Problem Identification

The company is struggling to keep up with its competitors in terms of year-on-year margin improvement, with its current improvement rate at 11% compared to the industry average of 26%. This is primarily due to lower margins in certain regions and sectors and higher costs associated with contractors.

MECE Breakdown

1. **Revenue**
   - **IT Solutions & Maintenance (60%)**
     - **Geographical Distribution:**
       - US (32% of customers)
       - Middle-East (27%)
       - Europe (20%)
       - India
       - Asia-Pacific
     - **Sector Distribution:**
       - BFSI (46% of total revenue)
       - Healthcare (21%)
       - Other sectors (Retail, Public sector, Manufacturing, etc.)
     - **Margins:**
       - BFSI (42%)
       - Retail (39%)
       - US (48%)
       - Europe (44%)
       - India (9%)
       - Asia-Pacific (14%)
   - **Product-based Business (40%)**
     - **Products:**
       - DevOps bundle
       - Cybersecurity
       - Digital marketing (90% of product revenue)
2. **Cost**
   - **Employee Base**
     - **Permanent Employees**
     - **Contractors**
       - Distribution: India (60%), Australia (5%), Asia-Pacific (7%)
       - Cost: 1.4 times more expensive than permanent employees
   - **Operational Costs**
     - **Regions with High Costs:**
       - India
       - Asia-Pacific
   - **Acquisition Costs**

Evaluation of Acquisition Strategy

The acquisition of smaller organisations specialising in niche technologies could help the company in several ways:

1. **Expansion of Customer Base:**
    - Acquiring companies with a larger customer base can increase the company's revenue streams through cross-selling opportunities, particularly in high-margin regions like the US and Europe.
2. **Enhancement of Technological Capabilities:**
    - Acquiring companies that specialise in niche technologies could enhance the company's offerings, especially in areas like digital marketing, where the company already enjoys a strong position.
3. **Improvement of Margins:**
    - By acquiring companies with a focus on high-margin sectors like Healthcare in the US and Europe, the company could improve its overall margin. However, integrating these acquisitions efficiently will be key to ensuring that they do not introduce new costs that could offset the margin gains.

Alternate Strategies

1. **Focus on High-Margin Sectors and Regions:**
    - The company should consider expanding its focus on high-margin sectors like Healthcare in the US and Europe. Investments in the BFSI sector in India could also be profitable given the potential for growth.
2. **Cost Optimization:**
    - Reduce reliance on contractors, especially in regions where they are more expensive. This can be achieved by increasing the number of permanent employees in these regions or renegotiating contractor rates.
3. **Product Diversification:**
    - While digital marketing is currently the main revenue driver in the product business, the company could explore growth opportunities in DevOps and cybersecurity products, particularly in regions and sectors where these are in demand.

Recommendations

1. **Strategic Acquisitions:**
    - Target acquisitions in companies that specialise in high-margin sectors like Healthcare in the US and Europe or BFSI in India. Focus on companies with strong technological capabilities in niche areas like digital marketing, cybersecurity, and DevOps.
2. **Geographical Expansion:**
    - Increase investment in the US and European markets, particularly in the Healthcare sector. Simultaneously, strengthen the BFSI sector in India.
3. **Cost Management:**
    - Optimise the cost structure by reducing reliance on expensive contractors, particularly in low-margin regions like India and Asia-Pacific. Invest in training and developing a strong in-house team to reduce dependency on external contractors.

By following these strategies, the company can potentially improve its margins and achieve a more competitive year-on-year margin improvement rate.