# ANALYSIS ON IT INDUSTRY

INDUSTRY ANALYSIS

STRUCTURE-CONDUCT-PERFORMANCE FRAMEWORK

Structure: The 3 important components in Structure are concentration, product differentiation, and barriers to entry.

Concentration: Main stronghold of revenue for Indian IT companies has been services comprising of Application, Development and Maintenance (AMD). However, with the emergence of many small and emerging players, competition has increased. So, the Indian IT companies have started shifting their focus to providing services to companies in consulting domain.

Product Differentiation: Indian IT industry is classified into various domains as follows:

- IT software: Companies which are into software development help in development and implementation of software for their clients all over the world. The services offered ranges from simple web applications to mission control defense software.

- Business Process Outsourcing: Back office work of big firms working in different industries is outsourced to Indian IT companies. The back office work includes payroll management for global employees, logistics management, product research, customer services centers.

- Hardware Industry: No computing infrastructure can rely solely on software. It requires an enormous amount of hardware systems. It is the part of computer which we can see, touch and move tangibly such as laptops, motherboards, mouse, tablets etc.

- IT Education: Another segment of the IT industry is providing high quality IT education such as certification courses such as Red hat, Microsoft, Sun Microsystems. These companies also provide training for various other companies including government organizations. IT education has helped make India's rural and educationally deprived economy to knowledge based economy.

Series 1

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IT software   IT Education   ITeS BPO   IT Hardware

■ Series 1
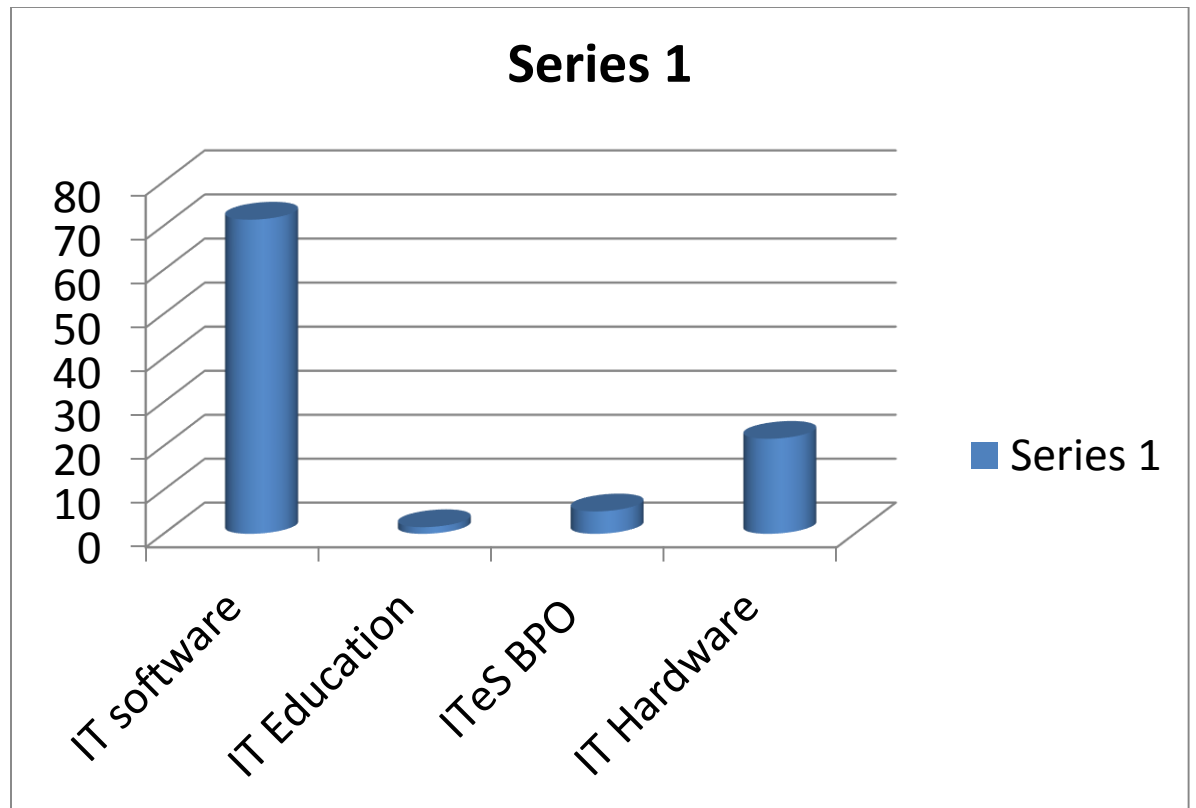
TOP IT COMPANIES	
Segment	Dominating Companies
IT Software	Infosys,TCS, Wipro, HCL tech
IT-BPO	iSmart Global,3i Infotech,Eclerx Services
IT-Hardware	HCL Infoystsmes,Zenith Computers
IT-Education	Aptech, NIIT,Educomp Solution

