

PROJECT - 1

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Finlatics

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Problem statement

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?

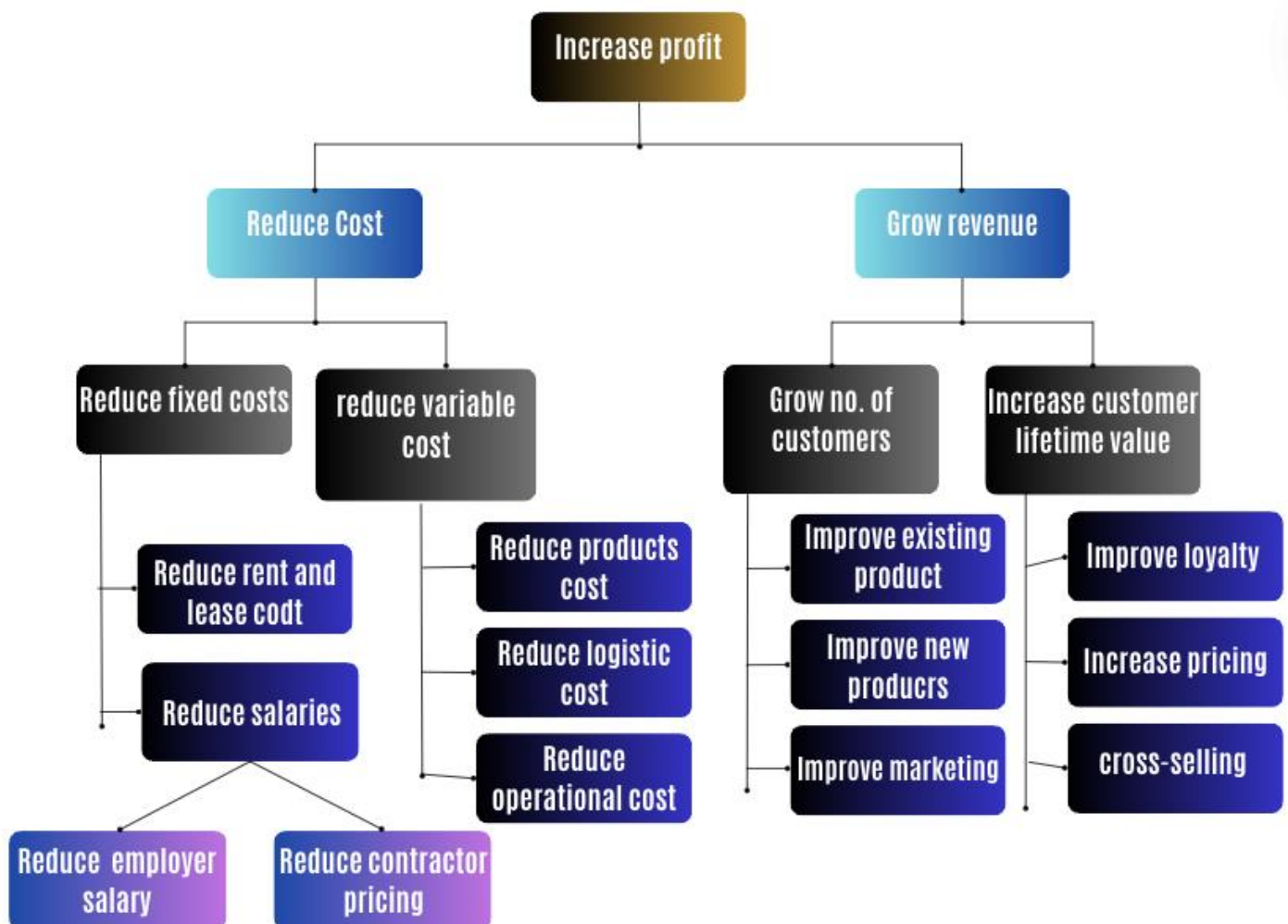
Instruction Set:

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. Eg. 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.

