process. In addition, such a supply structure usually means lower control on the delivery schedules and may cause component shortages due to manufacturing process issues. Any persistent shortages in supplies due to capacity issues or manufacturing process issues would increase the price of manufactured products. If a company is not able to source required components in adequate quantities, this would affect its business operations and margins. However, large, market leading vertically-integrated technology companies may manufacture in-house instead of outsourcing production to contract manufacturers, weakening supplier power. Supplier power is additionally weakened by low level differentiation exhibited by components. Forwards integration of suppliers into the production of networking equipment is rather uncommon, thereby weakening supplier power. Conversely, market players are unlikely to backwards integrate into the manufacture of electrical components. Overall, supplier power within this market is assessed as **moderate.**

3.3 New Entrants:

Newcomers wishing to enter the market on a small scale may do so by using contract manufacturing which decreases the capital requirements for entry and forms a good entry strategy for smaller companies. However, large international players present within the market (e.g. Alcatel Lucent, Ericsson and Cisco Systems) benefit from scale economies both in production and R&D; thus newcomers may find it difficult to compete with them efficiently. A good way of entering or expanding operations into this market may be to form strategic alliances with various leading companies in areas that produce industry advancement, which also help to reduce R&D costs. For example, Alcatel-Lucent has a strategic alliance with Hewlett-Packard (HP), integrating its enterprise products and applications with HP's IT solutions. Alcatel-Lucent also benefits from access to HP's extensive network of resellers.

With diminishing importance of brand strength, players are shifting from the manufacture of proprietary products to lower priced standards-based items, increasing the threat of newcomers. The establishment of supply and distribution channels is fairly easy and the market is not highly regulated. However, a high level of product differentiation, combined with the high fixed costs of manufacturing facilities, constitutes a barrier to entry for new players. Intellectual property is important in this market: leading players invest in carrying out their own R&D, and may also acquire companies with the aim of obtaining the IP of the acquisitions. This pushes up costs for new entrants. Overall, there is a **moderate** likelihood of new players in this market.

3.4 Threat of Substitutes:

The main substitutes in this market are new networking technologies that can replace existing network infrastructure (e.g. switching from PTSN to Next-Generation Network), plus the increasing use of standardized network components (COTS) or software increasingly replacing traditional network components. These can present indirect competition to companies that only offer the older technologies. The growing adoption of wireless networking is changing requirements for networking equipment within home and office environments, which may have an impact on demand for wired networking equipment. Although not currently common, the introduction of wide-area subscription wireless networks based on the WiMAX standard would be expected to reduce the requirement for networking equipment further, especially within the home where such equipment is predominantly used for internet access and e-mail. In this market, successful players will continue to invest in R&D and maintain a diverse technology portfolio, with a view to keeping up revenues in the face of changing end-user requirements. Such technical innovations may be a little more expensive than standard equipment in the first stage of implementation, which reduces the threat of substitutes somewhat. However, they usually fulfil the buyers' needs more efficiently than older technologies. Overall the threat of substitutes is assessed as **moderate.**

3.5 Conclusion - Degree of rivalry:

Among the market players within the networking equipment market, there are large, multinational players, namely Alcatel Lucent, Ericsson and Cisco Systems. The presence of such incumbents boosts rivalry within the market as they benefit from scale economies both in production and R&D, and are thus able to compete more intensely on price. In addition, consolidation in recent years has triggered competitive attacks to increase established positions and market shares, placing further pressure on players. The large number of players, despite consolidation, combined with low switching costs, boost rivalry further. Competition is also intensified by high fixed costs and exit costs in the case where players operate their production facilities. In addition, most of the incumbents operate similar business models. Many players try to expand their portfolio of products and services to ease uncertainties of operating within the sole market. For example, Alcatel Lucent, also provides contact centre solutions through Genesys, as well as renewable energy solutions, deploying over 350 solar-powered base stations worldwide. Overall the threat of rivalry is assessed as **moderate.**

4. PESTLE Analysis

PESTLE analysis is by nature an exploratory tool designed to help identify key influences from the external environment which may impact upon an organisation. It does not provide a definitive answer regarding what will happen; rather it identifies potential key drivers and barriers.

4.1 Political Factors:

1. The UK is one of the most prosperous and influential nations in the world and has a large role to play on the international stage. A member of EU and has followed a conservative approach to the issue of European integration.
2. Cameron has taken host of steps to reduce fiscal deficit.
3. The government's policies in the technology sectors are proving to be obstacles in two ways, with strict regulatory policies on indigenous innovations and liberal policies in niche sectors giving up competitive advantage.
4. UKs co-operation with developing countries, being low cost centres of production, for mutual benefit.

4.2 Economic Factors:

1. The Euro crisis and general slowdown in world economy leading to reduced IT expenditure and public sector spending.
2. Economic recession may lead to tight finance for the suppliers
3. The need to replace aging institutional infrastructure due to increasing emphasis on greening ICT
4. Risk associated with cloud computing, though not well founded
5. Increased competition among players including the entry of small players, and increased acquisition and consolidation within the players
6. Subcontracting manufacturing facility, reliability and service level agreements.

4.3 Social Factors

1. Attitude towards education, general life style changes, changes in population, distribution and demographics and the impact of different cultural mix.
2. The educational infrastructure in the UK is considered to be of very high quality, attracted students from across globe.
3. The economic slowdown has adversely affected the creation of jobs in the UK.

4.4 Technological factors:

1. Rapid changes in technology, converging technologies, and a migration to networking and communications solutions that offer relative advantages.

2. Launch of Alcatel's product in the routers market – Alcatel's products are supposed to be 5 times faster and 12-22 % energy efficient.
3. Market transition and the increased role of virtualisation / Cloud IT infrastructure which is expected to reach $13.5 billion in 2014 and its availability and reliability.
4. Shift in nature of data being accessed over the net: studies suggest that more videos of high quality will be sent over the net.
5. Increased use of smart mobiles and content delivery on mobiles. Companies with leading technology in both mobile networks and internet (routers) are expected to do well. E.g., Alcatel-lucent (4G mobile tech – LTE and Routers) has emerged as a strong contender to Cisco in recent years.
6. Internet of things – today we are in a world where more things are connected to the internet than to people and that has changed everything.
7. The industry is evolving to a stage of merging of wireless and wired networking infrastructure over the coming years.
8. Low cost competitors continue to use price as primary means to compete
9. The decline in the working age population has had an impact on the progress of R&D within the country.

4.5 Legal factors:

1. The legal system in the UK is organized, transparent, and efficient
2. Areas of consideration include copyright/IP, Data protection
3. Contract and service level agreements
4. Rapid technological change has been too fast for legislative and policymaking processes to keep up with.
5. Lack of incentives to attract FDI

4.6 Environmental factors:

1. Low carbon emission programme aimed at cutting carbon emission to the tune of 12.5% from 1990 levels by 2020
2. WEEE Directive of UK – obligation for the disposal of waste electrical and electronic equipment on the manufacturers or distributors of such equipment.
3. Governments around the world are investing in green industries to address the issues of depleting energy resources, global warming and Kyoto protocol.
4. The dilemma of striking a balance between economic development and protecting the environment.

4.7 Emerging Trends

1. Demand for energy efficient ICT
2. Market transition - Increased role of Virtualisation/ Cloud
3. Internet of things
4. WEEE compliance
5. Entry of Alcatel-Lucent in Core Router market – superior technology
6. Streaming of high quality videos

5. Leading Competitors:

(Source : Marketline Mar 2012)

5.1 Alcatel Lucent USA Inc.

Alcatel Lucent was formed with the merger of Alcatel with Lucent Technologies in the year 2006, but their existence dates back to 1986. Alcatel-Lucent is a worldwide provider of telecommunications equipment and related services. Headquartered in Paris and employs about 76000 people as at the closing of 2011. Alcatel-Lucent operates through three business segments: networks; software, services and solutions; and enterprise. The company operates in more than 130 countries. The company recorded revenue of $21370 million in 2011, with network segment contributing more than 63%, software, services and solutions 29 % and the balance by enterprise. Geographically the largest share comes from US (36%), China and France almost 8% each, Western Europe 17.9% and the balance is spread across other Americas, Asia Pacific and rest of World. The company ended with operating profit of $ 163 million as compared to an operating loss of $377 million.

5.2 Juniper Networks, Inc

Juniper was founded in 1996 and the company went for IPO in 1999. The company is headquartered in Sunnyvale, California and employs about 9100 employees as the close of 2011. Juniper Networks (Juniper or "the company") is engaged in the development, designing and sales of high-performance network infrastructure products and services. The company operates through two divisions – infrastructure and service layer technologies. Infrastructure includes scalable routing and switching products, WLAN, internet protocol routing, carrier Ethernet routing portfolio, and Ethernet switching portfolio. The company operates in more than 100 countries. The company recorded revenue of $ 4,449 million in 2011, with infrastructure contributing 76.9% and the balance by service layer technology. The company's largest geographic market is US accounting for 50.3% of the total revenues, EMEA 30.1%, and the balance by Asia Pacific.

6. Key factors for success in this industry

The principal competitive factors in the markets in which companies presently compete and may compete in the future include:

• The ability to provide a broad range of networking and communications products and services

• Product performance

• Price

• The ability to introduce new products, including products with price-performance advantages

• The ability to reduce production costs

• The ability to provide value-added features such as security, reliability, and investment protection

• Conformance to standards

• Market presence

• The ability to provide financing

• Disruptive technology shifts and new business models.

7. Company Overview: Cisco International Limited

Cisco International Limited is a subsidiary of Cisco Systems Inc.

7.1 Cisco systems Inc.

Cisco was incorporated in 1984. Husband and wife Len Bosack and Sandy Lerner, both working for Stanford University, wanted to email each other from their respective offices located in different buildings but were unable to, due to technological shortcomings. A technology had to be invented to deal with disparate local area protocols; and as a result of solving their challenge - the multi-protocol router was born. The company grew as a result of demand for the Internet and networking products. The company enhanced its offerings following a series of acquisitions over the years. The company primarily operates in the US, Canada and Europe. It is headquartered in San Jose, California and employs about 71,825 people.

Cisco provides networking and other related products and services for the communications and IT industry. The company provides a broad line of products for transporting data, voice, and video within buildings, across campuses, and around the world. Cisco's products are installed at enterprise businesses, public institutions, telecommunications companies, commercial businesses, and personal residences. Cisco has operations in the North America; Latin America; Europe, the Middle East and Africa; and Asia Pacific regions.

The company’s operations are categorized into two offerings: products and services.

The company’s product offerings fall into the following categories: routers, switches, new products, and other products.

The company's routing products are designed to enhance the intelligence, security, reliability, scalability, and level of performance in the transmission of information and media-rich applications. It offers a broad range of routers, from core network infrastructure for service providers and enterprises to access routers for branch offices and for telecommuters and consumers at home.

Cisco's switching products are used within buildings in local-area networks (LANs) and across great distances in wide-area networks (WANs). The company's switching products offer many forms of connectivity to end users, workstations, IP phones, access points, and servers, and also function as aggregators on LANs, MANs, and WANs. Cisco offers comprehensive family of Ethernet switching solutions from fixed-configuration to cover a range of deployments in small and medium-sized businesses, to modular switches for enterprises and service providers. Its fixed configuration switches are designed to provide a foundation for converged data, voice, and video services.

The new products category consists of products related to video connected home, collaboration, security, wireless, and data center.

The company's collaboration portfolio integrates voice, video, data and mobile applications on fixed and mobile networks across a wide range of devices and endpoints. Its solutions include IP phones, mobile applications, customer care, web conferencing, messaging, enterprise social software and Cisco TelePresence Systems. These solutions are offered as software and web-based collaborative offerings, standalone devices, integrated components in Cisco routers and switches, and as hosted services in the cloud.

Milestones:

1984 Company was established

1993 joint development of WAN solution for telecommunication

1996 acquisition of Grand Junction Networks and Startacom enabled Ethernet products and transfer mode and frame delay equipment.

2001 entered into agreement to VoIP communication network in the European Union

2005 acquisition of Airespace, a provider of Wireless Local Area Network (WLAN) systems

2006 acquisition of Scientific – Atlanta, a provider of set-top box, video distribution networks, video systems integration.

2008 investment plan over a period of 5 years to invest $1.6 m in UAE on Information and communication Technology (ICT)

2009 collaborative agreement with Dell and strategic alliance with Accenture for IT solutions and infrastructure.

Launched CISCO unified Service Delivery, a solution to help service providers build a foundation for cloud services.

Agreement to acquire a provider of digital cable solution in china.

Cisco International Limited was formed.

2010 launched CISCO Health Presence platform.

Unveiled Cisco Cius, a mobile collaboration business tablet that delivers virtual desktop integration.

Acquisition of ExtendMedia, a provider of software based Content Management Systems.

2011 acquisition of Pari Network, a provider of Network configuration and change management (NCCM) and compliance management solutions.

Invested $ 10m to seed sustainable model for job creation and economic development in Egypt

Strategic alliance with Citrix Systems to develop and deliver solutions that helps customers simplify and accelerate large scale desktop virtualisation deployments.

Launched Cisco ScanSafe Cloud Web Security solutions in Mexico.

2012 signed agreement with NDS group, a provider of Video software and content security solutions for $ 5 billion.

Company's vision

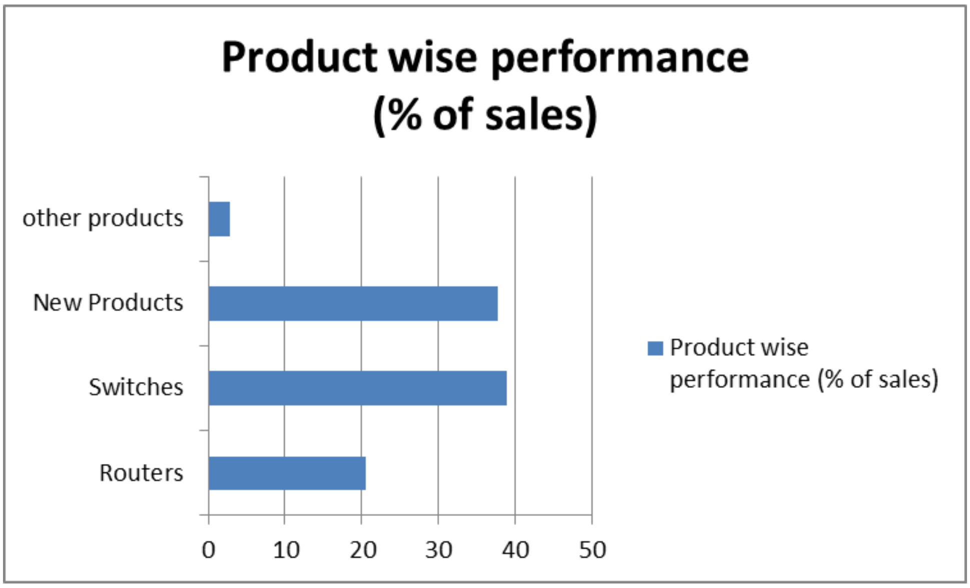
To create intelligent networks that become customers' most strategic communications, IT, and business asset, helping solve their most important technology and business issues.

The company is striving for, and believes that if they deliver intelligent networks and technology architectures built on integrated differentiated products, services, and software platforms, will be able to achieve this goal and win the next technological transition.

Financial Performance of the company for the year 2011

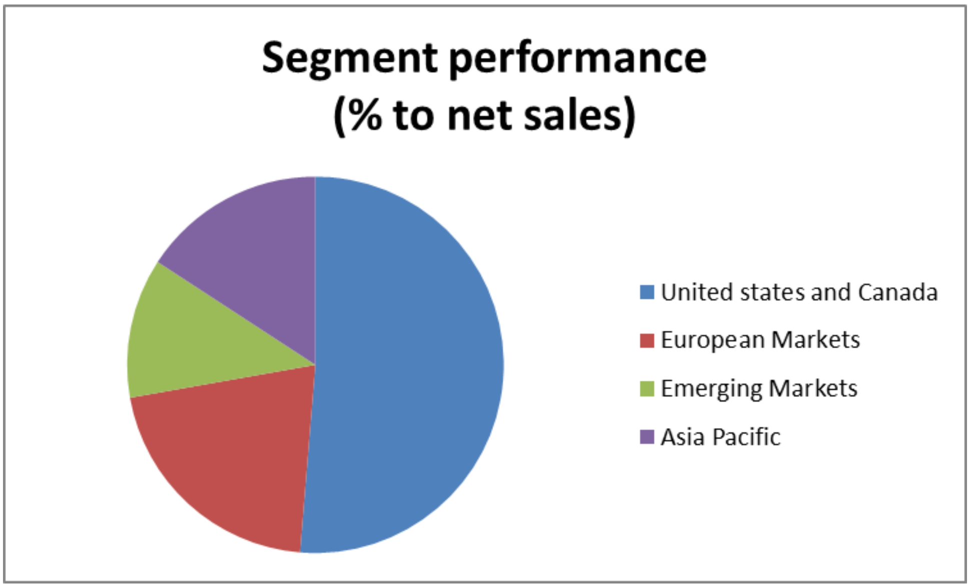
The company recorded revenues of $ 43,218 million during 2011, a growth of 7.9% over 2010. But the operating profit decreased by 16.3% and was $ 7,674 million. The company's largest geographic market is US and Canada accounting for 53.5% of the total revenue. 79.9% of the revenue comes from product division and the balance from service division though the revenues are generated through one business segment. Out of the revenue from product division 62.3% is accounted for by network equipment.

Figure 37



(Source: Cisco Annual report, 2011)

Figure 38



(Source: Cisco Annual report, 2011)

7.2 Birth of Cisco International

Over the next few years, Cisco is building capabilities to deliver products, services and software with a more global focus. As a first step towards this is the transition of most of the European partners and customers to a new company, Cisco International Limited, on 30 August 2009. This company was formed on 8th July 2008. This new company will provide greater flexibility to work with partners and customers. Cisco International Limited has been established in the United Kingdom as a wholly owned subsidiary of CISCO and will manage the sales and distribution for most of the European

Countries. Cisco International is a buy-sell entity for Cisco Systems in the European market. *The strategy, focus areas, challenges and risks will be the same as the parent company.*

7.3 Strategy and focus areas:

The company announced a plan, in 2011 and expected to complete in fiscal 2012, "Next Cisco"— less complex, more agile, and focused on five foundational priorities:

- leadership in core business (routing, switching, and associated services), which includes comprehensive security and mobility solutions;
- collaboration, including telepresence;
- data center virtualization and cloud;
- video;
- architectures for business transformation,

All these would address its customers' biggest technology and business imperatives through a complete solution offering. The Next Cisco recognizes the need to stay disciplined and responsive. In the past the goal has been to help the customers increase their competitive advantage and profitability through their networks. Today, as a lean, agile, and more aggressive Cisco, they are upping the ante in furtherance of this goal.

7.4 Major Initiatives

The company aligned cost structure and expect to reduce operating expenses by $1 billion on an annualised basis for 2012, to achieve this, the company is reducing global head count and other costs to optimise their operating model.

The second initiative is optimising portfolio by either exiting or materially lowering investment in several areas of products and solutions portfolio. This helped the company to redeploy their surplus of more than $ 200 million towards the five foundational priorities.

Thirdly, they reorganised the sales, engineering, service and operations, providing clear line-of-sight accountability towards the goal of speedy decisions, major improvements in productivity, and driving innovation as a faster pace.

Lastly, towards creating value for its shareholders by initiating quarterly dividend and continued aggressive stock repurchase programme.

