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A Study on Contract Costing and its Financial Profitability in Security Services Companies

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Abstract
Security service providers provide essential support to numerous clients including commercial, residential multi-family, financial (i.e., banks), and institutional organizations. The security service provider's primary method of operation is through workforce (manpower) deployment; therefore, when it comes to operational efficiency and profit margin, a large emphasis is placed on cost analysis. This research looks at the various cost elements associated with the operation of security service providers, including labour costs, training expenses, equipment expenses, administrative expenses, and compliance costs. This study also looks at how the pricing of services in the security industry is determined and how different factors will affect the charges for security services. The data that this research uses are based on secondary data collected from other sources, such as industry research reports, industry-related articles, and internal company information. The analysis showed that the greater number of guards led to greater profits, and effective cost management was the main factor that drove profit. On a per-guard basis, the company can generate high levels of profit uniformly across all zones, with Zone A generating the greatest total profit due to higher rates and availability of guards, while Zone B exhibits the least total profit primarily because of having fewer guards deployed. There is, however, a disparity between the amount of money earned by the guards and the profits earned by the company; therefore, there is a clear need for establishing an appropriate balance between profitability and employee benefit to achieve long-term sustainability and maintain quality of service. As a result, the research suggests that security service providers must effectively manage cost to sustain competitive prices while providing long-term business viability. Overall, the findings of this research strongly support the need for organisations in the security services sector to develop and implement effective cost management practices and remain compliant with applicable labour laws to ensure the long-term growth of their firms within the highly competitive private security industry.
Keywords: Security Service Industry, Costing Analysis, Labour Cost, Operational Expenses, Cost Management, Service Pricing, Statutory Compliance.

Introduction

The security services industry provides protection to various entities in society including businesses, residential communities, banks and financial institutions as well as government entities. Due to an increase in crime rates and safety concerns; there has been a high increase in the demand for security services.

Most security companies operate by providing contract-based manpower from trained personnel who are deployed at client sites as guards. Security service pricing is based upon various factors mainly due to the various costs incurred for services (wages paid to personnel, compliance with legal requirements, training costs incurred in relation to personnel activities, supervision of personnel, equipment used by personnel, and administrative expenses etc.).

Through costing analysis, security companies can determine the true cost of providing services; thus, assisting them in establishing competitive and profitable prices for their services. Proper costing of services also helps to keep a security company legally compliant with labour laws (minimum wage requirements) and other statutory requirements.

In India the cost of hiring security personnel is primarily based upon the type of guard you wish to hire (i.e., level of training required), location and level of training received. For example, “basic” guards, who typically have very little or no formal training, generally cost between □12,000 and □18,000 per month. In contrast, “armed” guards (who require more extensive training) generally cost between □20,000 and □28,000 per month.

Significance of the Study

The analysis of security service companies’ costs is important because it allows us to better understand the different costs associated with providing security services. Security service companies primarily use a manpower model and have many expenses for labour, training, equipment, and meeting statutory requirements. By focusing on these costs through analysis, the study will provide a better understanding of how security service companies develop their prices and manage their operating expenses. Furthermore, this study will assist organizations to identify effective cost management best practices to decrease unnecessary costs and enhance financial efficiency.

Statement of the Problem

Security service companies have difficulty being profitable due to rising wages, complying with statutes, training expenses, and their operating overheads. Many security service companies have trouble in defining appropriate prices for their services while complying with applicable labour standards and providing quality service.

Improper cost analysis may lead to under-pricing, lost revenue, lost opportunity for market share, and possibly going out of business. Therefore, it is crucial to analyse the actual cost structure of security services to determine the largest cost elements for security service companies and thereby improve their effective cost management.

Objective of the Study

- To Determine the major cost classifications for security services.
- To assess the factors affecting the final price of security services.
- To assess the impact of the cost of labour on the overall cost of security services.
- To analyse the influence of statutory compliance on the pricing structure of security services.
- To propose cost containment strategies for use by security service providers.