Solving using MECE :

We can break this problem into two parts, 'Revenue' and 'Cost'



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

Yes, the acquisition will help in the improvement of margins, margin is its ratio of profit to revenue-the ways it could help for improvement of margins would be:

1. Cross-selling and Up-selling:

Encouraging customers to purchase a comparable higher-end product than the one in question or inviting customers to buy related or complementary items, this will help to increase the customer lifetime value which will eventually increase the revenue which will result in improvement in margin

2. Enhance all aspects:

Niche technologies are a specific and specialized area within the broader field of technology, when acquisition is done to this then, the specific areas are concentrated individually and can be enhanced properly which can result in increase in customer inflow and reduce both fixed and variable costs as well, which ends up as a margin improvement in both the aspects by increasing revenue as there will lesser errors and reducing costs by avoiding extra charges and unwanted expenses

3. Improve customer base:

Acquiring niche technologies is done in order to increase customer base which results in increasing its employee base and expand the business. So, so increasing customer base can be done by marketing, improving existing products, giving best new products cost efficiently, So, increasing customer base can directly impact improve margin

The company is looking forward to investing in India, US and Europe, examining the chance for potential growth for different sectors in these geographical locations, we can identify few evidence and suggest some recommendations for where the company can invest and what kind of acquisition can be made:

1. Customer base is huge in US and Europe than India, US has 32% of customer base and Europe has 20%, Due to high customer base, the revenue generated is more in these both countries. Because of highly generative revenue tendency, the margin in these both countries are very good, the margins are 48% in US and 44% in Europe

2. Whereas in India the margin rate is only 9% which is less, not only margin rate margin improvement rate is also very less for this company, other companies have an improvement margin rate of 26%, whereas this company has only 11%, which is comparatively less, so acquiring niche technologies can improve the margin and margin improvement rate as well

3. Considering the records and data available, the company can invest in US and Europe in service and IT solutions in Healthcare and BFSI sectors as they have shown positive results ideally and for the rest of the sectors it would be advisable not to invest too much and just offer or release a trial like

period so that, customer likes towards these sectors by this company data can be collected and analyzed further and can take a final conclusion

4.As the revenue generated from products have shown 40% and 90% is from digital marketing in this 40%, so the company can invest in digital marketing in US and Europe

5.Considering India for both IT solutions and services & product based solutions, the margin and margin improvement rate for this company is less, so there is a lot of work to be done by the company, My recommendation would be to increase the customer base in India first there would be no problem regarding investments in other two countries . I.e, US and Europe, whereas India do need few changes in the company

6.Best way to invest and succeed in Indian market would be trial and error method, this method can be followed, that is provide the service and products to a set of customers who gave negative feedback, these customers can be identified by performing Sentiment Analysis, once the review is positive from these set of customers, the final investment to the whole market can be done, until the positive review is obtained the product flaws and errors should be rectified which are recommended by the customers. Because as an individual we can't decide a person expectations because we can't trace each and every individuals expectations, so rectifying from reviews can be a better and efficient way, so that we can trace out major expectations and changes

7.Another way to invest in Indian market and succeed would be providing the services and products at a cheaper rate or provide the service and products at the same rate but with some incentives, at the initial stage the profit would be less because investment cost will increase , but once customer base is acquired, then the prices can be increased gradually after a certain period, so that the both margin and margin improvement rate would improve

8.Comparing the LEADING competitors at the current market and their services and products sales analysis should be done. So that our product can altered and can be a hit/success. Once a certain customer base is obtained obviously our competitors would do the same procedure we did, and they will make changes accordingly and update their service and products, so in advance we should plan what they can do to make their product reach higher margins and what we can do to retain the customer base

9.Especially In India branding, marketing, taking the product to customers plays a major role, so advertisements, alliances, product and service partners play a major role, the above can increase the margin by 6 to 7 times than the present, because once a product is hit in Indian market then it will give profit at least for 2 years, which is enough time to update the current product. Thus conclusions can be made based on the above recommendations and data