Lodha - Operations - Guidelines

Outsourcing v. Insourcing

The core competencies of the Operations team are Design, Procurement from 3rd party vendors, Project Management and Construction Management.

Manufacturing of products and/or handling of labour is not a core competency.

The first priority of the Operations team is to deliver the projects meeting the targets of the parameters of Time and Cost, with the following relative importance (1 – Highest):

Segment	Time	Cost
Residential – Luxury	1	2
Residential – Hi-end	1	2
Residential – Aspirational	2	1
Residential – Casa	2	1
Office – Excelus	1	2
Office – Supremus	1	2
Office – Ithink	2	1

while maintaining the standard of quality and standard, as set by the company from time to time.

If, in order to achieve the aforesaid targets of Time and Cost (especially the one with the highest importance for the relevant segment), it is observed that there is insufficient ability of any supply chain partner (whether current or potential) to deliver the required expertise (on cost, time, quality, safety and/or reliability measures), the company may consider building in-house expertise for delivering those select parts of the supply chain which create value in terms of time, cost and/or quality AND which value could not have been created (with reasonable effort) by using a 3rd party. Such building of in-house expertise for any product / service is referred to as '**insourcing**'.

If it is concluded that it is desirable to **insource** a part of the supply chain, the following minimum criteria have to be met in order to take forward the decision to execute in an area which is outside our core competency:

a) A non-core activity shall be insourced, if and only if, there is no supply chain partner (whether current or potential) available to deliver the expertise (on cost, time, quality, safety and/or reliability measures) required to meet the defined project objectives of cost / time.
b) Each **Insourcing** initiative to be headed by an **Initiative Head**. Competent team to be hired, with requisite experience in the concerned product / service.
c) Minimum threshold for insourcing an activity would be comparable cost savings of minimum 10% on best-negotiated market price AND/OR minimum 10% saving in time AND/OR minimum 10% improvement in reliability.
d) The initiative should generate a Return on Capital Employed (ROCE), prior to interest costs, of atleast 25% annually (in case of products).
e) All initiatives which are started as insourced should have potential of developing into a standalone business, if so approved by the company.
f) Labour sourcing to be outsourced to 3rd party, as far as possible, with payment linked to output / productivity. If same is not possible, decision to go for labour insourcing to be made with Director approval.
g) Shall be operated as a separate Profit centre and billing to the internal user shall be done at cost + pre-decided margin.

Proceedure

a) Margin to be pre-decided, prior to commencement of operations, based on market trends in that particular product / service, by the part of the Procurement team (Materials / Contracts) who would otherwise have procured it.
b) In case the price offered by internal vendor is higher than external vendor, Procurement shall have full freedom to procure from external vendor.
c) For all such initiatives, prior to implementation, the Initiative Head shall submit a succinct project evaluation report to the COO and Accounts, covering the following:
    a. To commercially justify the profitability of the project and prepare profit projections
    b. Explain the business process and requirements
    c. Define Performance parameters
    d. Define product life cycle or asset life cycle
d) Prior to implementation, the Initiative Head and Accounts shall jointly:
    e. Evaluate projected quarterly profit and loss (in cases of internal consumption – savings / contributions will be estimated for profit estimations) and include direct and indirect overheads as part of cost.
    f. Estimate Capital investment including contingency budget will be approved by management
    g. Prepare Capital investment schedule Financial Delegation Recommendation and approval
    h. Finalize arrangement for cash and banking Internal documentation and formats for process / transactions
    i. Suggest recommendations of financial authority delegation to the Initiative management.
    j. Define: From a system perspective i) List of Transactions and Process ii) List of reports iii) Cost allocation iv) Inventory or Asset - nature and locations v) systems growth schedule
e) The Accounts team shall ascertain any tax impacts, financial and tax savvy structure and determination of legal entity.
f) Approval process as follows:
    k. Peak Capital/investment requirement <= 1 cr: Committee comprising of COO and CFO.
    l. Peak Capital/investment requirement > 1 cr <= 5 cr: Approval of Committee comprising of COO and CFO + 1 director
    m. Peak Capital/investment requirement > 5 cr: Approval of Committee comprising of COO and CFO + Board of Directors
g) Initiative Head shall be responsible for quarterly profit center reporting on the following areas
    n. Budget Variance - capital and operations
    o. Implementation Time Variance from the planned implementation schedule
    p. Return on investment compared with the estimates (annual basis only)
h) All activities which are insourced shall be reviewed on the insource v. outsource decision every 3 years (from start of implementation) and reviewed against relevant criteria.

Some of the non-core areas (as of 2010) for which company has decided to in-source include

a) Key construction equipment
b) Facilities Management
c) Block production
d) Horticultural plant production