The company is currently undergoing product transitions in their core business and introducing next-generation products with higher price performance and architectural advantages compared to both the prior generation of products and the product offerings of its competitors. They believe that many of these product transitions are gaining momentum based on the strong year-on-year product revenue growth across these next-generation product families. Their strategy and ability to innovate and execute may enable them to improve their relative competitive position in many of the product areas even in uncertain or difficult business conditions and, therefore, may continue to provide with long-term growth opportunities. However, these newly introduced products may continue to negatively impact product gross margins, which the company are currently striving to address through various initiatives including value engineering, effective supply chain management, and delivering greater customer value through offers that include hardware, software, and services.

The company believes that the architectural approach that has served well in the past in addressing market opportunities in the communications and IT industry will be adaptable to other markets. An example of a market where it aims to apply this approach is mobility, where growth of IP traffic on handheld devices is driving the need for more robust architectures, equipment and services in order to accommodate not only an increasing number of worldwide mobile device users, but also increased user demand for broadband-quality business network and consumer web applications to be delivered on such devices.

The company continues to seek to capitalise on market transition. Market transition which the company focus include those relating to increased role of virtualisation/ the cloud, video, collaboration, networked mobility technologies and the transition from Internet Protocol Version 4 to Internet Protocol Version 6. For example, a market in which a significant market transition is under way is the enterprise data center market, where a transition to virtualization/the cloud is rapidly evolving. The company believes that disruption in the enterprise data center market is accelerating, due to changing technology trends such as the increasing adoption of virtualization, the rise in scalable processing, and the advent of cloud computing and cloud-based IT resource deployments and business models.

This virtualization and cloud-driven market transition in the enterprise data center market is being brought about through the convergence of networking, computing, storage, and software technologies. The company also seeks to capitalize on this market transition through the development of other cloud-based product and service offerings to enable customers to develop and deploy their own cloud-based IT solutions, including software-as-a-service (SaaS) and other-as-a-service (XaaS) solutions.

The company expect to see acquisitions, further industry consolidation, and new alliances among companies as they seek to serve the enterprise data center market and shall strengthen certain strategic alliances, compete more with certain strategic alliances and partners, and perhaps also encounter new competitors in their attempt to deliver the best solutions for its customers, in the next market phase.

Other market transitions of particular attention include those relating to the increased role of video, collaboration, and networked mobility technologies. The key market transitions relative to the convergence of video, collaboration, and networked mobility technologies, will drive productivity and growth in network loads; appear to be evolving even more quickly and more significantly than previously anticipated, as per Cisco. The company is focused on simplifying and expanding the creation, distribution, and use of end-to-end video solutions for businesses and consumers.

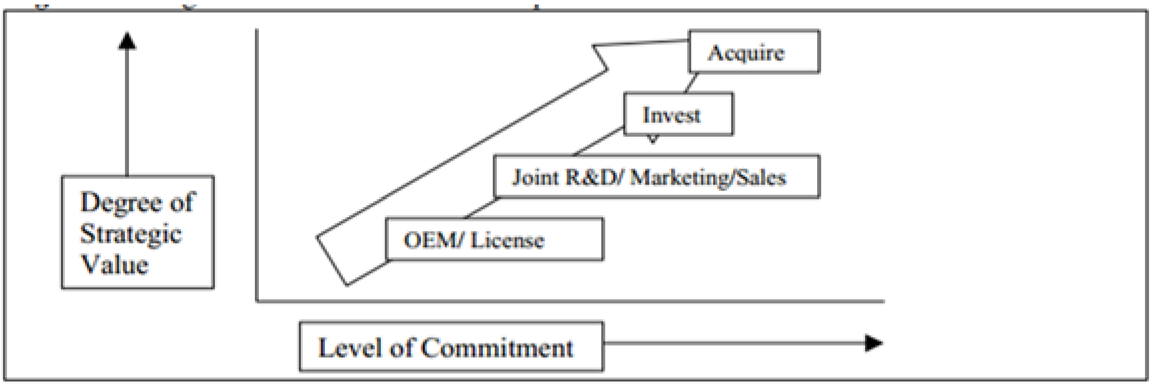
Acquisitions, Investments and Alliances

The company follows an active acquisition policy. It is always on the lookout for new technologies. The outcomes of these acquisitions have been mixed. To compete, it would require a wide variety of technologies, products and capabilities. The combination of technological complexity and rapid change within our markets makes it difficult for a single company to develop all of the technological solutions that it desires to offer within its family of products and services. We work to broaden the range of products and services the company delivers to customers in target markets through acquisitions, investments, and alliances. Strategies to address the need for new or enhanced networking and communications products and services:

- Developing new technologies and products internally
- Acquiring all or parts of other companies
- Entering into joint-development efforts with other companies
- Reselling other companies' products

The company pursues strategic alliances with other companies in areas where collaboration can produce industry advancement and acceleration of new markets. The objectives and goals of a strategic alliance can include one or more of the following: technology exchange, product development, joint sales and marketing, or new-market creation.

Figure 39: Business Development at CISCO: A Model



(Source: Cisco systems: a novel approach to structuring entrepreneurial ventures – case number EC – 15, February 2000, Graduate School of Business, Stanford University)

8. Challenges:

The challenges for the company:

- Manufacturing and customer lead times;
- Ability to maintain appropriate inventory levels and purchase commitments;
- The ability of customers, channel partners, contract manufacturers and suppliers to obtain financing or to fund capital expenditures, especially during a period of global credit market disruption or in the event of customer, channel partner, contract manufacturer or supplier financial problems;
- Fluctuation in demand for the products and services, especially with respect to telecommunication service providers and internet businesses, in part due to changes in global economic conditions;
- Price and product competition in the communications and networking industries, which can change rapidly due to technological innovation and different business models from various geographic regions;
- The overall movement toward industry consolidation among both competitors and customers;
- Ability to achieve targeted cost reductions;
- Benefits anticipated from our investments in engineering, sales and manufacturing activities.

8.1 Supply chain Management

Supply chain and the challenge to meet Manufacturing and customer lead times

The company does not own or operate bulk of their manufacturing facilities and are reliant on an extended supply chain. Growth and ability to meet customer demands depend on the ability of the company to obtain timely deliveries from suppliers or contract manufacturers. Cisco uses standard parts and components in many cases, but certain components are available only from a single source or limited source. In order to increase lead time performance and to help ensure adequate component supply , Cisco enters into agreement with contract manufacturers and suppliers but these agreements has the option to cancel, reschedule or adjust the requirements based on business requirements. The company experienced severe problem in the year 2010 and the company expects the problem to continue at some of their component suppliers. This is attributable in part to increasing demand driven by the improvement in our overall markets, and similar to what is happening in the industry, the longer than normal lead time extensions also stemmed from supplier constraints based upon their labour and other actions taken during the global economic downturn and also because the company is not able to accurately anticipate its needs.

Challenge:

"The challenge lies when there is reduction or interruption in supply, caused due to financial problems of either contract manufacturers or component suppliers or reservation of manufacturing capacity".

8.2 Sales Model

Sales Model and the challenge of maintaining appropriate inventory levels and purchase commitments

The company sells its products and services both directly and through a variety of channels with support from its sales force. A substantial portion of products and services is sold through channel partners, and the remainder is sold through direct sales. The channel partners include systems integrators, service providers, other resellers, distributors, and retail partners. Systems integrators and service providers typically sell directly to end users and often provide system installation, technical support, professional services, and other support services in addition to network equipment sales. Systems integrators also typically integrate Cisco's products into an overall solution, and a number of service providers are also systems integrators. Distributors stock inventory and typically sell to systems integrators, service providers, and other resellers. The sales through distributors and retail partners are referred as two-tier system of sales to the end customer. Revenue from distributors and retail partners generally is recognized based on a sell-through method using information provided by them. These distributors and retail partners are generally given business terms that allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs.

Distributors and retail partners may increase orders during periods of product shortages, cancel orders if their inventory is too high, or delay orders in anticipation of new products. They also may adjust their orders in response to the supply of Cisco's products and the products of their competitors that are available to them and in response to seasonal fluctuations in end-user demand. Inventory held at the closing of the year 2011 was 12% higher than at the close of 2010, which was due to higher levels of distributor inventory and higher deferred cost of sales. Inventory is written down based on excess and obsolete inventories determined primarily by future demand forecasts and are reflected in cost of sales.

Challenge:

"Inventory management remains an area of focus, because of the two-tier sales model, so as to balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements".

Financing Model and the challenge of the ability of customers, channel partners, contract manufacturers and suppliers to obtain financing or to fund capital expenditures, especially during a period of global credit market disruption or in the event of customer, channel partner, contract manufacturer or supplier financial problems

The company provide financing arrangements, such as leases, financed service contracts, and loans, for certain qualified customers to build, maintain, and upgrade their networks and believes customer financing as a competitive factor in obtaining business, particularly in serving customers involved in significant infrastructure projects. Loan financing arrangements may include not only financing for the acquisition of the company's products and services, but also additional funds for other costs associated with network installation and integration of products and services.

Most of the sales are on open-credit basis and the number of days depends on the local customs or conditions. The company monitors individual customer payment capability in granting open credit arrangements, seek to limit such open credit to amounts it believes the customers can pay, and maintain reserves that are adequate to cover exposure for doubtful accounts.

Challenge:

"Exposure to the credit risks relating to financing activities described above may increase if the customers or distributors are adversely affected by a global economic downturn or periods of economic uncertainty".

8.3 Demand Forecasting

Economic conditions and the challenge of fluctuating demand for products and services

Sales to the service provider market have been characterized by large and sporadic purchases, especially relating to router sales and sales of certain products in the New Products category, in addition to longer sales cycles. Sales activity in this industry depends upon the stage of completion of expanding network infrastructures; the availability of funding; and the extent to which service providers are affected by regulatory, economic, and business conditions in the country of operations. Service provider customers typically have longer implementation cycles; require a broader range of services, including design services; demand that vendors take on a larger share of risks; often require acceptance provisions, which can lead to a delay in revenue recognition; and expect financing from vendors.

Challenge:

"Challenging economic conditions and its contribution to slow down in the communication and networking industries may lead to reduced demand Cisco's products, high price competition, risk of excess and obsolete inventories and higher overhead cost."

Business Model and the challenge due to Price and product competition in the communications and networking industries, which can change rapidly due to technological innovation and different business models from various geographic regions

Cisco has realigned and is dedicating resources to focus on the foundational priorities. The market in which the company operates is characterised by rapid change, converging technologies, evolving industry standards, new product introductions, and a migration to networking and communications solutions that offer relative advantages. The industry is evolving to enable personal and business process collaboration enabled by networked technologies. The competitors compete across many products as they expand into new markets, will face competition not only from our existing competitors but also from other competitors, including existing companies with strong technological, marketing, and sales positions in those markets. Cisco also sometimes faces competition from resellers and distributors of its products. Companies with whom Cisco have strategic alliances in some areas may be competitors in other areas.

Due to several factors, including the availability of highly scalable and general purpose microprocessors, application specific integrated circuits offering advanced services, standards based protocols, cloud computing and virtualization, the application of these converging technologies spans multiple, previously independent, technology segments. As a result of all these developments, Cisco faces greater competition in the development and sale of enterprise data center technologies, including competition from entities that are among their long-term strategic alliance partners. Companies that are strategic alliance partners in some areas of business may acquire or form alliances with its competitors, thereby reducing their business with Cisco.

Competition can also come from customers to whom Cisco license or supply technology and suppliers for whom they transfer technology. The inherent nature of networking requires interoperability. At times, Cisco must cooperate and at the same time compete with many companies, thereby effectively manage the complicated relationships with customers, suppliers, and strategic alliance partners.

Challenge:

"Some of Cisco's current and potential competitors for enterprise data center business have made acquisitions, or announced new strategic alliances, designed to position them to provide end-to-end technology solutions for the enterprise data center".

b. New Products:

Most of the strategic initiatives and investments are aimed at meeting the requirements that a network capable of multiple-party, collaborative interaction would demand, and the investments and architectural approach are designed to enable the increased use of the network as the platform for all forms of communications and IT. In 2009 Cisco launched 'Cisco Unified Computing System', next-generation enterprise data center platform architected to unite computing, network, storage access, and virtualization resources in a single system, which is designed to address the fundamental transformation occurring in the enterprise data center. It is one of the several priorities on which Cisco is focusing its resources.

The internet has enabled fundamental business transformations that span the entire value chain in virtually all sectors and all types of companies. These shifts include significant changes not only in how products are bought and sold but also how products and services are designed, produced and distributed. While internet usage triggers performance improvements in large businesses, the influence is even more profound among SMEs and start-ups, to compete with big ones and the emergence of micro multinationals. Not only that, it has empowered consumers as well. People have benefited not just as consumers, but as citizens, individuals, members of communities and the degree to which people use internet to seek public information, personal connection and new knowledge is large and increasing. We can expect new technologies to continue to shape the landscape of the possibilities as people and things become even more connected to internet and each other and could see number of trends that embody these shifts in technology, connectedness and use models (Source: The greater transformer: How the internet is the changing the globe and its citizens – Mckinsey Report).

According to Cisco, Cloud computing is an economic shift, not a technology shift. Cloud is gaining momentum because of its compelling economic advantages-- IT services, much like farming, have become commoditized. Maintaining in-house data centers provisioned for peak demand is expensive. Cloud computing represents "IT on demand," where companies can buy what they need, when they need it, shedding the expense of data center hardware, software, maintenance, and staff. *(Jim Cooke, Cisco IBSG's senior director of IT Transformation).* Juniper and Cisco are trying to leapfrog with each other technologically in the service provider core and the edge. Now they have moved themselves to enterprise data centres and cloud computing. Both the companies have surrounded themselves with high profile partners for a multibillion dollar opportunity in private cloud by 2015 and Cisco, being the primary supplier of next generation data centers is trying to lock its rival out of lucrative, big ticket accounts (Source: Network Enhancers – "Delivering beyond boundaries"). According to Cloud CTO, IDC 2010, by 2020 one third of the data will live or pass through cloud, and the global cloud services revenue will jump 20% per year and IT spending on innovation and cloud computing could top $ 1 trillion by 2014.

Challenge:

"Because of the rapid introduction of new products and changing customer requirements related to matters such as cost-effectiveness and security, there could be performance problems with Internet communications in the future, which could receive a high degree of publicity and visibility".

8.4 Cost Reduction

Staff reduction and the challenge to achieve targeted cost reductions

The company achieved a decrease of 5,000 employees in fiscal 2012 through the sale of Juarez, Mexico manufacturing operations, which results $ 1billion trimming of operating expenses for the year. In July 2012, it has announced a further cut of 1300 jobs in an attempt to streamline company-wide decision making. Cisco's official statement attributes the downsizing to a renewed look at the company's "organizational structure," which will endow Cisco with more "agility" to react to dynamic market conditions and competitive threats.

Acquisition and consolidation and the challenge around movement towards consolidation among both competitors and customers

a. **Acquisition**

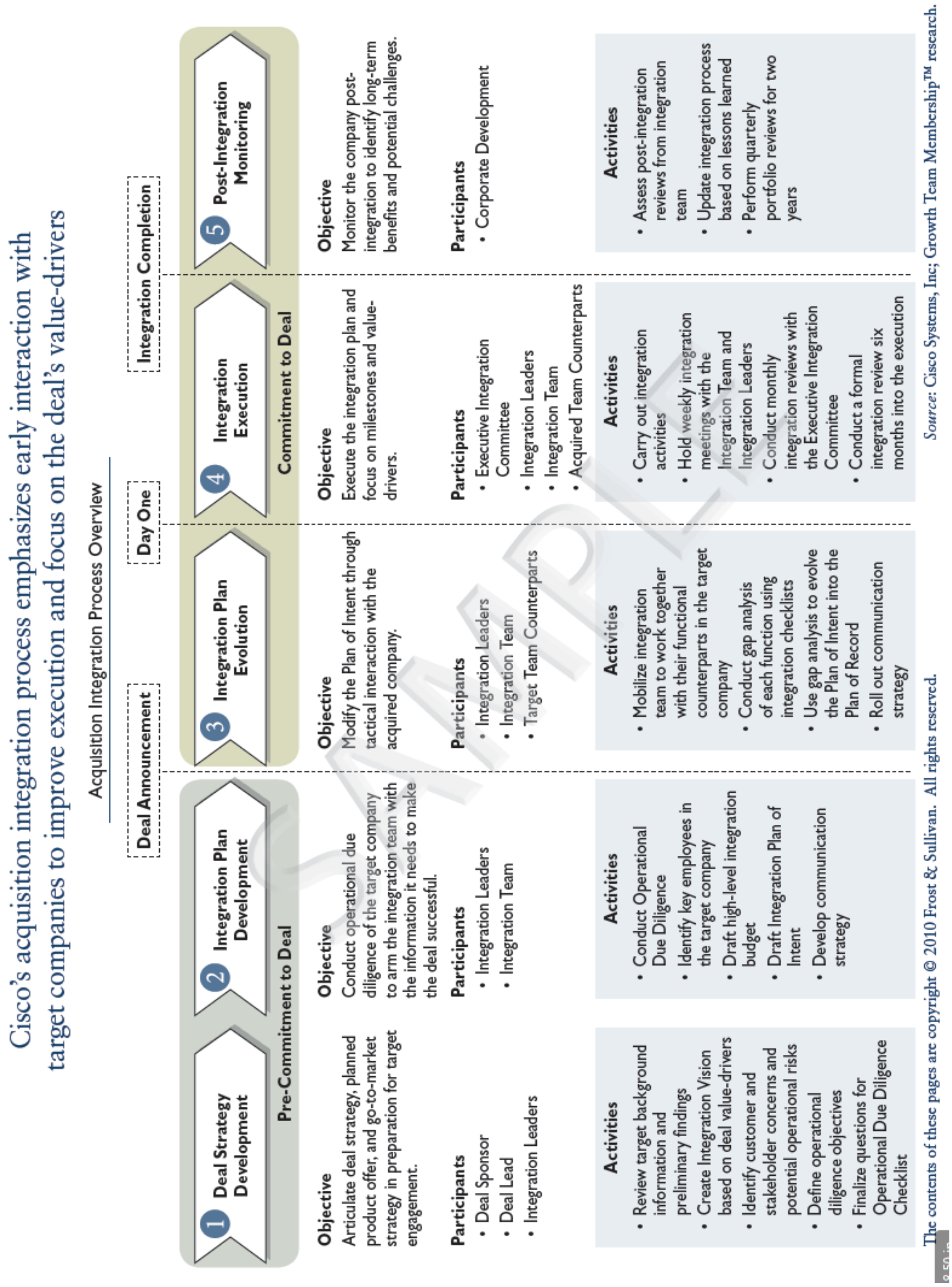
Growth depends on the ability of the company to expand its existing products and timely introduction of new products. This may lead to acquisition of other companies, product lines, technologies and personnel. The operating model of Cisco's acquisition is that they do not jam the acquired company and destroy the acquired company's uniqueness. It is balanced to preserve the uniqueness and leverage Cisco as much as possible.

Acquisitions may be risk at times cause difficulties

- in integration of operations, systems, technologies, products, and personnel of the acquired companies
- diversion of management's attention from normal daily operations of the business
- Potential difficulties in completing projects associated with in-process research and development intangibles
- Difficulties in entering markets with no or limited direct prior experience and where competitors in such markets have stronger market positions
- Initial dependence on unfamiliar supply chains or relatively small supply partners
- Insufficient revenue to offset increased expenses associated with acquisitions
- The potential loss of key employees, customers, distributors, vendors and other business partners of the acquired companies
- Utilisation of cash reserves of the company or increase in debt
- Significant increase in interest expense, leverage and debt servicing
- May lead to large and immediate write offs and restructuring and related expenses
- Become subject to intellectual property or other litigation.