Performance:

- As per NASSCOM, the Indian IT/ITES industry is expected to grow by 11-14% in FY2013. NASSCOM has also envisaged the Indian IT/ITES industry to achieve a revenue target of USD 225 billion by 2020 for which the industry needs to grow by 13% on a y-o-y basis in the next eight years.

- NASSCOM further added that globally IT services spending are expected to grow by 4.7% in 2013. Currently India accounts for less than 5% of the global technology spending and this provides huge opportunities for the growth of the Indian IT-BPO industry. However, Indian IT companies are expected to face competition from emerging outsourcing destinations like Philippines, Poland, Hungary, Romania, etc.

- Emerging protectionist policies in the Developed World are also expected to affect the Indian IT companies. Due to lower approval of L1 visa application by US government for Indian IT professionals and rising visa cost, most Indian IT companies are increasingly subcontracting onsite jobs to local employee in the US.

- Indian IT companies are increasingly looking for global delivery model. They are setting up development centers in Latin America, South East Asia and Eastern European countries to take advantage of low cost and also cater to the local market.

- ADM services, which used to provide major chunk of revenues to the domestic IT players, are getting affected due to the falling billing rates. Hence, the companies are now venturing into new high value services such as IT Consulting, Product Development, and end-to-end turnkey solutions. Billing rates will remain stressed in the short term; companies are expected to preserve their margins through effective cost containment. Lessons learnt during the crisis can benefit in the long run.

- With backing of BPO services, Indian IT companies are able to straddle across the entire value chain which is expected to make them more competitive as compared to other outsourced destinations. The integration of IT-BPO contracts is expected to become more common, as clients look out for end-to-end service providers. Companies like Infosys, TCS, Wipro, Mahindra Satyam, HCL Technologies and Mphasis, all of which are also into BPO, will benefit from this trend.

- Rupee's depreciation against the US dollar and other major currencies is expected to provide relief for Indian IT companies in the near term, offsetting the pricing and demand pressures to some extent.

PORTER's FIVE FORCES MODEL

Supply:
Abundant supply across segments, mainly lower-end, such as ADM. Lower supply in higher-end areas like IT/Business Consulting, but competition is very tough.

Demand:
Due to the ongoing global downturn, the global IT spending is expected to continue to face pressure. Emerging economies such as India and China have also slowed down.

Barriers to entry:
Low, particularly in the ADM segment as this is prone to relatively easy commoditization. High in value-added services like IT/Business Consulting where-in domain expertise creates a barrier. The size of a particular company/scalability and brand-image also creates barriers to entry; as such firms have built up long-term relationships with major clients.

Competition:
Competition is global in nature and stretches across boundaries and geographies. It is expected to intensify due to the attempted replication of the Indian offshoring model by MNC IT majors as well as small startups.

Substitution of IT services and products:
IT continues to be a driving force towards all aspects connected with our lives. While a particular technology may become obsolete and a particular company specializing in it

may suffer, the obsolete technology can only get substituted by a newer technology offered by the same/different player in the IT/ITES industry.

