

IMPROVING COMPETITIVENESS OF IT COMPANIES BY LEVERAGING FLEXIBILITY

K.S.Raghuveer¹ , Ranjit Kuppili² & Parimi Nikhil³

***Abstract:** This paper talks about the paramount importance for the IT companies to incorporate flexibility in its stride, in order to sustain themselves in the wake of increased competition. It talks about how the IT companies should adapt to the varying and ever-changing market dynamics and environment and then, incorporate the necessary changes in the various business components and processes in order to keep pace with the fluctuating changes. The authors suggest the challenges, innovations and finally the recommendations by which the Indian IT companies can leverage flexibility for its sustenance, in terms of its offerings, processes and people.*

Keywords: environment, flexibility, innovation, offerings, people, pricing, process, services.

¹ MBA(Pursuing2nd Year),GITAM Institute of Management,45-53-10,Abidnagar,Visakhapatnam-530016, raghu.kuppili@gmail.com

² Manager - Cognizant. Address - 75 Hockanum Blvd, Unit 1026, Vernon CT -06066, USA, ranjit.kuppili@gmail.com

³ MBA(Pursuing2nd Year),GITAM Institute of Management,45-53-10,Abidnagar,Visakhapatnam-530016 nikhilnova@gmail.com

1.CURRENT SITUATION IN INDIAN IT INDUSTRY:

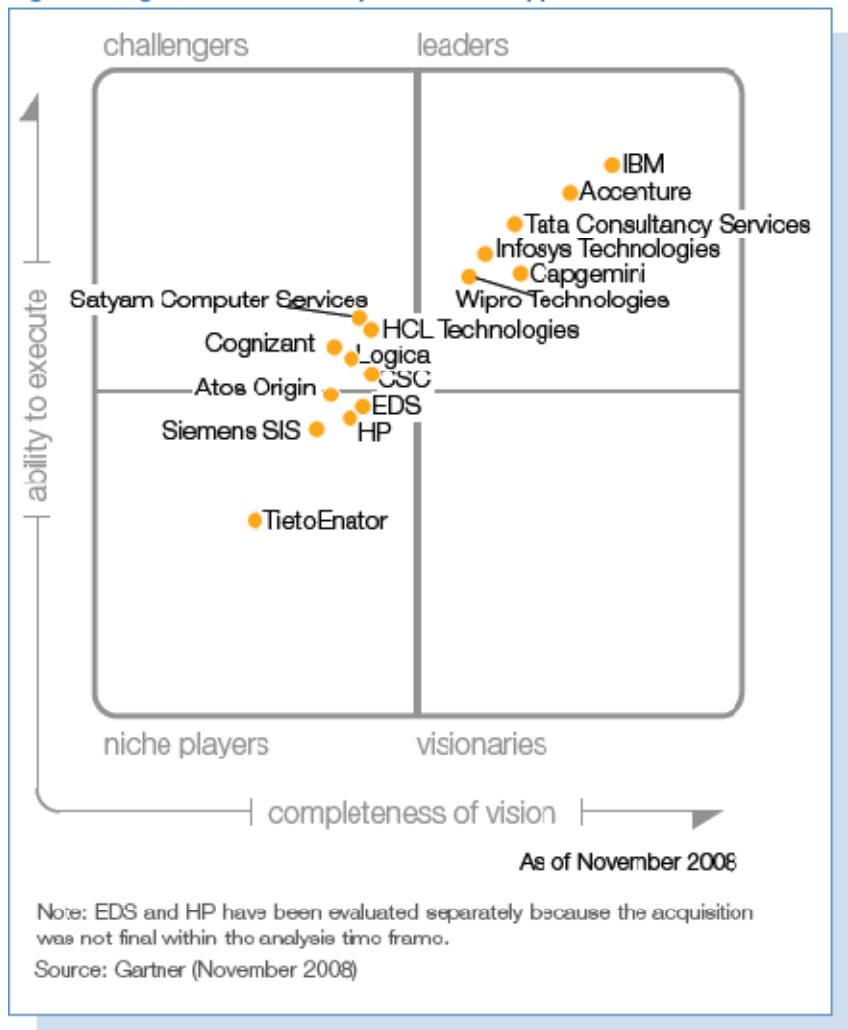
In today's dynamic world, where the fortunes keep changing with the blink of an eye and at the drop of a hat, good is no longer good enough and change is the only constant! The customer can thought of as the ever eluding golden goose after which the companies desperately go after. In this context, adaption and flexibility has assumed great significance for today's IT companies and especially in terms of the offerings, processes and people. It enables the IT companies to make the necessary changes and thereby adapt to the changes in the environment. Indian software companies have been helping in boosting the Indian Economy by taking up various projects that were outsourced to India. The Indian Information Technology industry accounts for nearly 5.19% of our country's GDP and export earnings as of 2009. Yet, the experts say that the Indian Software Industry has immense scope to grow by incorporating flexibility in their stride in terms of the process, people and offerings.