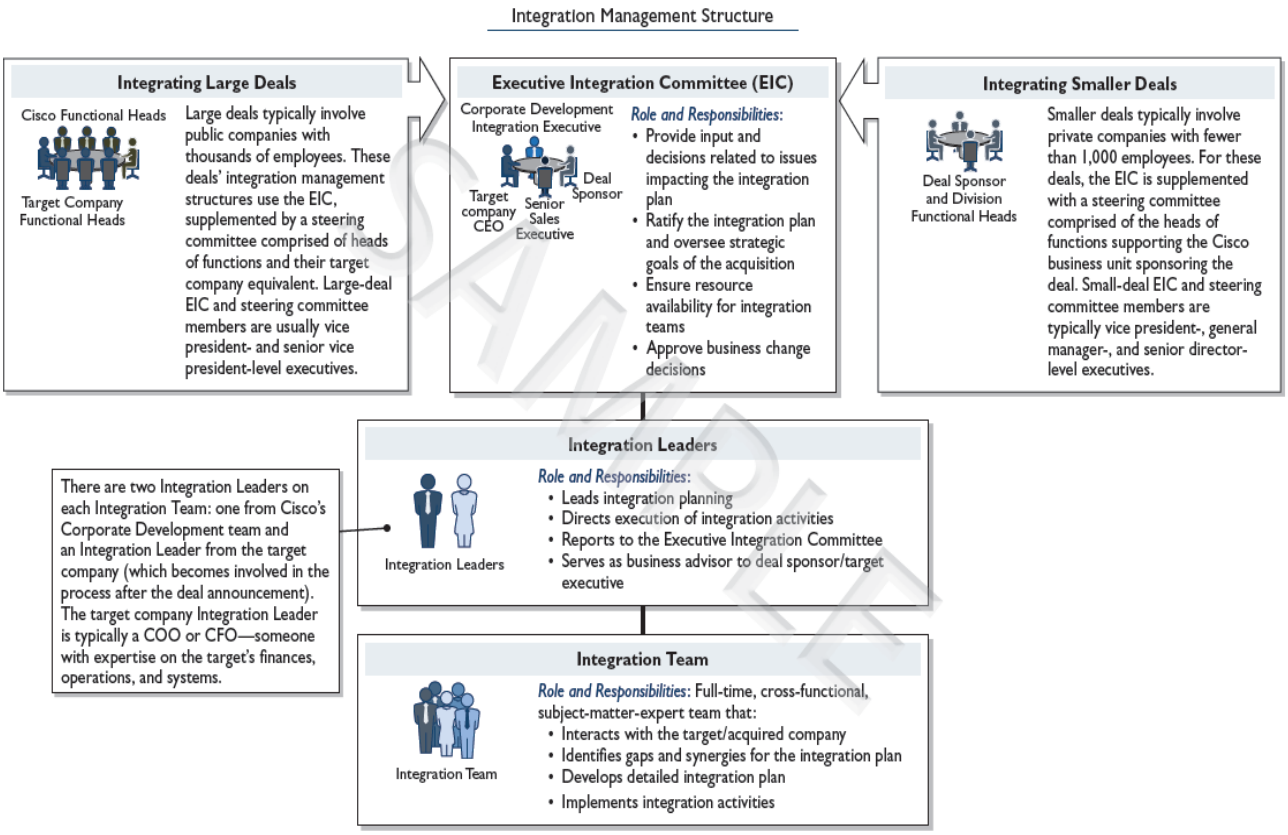
Since 1993, the company had been acquiring companies from start-ups to large well established companies, Cisco realised the difficulty in integrating these companies and standardised 70 to 80% of the integration process for each functional area and also centralised the process as it will allow to capture best practices, use Cisco's skills and resources most effectively and apply discipline and oversight to the entire acquisition process (Source: Cisco IT Case study – Acquisition Integration). The two types of central teams manage acquisition integration within Cisco: a companywide team and a team within each department. The company uses variety of qualitative and quantitative integration matrix to measure the success of its acquisition.

Though standardisation would help, but specific integration and business issues can come up in every deal that one can't anticipate in advance. For those issues, the company would need people on the integration teams who have the experience and creativity to develop the right solution for the business. This could lead to a delayed integration or the integration could even fail. The big failure in M & A at Cisco is Scientific Atlanta and Flip Video (Source: www.Investor Uprising.com, article dated 8th April 2011- "Five things Cisco needs to change" authored by R Scott Raynovich). The company in their annual report 2011 had mentioned that they had integration issue in the acquisition of Scientific Atlanta, WebEx and Tandberg.



(Source: Value maximising acquisition integration – Frost and Sullivan – Excerpts from Best Practice Guidebook)

In addition to the Executive Integration Committee (EIC) responsible for integration, Cisco employs two alternate levels of executive management for large- and small-scale integrations



Source: Cisco Systems, Inc; Growth Team Membership™ research.

(Source: Value maximising acquisition integration – Frost and Sullivan – Excerpts from Best Practice Guidebook)

b. Consolidation:

There has been a trend toward industry consolidation for several years. The company expects this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. Companies that are strategic alliance partners in some areas of business may acquire or form alliances with Cisco's competitors, thereby reducing business with Cisco. Industry consolidation may also result in stronger competitors that are better able to compete as sole-source vendors for customers.

Challenge:

"Rapid consolidation may lead to fewer customers or may lead to loss of major customers".

Long term investments in Engineering, sales, service, marketing and manufacturing activities and the challenge of realising benefits anticipated from the investments in engineering, sales and manufacturing activities.

The company intends to focus on managing cost and expenses, over the long term, and intend investing in personnel, and other resources relating to engineering, sales, service, marketing and manufacturing functions towards the five fundamental priorities.

Challenge:

"It is likely that the investments may not yield anticipated benefits or it may be lower or may take longer time than expected to achieve the benefits anticipated".

9. Cisco's green initiatives

9.1 Overview

The Cisco Networked Sustainability Framework, bringing together energy efficiencies, innovative business practices and industry partnerships, offers a holistic approach to:

- Reduce greenhouse gas (GhG) emissions
- Increase overall operational efficiency
- Attain sustainable business behaviour.

Key components include:

- Cisco energywise, a power management architecture for network infrastructure and facilities management
- Product and solution innovations to optimize energy usage and receive increased value for every watt expended
- Collaboration solutions that improve business efficiency and social sustainability benefits.

9.2 Materials:

Cisco works with engineers, suppliers, and industry peers to minimize the environmental impact through a comprehensive materials management strategy. The Cisco Product Stewardship program includes policies and procedures regarding hazardous materials that are restricted by either global product-related environmental laws, regulations, or its customers. The primary objectives of this program are to:

1. Reduce the number and quantity of hazardous substances while helping to ensure high product quality and reliability
2. Work with industry consortia to define common qualification criteria and develop viable solutions
3. Comply with product-related environmental laws and regulations restricting the use of certain hazardous substances worldwide.

9.3 Waste and lifecycle

From product design, to packaging, to documentation, through end of useful life, Cisco looks at how to reduce waste. Cisco engineering, manufacturing, and supply-chain teams explore the problem and find solutions: new processes, new ways to use materials, and new designs. By designing products for easy disassembly, they can make recycling of components easier and more efficient. By making packaging parts out of one material or easily separated materials, the task of recycling can be simplified. By redesigning packaging for products and for subassemblies that move between manufacturing sites, it can drastically reduce the materials needed. By offering customers trade-in, takeback, and recycling opportunities, the company could extend the life of some products and encourage responsible recycling and disposal of the others.

9.4 WEEE and Cisco

Cisco closely monitors regulations relating to product end of life and adheres to all applicable legislation worldwide. In Europe, Cisco has gone beyond the requirements in the European Union (EU) Directive on Waste from Electrical and Electronic Equipment (WEEE) by registering as a producer in all EU countries where Cisco is permitted to do so, despite not generally being defined as the producer. Cisco continues to take a leading role with the United Nations (UN) effort known as solving the E-Waste Problem Program, working within the Global Policy and Recycling task forces. Cisco has developed a global closed-loop reverse supply chain that allows it to recover and reuse or recycle more than 99% of their returned electronic equipment in major markets worldwide, helping to ensure that products returned to Cisco remain out of landfill sites.

10. Relationship with TATA group

The TCS-Cisco partnership has been active since 2003. This partnership focuses on go-to-market activities for a range of Cisco technologies, including the next generation datacenters (Cisco Unified Computing Systems), advanced networking, security and collaboration. It also focuses on developing replicable go-to-market business solutions leveraging cutting-edge Cisco technologies like UCS, and TCS strengths in IT application services, IT infrastructure services and domain expertise in key industry verticals. The partnership enables end-to-end IT infrastructure services, coupled with assurance services, and IT application services enabling seamless system integration of Cisco products.

In 2009, Cisco and TCS formed a strategic alliance to develop and deliver information technology (IT) service solutions to help customers build or evolve next generation data centres by taking advantage of the network as a platform. TCS will incorporate Cisco's Data Centre 3.0 technologies, with TCS' industry-leading IT services, business solutions and outsourcing. The companies will also explore new networking innovations to address the needs of large and small businesses for IT services. This strategic alliance will take advantage of Cisco's industry-leading data centre networking solutions and TCS' global network delivery model to help their customers increase the efficiency and agility of their IT operations. The TCS and Cisco strategic alliance will initially focus on India as well as mutual enterprise customers in the United States and the United Kingdom in the key verticals of banking and finance services, telecom, and government as well as small and medium-sized business.

11. Annexure

Directors:

Ashton Dallsingh
Director, Vice President Finance
Since 2011

Before joining CISCO, he held the role of Director of Finance for its Consumer and Small Business segment for 4 years. He then moved to Dell Europe where for the last 5 years he has held roles as Director of Marketing Operations for EMEA and most recently Director of Finance for Dell's Consumer business right across EMEA. Ashton has worked in a broad of range of sectors in diverse global organizations including Ernst & Young, PPGPL (a subsidiary of Conoco/Du Pont), Rogers Communications.

Richard Anthony Lister French
Director, Director of Legal Services
Since 2011

He is also director of Cisco Systems Holdings UK Limited

David James Sweet
Director
Since 2010

A seasoned Chartered Accountant with 20 years' experience in finance, business and leadership in top Global Companies. Before joining CISCO, he was Revenue FP & A Controller at IBM.
He is also director of Cisco Systems Holdings UK Limited, Tandberg Telecom UK Limited, Tandberg UK Limited, and Tandberg Products UK Limited.

Christopher Dedicoat
Director, President – European Markets
Since 2009
As President, European Markets, Chris Dedicoat has the responsibility for tailoring Cisco solutions and services to the needs of customers in some of its most established markets, where technology-driven innovation is a key differentiator and an essential economic driver. His organization consists of 22 countries and it is the largest revenue-earning region for Cisco outside the United States. Dedicoat has overall leadership for sales, marketing, business development, and systems engineering. He is also responsible for Cisco's investment in strategic alliances and acquisitions throughout the European region.
Dedicoat joined Cisco in 1995 and has since held a number of senior positions, including Vice President and Managing Director of Cisco's UK & Ireland operation. In that position he forged key relationships with the UK government and was a trusted advisor on its e-commerce strategy. He has also held responsibility for Cisco's business for enterprises and small and medium-sized business in the Europe-Middle East-Africa region before assuming his current position in 2004. He is also the director of Cisco Systems Limited.
Dedicoat has held senior management roles at other leading companies including Motorola, where he was Sales Director of its telecommunications business and Customer Services Director. He is a frequent speaker at industry and government events and is a regular commentator in the print and broadcast media on topical IT, communications, telecom networking, and Internet issues affecting

private and public sector organizations. In 2006 he was appointed to a European Commission task force that aims to strengthen Europe's IT sector.

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Annexure 5: Panasonic Europe Limited

Table of Contents

1. Introduction:

The consumer electronics market consists of the total revenues generated through the sale of audio visual equipment and games console products designed primarily for domestic use. The audio visual equipment includes CD Players, DVD Players / Recorders, hi-fi systems, home theatre, in-car entertainment systems, portable digital audio, radios, televisions and video recorders. Games consoles segment includes both home use and portable consoles. A great deal of manufacturing takes place in regions were labour costs are relatively low such as Asia. Company profiles are varied, ranging from large multinational firms employing more than 100,000 workers to small firms producing one product, with less than 50 employees. A major challenge faced by consumer electronics manufacturers of all sizes is securing copyright to products. Consumer electronics manufacturers continue to focus on innovation in next generation technology to meet consumer demand. The industry will gain some relief as the economic environment becomes more favourable, seeing consumers less reluctant to dispose of rising disposable income. Smartphones will continue to boost sector growth, and connectivity will be the key as consumers seek to link up home and mobile applications and devices. Growing reliance on the web in business and personal spheres is making close relationships with communications operators vital.

2. Market Size : Consumer Electronics Industry

2.1 Global Market

The global consumer electronics market experienced moderate growth during 2011, after the stronger growth in 2010 that followed a slight contraction in 2009. The market is predicted to continue growing moderately over the forecast period to 2016.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 3.9% for the five-year period 2011 - 2016, which is expected to drive the market to a value of $343.4 billion by the end of 2016. Comparatively, the European and Asia-Pacific markets will grow with CAGRs of 4.1% and 4.3% respectively, over the same period, to reach respective values of $99 billion and $97.2 billion in 2016.

Global consumer electronics market geography segmentation, by value, 2011(e)

Geography	%
Americas	41.0
Europe	28.5
Asia-Pacific	27.7
Middle East & Africa	2.8
Total	100%

SOURCE: MARKETLINE — MARKETLINE

(Source: Market Line Report, 2012)

2.2 European Market

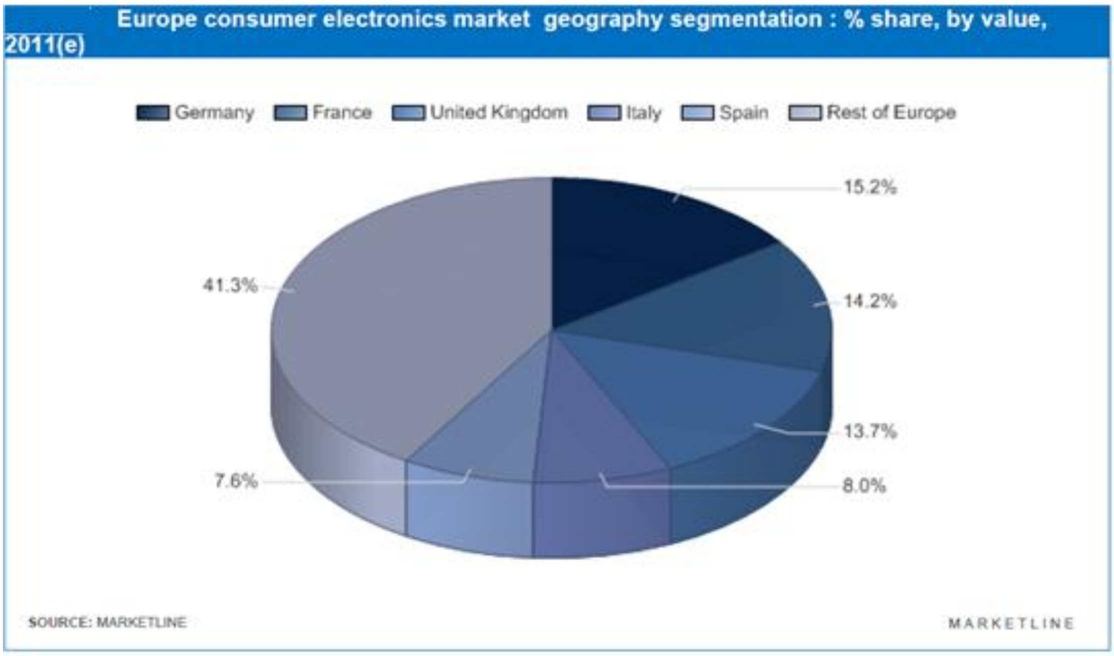
The European consumer electronics market experienced moderate growth during 2011 after also having grown moderately in 2010. This followed near-stagnation in 2009. The market is predicted to continue growing at a moderate rate over the forecast period to 2016.

The European consumer electronics market is expected to generate total revenue of $81 billion in 2011, representing a compound annual growth rate (CAGR) of 4.7% between 2007 and 2011. In comparison, the German and UK markets will grow with CAGRs of 3.9% and 2.4% respectively, over the same period, to reach respective values of $12.3 billion and $11.1 billion in 2011.

Sales generated through electrical and electronics retailers are expected to be the most lucrative for the European consumer electronics market in 2011, with total revenues of $42.4 billion, equivalent to 52.4% of the market's overall value. In comparison, sales through department stores will generate revenues of $2 billion in 2011, equating to 2.5% of the market's aggregate revenues.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 4.1% for the five-year period 2011 - 2016, which is expected to drive the market to a value of $99 billion by the end of 2016. Comparatively, the German and UK markets will grow with CAGRs of 2.4% and 2.7% respectively, over the same period, to reach respective values of $13.9 billion and $12.7 billion in 2016.

Figure 40



(Source: Market Line Report, 2012)

2.2.1 Market Outlook

In 2016, the global consumer electronics market is forecast to have a value of $343,362.3 million, an increase of 20.9% since 2011. The compound annual growth rate of the market in the period 2011–16 is predicted to be 3.9%. The European consumer electronics market is forecast to have a value of $98,974.8 million, an increase of 22.2% since 2011. The compound annual growth rate of the market in the period 2011–16 is predicted to be 4.1%.

Europe consumer electronics market value forecast: $ million, 2011–16

(Source: Market Line Report, 2012)

Europe consumer electronics market value forecast: $ million, 2011–16

Year	$ million	€ million	% Growth
2011	80,993.5	60,994.1	4.9%
2012	83,861.7	63,154.1	3.5%
2013	87,856.6	66,162.5	4.8%
2014	91,697.2	69,054.8	4.4%
2015	95,293.4	71,763.0	3.9%
2016	98,974.8	74,535.4	3.9%
CAGR: 2011–16			4.1%

SOURCE: MARKETLINE MARKETLINE

(Source: Market Line Report, 2012)

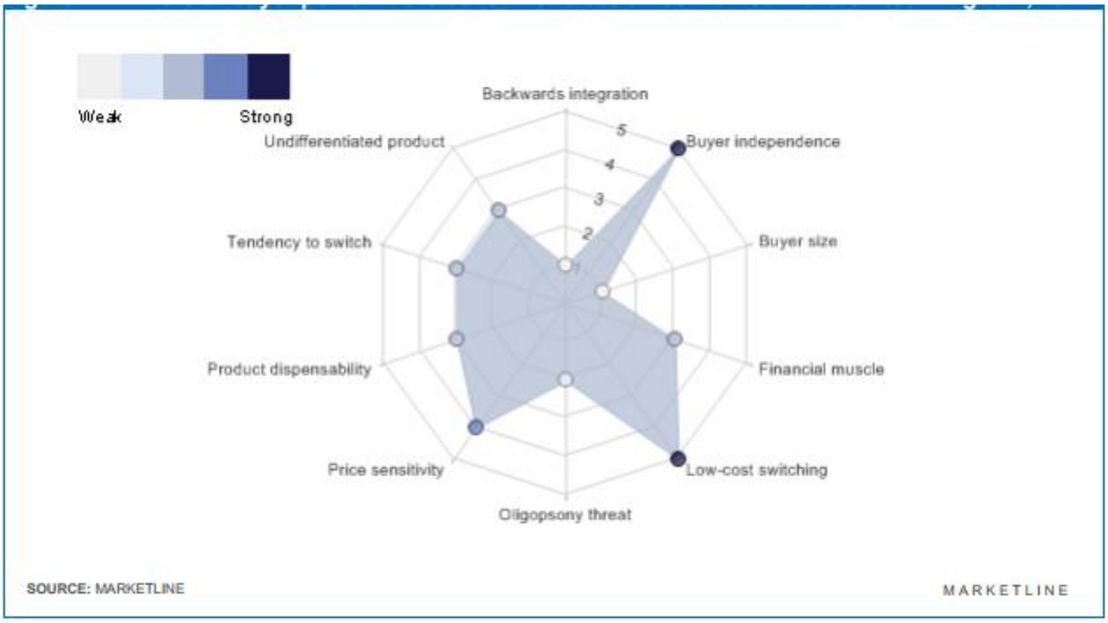
3. Five Forces Analysis

(Source: Market line report, 2012)

The consumer electronics market will be analysed taking retailers as players. The key buyers will be taken as consumers, and manufacturers as the key suppliers.