Review of Literature

Smith (2018) performed a research study on private security providers’ cost management practices and indicated the significance of effective cost control in service-based fields. The focus of the research was on labour cost as it is the largest part of total operating cost for firms in the Security Services industry because providing security services relies heavily upon human resources. In addition, Smith indicated that improving how an employer manages the workforce, effectively scheduling security officers, and managing overtime could greatly minimize excess costs incurred by a Security Services firm. The conclusion drawn from the study was that employing systematic costing and financial monitoring methods will help Security Services firms improve their operating efficiencies and remain profitable.

Kumar and Rao (2020) analysed the pricing strategies of Security Services firms in the service industry. The authors aimed to determine the primary components of cost incurred by Security Services firms that factor into the pricing of services provided by these firms. The researchers found that labour costs, equipment-related expenses, training costs, and overheads were the main components affecting pricing of services for Security Services firms. In addition, the authors indicated that firms must also consider their statutory obligations, such as the Employees Provident Fund and the Employees State Insurance Act, when determining the cost of their services. The conclusion drawn from the study is that, through using accurate cost measurement methods, Security Services firms can determine prices that are competitive while continuing to provide high quality and remain profitable.

According to Sharma (2020), research has been conducted on how financial processes and operational issues impact private security service companies', continuing to appear that many companies in this sector regularly experience significant financial difficulty due to increasing labour, training, and equipment maintenance costs. Sharma mentions that companies in this field should implement sound budgeting practices and effective financial planning processes to help manage their operational expenses. Companies should also invest in training their personnel and utilizing up-to-date technology to help reduce their long-term operational costs and/or increase their service delivery efficiency.

Gupta (2021) states that the analysis of the financial practices and cost structure of outsourced security services demonstrates that regulatory compliance with applicable laws and regulations affects the total costs of private security services. Gupta identifies those statutory costs, such as employee provident fund contributions, employee state insurance, licensing fees, and insurance coverages, are all costs associated with operating a private security company. Gupta also indicates that it is important for businesses to engage in proper financial planning and cost control to be compliant with applicable laws and regulations and to ensure sustainable business operations.

Patel's (2022) research determined that labour cost, equipment cost, transportation costs and administrative overheads are the largest contributors to the total operational costs of security service providers. The findings also indicate that modern technologies and management systems used by security companies can provide improved service delivery, thereby allowing companies to reduce additional costs incurred by doing business today. In addition, Patel states that through implementing effective cost management measures, security companies will be able to remain competitive within the marketplace while obtaining long-term financial security.

Research Gap

- A review of the literature indicates that several studies have looked at cost management, pricing strategy, and financial performance in the service industry.
- Labour cost, operational expenses, and compliance are all important to the overall cost structure of an organisation in service industries as discussed in many studies.
- Although past studies have addressed the role of labour cost, operational costs, and compliance costs separately, there is very little research into the collective influence of labour, training,

equipment, transportation, administrative, and compliance costs on overall security services company costs.

- There is also a lack of research studying practical costing methods employed by security companies to establish pricing for their services.
- The purpose of this study is to address this void by providing a detailed analysis of all the cost components involved with providing security services and how all those cost components work together to determine the overall cost and pricing structure of providing security services.

Contract Costing of Security Services

When it comes to the cost of security services, the majority will be made up of the security guards' salaries. These salaries are based on minimum wage laws and could look something like this:

Minimum wages

Minimum Wage is defined as the lowest amount of money an employee can receive from their employer regardless of how much effort they have put into their work. The Government of Tamil Nadu has enacted the Minimum Wages Act as part of its mission to eliminate the abuse of workers and to uphold the dignity of work.

Zone	Security Guards
A (Corporation)	10,544
B(Municipal)	10,483
C (Town panchayat)	10,425

Provident Fund

The security company will have to pay the Provident Fund for each of their employees. Typically, the Employers' contribution to the Provident Fund is 13% of Minimum wages as per Government gazette

Zone A-10544*13/100 =1370
Zone B-10483*13/100 =1363
Zone C-10,425*13/100 =1355

Employee State Insurance

The employer is also required to provide the Employee State Insurance (ESI) for the employee's medical insurance. The employer will pay approximately 3.25% of the employee's gross salary as per Government gazette.