It helps them to truly make a mark for themselves on the global front.

The success of Indian IT companies on the global scale has been widely recognized and top research firms like Gartner / Forester have repeatedly recognized their contribution as part of multiple research analysis

Figure 1: Gartner's Magic Quadrant below

Figure 1. Magic Quadrant for European Offshore Application Services



Source: (Gartner Research,2008)

The SWOT analysis provided below gives us a good idea of the evolution of Indian IT companies so far and the challenges that lie ahead for them.

SWOT Analysis : Indian IT companies (Infosys, TCS, Wipro)	
<p>Strengths</p> <ul style="list-style-type: none"> • They aggressively compete for leadership positions in overall cost/value proposition 	<p>Weaknesses</p> <ul style="list-style-type: none"> • They have difficulty articulating clear long-term strategic objectives without

<p>for IT services.</p> <ul style="list-style-type: none"> • They have invested heavily in delivery processes. • Strong metric-driven management teams focus on ensuring predictable growth and earnings. • India leads many offshore competitors in cultural alignment with West. • Intense focus on vertical market strategies will position the companies for deeper penetration with line-of-business leaders. • They have platform BPO and other nonlinear solutions. <p>Opportunities</p> <ul style="list-style-type: none"> • They are strongly positioned in wake of financial turmoil to capitalize on cost/value concerns of IT departments. 	<p>reverting to generalities.</p> <ul style="list-style-type: none"> • Strategic marketing capabilities could be improved. • Metric-driven approach leads to a risk-averse corporate culture. • They rely heavily on North American financial services, manufacturing, and retail but lack expertise in emerging hot verticals like government and healthcare. • Strategic consulting, transformation, and innovation capabilities still do not match Western counterparts. • Despite stated goals at geographic diversification, expansion in regions like Europe has been slow. • Rising operating costs (wages, real estate costs, attrition) leading to increasing pressure on bottom lines • Threat of other low cost offshore destinations <p>Threats</p> <ul style="list-style-type: none"> • The intense focus on verticals in strategy and go-to-market approach will create some inefficiencies and may lead to the
---	--

<ul style="list-style-type: none"> • They are well positioned for expansion in emerging geographic markets, particularly home turf India. • They can steadily move into large IT/business services market within existing accounts — areas still dominated by Western firms. • Strong financial positions will help these companies expand through acquisition in the wake of global financial market turmoil — if they choose to seize the opportunity. 	<p>development of organizational silos.</p> <ul style="list-style-type: none"> • Without strategic evolution into higher-margin services, growth models will continue to be stressed. • Shift to highly standardized cloud- and SaaS based services will likely expose product marketing shortcomings.
---	--

Source – Forrester Research and analysis based on inputs from multiple sources quoted in the references section

Another interesting data point to analyze is where Indian IT companies stand on Revenue/Headcount terms when compared to their global counterparts.

Figure 2 : Revenue/Headcount

	Revenue (Billions)	# of Employees (Millions)	Revenue/ Employee (\$)
	2010	2010	2010
IBM	99.87	0.43	23402.64
Accenture	23.00	0.21	10747.66
Wipro	6.03	0.12	5025.00
Cognizant	4.59	0.10	4413.46
TCS	6.67	0.20	3333.33
Infosys	4.89	0.13	3760.68