3.1 Buyer Power:

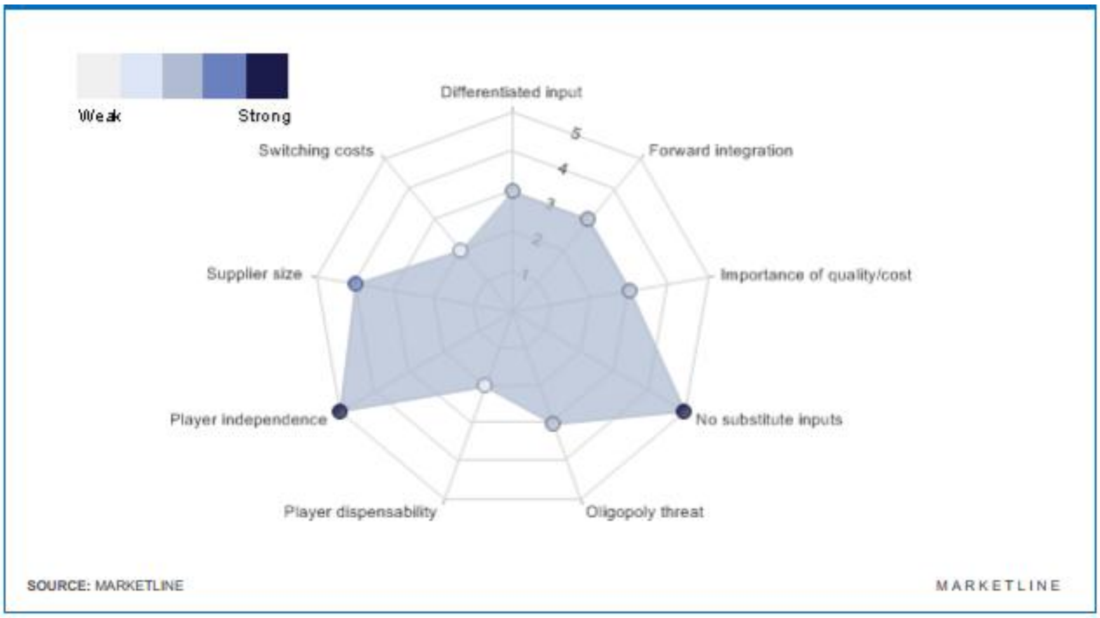
Figure 1:



The consumer electronics retail market has a large number of small buyers. As the impact on a retailer of losing any particular customer is negligible, buyer power is correspondingly weakened. It is difficult for retailers in this market to differentiate themselves. Except perhaps for high-end 'boutique' hi-fi specialists, or the retail outlets operated by manufacturers like Sony and Apply, most retailers sell similar products made by the major electronics manufacturers. Add to this the price sensitivity of consumers, especially for 'big ticket' items like televisions, and the lack of significant switching costs, and buyer power starts to look stronger. However, one way a retailer can defend itself against this is by focus on customer service. For example, the recent bankruptcy of Circuit City in the US is sometimes attributed in part to a decision to fire the higher-paid store workers, who were usually older and more experienced; conversely, the strong performance of the UK's John Lewis Partnership may be linked to its low employee turnover rates. More experienced employees are likely to have greater knowledge of the products on sale and therefore can advise customers better. Overall, buyer power is **moderate.**

3.2 Supplier Power:

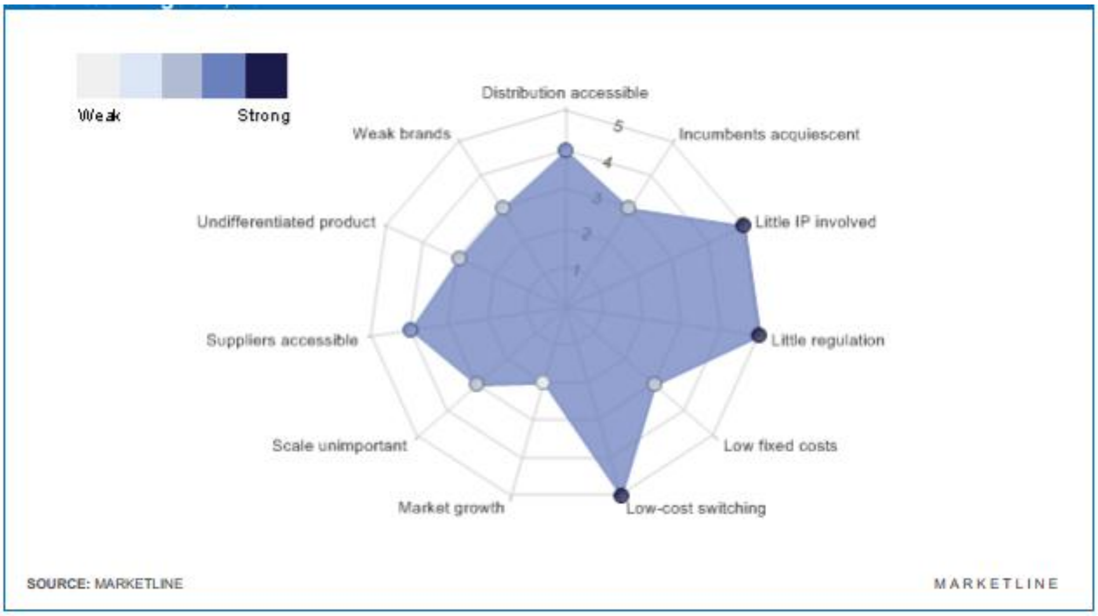
Figure 2:



Major retailers often buy stock direct from manufacturers such as Toshiba and Samsung. These are large multinationals, with considerable bargaining strength. Consumer electronics manufacturing benefits from scale economies, and so it is likely that there will always be a preponderance of large manufacturers upstream of the retailers. Retailers rarely integrate backwards into manufacturing, but some manufacturers run high street retail chains to sell their own products exclusively. However, it is unlikely that manufacturers would ever extend themselves so far into direct-to-consumer business that the pure retailers became unimportant for their sales. Consumer electronics is a fairly commoditized market. Even an innovative product such as the original Apple iPod soon stimulates manufacturers into producing similar items. Also, where a manufacturer has valuable intellectual property, it can choose to generate revenue through licensing agreements rather than defending exclusivity in order to charge high prices. For example, DVD player manufacturers must pay a royalty (of the order of a few US$) to the DVD format patent holders for each player they make. From the perspective of retailers, this will tend to weaken buyer power, as it means that no one supplier monopolizes a particular product category. Overall, supplier power is **moderate**.

3.3 New Entrants:

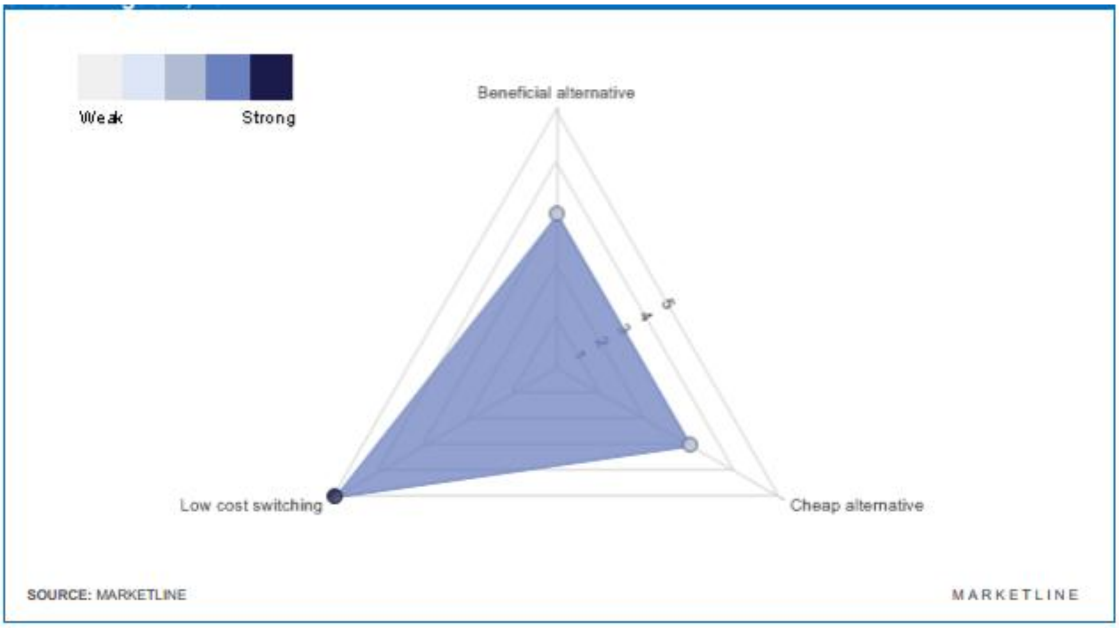
Figure 3 :



Barriers to market entry are low. Even in developed economies, where the high street tends to be dominated by a few large retail chains, it is still possible for independent retailers of consumer electronics to survive. Entry at this scale is possible without the need for vast amounts of capital, complex regulatory compliance, or the acquisition of intellectual property. Consumers have few switching costs to tie them to existing retailers. Retail markets tend to be labour-intensive, but the skill sets required for many customer-facing staff are not hard to find. On the other hand, competing directly with leading incumbents such as Best Buy in the US would require more resources, in order to lease stores, build supply chains, and advertise the newcomer. Large incumbents may have certain economies of scale. For example, central administrative costs may not rise as quickly as revenue as the number or size of stores increases, and the cost of implementing an e-retail website may be easier for a large company to absorb. All in all, there is a strong risk of new entrants, but this will be more significant in rapidly-expanding markets than the more sluggish performers.

3.4 Threat of Substitutes:

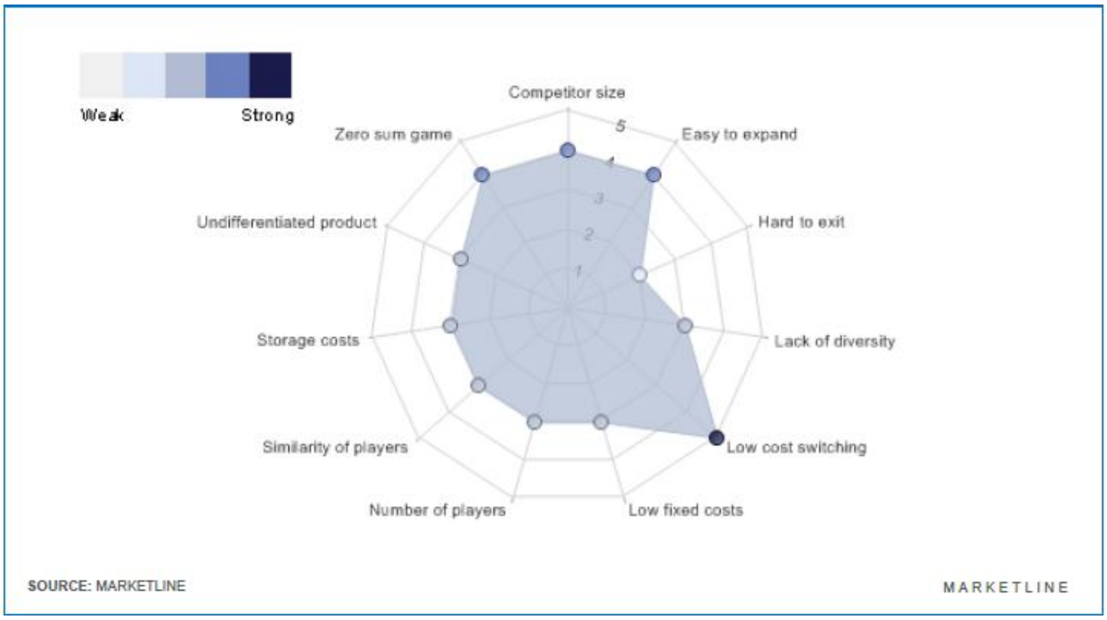
Figure 4:



Substitutes for consumer electronics, defined restrictively here as audio and video devices, include the broader range of ITC categories. For example, convergent devices offering audio and video functions alongside computing and communication functions, such as tablet computers and smart phones, are a substitute for dedicated devices. Retailers that specialize in the more traditional audio-visual lines may find their revenues threatened, but it is common for the larger market players to offer a wide range of entertainment, computing, and telecommunication devices. This diversification minimizes the threat of substitutes. A second form of substitute is alternative distribution channels, notably online retail as an alternative to bricks-and-mortar outlets. Virtually all the leading high street retailers of consumer electronics have e-retail sites, but it may be difficult for small independents to set up such sites; they will therefore experience a greater threat. The specialist retailers considered here are also facing competition with non-specialists such as department stores and supermarkets. The latter often compete intensively on price, perhaps through the use of private-label products. Overall, **there is a strong threat from alternatives**.

3.5 Degree of rivalry:

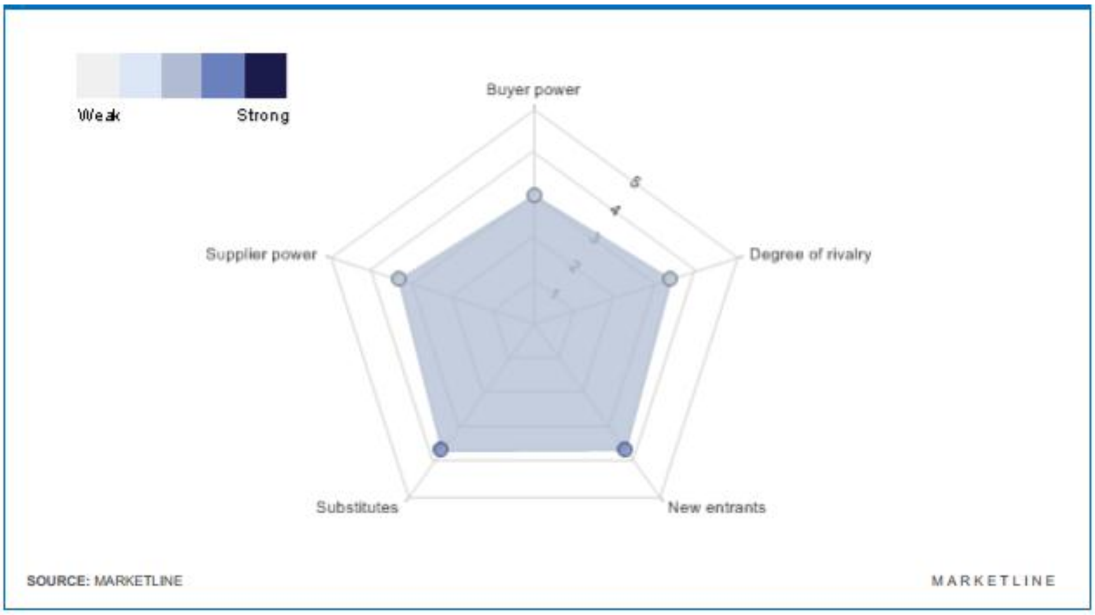
Figure 5:



The consumer electronics retail market has several large chain players in most countries, although these coexist with small independents. It is relatively easy for a company to step up its sales volume in response to market conditions, for example it is usually not difficult to take on additional staff where necessary. It is difficult for a retailer to differentiate itself from the competition, and switching costs are minimal; as a result it is easy for customers to move from one retailer to another, and this boosts the intensity of rivalry. Where the market is growing rapidly, rivalry will be eased. Also, this market is fairly easy to exit, which also eases competitive pressures. Overall, the degree of rivalry is **moderate**.

3.6 Summary:

Figure 6:



The consumer electronics retail market has several large chain players in most countries, although these coexist with small independents. It is relatively easy for a company to step up its sales volume in response to market conditions, for example it is usually not difficult to take on additional staff where necessary. It is difficult for a retailer to differentiate itself from the competition, and switching costs are minimal; as a result it is easy for customers to move from one retailer to another, and this boosts the intensity of rivalry. Where the market is growing rapidly, rivalry will be eased. Also, this market is fairly easy to exit, which also eases competitive pressures. **Overall, the degree of rivalry is moderate.**

4. PEST Analysis:

4.1 Political:

1. Increased environmental regulations
2. Call for reporting on quantity, cost and quality from product recycling

4.2 Economic:

1. Setbacks in the Eurozone are a major threat to economic prospects and financial stability
2. The growing instability in part of Eurozone viz., Greece, Spain

4.3 Social:

1. Consumer expenditure impacted by economic activity in the zone, which is expected to recover in Western Europe
2. Mixed impact on GDP, unemployment rates and economic development across the zone

4.4 Technological:

1. Demand for new technology, convergence and portability remains strong.
2. Content and Software are the main drivers in the market.
3. Competing standards under the 3D television segment, no clear winner yet.
4. Functionality combined with aesthetics and design flexibility

4.5 Environmental:

1. Increased regulation on E-waste disposal through the WEEE directive – reporting and recycling of products end of life.
2. Increased regulation for environmental protection in the form of reduction in emission levels or use of certain chemical and compounds in electronic manufacture.
3. Global warming and Kyoto protocol

4.6 Emerging Trends

1. Demand for new technology
2. Increased regulation
3. WEEE directives, reporting and recycling
4. Functionality combined with aesthetics and design flexibility

5. Company Overview: Panasonic Europe Ltd

Panasonic Corporation is the parent organisation for Panasonic Europe ltd.

5.1 Panasonic Corporation

Established in 1918, it is one of the largest electronic product manufacturers in the world, with over 634 companies. It manufactures and markets a wide range of products under the Panasonic brand to enhance and enrich lifestyles all round the world. The company is headquartered at Osaka, Japan. The company presently employs over 390,000 employees and manufacturing and marketing over 15000 products.

5.1.1 Business Segments

The major divisions of business of the company are Digital AVC networks, Home appliances, PEW and panaHome, Components and devices, Sanyo, and others.

In the digital AVC business, Panasonic provides Plasma and LCD TVs, Blu-ray Disc and DVD recorders, camcorders, digital cameras, personal and home audio equipment, SD Memory Cards and other recordable media, optical pickup and other electro-optic devices, PCs, optical disc drives, multi-function printers, telephones, mobile phones, facsimile equipment, broadcast- and business-use AV equipment, communications network-related equipment, traffic-related systems, car AVC equipment, healthcare equipment, etc.