INFOSYS AS AN INDUSTRY LEADER

Infosys Technologies Ltd. was started in 1981. Today, it is a global leader in the "next generation" of IT and consulting. Infosys defines, designs, and delivers technology-enabled business solutions that help Global 2000 companies win in a **Flat World.** It serves the client globally and is one of the pioneers in strategic offshore outsourcing of software services. Infosys pioneered Global Delivery Model (GDM).

Milestones:
- In 1987 Infosys got its first foreign client.
- In 1993, Infosys became a public limited company and received ISO9001/TickIT certification.
- In 1999, Infosys crossed $100 Million and was listed on NASDAQ.
- In 2006, Infosys completed 25 years of its existence and its revenues crossed $ 2 billion.
- Today Infosys has more than 1.4 lakh employees and has presence in more than20 countries across the world.
- Its corporate headquarters is in Bangalore.

Awards and Achievements:

- Infosys moved up to No. 14 on FinTech 100.
- It was awarded the 'India's best company to work for' in 2009.
- It entered the Balanced Scorecard Hall of Fame for Executing Strategy on the strength of its innovative strategy planning and execution capabilities.
- It was honored with the Sharpening Brand and Competitive Differentiation Marketing Excellence Award from the Information Technology Services Marketing Association (ITSMA).
- It's a leader in SAP implementation services.

Infosys- Business Lines:
The following are the various business lines that Infosys involved in:

- Insurance, Healthcare, and Life Sciences
- Banking and capital Markets
- Communication, Media and Entertainment
- Energy, utilities and Services
- Retails, Consumer Goods and Logistics
- Manufacturing
- New Markets and Services

- India Business Unit
- Consulting Solutions (CS)
- Enterprise Solutions (ES)
- Product Engineering and Validation Services (PEVS) – PED, PLES, IVS
- Infrastructure Management Services (IMS)
- Software Engineering and Technology Labs (SET Labs)
- System Integration Services (SI)
- Corporate Sales and Marketing (CSM)

BCG Matrix- Infosys India:
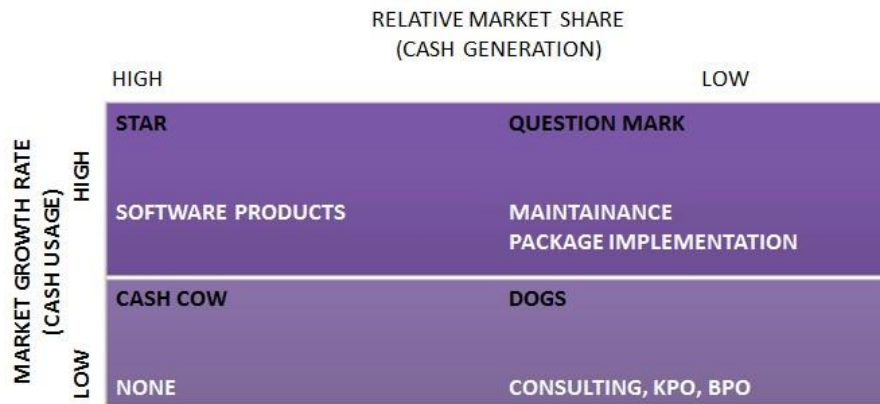
McKinsey's 7S Model:
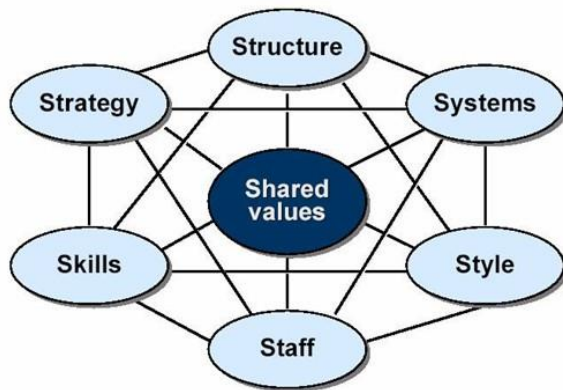
- **Style - LEADERSHIP**
  Infosys Leadership Institute"
  - ➤ open door policy,
  - ➤ continuous sharing of information,
  - ➤ takes inputs from employees in decision making,
  - ➤ builds personal rapport with employees

