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OSSCube: Deciding On The Levers Of Growth

Jaydeep Mukherjee wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In 2008, Lavanya Rastogi and Vineet Agrawal launched OSSCube Solutions Ltd. (OSSCube) as an open source systems integration company in Noida, India. The company grew to US$10–20 million[[1]](#footnote-1) in revenue by 2015 with a gross profit of $2–5 million, and expanded its operations to the United States and the United Kingdom. In 2016, it had 305 employees, of which approximately 250 were in India. The founders had successfully negotiated the usual start-up challenges of capital infusion, acquiring and retaining skilled human resources, managing a market relevant product portfolio, and expanding operations globally (see Exhibit 1). They focused on their core competencies of offering software engineering and implementation services based on open source solutions, products, and technologies. By 2015, this focus was ingrained in OSSCube’s technical and management team.

However, in November 2015, Jim Nathan, chief information officer (CIO) of one of OSSCube’s biggest and most profitable clients, called Rastogi with big news. From January 2016 onward, Nathan’s company would only work with vendors who were not only experts in technology but also provided end-to-end solutions for all the company’s business problems. This communication from Nathan was in line with the emerging trends of large customers rationalizing their vendor base and looking for complete business solution providers, not just technology suppliers. Another trend was that the chief marketing officers of client organizations were becoming increasingly demanding as digital disruption affected their customers’ business models. The CIOs of client organizations had to take care of their internal customers’ new emerging needs too. Nathan gave Agrawal and Rastogi only a fortnight to get back to him about whether they were willing to become a total business solution provider.

Scaling up revenues and profits was critical for OSSCube’s investor community. Rastogi and Agrawal knew they could continue focusing only on open source technology projects and grow that way. The advantage of this option was that they would continue with a tried and tested business model that leveraged their core competence and human resource skills, and avoided direct confrontation with big technology consulting firms such as International Business Machines Corporation (IBM), Accenture, and Cognizant. At the same time, this strategy meant that they operated with smaller projects, providing only professional services that had reasonably high margins. They would still remain a fairly uncertain business in terms of achieving sustained and assured growth.

The alternative strategy was to become customer-centric and solve all the business problems of customers, even if it meant using closed source technology options. This route could provide OSSCube with a bigger and more profitable customer base, with steady revenue streams and business growth prospects. However, it meant repositioning the company from its fiercely guarded image of being an open source technology provider to a 360-degree solution provider. This change could incite a stronger competitive response and cause OSSCube to lose its sharp positioning in the minds of employees and customers; it also presented the challenge of making changes in the organizational structure and mindsets of people, which brought considerable risk.

Rastogi and Agrawal realized they would need to decide on two critical aspects before responding to Nathan. The first was whether they should expand their current business as an open source technology provider to become a full-service business solution provider now, or postpone this decision, even if it meant losing some of their existing client base. If they opted to become a 360-degree solution provider now, then the second decision would relate to the timing and the sequence of all the changes required to implement the new strategy.

Background

OSSCube started in 2008 as an open source technology software development and open source customer relationship management (CRM) platform provider. The company had delivery operations in India and principal markets in the United States, which reflected the prevalent U.S.-India offshore business service model at the time. OSSCube’s mission was to become the largest pure play open source solutions provider in the world, become an employer of choice in each country it operated in, and create and unlock value for all its stakeholders.

Initially, OSSCube developed its business around customizing and implementing a leading open source CRM solution called SugarCRM. The company focused on training to build in-house competence and expertise. Project managers and top management acquired the business while the rest of the organization serviced it. In 2009, OSSCube decided the United States was the largest potential market for its services and local presence was critical to harnessing that business. Rastogi moved to the United States and set up a sales office for which delivery came from India. Sales operations grew, and in 2011, OSSCube expanded its sales presence to the United Kingdom with the help of a partner organization.

By 2015, OSSCube had developed and integrated a variety of enterprise business solutions using open source technologies—targeting enterprise accounts and high-growth companies. It had more than 70 customers in 18 countries and more than 45 active projects underway. Its key practices included information technology (IT) modernization, enterprise web solutions, and solutions for mobile, e-commerce, digital assets, the Cloud, big data, and the Internet of Things.

OSSCube’s core areas of service were advising on enterprise and solution architecture; leveraging open source enterprise solutions to solve business problems; enabling mobilization, modernization, and digital transformation in its customer organizations; and extending client organizations’ IT capability by leveraging its global delivery model.

OSSCube leveraged the benefits of open source software for its clients, such as lower costs, better security, reliable quality, freedom from vendors, less resource-intensive business, and interoperability. It made steady progress to become one of the leading open source technology providers by 2015 (see Exhibits 2 and 3). The company’s expansion plan for 2016 included setting up offices in Amsterdam, Dubai, and New York.