Home appliances product line includes Refrigerators, room air conditioners, washing machines and clothes dryers, vacuum cleaners, electric irons, microwave ovens, rice cookers, other cooking appliances, dish washer/dryers, electric fans, air purifiers, electric heating equipment, electric hot water supply equipment, sanitary equipment, electric lamps, ventilation and air-conditioning equipment, compressors, vending machines, electric motors, etc.

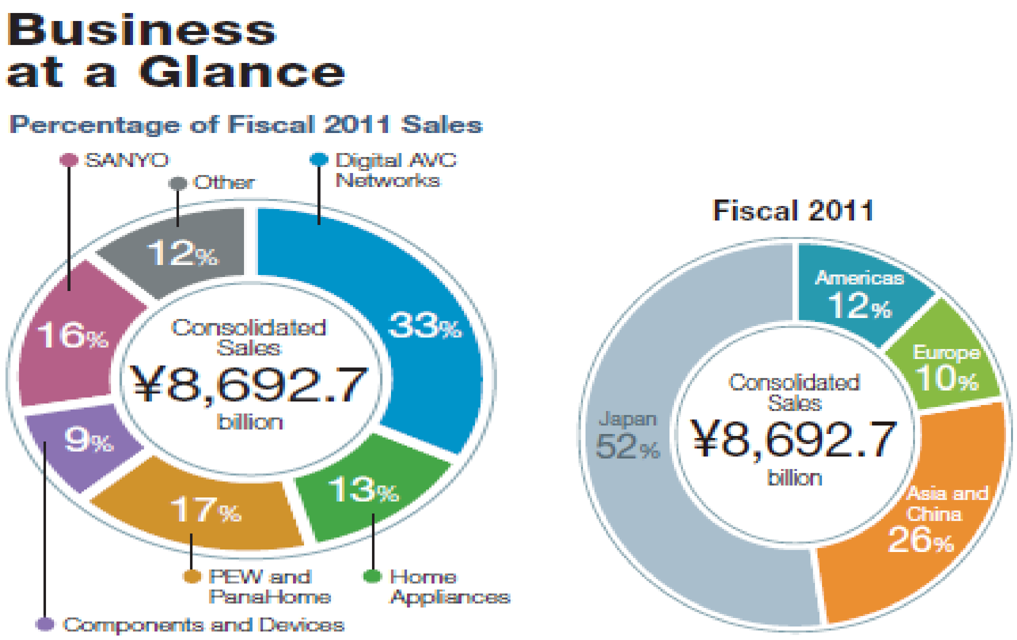
PEW and PanaHome include Lighting fixtures, wiring devices, personal-care products, health enhancing products, water-related products, modular kitchen systems, interior furnishing materials, exterior finishing materials, electronic materials, automation controls, detached housing, rental apartment housing, medical and nursing care facilities, home remodelling, residential real estate, etc.

Components and devices, comprises Semiconductors, general components (capacitors, tuners, circuit boards, power supplies, circuit components, electromechanical components, speakers, etc.), batteries, etc.

Sanyo includes Solar photovoltaic systems, lithium-ion batteries, optical pickups, capacitors, digital cameras, LCD TVs, projectors, showcases, commercial air conditioners, room air conditioners, compressors, medical information systems, biomedical equipment, washing machines, refrigerators, car navigation systems, etc.

Others comprises of electronic-components-mounting machines, industrial robots, welding equipment, bicycles, imported materials and components, etc.

Segmental performance of Panasonic for the financial year ending March 2011



(Source: Panasonic Corporation Ltd Annual Report, 2011)

5.2 Panasonic Europe Limited

It is a wholly owned subsidiary of Panasonic Corporation. It was established by re-organising Panasonic UK Ltd., and commands the manufacturing and sales subsidiaries in Europe based on its plan to divide the world into four regions and set up a regional office for each region. The company was originally known as Matsushita Electric Europe (Headquarters) Limited and was renamed Panasonic Europe Limited in 2005.

The company was formed in 1997 with the idea to facilitate the development of products tailored to local needs and enhance the efficiency of labour management. The second major factor is the prospect for complete internal integration of the European Community and tightening restrictions on local subsidiaries such as raising of a mandatory ratio of locally procured parts. Presently

Panasonic Europe is coordinating the compliance under WEEE directive.

5.3 Group reorganisation

Panasonic Corporation has reorganised its business segments and it has been reduced to 3 segments from the current financial year. The Group's reorganization is grounded in the three fundamental concepts of maximizing value by strengthening contacts with customers, realizing speedy and lean management, and accelerating growth businesses by boldly shifting management resources. From a Group structure that currently consists of five business segments based on a common technology platform, Panasonic will shift through a process of reorganization to a structure that places customers' perspectives at the heart of three business sectors, based on a business model. In these three business sectors, the Group will establish nine business domain companies and a marketing division. While building an optimum business model for each business sector, every effort will be made to maximize Group synergies.

5.4 Panasonic Europe Initiatives

5.4.1 Targets of European 'eco ideas' Declaration 2010

Items	Fiscal 2013 targets
'eco ideas' for Lifestyles	(1) Increase the sales ratio of eco labelled products*1 in total sales to 30% (2) Achieve 3.5 million tons in a size of contribution in reducing CO_2 emissions through energy management products*2 (3) Provide environmental education to 100,000 children through kids school "eco learning" program
'eco ideas' for Business-styles	*(1) Achieve 7,000 tons of contribution in reducing CO_2 emissions at European manufacturing sites (compared with the case if no improvement measures had been taken after fiscal 2006)* *(2) Reduce 1,000 tons of CO_2 emissions at non-manufacturing sites*3 (compared with fiscal 2010)* *(3) Achieve 99% waste recycling rate at European manufacturing sites*

- **1 Products with European Type I Eco-labels or those qualified for Panasonic's 'eco ideas' label due to their industry-leading environmental performance.*
- **2 Subject items: solar panels, fuel cells, heat pumps, energy recovering ventilations, LED lightings, and compact fluorescent lightings.*
- **3 Sites with 100 or more employees.*

5.4.2 Improve factory waste recycling rate

Production sites in Europe are actively working on achieving their set targets concerning waste recycling rates. In June and December 2011 and March 2012, waste recycling training sessions were conducted, where model cases were presented for information sharing and common problems were discussed. Also, a website for environmental representatives was established to widely share the recycling activity information in a timely manner across boundaries.

Panasonic Industrial Devices Slovakia, which is based in a country where sorting waste for recycling is still less common than in other European states, introduced an all-employee environmental education program. The employees are now working to implement waste sorting practices in all the production lines. Sorted waste boxes have been newly introduced with indicators for different waste categories, and waste administrators were appointed. These efforts have led to 97.6% of waste now being recycled.

5.4.3 Green Plan 2018

October 6, 2010, Panasonic 'eco ideas' Forum 2010 was presented at the Green Plan 2018 outlines initiatives that all Panasonic Group employees should carry out to achieve the industry's No.1 status in the green indexes the company set to realize the **centennial vision**. The plan also describes specific areas of activity and numerical targets. Through the united efforts of every Panasonic employee, the company will accelerate the integration of its environmental contributions and business growth to become the No.1 Green Innovation Company in the Electronics Industry.

Targets for 2018		Actions
CO_2 Reduction	**Make net CO_2emissions peak and decline thereafter☆ (Emissions from production activities and product use)**	• Maximize a size of contribution in reducing CO_2emissions from production activities and product use (120 million tons compared to FY2006) • Reduce CO_2 emissions per basic unit in logistics (Reduction in CO_2 emissions per basic unit of weight: By 46% or more compared to FY2006) • Reduce CO_2 emissions from offices (Self-owned office buildings in Japan: Reduction by 2% or more on yearly average) • Promote CO_2 reduction in cooperation with procurement partners

Targets for 2018		Actions
		• Promote the Business of Energy Conservation Support Service for Entire Factory
	Expand the sales of Energy Systems Business to three trillion yen or more☆	• Globally develop energy management systems for the entire home and building • Win the world's top-class share in solar cell business (Top three rank in 2015) • Win the world's top share in fuel cell cogeneration systems • Globally expand stationary lithium-ion battery systems • Vastly expand eco-car related business (Batteries, thermal management systems, power supply management systems and power charging infrastructure)
Resources Recycling	**Pursue the recycling-oriented manufacturing to make the best use of resources☆**	• Reduce total resources used and increase recycled resources used (Ratio of total recycled resources used to total resources used: more than 16%) • Achieve Zero Waste Emissions from production activities at all sites (Waste recycling rate: 99.5% or more) • Promote resources recycling together with procurement partners
Water	**Minimize the amount of net water consumption**	• Increase products to save water and contribute to water recycling • Reduce water consumption in production activities and increase the use of recycled water
Chemical Substances	**Minimize environmental impact caused by chemical substances**	• Develop alternative technologies for environmentally hazardous substances • Discontinue the use of substitutable

Targets for 2018		Actions
		environmentally hazardous substances in products • Minimize environmentally hazardous substances released from factories
Biodiversity	**Identify impact on biodiversity and contribute to conservation**	• Increase products contributing to the biodiversity conservation • Encourage greening in business sites and surrounding areas • Promote the sustainable use of forest resources • Promote biodiversity conservation together with procurement partners
Increase the percentage of sales for No.1 eco-conscious products to 30%☆ (Double FY2010 level)		• Provide top-class eco-conscious products in all business areas • Promote eco marketing firmly rooted in each region and country
Increase environmental contribution through collaboration with stakeholders		• Research and propose green lifestyles • Foster human resources leading green innovation • Promote Panasonic ECO RELAY for Sustainable Earth • Provide environmental education to two million children around the world • Plant ten million trees around the world together with stakeholders • Accelerate environmental contribution through collaboration with suppliers

5.4.4 WEEE and PANASONIC EUROPE

In 2002, The European Union brought out WEEE (Waste Electrical and Electronic Equipment) Directive in 2002 and it was made law in 2003. The directive set restriction upon European manufacturers as to the material content of new electronic equipment placed on the market and cast an obligation on the manufacturer/ distributor for the disposal of waste electrical and electronic equipment for all items placed on the market after 2005.

Panasonic Europe is the enabler for internal integration of Panasonic firms within the Eurozone and is responsible for the sustainable business for the zone. Panasonic European operations were originally on a national basis with separate IT systems in each country. It was difficult for the local offices to exchange information and collaborate them for reporting. Hence in 2002, the company implemented SAP recycling administrator to meet the reporting requirements under WEEE Directive. The software also offers a central data repository of different countries' regulatory requirements. Panasonic was the first company in 2005, to register all its products with German National Register to meet WEEE requirements and to continue to do business, as registration was made mandatory for business continuance. The company is in the process of rolling to other countries in the zone to help meet EU packaging regulations, so far they have completed 18 countries and 50 different compliance schemes. The aim to move to an SAP platform is to enable the company to eliminate costly, high-maintenance stand-alone systems and also sophisticated reporting functionality and comprehensive cost analyses. The company uses the application to classify recyclable materials by type, weight, usage, destination, brand and category.

5.5 Challenges

5.5.1 WEEE implementation across Panasonic Corporation companies

Since 2000 Panasonic has been amassing much recycling management know-how and technological expertise in Japan including their recycling facility, Panasonic Eco Technology Center Co., Ltd., (PETEC). The expertise of PETEC would be a valuable addition to the European recycling industry. Panasonic's basic policy towards end-of-life product recycling is not only pro-active compliance with country-specific recycling legislation and when developing collection and recycling systems, the company follows a country by country approach to ensure product recycling compliance.

Accordingly, they established ENE EcologyNet Europe GmbH (ENE) in April 2005 as a subsidiary of Panasonic, with the view to extend the expertise accumulated in Japan with the same quality and highly-ecological standards in its operations. Initially focusing on the recycling of WEEE in Germany, ENE to meet all the legal, transport and recycling obligations for Panasonic and the partner producers who choose to use ENE to meet their WEEE obligations. It was established with a view to providing flexible and tailor-made recycling solutions, to meet the Eurozone directives. Together with engineers from Japan, ENE confirms the recycling technologies of major recyclers across Europe. It collects various kinds of waste electronic products, and analyzes them to determine the optimal recycling process. They are strengthening partnerships with local recyclers to improve recycling technologies and systems.

Country by country approach

Panasonic adopts country by country approach. Panasonic has a very diverse product range in Europe. To manage WEEE compliance across the EU, the company registers directly with appropriate recycling schemes in countries where they have legal company presence. In other locations the company works with the distributors to ensure that the responsibilities are managed locally.

SAP Recycling Administration at Panasonic Europe

Panasonic Europe, responsible for the integration of Europe business, went ahead implementing SAP Recycling Administration to comply with the EU packaging regulations and WEEE directives which requires detailed reporting on all of the devices and components put into circulation by the company. The company are also trying to leverage the tight integration between SAP ERP application and SAP recycling administration. It extended the application to support countries with different and evolving compliance requirements and to gain a central data repository to address regulatory requirements. The European entity is responsible for reports on quantity, cost and data quality as required under WEEE directives.

Integration of SAP Recycling Administration and Product Lifecycle Management Application.

Panasonic factories worldwide provide recycling information for each product's weight, packaging and batteries. The European recycling team has to check the data accuracy, maintain the article and the relevant packaging and has to forward the information to the key users at business units across Europe. These users then have to share the data with the country's recycling partners and maintain the information for regulatory compliance and audits. To cut down recycling cost at the end of each product's life cycle and to become more sustainable the company has to evaluate packaging materials at an early stage during product development. The company is integrating the SAP recycling administration with SAP product lifecycle management application.

The initial challenge still lies with its implementation of SAP recycling administration across countries in Europe as the company has standalone IT systems and solutions. Dissemination of data towards packing and towards planning for its recycling is becoming difficult and to consolidate it for the purpose of compliance is an ordeal task. Moving to the second level of integration of SAP recycling Administration with Product lifecycle management application is going to be another biggest challenge, again due to the same reason of country by country approach at Panasonic.

Panasonic's Ecology Net Europe recycling system is still in its infancy. Likewise, many of the WEEE compliance schemes to which they belong across Europe are new, and do not attribute volumes recycled to individual members. Panasonic is working on an internal system to track the levels of WEEE recycled, and intend to publish information on the volumes recycled in Europe once accurate information becomes available.   The data on volume recycled in Europe is required for disbursement of recycling charges and also to address regulatory requirements. As such the company does not hold a comprehensive methodology to generate report without much effort and disseminate the required information.

5.5.2 Why Integration

Costly Regulations Spark Innovation

Governments have tightened mandatory waste management requirements. More and more consumers have pledged to end a “throw away” culture and embrace recycling and re-use. As a result, manufacturers need to manage their products more closely across their lifecycle and changed operational processes to reduce waste. Every manufacturer knows that environmental compliance is a challenge. End-of-life regulations are increasing in number, scope, and complexity. Consequences for non-compliance can be very costly due to regulatory fees. Non-compliance can even cause business interruption by losing the operating license.

For many years, the European Union has led the way in regulating manufacturers’ responsibility and product take-back. For many regulations Waste Electrical and Electronic Equipment (WEEE) this means manufacturers need to collect vast amounts of data across the entire supply chain for regulatory reporting. Companies have to track the quantity of products sold by country, state or region. They must then calculate recycling fees based on sales amounts, market and return shares, weights of included components, material recycling costs, and other factors. Often companies lack the visibility into important details, such as the exact weight that must be considered to produce a correct fee. To be on the safe side, they knowingly over-pay by basing the fee on the product’s gross weight. Not surprisingly, many manufacturers classify waste management as a growing operational expense. Eliminating data hunting and automating regulatory reporting processes with software-based approaches can result in up to 50 % reduction in the amount of resources needed to support the effort, according to SAP data.

Start Waste Reduction with Smart Product Design – Product lifecycle management

An insight into the product components would help companies to lower their recycling cost and also provides better visibility into the entire product life cycle to drive innovation. For example, they can spot areas of “wastefulness” that can be improved such as a non-recyclable material being used in a particular product. From an innovation perspective, this detailed knowledge can provide a baseline for reverse logistics - the processes of recapturing value at the end of life through remanufacturing or refurbishing. Armed with this information, companies can start developing products and business practices that emphasize recycling, reuse and waste management.

New transactional software and business analytics will allow companies to assess what type of materials and packaging can help build a product that produces minimal waste. The ability to incorporate waste management tenants at the earliest stages of product and packaging development has inspired a new generation of innovative products and manufacturing processes. Executing a successful recycling and product end-of-life strategy makes real business sense today. Information technology can play an important role in implementing more sustainable product recycling and reuse strategies. In the process companies cannot only save costs, they can create new business opportunities.

5.6 Green Initiatives

5.6.1 'eco ideas' Declaration in Europe

Panasonic was founded with the philosophy of enriching people's lives all over the world. Enriching includes ensuring that people lead better, greener lives. The company aims at contributing to the environment along with business growth by driving green innovation in all aspects of business practices such as product development firmly rooted in people's everyday lives and production activities.

In September 2010, Panasonic Europe announced it's 'eco ideas' Declaration in Europe, which sets its environmental targets for fiscal 2013.

Panasonic Europe aims to increase the sales of products with eco labels that convey products' environmental performances in a clear manner, and also to increase contributions to reducing CO_2 emissions during product use. The company also accelerates efforts in CO_2 emissions reduction and resource recycling in its business operations, as well as focusing on environmental education for children.

5.6.2 Hosting dialogues with stakeholders

Panasonic Europe actively creates opportunities for management and stakeholders to exchange opinions in order to expand its contribution in building a sustainable society together with the community.

In September 2011 and February 2012, dialogues were held with the themes of Smart Cities in Europe and Sustainable Energy Turnaround, respectively. Active discussions were held among the attendants, including governmental organizations, NGOs, consumer groups, and academic institutes. The company received valuable advice and opinions on the environmental activities, which they will constructively utilize for future activities.

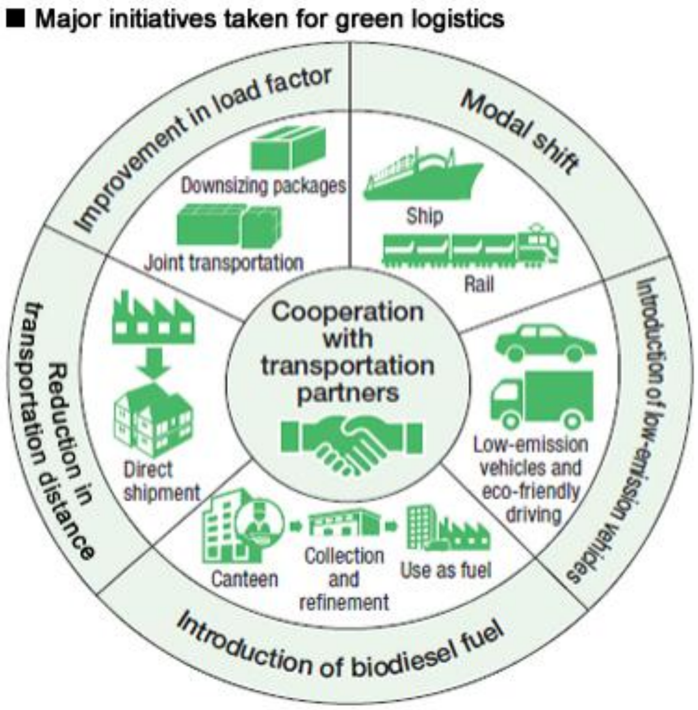
5.6.3 Eco Picture Diary Contests

The Eco Picture Diary Contest is designed to encourage children to submit their picture diaries and report on the various eco activities they have conducted, or their ideas about environmental issues. The contests were held in eight countries across Europe and the selected works were put forward for the Pan-European Picture Diary Contest in July 2011. The best prize was awarded for the diary from Turkey. Following this, the company held the Eco Picture Diary Global Contest award ceremony at the UNESCO headquarters in Paris, France, in February 2012. At this ceremony, Panasonic also reported its progress in the partnership with UNESCO for world heritage preservation and environmental education for the next generation.

