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.

Suggested Solution:

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.

My Advice:

No,I would not suggest acquisition of small businesses.Acquiring smaller businesses carries risks like cultural misalignment, integration difficulties. If the company struggles with its current margins, taking on more businesses could increase financial strain. Acquisitions could be considered later, but only when the company stabilizes its profitability and builds the capacity to integrate new businesses effectively.

MECE Breakdown:

The problem is broken down into components that are mutually exclusive and collectively exhaustive using MECE.

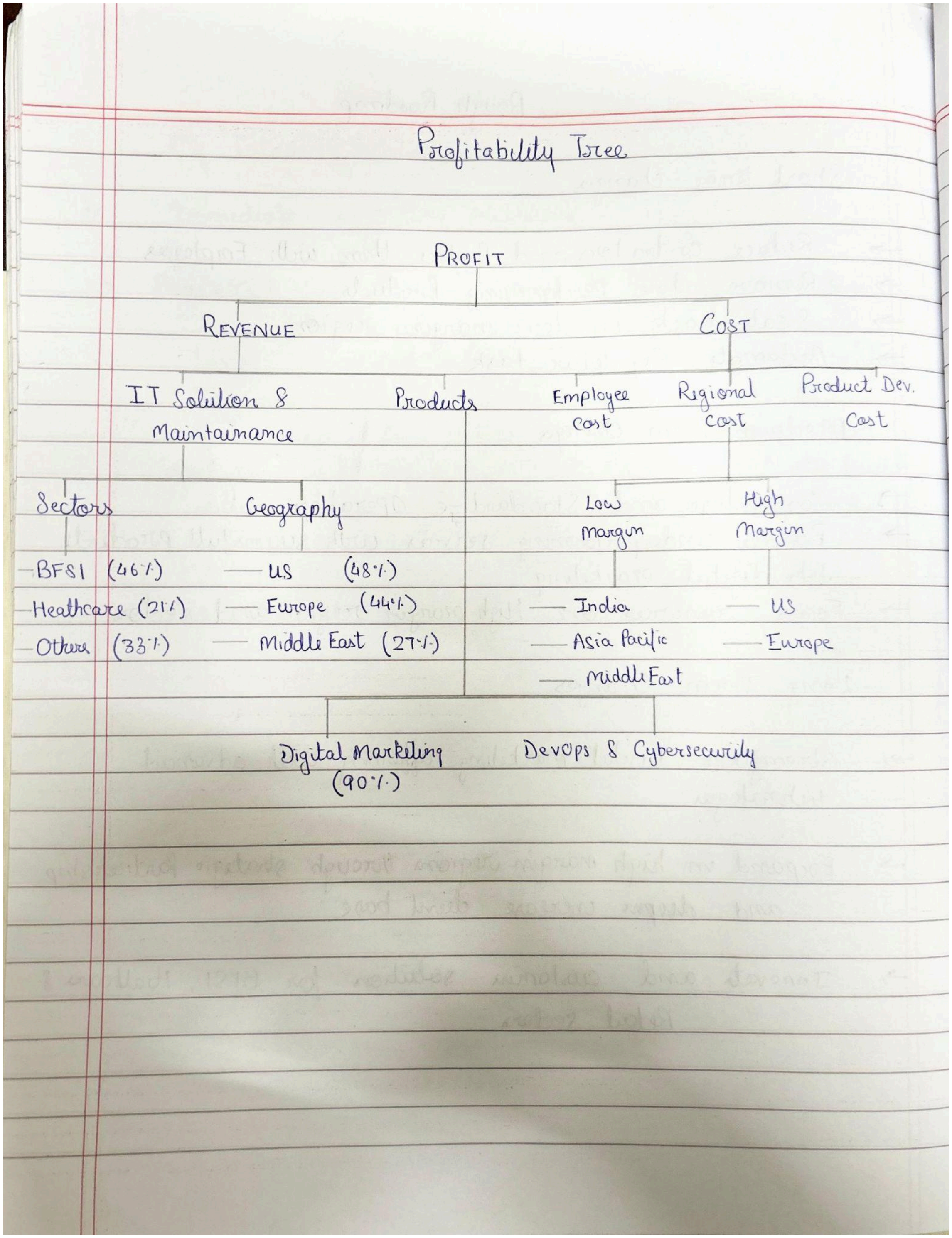
Costs:

- Employee Expenses:
  - Permanent versus contract workers.
  - Opportunities for automation and training.
- Regional Operational Costs:
  - Asia-Pacific and India are low-margin regions.
  - High-profit areas (Europe, the US).
- Costs associated with product development:
  - Investing in underperforming products (Cybersecurity and DevOps).
  - Administrative and infrastructure expenses are considered general overheads.