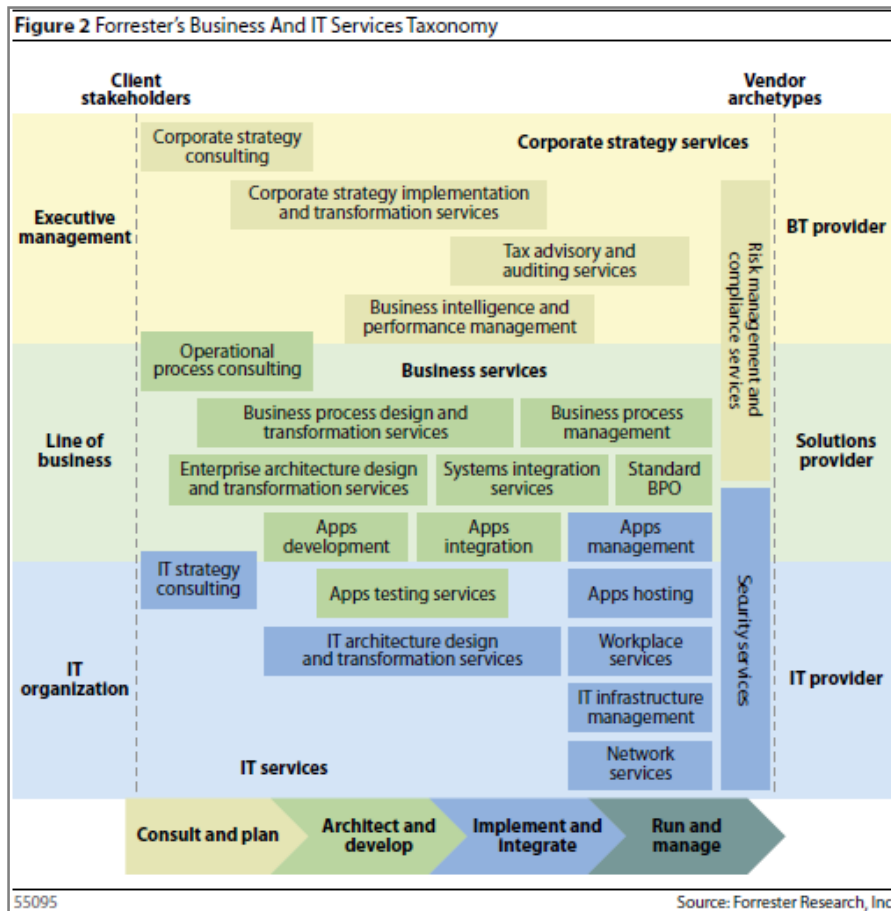
Source – Analysis based on data from Annual Reports

A large part of the divide in revenue/ employee across IBM/ Accenture with Indian IT companies can be explained in terms of the flexibility in their higher margin offerings such as

consulting or product development. The analysis above clearly highlights that Indian IT companies need to strategically evolve by leveraging flexibility in terms of the higher value-added services that will not only enhance their top lines but also offer increased margins thereby having a positive effect on their bottom line.

In order to differentiate themselves, the IT companies need to offer higher value added services that involve innovation and thought leadership. This involves moving from providing only IT services to Business and Strategy services eventually as displayed in the figure below (Forrester analysis on the Business and IT Services taxonomy).

Figure 3:



Source: (Forrester Business and IT Services taxonomy)

Flexibility can be achieved by incorporating non linear growth, which refers to measuring performance by the number of value-added services offered, intellectual property (IP) created rather than by the increase in employee head count. Over the last few years, Indian IT companies have been focusing on the non linear growth strategy as a pertinent tool for achieving flexibility and have achieved varying degrees of success. While the Tier 1 Indian

IT companies like Wipro, Infosys and TCS have obtained around 4% of business through non linear growth, HCL Technologies obtained about 12% of its revenues. On an overall basis, achieving flexibility through sustained non linear growth has its fair share of challenges. In this regard, the next section provides some interesting examples of the challenges faced by Indian IT companies and the initiatives/ innovations undertaken by them.

2.Key Challenges

While the concept of achieving flexibility by moving up the value chain and managing non-linear growth has been recognized by Indian IT companies as a key differentiator in the industry, they need to overcome certain key challenges in order to achieve it. The challenges are a combination of intrinsic factors like ability to manage internal organizational cultures, ability to stay focused on long term rather than more immediate short term growth, building robust knowledge management frameworks, collaborative platforms to share information freely amongst associates across the globe and extrinsic factors like managing client perceptions as they move up the value chain, limited product market in certain segments and geographies and branding limitations in case of joint product component implementations. Some of the key issues have been highlighted (see diagram below).

Figure 4:

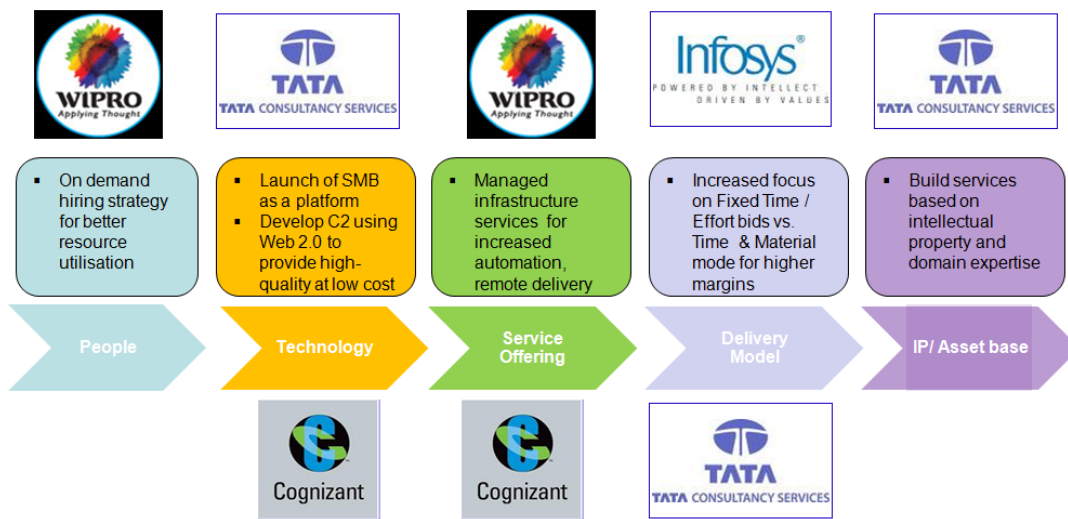


Source – Author's Analysis based on data from multiple sources mentioned in References section

3. Innovations to incorporate flexibility:

Attaining flexibility in true sense of the word has been an integral part of the IT companies' business strategy over the recent few years. They have taken up various people, process and technology initiatives that positively impact revenue, directly or indirectly. Various initiatives in this space have ranged from Managed Infrastructure Services, Product Development; re-use of IP/ Asset base, focus on Fixed bid projects, building of Process clouds etc. The diagram below highlights some key initiatives with their corresponding qualitative/ quantitative impacts.

Figure 5:



Source – Author’s Analysis based on data from multiple sources mentioned in References section

A. Flexibility in terms of the services offered by the IT companies :

Apart from the quintessential and traditional services, managed Infrastructure Services has been a key growth area for Indian IT companies since the year 2008. Over the past two years, Wipro has grown its revenues from infrastructure outsourcing business at over 40% with a work force increase of less than 10% to deliver such services(Wipro Annual Report,2010). Increased automation and use of same platform to deliver services to multiple customers can help the companies bring down additional number of staff required by over 40%.

- Product Development has also been an area of focus and TCS product business contributed 3.3 per cent of revenues in 2009-10 and also registered a growth of 23.3 per cent yoy. (TCS Annual Report,2010)
- Flexibility in the pricing strategies offered have augmented the case in favor of the IT companies. Increased execution of projects in outcome based projects (fixed time/ effort bid) vs. time and material mode also helps for increased profitability while simultaneously establishing / growing the Indian IT brand in the global market as one that can undertake complete responsibility to execute a project in a fixed time and effort.

Figure 6:

	% Revenue from Fixed Bid projects		% Revenue from Time and Material Bid projects	
	2010	2009	2010	2009
TCS	47.82%	44.79%	52.18%	55.21%
Infosys	40.80%	37.60%	59.20%	62.40%
Wipro	41.50%	34.00%	58.50%	66.00%
Cognizant	31.50%	30.30%	68.50%	69.70%

Source – Annual Reports for the year 2010

B. **Flexibility in Delivery Initiatives** - Wipro has been offering multi-tenanted managed services like the Flex Delivery Model which has gained wide acceptance among customers for its unique value proposition of just-in-time capacity & predictable high quality. Most Indian IT companies are also building solution accelerators to improve effort and delivery schedules through investments in Centers of Excellence, third party tools and creation of re-usable IP.

C. **Flexibility in business model:**

Focus on service outcome-based business model rather than an effort-based to drive operational efficiencies. The Centre for Integrated Management of Applications (CIGMA), an initiative in this direction by Wipro won the NASSCOM IT Innovation Award in the process innovation category for the year.

4.INNOVATIONS TO INCORPORATE FLEXIBILITY:

A. Indian IT companies are following a combination of organic and inorganic growth in an effort to be flexible and offer value-added software services that differentiates them from the rest. This has resulted in either an acquisition of smaller niche players or internal

investments in fields like Business/Technology Consulting/ System Integration Consulting, PMO, Business Intelligence etc. Cognizant Business Consulting offers a good example of incorporating flexibility by catering to the huge potential of non-linearity in terms of the revenue offered by consulting. With around 2% of the global workforce (2200 consultants), Cognizant Business Consulting accounted for close to 5% of its revenue. Given the end to end list of services that Indian IT companies offer, being flexible and investing in consulting also makes sense from the inherent potential to generate significant downstream revenue.