5.6.4 Collaboration with NGO for next-generation educational support

Since November 2011, Panasonic Europe has been in partnership with World Vision, an international NGO that supports children, families, and communities on a world-wide scale.

One of the areas in Europe to which World Vision currently directs its support is Armenia. The country is facing environmental destruction that is ruining the country's abundant and beautiful nature. In Armenia, Panasonic is supporting a project that promotes environmental awareness and better waste management. Through providing learning equipment and environmental lessons for children and young people, Panasonic continues to improve the quality of life for the future.



(Source: Company website – www.panasonic.net)

6. Board Of Directors :

Board of Members:

Management Team

Laurent Abadie
Director since 2004
Chairman and Managing Executive Officer
Regional Head for Europe and CIS
Since 2004

A non-Japanese Director serves as Managing Executive Officer of Panasonic Corporation and also Chairman and the Chief Executive Officer of Panasonic Europe Ltd. since April 1, 2009. He served as Director of Corporate Management Division for Europe at Panasonic Europe Ltd. and served as an Executive Officer of Panasonic Corporation (a/k/a Matsushita Electric Industrial Co. Ltd.) and as the Chief Executive Officer and the President of Panasonic France.

Michael Geoffrey Irving
Director
Age 54 yrs
Joined as Company Secretary in Panasonic Europe in 2003 and continued till 2009. He was elevated as Director in 2007.

Mr Kenji Katsuragi
Director since 2012
Age 56 yrs

Kenji Katsuragi is Japanese and was born in 1956. His first directorship was in 2012 with Panasonic Europe Ltd. Japanese Chamber of Commerce and Industry in the United Kingdom is his most recent company where he holds the position of "Chief Finance Officer". Before this, he was on the board of directors at Panasonic Finance (Europe) Plc. Kenji has held a total of 3 directorships so far.

Mr Junichi Suzuki
Director since 2011
Age 49 yrs

He undertook his first directorship role at "Panasonic Europe Ltd.".

Thomas Lammel
Director since 2008
Age 48 yrs

Chief Human Resource Officer
Thomas Lammel is German and was born in 1964. His first directorship was in 2008 with Panasonic Europe Ltd.

7. References:

Europe Consumer Electronics Market, Market Line Report, 2012

Global Consumer Electronics Market, MarketLine Report, 2012

Panasonic Corporate Website, www.panasonic.net

Turning Trash into Cash: How Companies Can Save Money with Smart Recycling by Jennifer Scholze - (http://www.sustainablebrands.com/news_and_views/feb2012/turning-trash-cash-how-companies-can-save-money-smart-recycling)

SAP Customer Success Story – Panasonic Europe from the website – www.sap.com

Annual Report 2011 of Panasonic Corporation and Panasonic Europe Limited, 2010.

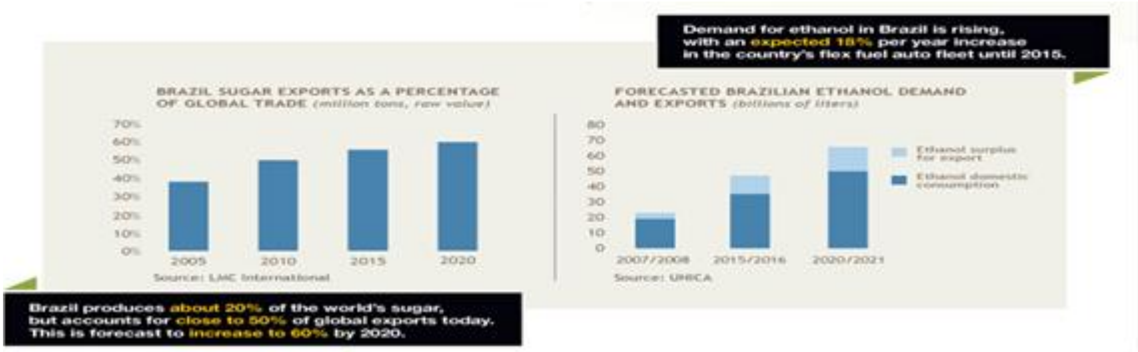
Annexure 6: Bunge London Limited

Table of Contents

1. Bunge London Limited

Sugar and Bioenergy is the newest division of Bunge and the goal of the company is to be a world leader, with facilities in key regions producing sugar, renewable fuels and electricity and a merchandising and trading business, serving customers around the world.

Figure 41



(Source: Bunge Limited, Annual Report, 2011)

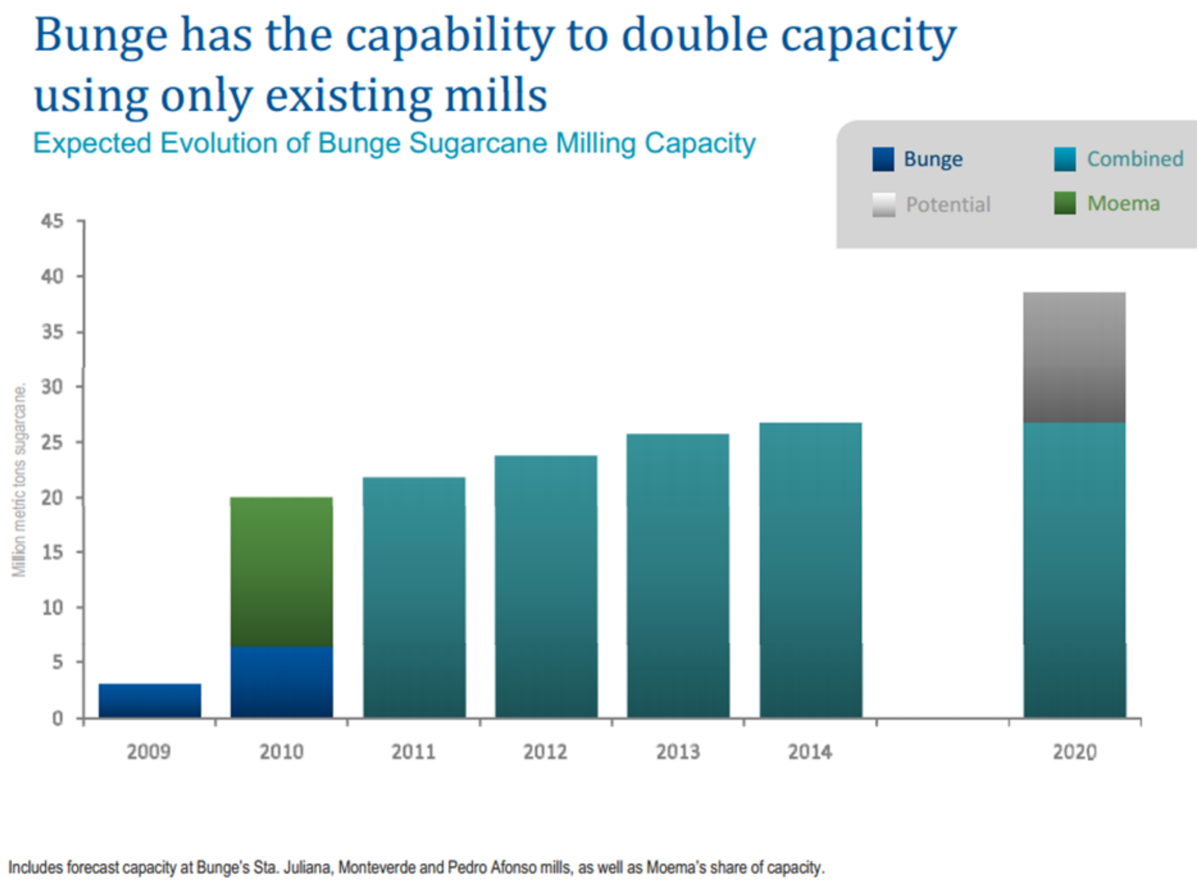
Figure 42

The Business Model for Sugar and Bioenergy – how they built up this line of business:

(Source: Media report on Sugar & Bioenergy – Sept 23, 2010)

The company began its trading and merchandising sugar in 2006. Originally the company had established a sugar trading and marketing operations by purchasing a sugar mill in Brazil and the acquisition of international sugar trading and marketing division of Tate and Lyle strengthened its global presence and led to the formation of Bunge London Limited in 2008, headquartered in UK. The acquisition strengthened the company's position in the sugar value chain by expanding its international trading activities and creating a strong network for sugar origination in Brazil and Thailand.

Figure 43



(Source: Media report on Sugar & Bioenergy – Sept 23, 2010)

Bunge London Limited being a trading and merchandising company of Bunge Limited, a short write up of the Bunge Limited is as under:

2. Bunge Limited

It is a limited liability company under the laws of Bermuda. The company is a leading agribusiness and food company with integrated operations that circle the globe, stretching from the farm field to the retail shelf. The company is dedicated to improving the agribusiness and food production chain since 1818, and was formed in Amsterdam, the Netherlands. This is the holding company and conducts all its business operations through its subsidiaries.

Milestones:

1859 relocated to Belgium, became the one of the World's largest commodity trader

1905 Established them in Argentina, where they traded in Grains. Expanded to Brazil, by entering wheat milling

1918 In its 100th year, began trading in Commodities in North America, the world's largest agricultural market

1935 became originator of grain in North America

1938 enters into Brazilian fertiliser market

1945 first export shipment of Brazilian soybeans

1946 established asset network to fuel its growth in United States

1979 Became world largest corn dry miller

1997 Expansion to South America

1999 moved its headquarters to While Plains, New York

2000 Entry to China

2001 Company became listed in NYSE

2003 sets its steps to growing market

2004 New port in Turkey and expands its operations to Russia, Poland and Ukraine

2009 begins construction of export terminal in the US Pacific Northwest.

2.1 Business Focus

The core business focus for the Bunge Group –

- originating oilseeds and grains from the world's primary growing regions and transporting them to customers worldwide;
- crushing oilseeds to make meal for the livestock industry and oil for the food processing, food service and biofuel industries;
- producing bottled oils, mayonnaise, margarines and other food products for consumers;
- crushing sugarcane to make sugar, ethanol and electricity;

➢ milling wheat and corn for food processors, bakeries, brewers and other commercial customers; and

➢ Selling fertilizer to farmers.

2.2 Business segments

Bunge operates in four business segments: agribusiness, sugar & bioenergy, food & ingredients and fertilizer.

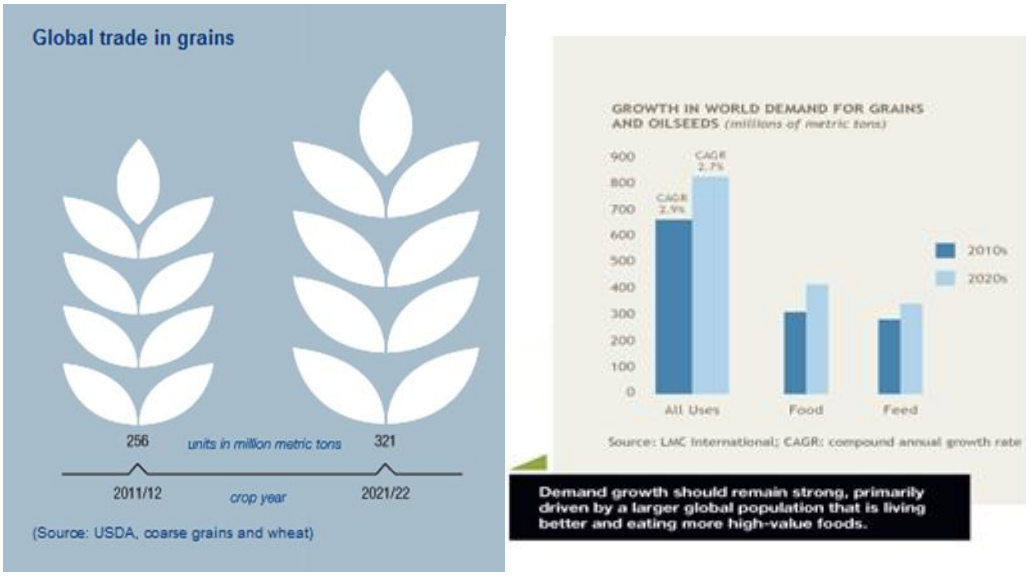
Figure 44

(Source: Bunge Limited, Annual Report, 2011)

2.2.1 Agribusiness:

The world is the market for them, comprising of seven billion people and more. They operate a global network of facilities, including grain elevators, oilseed processing plants and port terminals that are located in the world's largest agricultural production regions, in areas of fast-growing food consumption and close to major transportation systems. These industrial facilities are complemented by marketing and trading offices, as well as joint venture operations, on six continents.

Figure 45



(Source: Bunge Limited, Annual Report, 2011)

2.2.2 Sugar and Bioenergy

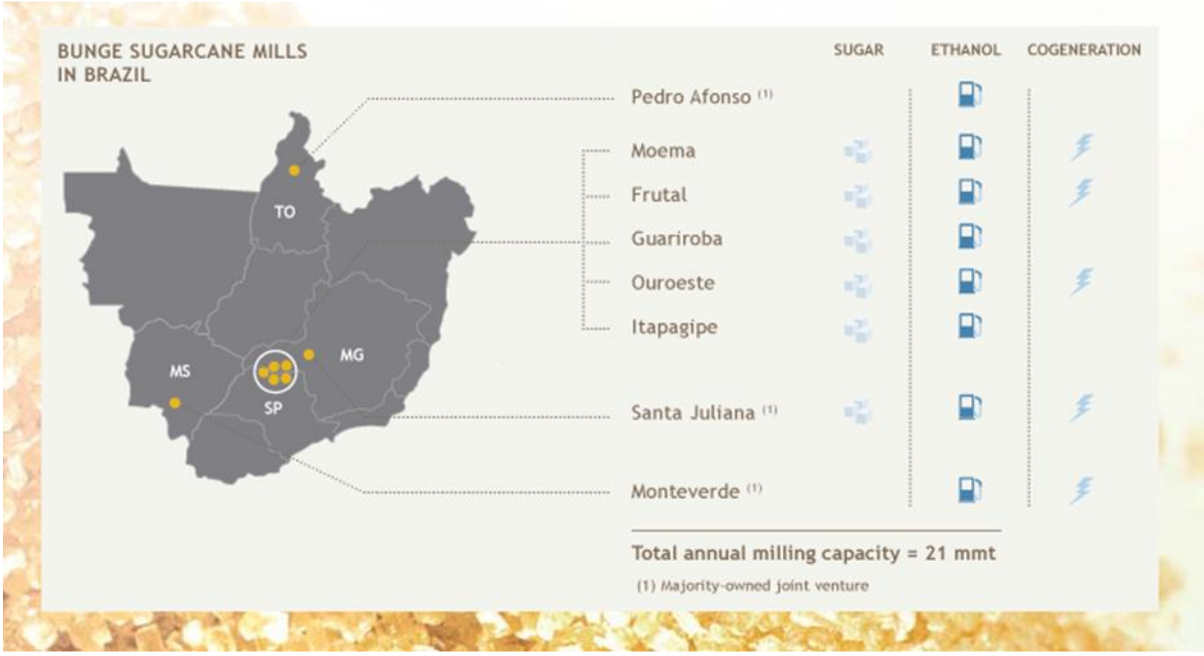
Bunge entered the global sugar market as a trader in 2006, and has since built a strong position as a producer and marketer of sugar and ethanol. Acquisition of Moema, a group of five sugarcane mills clustered on the border between São Paulo and Minas Gerais states in Brazil in 2010 took the total to eight mills in Brazil with 21 million metric tons of crushing capacity and the ability to produce a mix of sugar, ethanol and electricity through cogeneration and selling to the Brazilian power grid. The mills are located close to main domestic markets in Brazil and have access to export logistics systems, positioning to capture increasing demand in Brazil and beyond.

Three Bunge sugarcane mills in Brazil are certified by Bonsucro®, a multi-stakeholder organization focused on the social, environmental and economic sustainability of sugarcane production. Certified mills must comply with stricter norms, including ILO labour conventions and other metrics. Bunge is working to have all its sugarcane mills in Brazil certified.

Headquartered in London, Bunge's sugar trading and marketing arm sources sugar and ethanol through the origination network in Brazil, Thailand and other geographies and markets it to customers around the world.

Bunge also produces oilseed-based biodiesel at joint venture facilities in the Americas and Europe, and has investments in a small number of corn ethanol plants in the United States.

Figure 46



(Source: Bunge Limited, Annual Report, 2011)

2.2.3 Food and ingredients

Food & Ingredients is comprised of two businesses - edible oils and milling - with operations in North and South America, Europe and Asia.

The edible oils business produces specialty oils and fats, margarines, mayonnaise, shortenings and whipped toppings for sale in foodservice, food processor and retail markets.

The milling business creates milled wheat, corn and rice products for food processors, bakeries, brewers, snack food producers and other customers.

Integration is very important to its food products business. By sourcing oilseeds and grains from its agribusiness unit, and by utilizing the same logistics systems, Bunge improves efficiency.

So is innovation. At R&D centers in the Americas, Europe and India, their research and development teams work to harness further nutritional value from oilseeds and grains. In recent years they have developed a portfolio of innovative products, include low trans fat and fortified oils that improve nutrition and create foods that satisfy changing consumer tastes.

2.2.4 Fertiliser

Fertilizer is a strategic part of Bunge's business, with strong commercial and logistics linkages to its agribusiness operations.

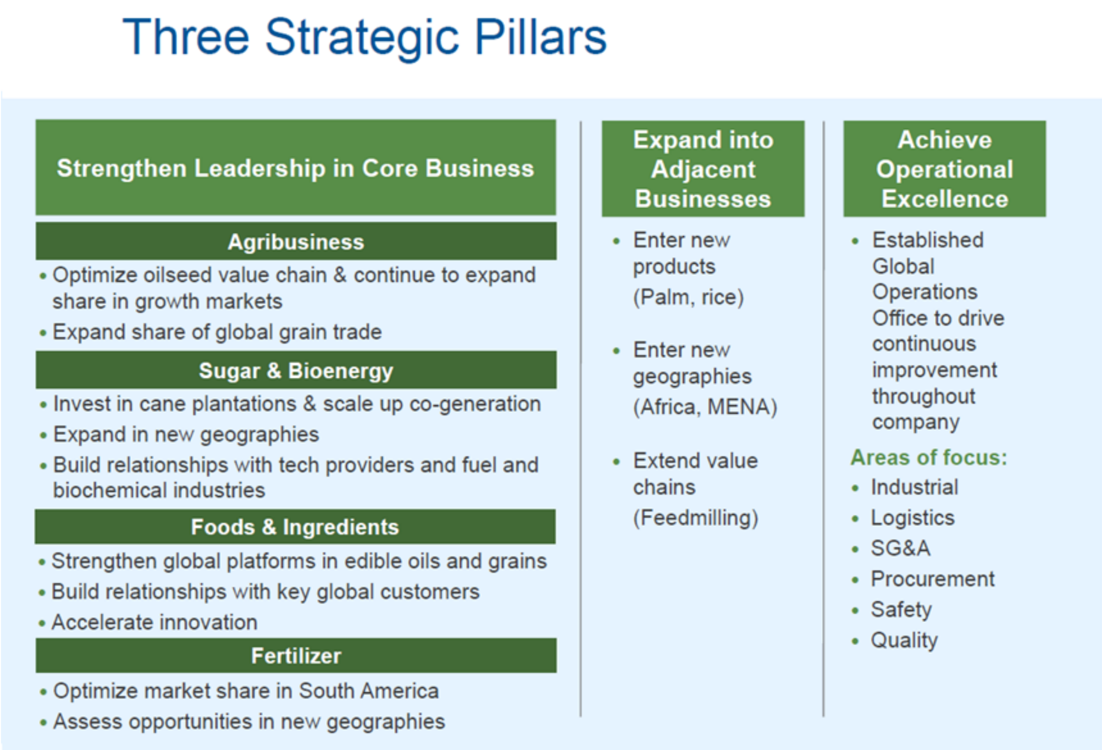
Bunge sells blended NPK (nitrogen, phosphate and potassium) fertilizer formulas, mixed nutrients and liquid fertilizer products to farmers and distributors in North and South America.

