Finlatics Business Analyst Experience Program

CASE PROJECT 1

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Case Project 1:

An Indian IT Service and product company has an employee base of 5000+ resources all over the globe. Around 73% of the resources are based out of India (Mumbai, Pune, Hyderabad and Ahmedabad). Total employee strength includes 690 contractors out of which 60% are in India, 5% in Australia and 7% in Asia Pacific centres. These contractors are on an average 1.4 times costlier than permanent employees.

Its customers are across 35 countries mainly in the US (32%), Middle-east (27%) and Europe (20%).

Its main business is providing IT solutions and Annual Maintenance Services. Though they provide IT solutions in all the domains, 46% of their revenue comes from BFSI sector, 21% is from the Healthcare sector and the rest from other sectors like Retail, Public sector, Manufacturing, Travel, Entertainment etc.

Its product-based business is providing pre-made softwares and applications for companies. The three products they offer are DevOps bundle, cybersecurity and digital marketing. 90% of revenue comes from the digital marketing product.

It enjoys a good margin from BFSI (42%) and Retail (39%) sectors and also from business in the US (48%) and Europe (44%) region. The margin is very low in business in India (9%) and other Asia Pacific countries (14%).

It is finding it difficult to be at par with its competitors on a year-on-year margin improvement rate which is 11% v/s 26% by other comparable IT companies in India. To address this, it is thinking of acquiring smaller organisations which specialise in niche technologies and having a larger customer base which will help them in increasing its employee base and expand the business with cross-sell opportunities.

Will the acquisition help in the improvement of margins? If yes, then why? If not, then what alternate strategy should the company follow?

Instruction Set:

1. Identify the root problem and use the MECE (mutually exclusive, comprehensively exhaustive) principle, discussed already in the module videos, to break down the problem.
2. Using the profitability tree down structure, divide it in two parts ‘Revenue’ and ‘Cost’.
3. Further branching can be done according to your logic but do keep in mind that those parameters shouldn’t overlap. E.g. Revenue and profit are overlapping parameters.
4. For revenue, 60% of it comes from IT solutions and maintenance, and rest comes from its products.
5. The company is looking forward to investing in India, US and Europe. See the potential growth for different sectors in these geographical locations.
6. In the US and Europe, the healthcare sector seems promising and the same for India with the BFSI sector. Explore other options and see what could be done differently.
7. Finally, provide recommendations for where the company should invest and what kind of acquisitions it should do.

Analysis:

Root Problem

The primary obstacle facing the company is that its profit margins are not increasing at the same pace as those of its rivals. It is struggling to match the annual margin improvement rate of other comparable Indian IT companies, which puts it in the red.

This is due to a number of factors, including:

1) **Low margins in India and other Asia Pacific countries:**
   The company's margins are much lower in India and other Asia Pacific countries than they are in the US and Europe. This is due to a number of factors, including lower customer spending, higher employee costs, and intense competition.

2) **Overreliance on the digital marketing product:**
   The company's product-based business is heavily reliant on its digital marketing product, which accounts for 90% of its product revenue. This makes the company vulnerable to changes in the market demand for digital marketing products.

3) **Lack of niche expertise:**
   The company does not have a strong presence in any particular niche technology. This makes it difficult to differentiate itself from its competitors and command higher margins.

MECE Analysis

To break down the problem using the MECE principle, we can divide the company's profitability into two main components: **revenue** and **cost**.

1) Revenue:

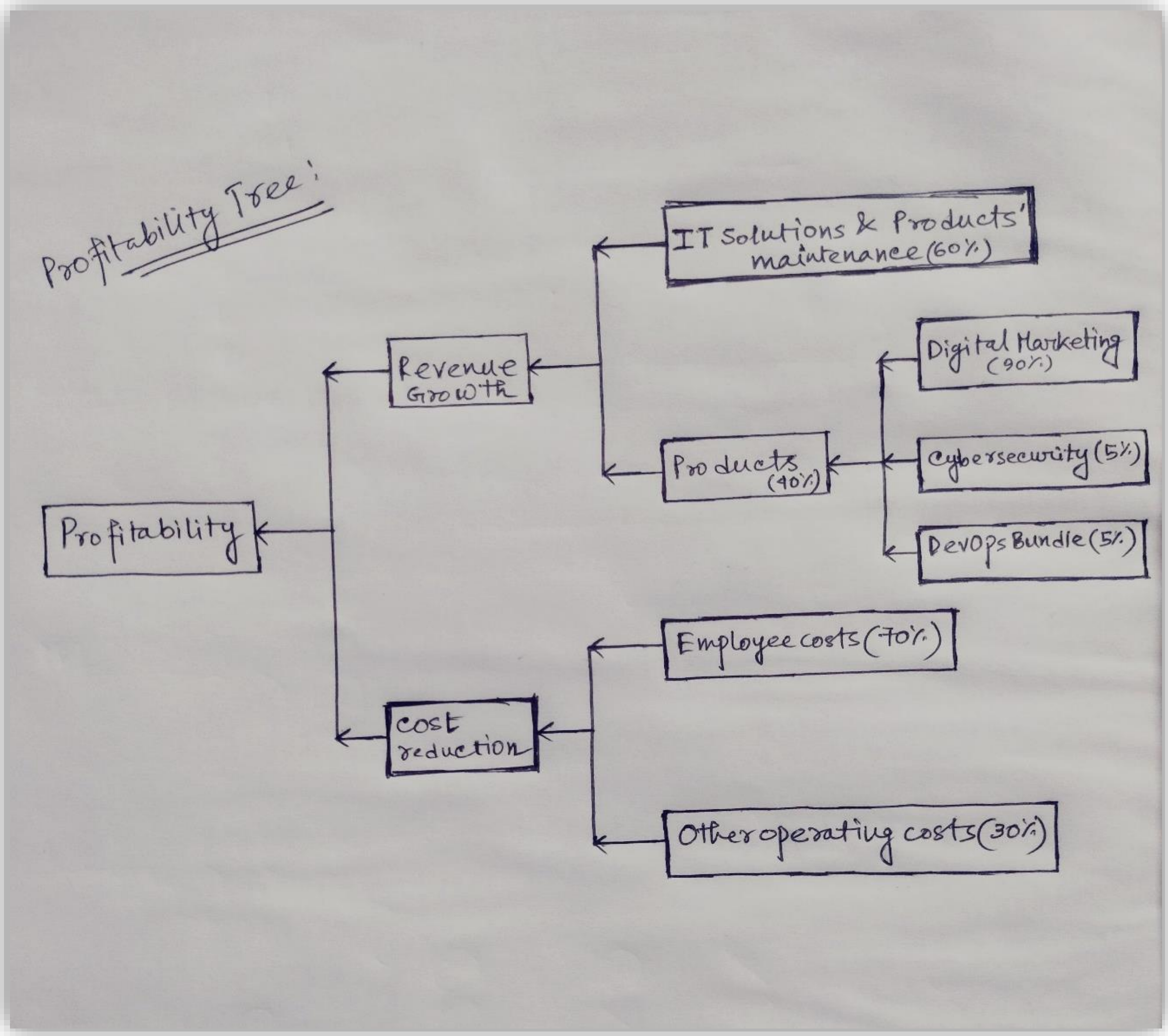
   a) IT solutions and products' maintenance (60%)
   b) Products (40%)

      i. Digital marketing (90%)
      ii. Cybersecurity (5%)
      iii. DevOps bundle (5%)

2) Cost:

a) Employee costs (70%)
b) Other operating costs (30%)

Profitability Tree



Potential Growth for Different Sectors

1) US:
The healthcare sector is promising in the US, with an expected growth rate of 5% per year. The BFSI sector is also expected to grow at a healthy rate of 4% per year.

2) Europe:

The healthcare sector is also promising in Europe, with an expected growth rate of 4% per year. The BFSI sector is expected to grow at a slower rate of 2% per year.

3) India:

The BFSI sector is promising in India, with an expected growth rate of 10% per year. The healthcare sector is also expected to grow at a healthy rate of 8% per year.

Recommendations

Based on the above analysis, we recommend the following actions for the company:

1) Invest in the healthcare sector in the US and Europe:

The company should invest in expanding its presence in the healthcare sector in the US and Europe. This could involve developing new healthcare-specific solutions, acquiring companies with healthcare expertise, or forming partnerships with healthcare providers.

2) Expand its product offerings:

The company should expand its product offerings beyond digital marketing. This could involve developing new products in areas such as cybersecurity and DevOps.

3) Acquire smaller organizations with niche expertise:

The company should acquire smaller organizations with niche expertise in areas such as cybersecurity and DevOps. This would allow the company to differentiate itself from its competitors and command higher margins.

4) Focus on cost reduction:

The company should focus on reducing its costs, particularly its employee costs. This could involve outsourcing some of its work, negotiating better deals with vendors, and reducing its overhead costs.

By following these recommendations, the company can improve its margins and become more competitive in the IT industry.