- **Staff – HUMAN RESOURCES**
  "Knowledge Based Industry" (90% are engineers)
  - Emphasis on academic records
  - Technical skills,
  - Ability to learn,
  - 2.65 per cent of its revenues on up gradation of employees skills

- **Strategy**
  - Client focused strategy (custom built soft wares)
  - Quality driven model
  - Strong Engagements with existing clients
  - Value added services to new clients
  - Geographical Expansion
  - Enhanced Solution Set
    i. Consulting
    ii. Business Process Management
    iii. Systems Integration
    iv. Infrastructure Management
  - Deep Industry Knowledge
  - Brand Visibility
  - Pursue alliances and strategic acquisitions

- **Shared Values**
  - Customer Delight
  - Leadership by Example
  - Integrity and Transparency
  - Fairness
  - Pursuit of Excellence

- **Organizational Structure**
  - Free Form
  - Flexible Team Structure
    E.g. A member, who might have been team leader in one project, may be replaced by another member of the same team for another project
  - Equality among employees

- **Skills**
  - Domain specific Certifications
  - Competency Building
  - Infosys has been **CMM-Level 5 certified for its process capabilities.**
  - It has entered the Balanced Scorecard Hall of Fame for Executing Strategy for achieving breakthrough performance results using the **Balanced Scorecard (BSC).**

- **Success Factors**
  - Sound Management Skills
  - Nurturing Working Atmosphere
  - Commitment To Values, Speed ,Imagination and Excellence
  - Personnel Management
  - Infrastructure
  - Invest in well understood, proven product & not just R&D.
  - While dealing with investors, always under-promise and over deliver.
  - Have a healthy sense of paranoia and respect for the competition.
  - Leaders in the making.

Generic Strategies:

- Low cost Global delivery 24/7 Model.
- Little differentiation in low-end services of value chain; high differentiation in high end services of value chain like software products and package solutions.
- Focus on quality, customer relationship management, and timely-delivery.

Market Penetration Strategy:

- Current Markets: USA and Europe Current Products: ADM, BPO, KPO, consultancy services (in BFSI, manufacturing and retail) and software products (financial products).

- Recommendation: As most large clients in US and Europe are cutting costs, Infosys needs to be more aggressive on cost and quality front. Result of strategy: Unlikely to yield good results. Indian IT firms make for 1% of sales in Japan which is the second largest market after US for IT services and Infosys can leverage onto it heavily

Market Development Strategy:

- New Market: India, Middle-east and Australia

- Current Product: ADM, BPO, KPO, consultancy services (in BFSI, manufacturing and retail) and software products (financial products).

- Recommendation: Since these are fast developing IT market, Infosys needs a paradigm shift in focus from US and EU markets to these markets.

- Result of strategy: Likely to yield good result.

Other Strategies:

- CONCENTRATION**:** 90% of Infosys revenues from American and European nations

- VERTICAL INTEGRATION: Infosys recently made a bid to acquire a European major – Axon consultancy to improve its business in European markets, but finally called off the deal due to high valuation. Otherwise, Infosys has always believed in organic growth.

- INNOVATION: The Software Engineering and Technology Labs (SET Labs) at Infosys is the center for applied technology research in software engineering and enterprise technology. SET Labs conducted 24 Innovation Workshops with customers from the US and Australia, to identify research collaboration possibilities. Infosys promotes a favorable work environment that encourages innovation and meritocracy.

Diversification:

- New Market: India, Middle-east and Australia

- New product: Consultancy and package implementation services in relatively growing sectors esp. healthcare, life sciences and aviation sector, and KPO services.

- Recommendation: Changing Brand image from low value service provider to high value service provider.