In Brazil, the company operates blending and distribution facilities, as well as a port terminal. In Argentina, they have phosphate and nitrogen production, as well as blending and distribution operations. In the U.S., they are developing a wholesale business that leverages established agribusiness network and logistics expertise.

In Morocco, one of the world's largest suppliers of phosphates, the company participates in a joint venture that produces intermediate phosphate products for export to South America.

2.3 Company Strategy

Figure 47

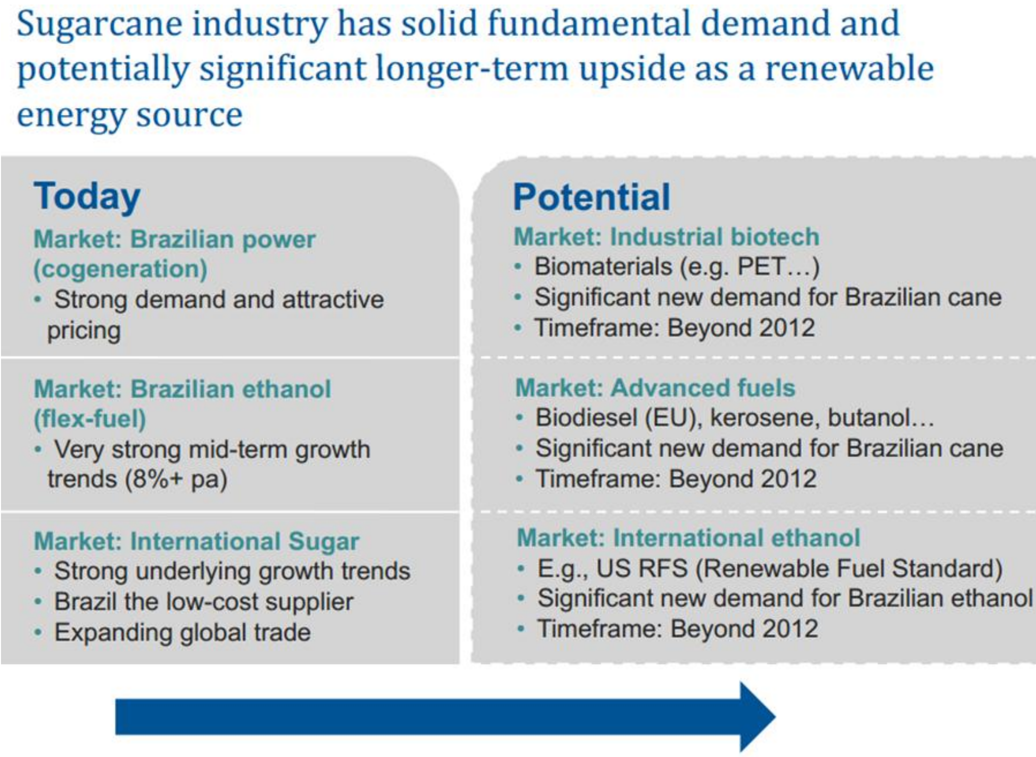


(Source: Bunge Limited, Annual Report, 2011)

Strategic Objectives

- Build top 3 position in Brazilian cane milling industry
- Build top 3 position in global sugar and ethanol trading & merchandising
- Develop integrated global value chain supported by selected upstream and downstream investments outside Brazil
- Build global relationships with technology providers and fuel/chemical industry

Figure 48



Business model for the future: (as per Bunge)

Figure 49

(Sugar and Bio-energy presentation of Bunge for Investors Day, 2011)

2.4 Outlook for 2012

Agribusiness

Grain merchandising

• Strong farm economics should lead to increased planting

• Large crops and increased trade should provide good volume growth

• Contribution from new port assets

Oilseed processing

• Expect continued strong performances in European sun seed and Canadian canola processing

• U.S. soybean and European rapeseed processing challenged until new crop harvest in 2H of year

• South America should improve as harvest picks up

• China soybean processing supported by strong demand, but expects volatility

Sugar & Bioenergy

• Expect to see significant improvement

• Expect cane crush of 17 to 19 mmt, which is up significantly from 2011

•Results to be weighted to 2H due to seasonality of cane harvest

Food & Ingredients

• Expect continued steady performance in edible oils and milling

• New investments should provide growth

Fertilizer

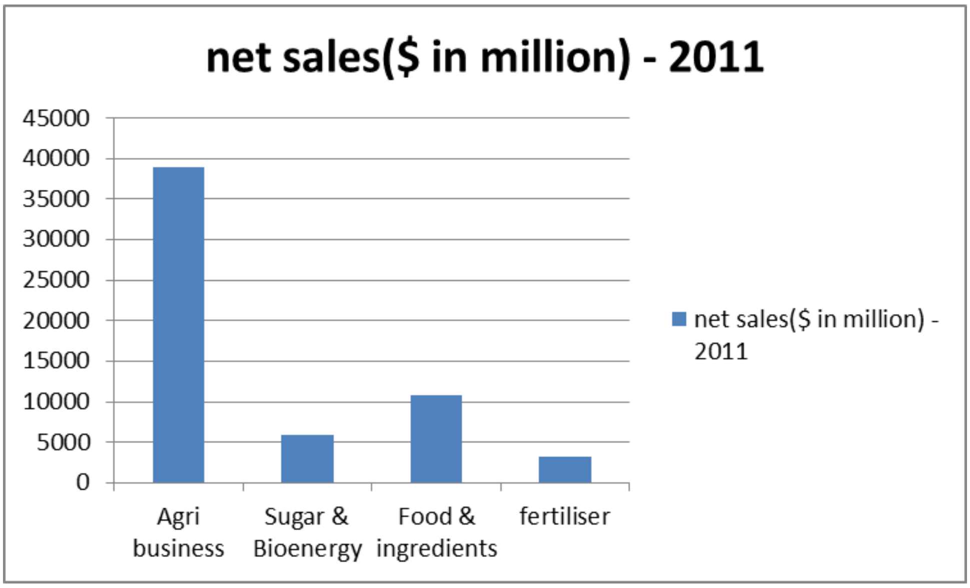
• Current conditions challenging, but good farm economics should support demand over course of the year

• Expect significant improvement in results that are 2H weighted

• Higher volume and additional cost reductions

Financial Performance of the company – by segment

Figure 50



(Source: Bunge Limited, Annual Report, 2011)

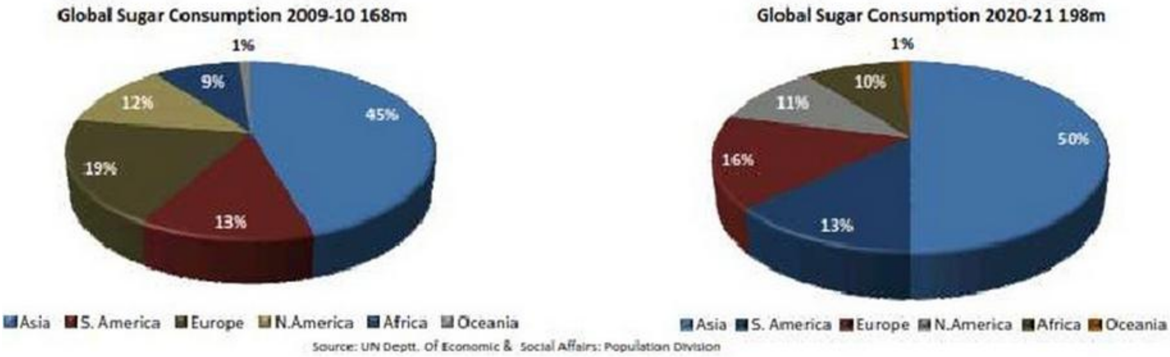
Since Bunge London Limited is a trading and merchandising company for sugar, industry analysis for sugar industry is as follows:

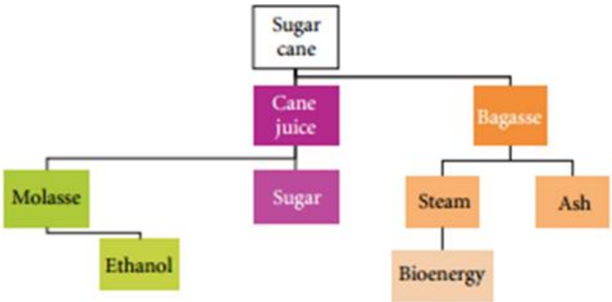
3. Industry Analysis for Sugar Industry

Sugar crop in many parts of the world are projected to expand in response to rising demand for sugar and other uses and relatively high market prices. The world sugar production is expected to increase by 50 MT to reach over 209 MT in 2020-21 and the demand would remain in the range *(Food and Agriculture Organisation of United Nations FAOSTAT)*

The future is also compelling in sugar and bioenergy. Global demand for sugar is rising at 2–3% per year and Brazil plays a key role. The country produces 20% of the world's sugar today, but accounts for 50% of global exports—a figure that's expected to increase to 60% by 2020 *(Annual report of Bunge Limited).* Brazil is closely followed by India and Thailand.

Figure 51





Source: Chemistry Based on Renewable Raw Materials: Perspectives for a Sugar Cane-Based Biorefinery, Murillo Villela Filho et al. Enzyme Research, Volume 2011, Article ID654596

Ethanol is produced from sugar and sugar by-products with Brazil as the world leader i.e., sugarcane is the feedstock. Ethanol use and trade are also growing, as countries emphasize renewable transport fuels. In fact, countries that represents approximately 80% of the global consumption of transport fuels have or are implementing ethanol blending targets. Brazil is unique in that it also represents an exciting domestic market. Ethanol demand growth in the country is projected at 8%, and demand for electricity, which can be produced through cogeneration at sugarcane mills, is expected to increase almost 70% by 2020 *(Annual report of Bunge Limited).*

Figure 52

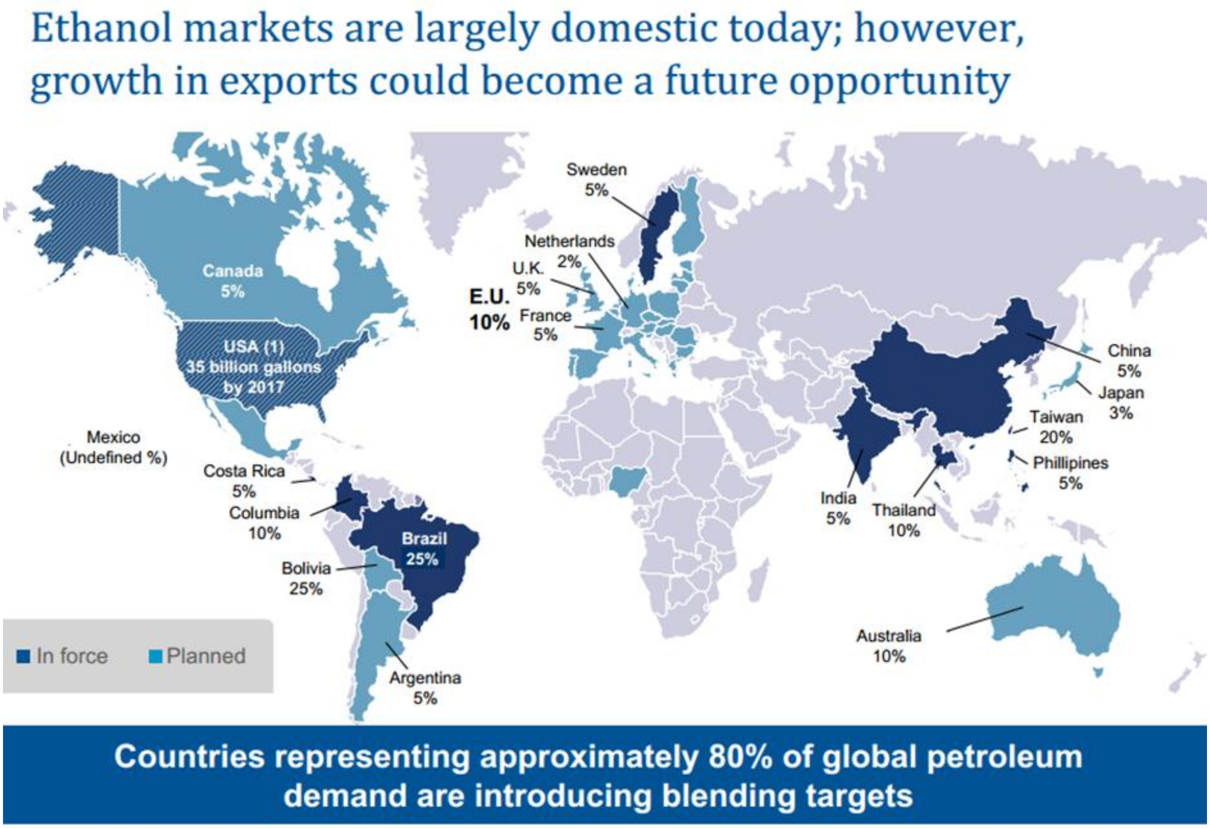
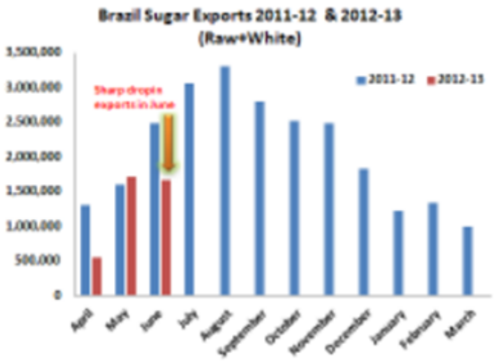


Figure 53

Global Sugar Balance sheet (figs in mn tn)			
	2010-11	2011-12	2012-13*
Production	165.68	173	176.1
Consumption	162.61	167.8	170.6
Gap	3.07	5.2	5.5
Surplus	3.07	5.2	5.5
Import	51.59	49.15	-
Exports	51.81	53.27	-
End Stocks	57.01	57.57	54
Stock to use Ratio	34.59%	34.30%	31.70%
Source: Reuters and ISO			

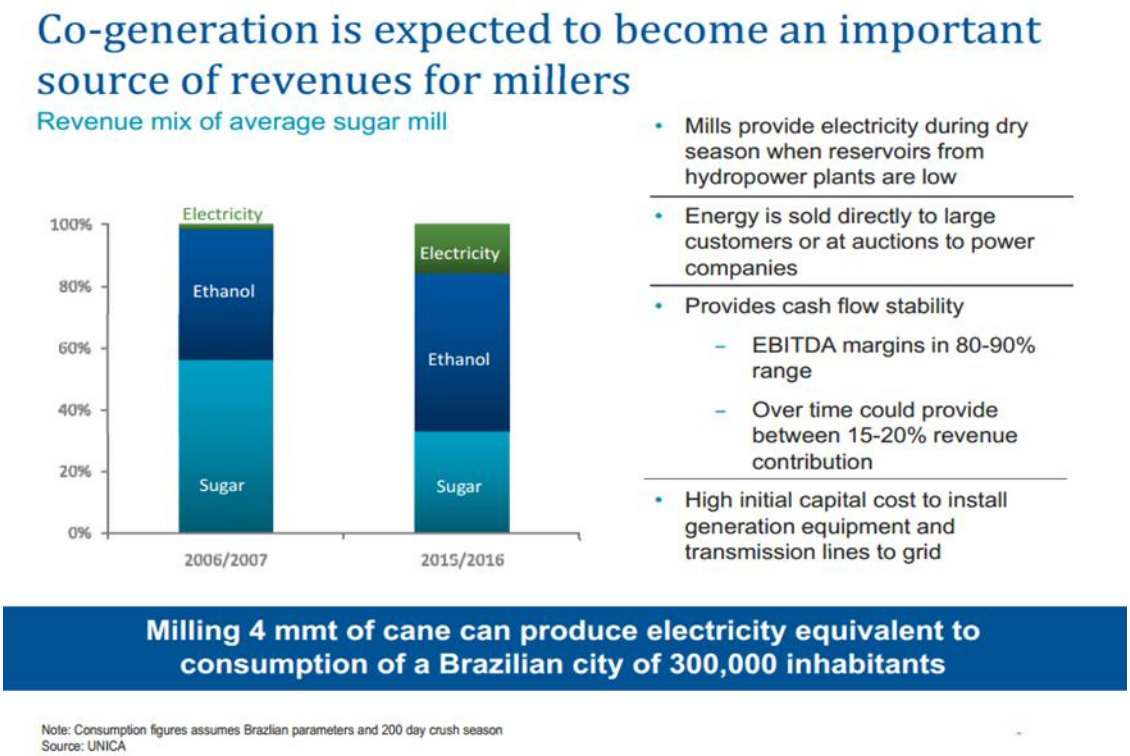


Source: Angel Commodities Sugar Special Report July 11, 2012.

3.1 Co-generation of power

Bagasse based cogeneration for exportable power is an emerging trend in the sugar industry. Bagasse generated by a sugar mill enables the mill to export power after meeting its captive power and steam requirements. The realization from the exportable power is dependent on the long term power purchase agreements with government and power companies. Cogeneration also has proven revenue potential in Clean Development Mechanism (CDM) based carbon credits.

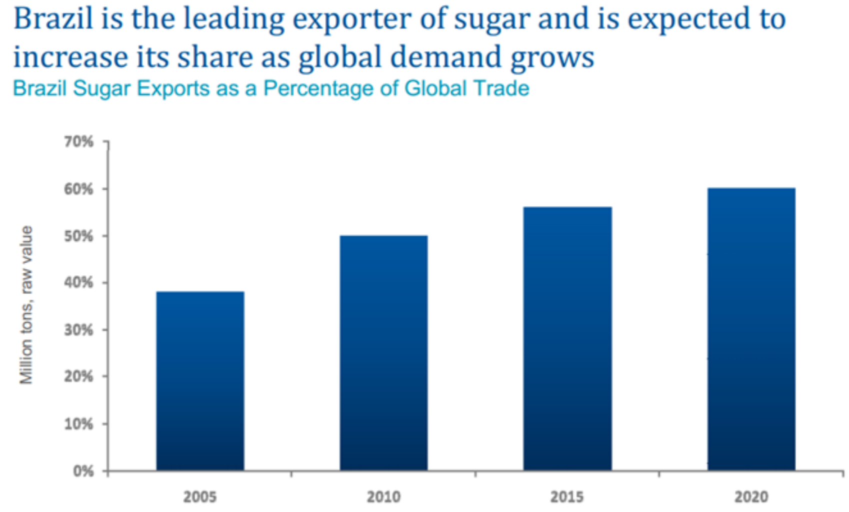
Figure 54



3.2 Brazil

As of August 1st, 2012 there are 413 mills and around 70,000 sugarcane growers and the industry provide direct employment to 1.18 million and the sectoral annual revenue is US$ 28 billion, Brazil ranks first in the world sugar production and accounts for 50% of world exports and ranks second in the ethanol production and accounts for 20% of world exports *(Source: Unica.com – overview and outlook – Brazilian Sugarcane Industry, dated 1st August 2012)*. Brazil's sugar production is one of the lowest cost producers with considerable capacity to expand on a large scale and also production of ethanol.

