The root problem in the given case study can be identified as the company's inability to achieve a year-on-year margin improvement rate comparable to other IT companies in India (11% vs. 26%). To break down this problem using the MECE (Mutually Exclusive, Comprehensively Exhaustive) principle, we can consider the following factors:

Cost Structure:

a. Employee Costs:

- Permanent employees
- Contractors

b. Operational Costs:

- Infrastructure
- Technology
- Administration

Revenue Streams:

a. IT Solutions:

- BFSI sector
- Healthcare sector
- Other sectors (Retail, Public sector, Manufacturing, Travel, Entertainment)

b. Annual Maintenance Services

c. Product-based Business:

- DevOps bundle
- Cybersecurity
- Digital marketing

Geographical Factors:

a. Employee Distribution:

- India (Mumbai, Pune, Hyderabad, Ahmedabad)
- Australia
- Asia Pacific centers (excluding Australia)

b. Customer Distribution:

- US
- Middle East

- Europe
- Other countries

Margin Analysis:

a. Revenue Margin by Sector:

- BFSI sector
- Retail sector
- Healthcare sector
- Other sectors

b. Revenue Margin by Region:

- US
- Europe
- India
- Other Asia Pacific countries

Competitive Analysis:

a. Comparison with Other IT Companies in India:

- Margin improvement rates

b. Acquisition Strategy:

- Identifying smaller organizations specializing in niche technologies
- Cross-sell opportunities
- Customer base expansion
- Employee base expansion

2) Profitability Tree Breakdown:

Revenue:

a. IT Solutions:

- BFSI sector
- Healthcare sector
- Other sectors (Retail, Public sector, Manufacturing, Travel, Entertainment)

b. Annual Maintenance Services

c. Product-based Business:

- DevOps bundle
- Cybersecurity
- Digital marketing

Cost:

a. Employee Costs:

- Permanent employees
- Contractors

b. Operational Costs:

- Infrastructure
- Technology
- Administration

Exploration of Options:

a. US:

Identify other promising sectors besides healthcare.

b. Europe:

Identify other promising sectors besides healthcare.

c. India:

Identify other promising sectors besides BFSI.

Recommendations:

a. Based on revenue analysis, consider investing in high-potential sectors within the US, Europe, and India.

b. Explore opportunities for strategic acquisitions in the identified growth sectors to enhance capabilities and expand customer base.

c. Focus on strengthening product offerings and marketing strategies to increase revenue from the product-based business.

d. Continuously monitor and optimize the cost structure, particularly employee costs and operational expenses.

e. Conduct thorough due diligence when considering acquisitions to ensure compatibility, synergies, and potential for margin improvement.

By following this structured breakdown and analysis, the company can make informed decisions regarding investments, acquisitions, and strategic actions to improve profitability and address the root problem of margin improvement.

Results upon analysing the things

Cost of Contractors:

The case study mentions that contractors are 1.4 times costlier than permanent employees. If the acquisition involves acquiring smaller organizations that primarily use permanent employees rather than contractors, it could potentially reduce the overall cost of resources. This could lead to improved margins.

Revenue Distribution:

The company generates a significant portion of its revenue from the BFSI sector, which has a good margin. By acquiring smaller organizations specializing in niche technologies, the company can expand its offerings and potentially tap into new sectors or strengthen its presence in existing sectors. This diversification could lead to increased revenue streams with better margins.

Cross-Sell Opportunities:

Acquiring smaller organizations with a larger customer base can create cross-selling opportunities. For example, if the company acquires an organization that specializes in cybersecurity, it can offer these services to its existing customer base, increasing the revenue from upselling or cross-selling. This can positively impact the company's margins.

Geographical Expansion:

The case study mentions that the company's margins are low in India and other Asia Pacific countries. By acquiring smaller organizations with a presence in these regions, the company can expand its geographical reach and potentially tap into new markets with better margins.

Considering these points, it is likely that acquiring smaller organizations can help improve the company's margins. However, it is crucial to conduct a detailed analysis of potential acquisition targets, their financials, and synergies with the company's existing business. Proper due diligence is necessary to ensure that the acquired organizations align with the company's strategic goals and can contribute to margin improvement.

If the acquisition strategy is not feasible or does not yield the desired results, the company can consider alternative strategies such as:

Cost Optimization:

Focus on optimizing costs within the existing operations by identifying areas of inefficiency and implementing measures to reduce expenses. This could involve streamlining processes, renegotiating contracts, or leveraging technology to automate tasks.

Value-added Services:

Explore opportunities to provide additional value-added services to existing customers. This could involve upselling or cross-selling complementary products or services that can generate higher margins.

Market Diversification:

Explore new markets or sectors with higher-margin potential. This could involve targeting industries that are currently not a major revenue source for the company but have better profitability prospects.

Technology Upgrades:

Invest in research and development to develop or acquire innovative technologies that can differentiate the company's offerings and command higher margins.

Ultimately, the company should conduct a comprehensive analysis of its internal capabilities, market conditions, and available opportunities to determine the best strategy for margin improvement.