Zone A-10544*3.25/100 = 343
Zone B-10483*3.25/100 =340
Zone C-10,425*3.25/100 =339

Bonus

Security companies will set aside money for their employees' annual bonus. For this type of calculation, you can expect to have a provision each month for your employees' bonuses. The employer will pay 8.33% of bonus to the guards on yearly or monthly basis as per Government gazette.

Zone A-10544*8.33/100 = 878
Zone B-10483*8.33/100 =873
Zone C-10,425*8.33/100 =868

Leave Wages

Employees should receive paid time off. As part of their labour costs, security companies will account for paid vacation or sick leave wages. This leave wages are fixed by the client based on their leave time mentioned in the form V.

Leave wages=365 days-52 Sundays=313 days
Assume that the leave wages were fixed for 9 days, then
9/313*100=2.88% of gross wages.
Zone A-10544*2.88/100 = 304
Zone B-10483*2.88/100 =302
Zone C-10,425*2.88/100 =300

Uniform and Equipment

The uniform, shoes, ID card, belt, torch, etc., are all costs associated with providing the security guard with the necessary equipment to perform their job. The security companies will spread out these costs over a period.

Equipment allocation for the month per employee: □500.

Training

Security companies are spending money on the training of guards in the areas of safety procedure, surveillance, and emergency response.

Training costs allocated per month to each guard: □300.

Administrative Expenses

Administrative expenses include things such as office expenses, Human Resources (HR) Management, Supervising the guards, and operational support for the Guards.

Monthly Administrative cost allocation per employee: □1,200.

Transportation and Supervision

Security supervisors will travel to check the different work sites where the security guards are working, as well as to supervise the guards. Transportation expenses will be spread out over the period that the security guards are working.

Transportation cost allocation per employee per month: □200.

S.No.	Description	Calculation	Zone A	Zone B	Zone C
1	Minimum wages	(As Per Government Gazette)	10,544	10,483	10,425
	Gross wages		10544	10483	10425
2	Provident Fund	13% of Gross Wages	1370	1363	1355
3	Employee State insurance	3.25% of Gross wages	343	340	339
4	Bonus	8.33% of Gross wages	878	873	868
5	Leave wages	2.88% of Gross wages	304	302	300
6	Uniform	(As per client requirement)	500	500	500
7	Training cost	(As per company norms)	300	300	300
8	Administrative expenses	(As per company norms)	1200	1200	1200
9	Transportation and supervision cost	(As per company norms)	200	200	200
	Total		15639	15561	15487
	Margin	10%	1563	1556	1548
	Total		17202	17117	17035

Take home salary of per guard

Zone A:

Gross salary-10544

Deduction:

PF (12%) = □1,265

ESI (0.75%) = □79

Take home salary of per guard=10544-(1265+79) =9200

Profit of the company=17202-9200=8002

Zone B:

Gross salary-10483

Deduction:

PF (12%) = □1258

ESI (0.75%) = □79

Take home salary of per guard=10483-(1258+79) =9146

Profit of the company=17117-9146=7971

Zone C:

Gross salary-10425

Deduction:

PF (12%) = □1251

ESI (0.75%) = □78

Take home salary of per guard=10425-(1251+78) =9096

Profit of the company=17035-9096=7939

Profit for 3 Years (2023-2026)

Calculation:

Zone A -Total Guards- 528

Profit-8002

Total Amount =528*8002= Rs.422,50,256

Zone B -Total Guards- 356

Profit-7971

Total Amount =356*7971= Rs.28,37,676

Zone C -Total Guards- 628

Profit-7939

Total Amount =628*7939= Rs.49,85,692

Zone	A	B	C
Profit (2023-2026)	422,50,256	28,37,676	49,85,692

Interpretation

The security services that are being analysed across the zones show that even though the gross wages of the guard range between □10,425 and □10,544, after the statutory deductions (PF, ESI, etc.), the actual take-home salary for the guard is only approximately □9,096 to □9,200. However, the total cost charged to clients per guard when putting in to account the statutory benefits and the various operational costs (Uniform, Training, Administrative, etc.) will rise to approximately □15,487-□15,639. Including a 10% margin to the total cost will increase the total charge per guard approximately to □17,035-□17,202. Profit per guard is very high at □7,939-□8,002 and is nearly twice the value of the guard's take-home salary, which exhibits that there is a significant cost-plus pricing strategy and high-margin business model. Over the three-year period the highest gross profit of all the zones was earned in zone A with a total gross profit of □4,22,50,256. This profit is due to the very high total number of guards deployed and the high total billing in zone A. The zone showing the least overall gross profit was zone B due to the low number of guards. Zone C demonstrated a moderate overall profit despite having the highest number of guards deployed. Overall, the number of guards deployed and the efficient cost management i.e., number guards deployed and effective cost control processes, is the main driver of the companies profitably. The gap between the earnings of the employee (guards) and the profit of the company is quite large.

Findings

- The profitability of the costs per guard (□15,487–□15,639) and that compliance (i.e. statutory contributions such as PF, ESI and Bonus) and overhead (i.e. operational expenses) are a major cost centre.
- Guards receive approximately □9,096–□9,200 in take-home pay despite an average gross wage over □10,000, indicating that statutory deductions significantly reduce their net pay.
- Additionally, the company makes approximately □8,000 per guard in profit, approximately equal to a guard's take-home salary, demonstrating the high margins generated by its pricing structure.
- Furthermore, the addition of a fixed 10% margin in each zone indicates the company utilises a systematic cost-plus pricing method; this assures consistent profitability across these zones (zone margins).
- As to overall profit generation by zone, zone A generates the most profit (□4.22 crore), primarily due to a combination of higher billing rates per guard and the high volume of guards; whereas the zone B has the least amount of profit generated due to reduced manning levels despite a similar profit per guard generated in all zones.
- Volume plays a key contribution to profitability of zone C with the highest manning (628 guards) and supports the overall generation of significant profit despite lower than typical margins.

Suggestion & Recommendation

- The company should focus on improving employee compensation by increasing take-home salary or offering additional benefits to reduce the large gap between employee earnings and company profit, which will help in improving satisfaction and retention.
- At the same time, it should review and optimize administrative and operational expenses to enhance efficiency without affecting service quality.
- Adopting a flexible pricing strategy instead of a fixed margin can help maximize revenue based on client requirements and location.
- The company should also expand operations in high-profit zones like Zone A and increase workforce and client acquisition in low-performing areas such as Zone B to improve overall profitability.
- Investing in better training and using technology for payroll, attendance, and supervision can further improve productivity and reduce costs.
- Additionally, maintaining transparency in salary structure and compliance will build employee trust, while offering value-added services can strengthen client relationships and ensure long-term business sustainability.

Conclusion

The research on the cost analysis of private security service firms has revealed how crucial it is to understand the different expense elements related to the provision of private security services. Most of these firms rely heavily on their personnel, consequently labour costs will represent the largest component of their total operating expenses because of this. In addition to actual wages and benefits, security service firms are obligated to pay statutory contributors (i.e., provident fund, employers' state insurance, bonuses, and leave wages) that will drive up community cost for the employer. Additional costs related to equipment, training, administration, and transportation will contribute to the overall total cost structure of private security services.

The results of the analysis show that the security company has a viable and successful cost-plus pricing model. In the case of security guards, the total amount billed by the security company is substantially greater than the amount received by the guards as take-home pay, owing to statutory and operating expenses, as well as a fixed profit margin. On a per-guard basis, the company can generate high levels of profit uniformly across all zones, with Zone A generating the greatest total profit due to higher rates and availability of guards, while Zone B exhibits the least total profit primarily because of having fewer guards deployed. The analysis showed that the greater number of guards led to greater profits, and effective cost management was the main factor that drove profit. There is, however, a disparity between the amount of money earned by the guards and the profits earned by the company; therefore, there is a clear need for establishing an appropriate balance between profitability and employee benefit to achieve long-term sustainability and maintain quality of service.

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