As the organization grew, it faced a major operational challenge. The sales teams in the United States and United Kingdom had to be customer-centric and solve customers’ business problems in real time. However, the delivery team in India was technology-centric and focused more on open source technology first before customer needs. The sales teams comprised marketing professionals who focused on acquiring new customers. The technology team, which had only technology experts, essentially serviced customers, generated further business, and grew these accounts. This arrangement was not working well because the sales team members wanted more control over delivery and associated services to the clients they acquired. They wanted their sales responsibility to be supported by their authority and control over delivery. Delivery from a remote location where the authority lines were different represented quite a challenge.

OSSCube employees prided themselves on being serial entrepreneurs, technologists, thought leaders, seasoned professionals, “geeks,” college dropouts, coffee addicts, and so on. They believed that their imagination was fired by a passion to transform lives through innovation and cutting-edge technology. Rastogi, co-founder and chief executive officer (CEO) exclaimed, “We solve complex problems and convert ideas into reality! We script success stories of business transformation for our clients!” Agrawal, co‑founder and chief operating officer (COO), said, “We help customers do more (magic) with less (dollars and time). We do it all with open source (and coffee)!” Sonali Minocha, co-founder and head of delivery, added the following:

We are bold entrepreneurial geeks that: (a) help enterprises (Fortune 500 and mid-market) to build IT solutions with a high return on investment and faster time—using open source technologies; (b) collaborate with start-ups to get them to market faster—as their technology partner; and (c) we focus on digital transformation, big data, e-commerce, mobility, and the Internet of Things . . . turning ideas into reality. . . dreams into products . . . business pains into business gains.

Stakeholder expectations

Individual stakeholder groups each had their own expectations. Investors expected to receive a healthy return on investment of over 20 per cent and annual growth in excess of 25 per cent, with a high recurring revenue base (70–80 per cent). The final goal was to have an exit through a strategic acquisition or initial public offering. Promoters wanted to build a profitable and fast-growing system integration business with global delivery capability, focusing on niche capabilities and projects. Top management wanted to build an open source business, offering highly specialized solutions with high skill requirements, not just “vanilla services” like other professional service vendors and system integrators.

Customer landscape

Agrawal and Rastogi worked out a potential market for OSSCube’s services in four different segments.

**Small and Medium Businesses**

This segment comprised smaller businesses, which were often closely held and usually lacked a defined IT strategy or in-house IT capability. These firms’ main interest was to implement shrink-wrapped business solutions to improve employee productivity or business efficiency though automation. Most projects were iterative in nature, requiring a lot of close collaboration and customer education, but they were mostly one‑time initiatives. Most of these customers did not have annual IT budgets for new projects or systems; hence, repeat business was difficult to generate. It was also challenging to deliver projects for customers profitably because the requirements evolved over time (which increased delivery costs) and budget expectations were usually fixed. However, it was relatively easy to acquire accounts, the sales cycles were short (one to three months), and customers were more open to working with new vendors, working remotely, and so on.

If properly serviced, customers in this segment could be highly profitable and the relationships could last for multiple years. The key feature in the segment was that it often had one project owner or point of contact that owned the business relationship, so the decisions were quicker and selling process was less formal. Competition was high, and pricing was typically under pressure.

**Mid-Market Businesses**

Mid-market businesses were established businesses with annual turnovers in the range of $250 million to $5 billion and internal IT setups. They mainly sought to leverage IT systems to enable efficiencies as well as support business growth and enter new markets. The required product mix was both packaged solutions and a significant amount of customized projects. Most of these customers had a defined IT budget or formal budgeting process for new projects, and often had plans for multi-year IT spends.

Customers were usually quick adopters of new technologies, and were fairly agile and responsive compared to larger organizations. The decision-making time or sales cycles were about three to nine months, and often followed the budgeting cycle. Selling to these accounts was more complex because there were multiple stakeholders and decision makers. The decision-making process was more formal, frequently resulting in a request for proposal sent to multiple vendors.

Mid-market customers often had existing vendor relationships and added new vendors only on a need basis, when new technology or functional skills were required. Profit margins in these accounts were moderate, but project sizes were usually larger than for small and medium businesses, and the relationships typically lasted for many years. On the other hand, much higher effort and expenses were required for relationship management while working with these accounts, as multiple stakeholders across departments had to be engaged for a successful relationship. For this segment, IT budgets were often growing, and in many cases, the decision-making unit was the business unit with the budget, which was attractive for new vendors.

**Enterprise Accounts**

This segment comprised large global corporations with large annual IT budgets, a multi-year planning horizon, and complex IT organizations. Customers had large global system integrators such as IBM and Accenture working for them. The selling cycles were long and formal. Only empanelled vendors were invited to participate in the proposal process. Customers were risk averse and performed a detailed assessment on any new vendors before empanelling them.