- Result of Strategy: Difficult to achieve overnight (possible in long term)

Corporate Strategy

The company has recently introduced a new strategy named Infosys 3.0 'Building Tomorrow's Enterprises. To introduce this strategy, the main aim of the company is to make itself more relevant to its clients and proactively help them in 'Building Tomorrow's Enterprise'. The company intends to focus more on better mix of business and non-linear revenues.

Below is an overview of strategies employed by Infosys

Infosys 1.0 (1981)

- Introduced Global Delivery Model (GDM).
- The ability to move technology work to a different geography where the talent is available.

Infosys 2.0 (2001)

- It was about integrating the GDM with consulting, industry vertical focus and end to end service capability within the company.
- The business model is a model based on repeat business.

Infosys 3.0 (2011)

- Increasing strategic partnership with clients.
- Establishing new business models of engagement with clients.

The company moved into its third chapter (Infosys 3.0). Where the first was about global delivery models, second was about developing verticals and third is about innovation and consolidation.

The company has identified seven key areas like Digital consumers, Emerging economies, Sustainable tomorrow, smarter organizations, New commerce, Pervasive computing and Healthcare economy, which are growing and present great scope for IT innovations. It has also identified new solutions in the areas of Cloud Computing, Enterprise Mobility and Sustainability along with the other solution like, Learning solution, business platforms Solution. Considering the macroeconomic indicators, the customers may go for reducing operational cost or transform their business operations or innovation to differentiate in the marketplace, thereby resulting in delivering their services to their clients at lower cost. This may drives opportunities for total IT outsourcing deals and Infosys is expected to be benefited from this.

Seven Themes

Digital Consumer

Digital media is redefining consumer mind-sets, patterns of purchase and decision-making. Digitally active consumers have embraced the Internet, telecom, media, and social space, changing the way consumers communicate, transact and make purchase decisions. These consumers rely on Internet research, friends and online peer reviews as opposed to 'sponsored' communication. This new breed of active, informed and assertive members are identified by their need for independence, uniqueness and participation.

Companies can leverage structured and unstructured analytics, active enterprise-consumer interfaces, and innovative platforms to reach out to the Digital Consumer. **Self Service, Personalization, and Co-creation** lie at the core of a successful digital consumer strategy, thus ensuring tailored and personalized solutions for organizations of tomorrow.

Emerging Economies

Countries including Brazil, Russia, India, and China (BRIC) are emerging as fast growing economies and engines of regional and world economy. Growth momentum, smart sourcing and innovation are keys to succeed in these economies where consumers are extremely diverse. Understanding specific needs and purchasing power of the target segment is imperative. To stay on top of the business and technology curve, enterprises must shift from the traditional model of inventing in developed markets and introducing to emerging markets. Products need to be re-engineered from the ground up to meet the requirements of emerging economies.

Healthcare Economy

Prevention is clearly the way forward for the future of healthcare. The preventive model focuses on the overall well-being of patients, unlike the traditional 'cure' model which focused only on paying physicians for treating specific illnesses. Patient-centric care considers patient's values, involves them in clinical decisions, and ensures transparency and self-care. The shift from the 'cure' model to the 'prevention' model will revolutionize the healthcare sector.

Affordability, Prevention and Patient-centricity drives transformation in healthcare and technology, consequently enhancing patient experience and providing effective care.

New Commerce

The guiding philosophy of new commerce is to create value for all market participants - producers, sellers, intermediaries, and consumers. Customers and enterprises alike are looking to conserve their resources and do more with less. New commerce is emerging, seeking and creating opportunities in previously untapped areas by leveraging mobility, micro-sized interactions and ushering in inclusivity. It is all about redefining access, size and markets.

A 'micro' mindset is emerging where customers are unwilling to pay for a complete package if all they require is a fraction. Banks and financial institutions are now looking to cater to this emergence of micro-personalization.

Pervasive Computing

Pervasive or Ubiquitous Computing was first termed and popularized by Mark Weiser. He envisioned creating environments involving computing and communication seamlessly integrated with end users.