Revenue:

- 60% of revenue comes from IT solutions and maintenance.
  - By industry: retail, healthcare, BFSI, etc.
  - By region: Asia-Pacific, India, the Middle East, Europe, and the United States.
- Sales of products (40 percent of revenue):
  - 90% of product income comes from digital marketing.
  - 10% of product income goes to cybersecurity and DevOps.

Profitability Tree:

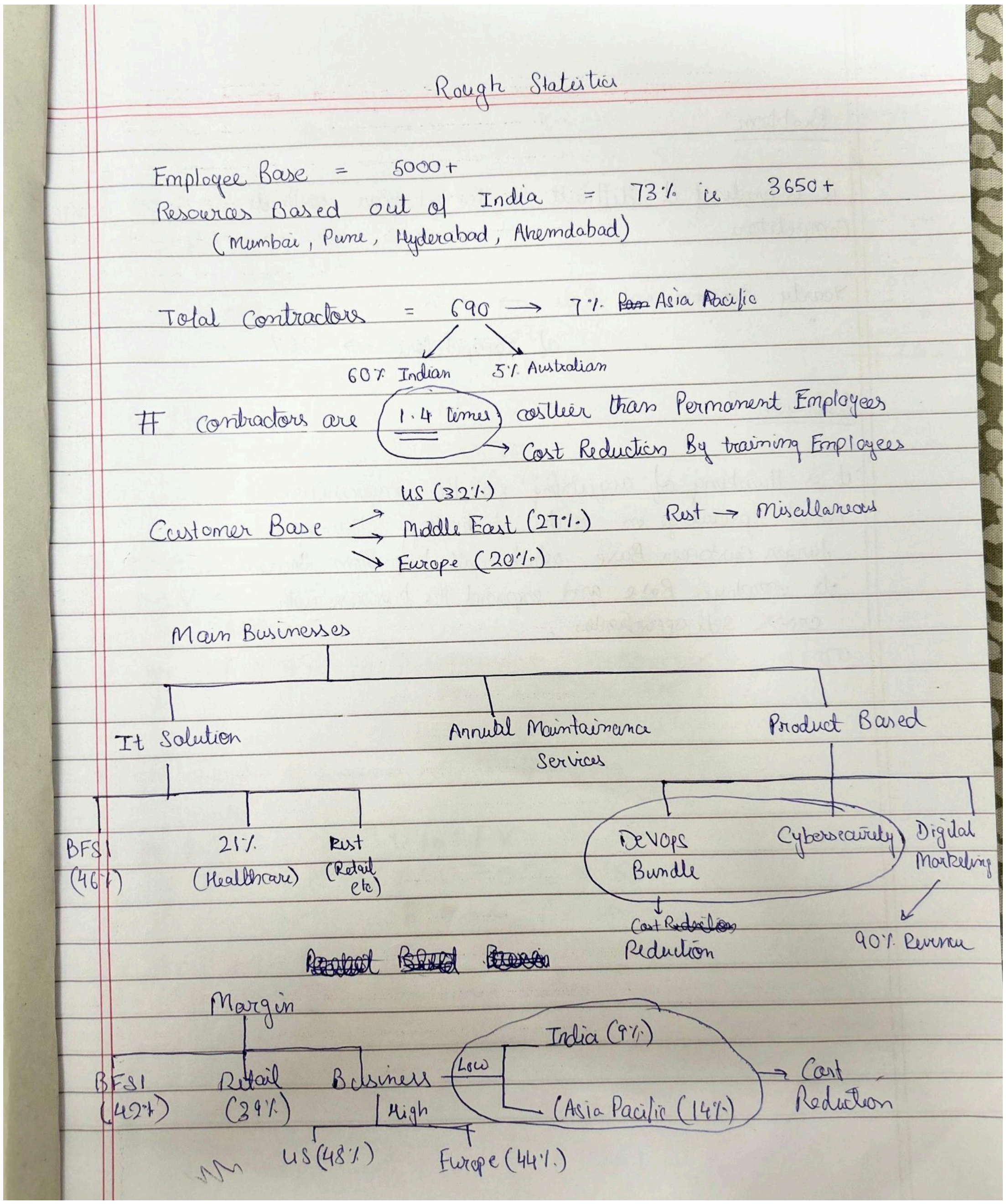


Root Issue: The business is having trouble improving its margins year over year at a rate of only 11% as opposed to competitors' 26%. This is mostly because of:

- Overuse of contractors (690 contractors, which are 1.4 times more expensive than permanent staff).
- Inefficiencies in Asia-Pacific and India, two low-margin regions.
- Underperforming cybersecurity and DevOps products.
- Inadequate Growth in Revenue:
- excessive reliance on the healthcare and BFSI sectors without investigating alternative high-margin industries.
- Asia-Pacific and In
- dian countries' low-margin contributions.
- Despite its dominance, the digital marketing offering lacks innovation and uniqueness.

Detailed Solution :

My approach is more focused on immediate cost-cutting for short term gain along with more sustainable medium to long term changes.



Rough Roadmap

Short term changes

→ Reduce contractors and Replace them with Employees
→ Remove low performing Products
→ Scale back in low margin region
→ Automate Repititive task

Medium Term Changes

→ Centralize and Standardize Operations
→ Bundle underperforming services with successfull products like digital marketing
→ Focus resources on High margin region and sectors

Long Term Changes

→ strengthen Digital Marketing offering with advanced technologies

→ Expand in high margin regions through strategic Partnership and ~~deeper~~ increase client base

→ Innovate and customize solution for BFSI, Healthcare & Retail sectors

1. Immediate Cost-Cutting Measures

1.1 Reduce Contractor Dependence

Phase out contractors: Gradually replace contractors (starting in low-margin regions like India and Asia-Pacific) with trained in-house employees. This reduces costs and builds long-term capabilities.

Automate repetitive tasks: Use Robotic Process Automation (RPA) and other tools to eliminate roles where feasible, further reducing dependency on contractors.