Figure 55



Brazil produces about 20% of world's sugar, but accounts for close to 50% of exports today. This is forecast to increase to 60% by 2020.

Source: LMC International

Demand for ethanol in Brazil is rising, with an expected 18% per year increase in the country's flex fuel auto fleet until 2015. Flex fuel vehicles are those that run on gasoline, or a combination of gasoline and ethanol, and have proliferated in Brazil since they were introduced in 2003. Today, nine out of 10 vehicles sold in the country are flex fuel.

Although ISO's quarterly update, point towards a third consecutive year of surplus sugar in 2012-13 season, it would be very early to predict so because, both Brazil and India, the major players are facing stiff challenge on account of unfavourable weather conditions. In Brazil, harvesting of cane has commenced in the month of May, however, supplies are disrupted as persistent rains in the Centre south Brazil, the largest cane growing region, has delayed crushing. According to Unica, Brazilian millers produced 4.89 million tons of sugar till 15th June 2012; down by 28% compared to last year same period. Continuous rainfall in major cane belt put hurdles in cane harvesting process. In addition to it, continuous rainfall reduces the sugar content from cane. Heavy rains have also caused backlog in the main Brazilian ports and thus affected exports. The exports from Brazil declined sharply in the month of June on account of heavy rains that not only disrupted harvesting but also affected exports from Brazil.

Although, the Brazilian sugar industry has forecasted sugarcane and sugar production higher initially, however, the same may be revised downward considering the yield factor. Apart from Brazil and India, Thailand is also a player and is the second largest exporter of Sugar after Brazil.

3.3 India

India is the second largest sugar producing country next to Brazil. The sector supports 50 million farmers and their families and remains the key growth driver for world sugar, growing above the average Asian and world consumption growth average.

The Indian Sugar Mills Association (ISMA) has estimated sugar production in the on-going 2011-12 season at 26 million tonnes (mn tn), out of which 25.7 mn tn have already been produced. Thus, considering the domestic and export consumption, India sugar markets would have 5 million tonnes carryover stocks for the next season as shown in the adjacent table. However, the fact of higher Sugar stocks has already been discounted and markets have now started eyeing the fundamentals of the next season to derive the further price trend.

Sugar output to decline in 2012-13 season despite 5% increase in Cane acreage With a significant hike in the Sugarcane prices in 2011-12 season, farmers have planted sugarcane in 52.8 lakh hectares so far in the current season, up by 5% compared to previous year and by 12% compared with the average area of last five years. However, despite of higher area under cultivation, output is expected to decline next year on the back of unfavourable weather conditions in the second largest cane production state, Maharashtra. Thus, Indian Sugar Mills Association (ISMA) lowered its all India sugar production estimate for 2012-13 by 3.8% to 25 million tonnes (mntn) on account estimated 16% drop in sugar output in Maharashtra. Out of the total, 7.8 mntn is expected from UP, 7.6 mntn from Maharashtra, 3 mntn from Karnataka, 2.5 mntn by Tamil Nadu and 1 mntn each by Gujarat and AP. 29% below average rains in the month of June have further raised concerns over sugarcane yield and thereby output of 2012-13 Cane crop in India. In 2011-12, sugarcane yield averaged around 69 tonnes per hectare which may decline this year due to unfavourable weather conditions.

3.3.1 Current crop condition and impact of monsoon

In case of Sugarcane, autumn planting is generally done in October in the northern parts of the country, especially UP and harvested after 12 months. In Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka cane planting is done in December-February. These crops are currently under the grand growth Phase (120-270 days) in a 12-month crop, wherein the actual cane formation and elongation, and thus yield build up takes place. During this period good rainfall encourages rapid cane growth, cane elongation and internode formation. But during ripening period (270-360 days) high rainfall is not desirable because it leads to poor juice quality, encourages vegetative growth, formation of water shoots and increase in the tissue moisture. It also hampers harvesting, lowers yield and affects transportation.

Although IMD has forecasted southwest monsoon to be normal in the month July, the actual rains till the first week were below average. Thus, monsoon progress over the key growing area in the month of July and August would be crucial for the growth of cane crop. Apart from this, the timely withdrawal of monsoon is also important as heavy rains towards the vegetative stage may hamper the yield.

3.4 Thailand

Thailand plays a unique role in Asia as this is the only consistent producer of large scale surplus and with a natural advantage to service large sugar deficit in that region. Thailand has revised its forecast for 2012/13 sugar production to 10 million tonnes compared with 2011-12 record production of 10.4 mntn. Thailand may export record 7.8 mntn sugar in 2012-13 compared with 6.7 mntn in 2011-12 season. Thus, shortfall from Brazil, to some extent, may be met by Thailand. However, further negative development on output front in India or Brazil may lead to supply concerns in the medium to long term *(Source: Angel Commodities Sugar Special Report July 11, 2012).*

Africa, which is characterized by compelling growth in population and income, and has important agricultural potential. Gross Domestic Product (GDP) in sub-Saharan Africa is forecast to grow at 5.6% per year until 2016, and the region is estimated to have 60% of the world's uncultivated arable land. In addition to unpredictable weather conditions in recent years, South African sugarcane growers have faced decreased profit margins, uncertainty over land reform, urbanization, high crime levels and infrastructure constraints. These factors have led to a reduction in area planted to sugarcane since the 1990's. Africa is dependent on import of sugar due to decline in production and is expected to be in the region of 12% of its local production and expected to stabilise with favourable growing conditions during the coming years. Its major import is from Brazil *(USDA gain: South Africa Sugar Annual 2012).*

Asia is a key consumption market for many of the commodities and one that will account for a vast percentage of total global growth over the coming decades and its demand for sugar is expected to be around 50% and China will be the biggest importer of sugar in 2020 (Annual Report of Bunge Limited). Indonesia is the next largest importer of sugar, and about 35% of its import for refined sugar comes from Thailand due to freight advantage, but the raw sugar to the tune of about 42% is imported from Brazil *(USDA gain: Indonesia Sugar Annual 2012)*.

4. Challenges for the Industry:

4.1 Brazil:

High Investment cost and uncertainty in government's intervention

Despite robust demand outlook for sugar and ethanol, and high commodity prices only few new mills are expected to be commissioned according to Rabobank report. According to the report, this is due to factors discouraging investments including high cost, tighter credit environment post 2008, and uncertainty caused by the Brazilian government's determination to increase intervention in the ethanol market. Owing to its favourable agro-climate and extensive untapped agricultural land resources, the world has long looked to Brazil to provide a large share of the expansion of global sugar and ethanol production. In recent years, the Brazilian cane industry has certainly lived up to, if not exceeded, such expectations. The extent to which new capacity for sugar and ethanol production is added to the Brazilian cane industry in the coming years is a pivotal issue, not just for all players involved with the industry, but also for the entire global sugar and ethanol economies. The world has grown accustomed to Brazil's on-going expansion of cane production *(Brazil sugar industry prospects Challenging, but sweet – www.commodityonline.com dated 13 July 2011)* we need to wait and watch the implications.

Currency exchange rate and increased cost of production

Brazil from being the lowest cost producer is suffering from stronger currency, inefficient infrastructure, and rising labour and overhead costs leading sugar producers look for moving production to new markets. While Brazil remains the dominant producer and exporter of sugar because of its abundance of sunshine, water and land suitable for cane production, the advantages of its once vaunted low cost base have been eroding *(Brazil sugar production costs rise – Financial Times article on May 15, 2012).* The port facilities in Brazil need improvement, so that the short term disturbance caused by waiting boats could be reduced, as far as the supply side is concerned.

Uncertainty in crude price

When the crude price increases, there is an upward shift to produce ethanol than sugar. This shift causes shortage of sugar and affects the balance between ethanol and sugar production and immediately affects the international sugar prices *(http://www.just-drinks.com/comment/comment-is-brazils-sugar-industry-facing-challenging-future_id104432.aspx accessed on 22.8.2012 - is Brazil sugar industry facing challenging future by Michelle Russell, 20th July 2011).*

4.2 India

Irrational cane pricing

About 50% of the sugarcane production is governed by State Advised price and the price is driven by politics. Sustained sugar production and avoidance of the infamous sugar cycle is possible only if remunerative cane price is paid on time. Market forces should be allowed to determine price and requirement of sugar, like all other commodities/ products in the country.

Inconsistent Government Policy

Government policy changes on domestic sales and exports of sugar make commercial planning very difficult. Mills are obliged to supply 10% of their production as levy sugar at a highly discounted price and the yearly loss to the mills is estimated to be around Rs. 2500-3000 crores and the mills are unable to bear the financial burden (ISMA Report dated 16.1.2012).

Ethanol – the on-going negotiations

The industry is expecting linking of ethanol price with domestic petrol price. The blending of ethanol as by per Chaudhuri Committee report would encourage more ethanol supplies and huge savings to government and if they declare ethanol as "declared goods" to ease inter-state movement.

4.3 Emerging Trends for Sugar Industry

- Shifting of production to new markets
- Growing global demand for renewable fuel and the demand for ethanol and stable ethanol blending programme
- Diversification of geographic presence through strategic acquisitions and expansion into emerging economies
- Rising population and food security
- Government reforms/ investments
- Dynamic and interdependent markets

5. Competitors Analysis

5.1 Cargill, Incorporated

Established in 1865 it is an international producer and marketer of food, agricultural and financial and industrial products and services. It is a privately held company employing 140,000 employees and operating in 65 countries. The company is passionate about its goal to be a global leader in nourishing people and operating responsibly across the agricultural, food, industrial and financial markets it serve. In 1950s the company emerged as a major international merchandiser and processor of agricultural and other commodities. In 1975s the company diversified its line of business to new operations in beef, pork and poultry processing, steel making, citrus processing, petroleum trading and merchandising, international metals, fibres and tropical commodities trading, and fertilizer production. In 2011, Cargill was named “one of the 10 most innovative companies in food” by Fast Company Magazine.

Products and services:

Agriculture: Buy, process and distribute grain, oilseeds and other commodities to makers of food and animal nutrition products. They also provide crop and livestock producers with products and services.

Food: Provide food and beverage manufacturers, foodservice companies and retailers with high-quality ingredients, meat and poultry products, and health-promoting ingredients and ingredient systems.

Industrial: Cargill serves industrial users of energy, salt, starch and steel products. They also develop and market sustainable products made from agricultural feedstocks.

Financial: Provide agricultural, food, financial and energy customers around the world with risk management and financial solutions.

Five Year Financial Summary

Dollars in Millions	2012	2011	2010	2009	2008
Sales & other revenues	$133,859	$119,469	$101,308	$105,138	$109,664
Net earnings	1,175	2,693	2,068	1,822	2,604
Current assets	40,440	51,637	34,978	35,902	44,918
Net property & other asse	22,142	20,657	25,869	27,003	29,394
Total assets	62,582	72,294	60,847	62,905	74,312
Current liabilities	21,879	30,223	17,527	20,176	31,818
Total stockholders' equity	26,411	27,197	26,585	24,976	23,137

(Source: Company’s annual report)

5.2 Unilever

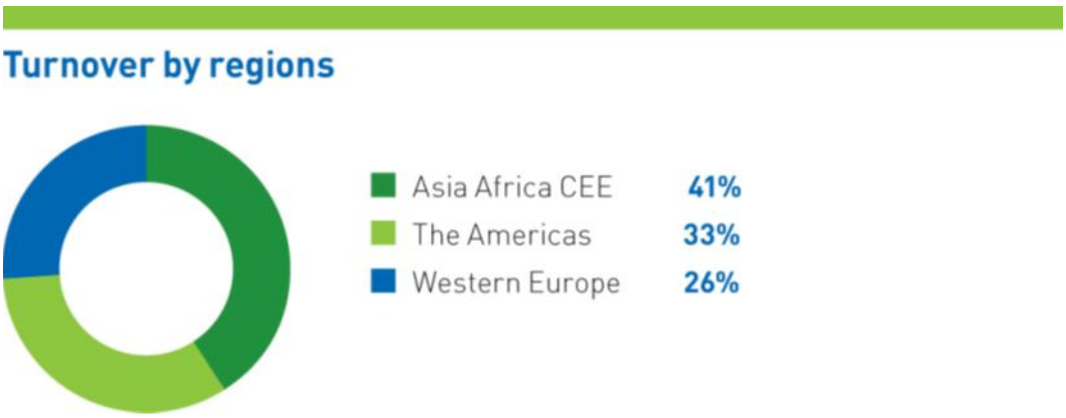
The company was established in 1890s, the portfolio of the company ranges from nutritionally balanced foods to indulgent ice creams, affordable soaps, luxurious shampoos and everyday household care products. Unilever has more than 400 brands, 12 of which generate sales in excess of €1 billion a year. Many of these brands have long-standing, strong social missions, including Lifebuoy’s drive to promote hygiene through hand washing with soap, and Dove’s campaign for real beauty. The company employs more than 171,000 people and has more than 50 years' experience of working in Brazil, China, India and Indonesia.

The vision of the company is to double its size and also simultaneously reduce environmental footprint i.e., the growth ambition is dependent on operating sustainably. These two aspects of the vision shape and form the business model. The aim of the company is to deliver growth and more specifically a new sustainable and equitable form of growth. Sustainable growth indicates that it is consistent, it is competitive, it is profitable and also meets major social and environmental needs.

Financial Performance Highlights

Consolidated income statement	2011	2010	% change
Turnover (€ million)	46,467	44,262	5%
Operating profit (€ million)	6,433	6,339	1%
Profit before tax (€ million)	6,245	6,132	2%
Net profit (€ million)	4,623	4,598	1%
Diluted earnings per share (€)	1.46	1.46	0%

Key performance indicators	2011	2010	2009
Underlying sales growth (%)	6.5	4.1	3.5
Underlying volume growth (%)	1.6	5.8	2.3
Underlying operating margin (%)	14.9	15	14.8
Free cash flow (€ million)	3,075	3,365	4,072



(Source : Annual Report, 2011 Unilever)

6. Challenges for the company

- Value chain is complex and sophisticated, risk management is essential
- Technology may cause additional inflexion points and players need to be positioned to adapt and leverage new opportunities.
- Working capital funding

6.1 Value chain is complex and sophisticated, risk management is essential

The company's core value downstream has been built in a regionally specialised manner considering market dynamics and attractiveness. Asian customers are connected by the supply chain that starts at their country's elevators in North and South America. The opening of grain terminal facility at Pacific Northwest will further enhance its ability to connect itself to Asian Customers.

Bunge has tied up with Triple Point Technology, for software solution for supply, trading, marketing and movement of commodities for its oil and gas division. According to the applications development manager of Bunge Global Markets, a division of Bunge Limited Triple Point Commodity XL, a trading and risk management solution could be deployed quickly and has the capability of scalability in the future *(This is a media report on Dec.18, 2006 at www.tpt.com).*

As regards sugar, the company aims to use the origination network at Brazil, Thailand and other geographies and market it globally. The origin locations and end locations for export of sugar are emerging economies and do face the challenge of infrastructure. At the origin, the location of mills close to the farm is essential as it helps to prevent degradation of sucrose content i.e., the aim is to reduce time and distance between the harvesting of cane and its delivery to the mills for processing. For movement of goods both at the origin and the end the company has developed an extensive logistics network to transport the products, including trucks, railcars, river barges and ocean freight vessels. Typically, the company either lease the transportation assets or contract with third parties for these services. To better serve the customer base and develop global distribution and logistics capabilities, they own or operate various port logistics and storage facilities globally, including in Brazil, Argentina, Russia, Ukraine, Vietnam, Poland, Canada and the United States. In 2011, it acquired a grain export terminal in Nikolaev, Ukraine, and completed construction of EGT, LLC joint venture grain terminal at the Port of Longview, Washington, United States. Also at the end locations, they have set up an establishment to meet the demand of the consumers.

Presently the company is in the process of developing infrastructure for each of the geographies and locations to be able to serve the location better, which involves a huge amount on capex including the port facility at Brazil, Pacific Northwest and Ukraine and storage facilities globally but all these has to get integrated across their divisions. At present they are using Triple Point only for one division i.e., oil seed processing, the company is concentrating in developing infrastructure along their supply chain. Since all their efforts are in early stage, we see an opportunity for TCS to get involved with Bunge for developing their supply chain.

7. Suppliers Outsourcing Strategy:

Nothing significant was found, including tie ups with TATA group.

8. Green Initiatives

Bunge Limited is an integrated field to table operations player. Their strategic and sustainability plans are around promoting social development of the region in which it operates. Bunge plans to strengthen its presence in the market and concentrate its efforts on strategic questions within the sustainability policy, such as the relationship with over 60,000 rural producers. The company, whose policy is to promote the social development of the regions in which it operates and encourage agricultural production with due respect for the environment and workers' rights, is leader in the acquisition and sales of grains within the country, in soybean and wheat processing, and in the manufacture of edible oils.

8.1 Awards / Recognition:

2011 : Named among the top 20 model companies in the Guia Exame de Sustentabilidade (Exame Magazine Sustainability Guide),

2011 : Bunge was classified as one of the ten Leaders among Climate Policy companies by Época Magazine Climate Change Prize – awarded by Epoca magazine in partnership with Price Waterhouse Coopers

2010 : World Packaging Organization, a global industry organization that presents the WorldStar Sustainable Packaging Award awarded two awards in 2010

1. WordStar in the Food category
2. The gold WorldStar Sustainability Award

The standout feature for Bunge has been the packaging of Cyclus Margarine. This is made with resin from corn fermentation which decomposes in 180 days, it comes from renewable sources and is 100% biodegradable.

8.2 Initiatives:

8.2.1 Community Involvement :

Bunge Brasil is developing two projects in the fertilizer terminal in Rio Grande – construction of a warehouse with a capacity to store 120,000 tonnes of fertilizer (investment: $29 mn) and a port ($90 mn). The environmental and social initiatives around this involve planting of native vegetation and environmental awareness projects in the neighbouring communities in addition to creation of direct to indirect jobs. In order to train farm workers, Bunge also entered a partnership with Embrapa, the Environmental Institute of Paraná and the rural areas.

8.2.2 Renewable Energy

Bunge plans to use renewable resources for their energy needs and reach 100% self-sufficiency by 2012. Bunge mainly relies on energy from bio mass planted forest firewood, wood waste, sugarcane pulp and other agricultural by-products for meeting their energy needs.

8.2.3 Water Consumption

The goals for reduction in water consumption are as below

Reduction in water consumption in m^3/ton produced	1%
GHG emissions reduction in $KgCO_2$ eq.ton produced	1%
Reduction in non-sustainable disposal of solid waste, in tons (Food division)	2.5%
Reduction in non-sustainable disposal of solid waste, in tons (Fertilizers Division)	5%

9. Annexure:

Management Team

Robert Coviello
Age 44 years
Executive Director – Sugar product line
Since: 2011

Jason George Bowler
Director
Since: 2012

Peter Charles Creighton Simeons
Age 58 years
Secretary
Since: 1997
In 1997 Peter Charles Creighton Simeons undertook his first directorship role at the age of 43 for "Bunge Corporation Limited". His position was recorded as "Chartered Accountant". Bunge London Limited is Peter Charles Creighton Simeons's most recent company where he has held the position of "Accountant" for 2 years, 11 months, 18 days. This company has been around since 2008. So far, Peter Charles Creighton Simeons has held 27 directorships.

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