Enterprises need to be prepared to provide a seamless user experience across devices and networks and connect with and engage their customers across platforms and networks. The three significant themes that will help in the evolution of pervasive computing are - **Intelligence, Cloud-based Computing and Sensor Networks**.

Smarter Organizations

In a global economy where change is the only constant, getting to the top is hard, but staying there is even harder. Most companies do well in suitable market conditions, but are unable to adapt to business cycles. Other enterprises survive downturns but are unable to rebound. Smarter organizations deliver long term value by creating a fine balance between operational excellence and continuous innovation. They forecast changes, adapt to changing environments, and sustain best-in-class knowledge management systems.

To be successful in tomorrow's business environment, smarter organizations must constantly simplify, collaborate and learn, and adapt to tomorrow's challenges.

Sustainable Tomorrow

Sustainability is the ability to endure without endangering or depleting natural resources for future generations. Societies are dependent on the preservation of our ecosystem and sustainability of the environment. Extended stakeholders (the environment, local communities, activist organizations, and the larger society) have the ability to influence the future of business. It is imperative to factor in social and environmental aspects as important dimensions of businesses.
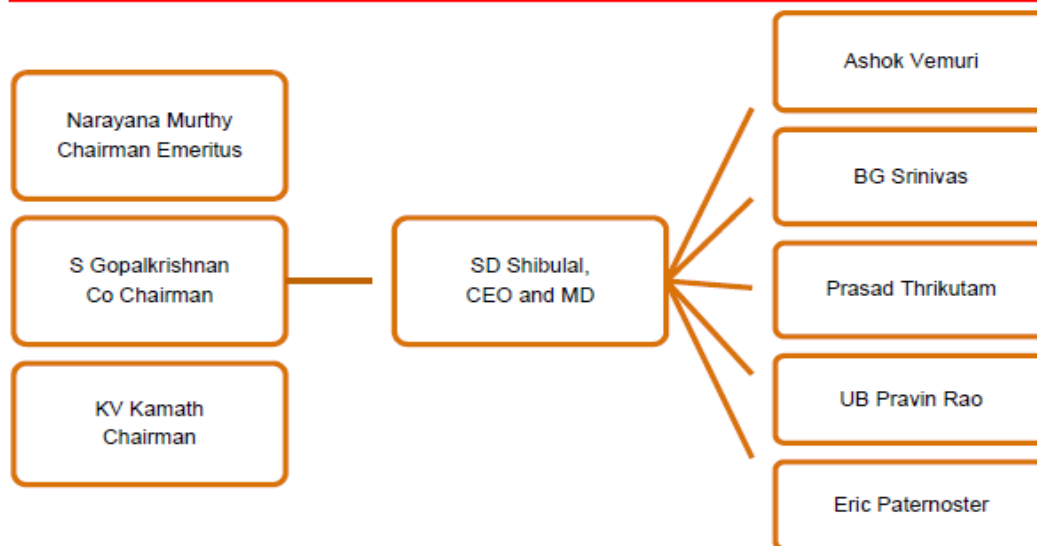
Sustainability is no longer a choice. Organizations must be environmentally conscious and look at it as a means to earn respect and trust as responsible businesses. It also presents tremendous opportunities to engage with stakeholders and act as catalysts for innovation.

IT plays a significant role in enabling the corporate sustainability journey. It can be used to effectively measure, monitor and report usage of energy and resources, account for carbon emissions, and integrate production control systems. It also identifies opportunities for optimization, enabling smart solutions across smart grids, green logistics, mobility, process optimization, and green IT.

Key Management Personnel

Mr. K V Kamath, non-executive chairman of ICICI Bank, has replaced iconic founder Mr.Narayana Murthy, who retired this year after nearly 30 years with the company. Mr. Kamath is first 'outsider' to head the company's board. He was already an independent director with the company. Mr. Kris Gopalakrishnan, who was earlier the CEO of the company, has been promoted to executive co-chairman and he will be helping Mr. Kamath in his task. The company has also reorganized its business into new vertical based structure and assigned new leaders for every verticals.