1.2 Eliminate Low-Performing Products

Stop offering the DevOps bundle and cybersecurity products, which contribute minimally to revenue and margins. Redirect resources toward enhancing the digital marketing product, which drives 90% of product-based revenue.

1.3 Scale Back in Low-Margin Markets

Minimize operations in low-margin regions like India and Asia-Pacific. Focus only on essential clients or services while reallocating resources to high-margin regions (US, Europe, and the Middle East).

2. Medium-Term Strategies

2.1 Optimize Operations

Consolidate operations into fewer, high-performing centers. For example, move resources from low-margin cities (e.g., India or Asia-Pacific locations) to higher-margin ones.

Standardize and centralize processes to lower costs and improve quality across all regions.

2.2 Present Packaged Products

To increase sales and support their continued existence, combine DevOps and cybersecurity with digital marketing services rather than eliminating them entirely.

Promote bundled offerings as a "one-stop shop" for customers, especially in high-profit industries like retail and BFSI.

3. Long Term Strategies

3.1 Pay Attention to High-Margin Industries

Invest in tailored solutions for the two industries with the largest profit margins, retail and BFSI (42% and 39%, respectively).

To draw in more customers in these areas, increase industry-specific knowledge and improve service uniqueness.

3.2 Increase Visibility in High-Margin Areas

Aim for more market share in the US, Europe, and the Middle East.

Utilize cross-selling and upselling techniques to provide current customers in these areas with more services and goods.

3.3 Collaborate Rather than Purchase

Instead than purchasing specialized IT companies outright, establish strategic alliances with them. Without taking on the financial risks of acquisitions, partnerships can allow the business access to specialized expertise and clients.

To increase trust and grow the clientele, concentrate on forming alliances in high-margin areas.

3.4 Create Novel Products for Digital Marketing

To make the digital marketing offering more competitive and essential for customers, invest in automation, analytics, and artificial intelligence.