B. Inorganic growth has taken place through a series of acquisitions in segment-specific IT and consulting companies in the U.S. and elsewhere. (See below for a partial list of such acquisitions)

Figure 7:

Company	Target	Description of Acquisition
Cognizant	AimNet	U.S.-based infrastructure services firm
Wipro	Saraware Oy	Finland-based telecom design and engineering firm
Wipro	Enabler	Portugal-based, retail-industry focused consulting and package implementation firm
Wipro	Quantech	U.S.-based engineering design firm
Wipro	NewLogic	Austria-based semiconductor design services firm
Satyam	Knowledge Dynamics	Singapore-based business intelligence consultancy
Cognizant	Fathom Consulting	U.S.-based consulting firm focused on telecom space

Source – Reproduced from Andrew C. Steiner and David Emerson Lane. IT Services. Bear, Stearns & Co. Inc., July 2007, page 19.

Organic growth, by being flexible and moving up the value chain, has also taken place to varying degrees across various Indian IT companies. For example, in the year 2010, Infosys Consulting Inc incorporated a wholly-owned subsidiary, Infosys Consulting India Limited and invested US \$ 10 million in the subsidiary (Infosys Annual Report, 2010). In an article on “Evolution of IT Service Providers”, Forrester noted that Cognizant is driving deeper into business processes in an attempt to leverage its flexibility for its advantage and suggests that Cognizant is well poised for this leap given its clear focus on vertical market expertise. However, from an overall perspective, the share of consulting revenue in the total revenue is still only around 2-5% across these companies.

5. RECOMMENDATIONS FOR INCORPORATING FLEXIBILITY:

Having analyzed the various challenges and initiatives undertaken so far by Indian IT companies, the authors feel that the Indian IT companies are on the right path towards building higher business value offerings and creating sustainable competitiveness through flexibility in their offerings and business processes. The authors would like to highlight three key focus areas for the Indian IT companies that would help them to propel forward and attain success.

1) FLEXIBILITY IN OFFERING HIGHER MARGIN SERVICES:

a) **CONSULTING SERVICES:** This should be a key area of focus for the Indian IT companies as managing this will help them in generating more revenue. The additional advantage of increasing Consulting services is the potential downstream revenue that it could generate that complements the value offerings of Indian IT companies.

b) INFRASTRUCTURE MANAGEMENT SERVICES:

A study done by NASCOM in association with Mckinsey predicts that traditional IT outsourcing service lines such as hardware and software maintenance, network administration and help desk services will account for 45 per cent of the total addressable market for off shoring. It also points out that as the traditional IT application management and development sector is getting increasingly saturated, Infrastructure Management services will drive the next wave of growth (Source – Economic Times & NASCOM report 2005).

2) FLEXIBILITY IN PRICING OFFERED(OUTCOME BASED OR FIXED BID PROJECTS):

a) Increasing the percentage of projects that are executed in an outcome based manner rather than on time and material will help in generating more revenue. Though the data around the exact difference in bottom-line due to these different projects is not available, outcome based pricing definitely helps as the pricing can be done based on a mutually agreed set of deliverables rather than on individual employee presence. Driving such projects independently will also help in providing the organizational scale to a project rather than in

time and material projects that usually involves considerable involvement from the client side.

3) **FLEXIBILITY IN TERMS OF TOOLS/Frameworks OFFERED TO EMPLOYEES:** Providing delivery platforms and knowledge management frameworks (portals, blogs, internal wiki's) is an effective way to enhance levels of collaboration among employees in remote locations. This will help bring together professionals from around the globe with complementary skill sets to form virtual teams tasked with delivering client solutions and help leverage IP/ documentation from projects executed in the past.

REFERENCES

- 1) Andrew C. Steiner and David Emerson , (July 2007),IT Services, Bear, Stearns & Co. Inc.
- 2) Christopher Andrews for Vendor Strategy Professionals,(June 2009),SWOT: The Evolution Of Indian IT Service Providers Into Business Technology Competitors, Forrester Research.
- 3) Christopher Andrews for Vendor Strategy Professionals , (March 2010),SWOT: The Evolution Of Indian IT Service Providers Into Business Technology Competitors, Forrester Research.
- 4) Cognizant Annual Report , (2010).
<http://www.cognizant.com/aboutus/annual-report>
- 5) Gartner Research, Magic Quadrant for European Offshore Application Services
- 6) Infosys Annual Report, (2010).
http://www.infosys.com/investors/reports-filings/annual-report/annual/Documents/AR-2010/Annual_Report_contents.html
- 7) Robert G Eccles ,Harvard Business School Case study on Cognizant Technology Solutions
- 8) TCS Annual Report, (2010).
http://www.tcs.com/investors/financial_info/annual_reports/Pages/default.aspx
- 9) Wipro Annual Report , (2010).
<http://www.wipro.com/investors/Pages/annual-reports.aspx>