New Management Structure

Narayana Murthy
Chairman Emeritus

S Gopalkrishnan
Co Chairman

KV Kamath
Chairman

SD Shibulal,
CEO and MD

Ashok Vemuri

BG Srinivas

Prasad Thrikutam

UB Pravin Rao

Eric Paternoster

Business Structure

Infosys has reorganized the business into four verticals and service lines into three key categories. Under the service lines, first one is Business Transformation, which consists of business consulting work, system Integration and some part of application development. The second service line is Business Operations, which includes 'run-the-business' initiatives like application development & maintenance, testing and BPO. The third one is Innovation, including products and platforms. The company's target is to have one third of the revenue from each of these service line by the next 5-7 years. For Q2FY1 2, the revenue contribution from Business Operations was 60.9% while Business Transformation and Innovation contributed 31.2% and 7.9%, respectively. We believe, in coming quarters, vertical like BFSI, Retail, Healthcare and Energy and Utilities could deliver better performance, whereas telecom looks weak.

From Q1 FY12, Infosys has reclassified its segments and service offerings in following ways.

Organizational structure diagram
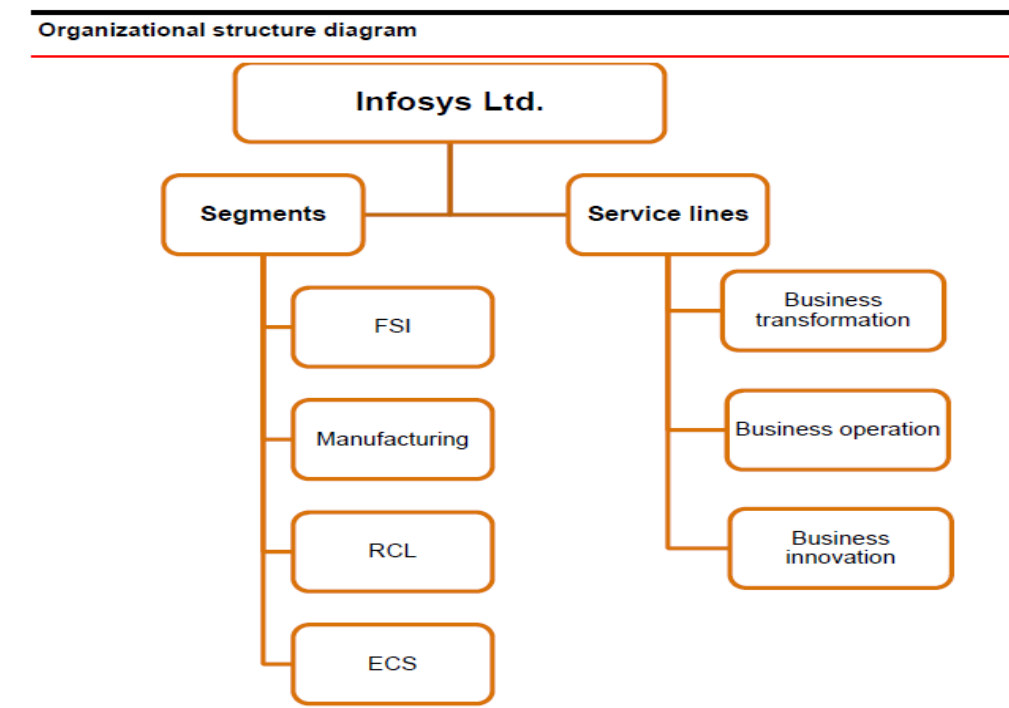
Risks & Challenges

- Economic uncertainty
- Regulatory changes
- Currency volatility
- Resource availability
- Ability to expand addressable market
- Wage inflation

Group 12

PGDMB13/40   Rahul Chakravarty
PGDMB13/41   Rakeshreddy Chintham
PGDMB13/54   Srinivasa Rakesh Adusumilli T N
PGDMB13/80   Ritesh Pandey
PGDMB13/90   Vivek Srivastava