To make the product more valuable and relevant, tailor it for high-margin sectors like retail, healthcare, and BFSI.

Evidence of Progress By using the company's data to create a before-and-after comparison, one can quantify the approach's prospective impact:

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1. Cost Reduction on Replacing Contractors

Data:

- Total employees = 5,000 (including 690 contractors).
- 60% of contractors are in India (414 contractors).
- Contractors are 1.4x costlier than permanent employees.
- Assume a contractor costs ₹100,000/month on average.

Calculation:

- Current cost for contractors:

  $690 \text{ contractors} \times ₹100{,}000 = ₹69{,}000{,}000$ per month

- Replacing 50% of contractors with permanent employees:
  - New cost = $345 \text{ contractors} \times ₹100{,}000$ + $345 \text{ employees} \times ₹71{,}428$ (100,000 / 1.4)
  - New cost = ₹34,500,000 + ₹24,642,060 = ₹59,142,060/month.

Savings:
$₹69{,}000{,}000 - ₹59{,}142{,}060 = ₹9{,}857{,}940$ per month ($\approx 14.3\%$reduction).

Over a year, this amounts to:

$₹9{,}857{,}940 \times 12 = ₹118{,}295{,}280$ ($\approx ₹11.83$ crores/year).

2. Removing Low-Performing Products

Data:

- Products: Digital Marketing = 90% of product revenue; DevOps and Cybersecurity = 10%.
- Revenue from products = 30% of total revenue.

Assumptions:

- Annual revenue = ₹1,000 crores.
- Product-based revenue = ₹1,000 crores×30%=₹300 crores
- Revenue from DevOps and Cybersecurity = ₹300 crores×10%=₹30 crores
- Operating cost for DevOps and Cybersecurity = ₹35 crores (assume 5% loss).

Impact:

- Eliminating these products reduces revenue by ₹30 crores but saves ₹35 crores in costs.
- Net profit improvement: ₹35 crores−₹30 crores=₹5 crores.

3. Cost Reduction By Scaling Down Business in Low Margin Areas

Data:

- Revenue contribution by region:
  - India = 9%, Asia-Pacific = 14%, US = 48%, Europe = 44%.
- Margins: India = 9%, Asia-Pacific = 14%, US = 48%, Europe = 44%.
- Annual revenue = ₹1,000 crores.

Assumptions:

- Scaling back operations in India and Asia-Pacific by 50%.

Calculation:

- Revenue reduction from India:
  $₹1,000 \text{ crores} \times 9\% \times 50\% = ₹4.5 \text{ crores}$
- Revenue reduction from Asia-Pacific:
  $₹1,000 \text{ crores} \times 14\% \times 50\% = ₹7 \text{ crores}$
- Total cost savings (assuming 5% operational costs in these regions):
  $\text{Savings} = ₹4.5 \text{ crores} \times 5\% + ₹7 \text{ crores} \times 5\% = ₹0.575 \text{ crores}$.

4. Revenue Growth from Upselling and Bundling

Data:

- Existing customer base = 500 customers in BFSI and Retail.
- Revenue from BFSI and Retail: 46% (BFSI) + 20% (Retail) = 66%.

Assumptions:

- Increase revenue by 10% through bundled offerings.

Calculation:

- Revenue from BFSI and Retail = ₹1,000 crores ×66%= ₹660 crores.
- 10% increase: $₹660 \text{ crores} \times 10\% = ₹66 \text{ crores}$

5. Combined Impact

Total Estimated Improvements:

1. Contractor Replacement Savings: ₹11.83 crores/year.
2. Low-Performing Product Elimination: ₹5 crores/year.
3. Scaling Back in Low-Margin Regions: ₹0.575 crores/year.
4. Upselling and Bundling: ₹66 crores/year.

Total Margin Improvement:

₹11.83+₹5+₹0.575+₹66=₹83.4 crores/year

Percentage Margin Growth:

- Current margin improvement = 11%.
- Additional improvement: New Margin=11%+(₹83.4 crores/₹1,000 crores)×100=19.3%.

Conclusion

By implementing the strategy, the company can **increase its year-on-year margin improvement rate from 11% to 19.3%**, closing the gap with competitors and setting a solid foundation for sustainable growth.