Most projects either originated from the need to implement large enterprise resource planning systems or modernization initiatives. The majority of these firms’ budgets were spent on infrastructure and system maintenance. Vendor relationships often ran deep and across departments, and the entry barrier for new vendors was high. However, once empanelled, the stability of business was also high.

Competition for accounts was intense, and pricing was mostly standardized. Many vendors had large captive onsite and/or offsite teams dedicated to the accounts. In addition, vendors were expected to invest substantially in their own infrastructure. The nature of the relationship between organizations and vendors was much more collaborative and consultative in nature. The decision-making unit was mostly corporate IT in conjunction with business units, but sourcing relationships were typically managed by mid-level executives in the IT organizations.

**Fortune 500 Companies**

These accounts were very large and often had their own wholly owned subsidiary organizations that provided IT services across their departments. They worked almost exclusively with top-tier system integrators such as IBM and Accenture, which deployed large captive teams to work with them. The buying process was complex, and the cost of acquiring accounts for any new vendor was high. Selling cycles for key projects usually spread across multiple years. The decision-making layers were also complex, as there were multiple business budget owners supported by business IT, which was in turn governed by corporate IT. Most vendors had dedicated selling organizations for each account, including salespeople, program managers, and account managers. The visibility of an account was almost always up to the CEO level. The CIOs of such organizations were not always looking to add new vendors, but there was usually a certain degree of autonomy for different departments to develop their own sourcing relationships. This opportunity was attractive, and often the only way for small system integrators to gain a foothold into large accounts. The estimates of overall markets (see Exhibit 4) and competitive landscape (see Exhibit 5) had to be considered.

Evaluating the strategic choices

It was expected that technology leaders would have a good probability of success in sales if they tried to convince top management (visionaries) about their utility and then worked down to the operating managers. However, OSSCube’s experience was different. The company achieved better success rates by interacting with the engineers who were trying to solve business problems. In the process of providing a technical solution to the engineer, the sale happened. The engineer then sold the new technical solution to top management. OSSCube needed to resolve these counterintuitive experiences with the conventional marketing wisdom.

As OSSCube grew, it would also have to make decisions about how to position itself—as a technology leader or a trusted solutions provider. Rastogi and Agrawal realized that the technology leader position typically provided an economical customer acquisition strategy with uncertain business results and long lead times. The trusted solutions provider was more dependable, but was a costly mechanism for acquiring business. The skills required to manage the sales process for the client acquisition strategies were significantly different from what OSSCube had at present, and would entail complicated recruitment strategies and training programs.

**Difficulties in Shifting Away from Being an Open Source Provider**

Over time, OSSCube had been able to position itself so strongly as an open source player that it had become a preferred employer of technology geeks passionate about open source. This core competence had grown into a sustainable competitive advantage as customers recognized OSSCube as an open source technology leader.

By changing from its open source positioning, the company risked losing the committed technology team it had so assiduously nurtured. Similarly, acquiring technical personnel from other domains created a challenge. Customers were likely to view the shift away from open source with uncertainty, at best, and there could be a loss of some key customers.

The change of positioning also entailed changes in the customer base because of different needs, wants, and demands. OSSCube’s ability to make the adjustments in its client-facing and delivery systems to cope with these changes was uncertain.

The shift in strategy would change OSSCube’s competitive landscape. So far, the company had not faced much competition because it was perceived as a niche/boutique technology company. Hence, it had avoided any serious and sustained competitive action. Moreover, new competitors and their strategies were expected to present challenges that would require resources.

OSSCube’s risks were not only related to technology and problem solving; they also concerned the integration of open source and non‑open source in terms of technology, workforce, customer perception, and so on.

**Advantages to Becoming a Complete Solution Provider**

Because customers saw OSSCube as an open source technology leader, they did not consider the company for any other assignments, restricting business potential. In addition, customers perceived open source to be totally free, but the enterprise version of open source was often not free, leaving customers disheartened and curtailing the chances of sustained, long-term relationships.

As noted, the company’s change of positioning meant that its customer base would change too. OSSCube’s ability to harness larger clients with bigger budgets and long-term orientation could significantly reduce its uncertainty and increase profitability.

OSSCube could infuse fresh talent and thinking in the organization, and make changes in its structure to take it to a new level of business and profitability. This new business would not be constrained by a specific technology and set of people who thought and operated in one predominant or typical way.

OSSCube’s current position brought risks in terms of the appropriateness of using only open source technology. It might not have the most appropriate solution for customers, and many customers operated with non-open source legacy systems, which affected their satisfaction. If OSSCube had access to all possible technologies, it could increase customer satisfaction and retention.

management perspectives

Agrawal and Rastogi and the other members of the top management team had different perspectives on the decision. They differed in their assessment of aspects such as organizational fit, geography, culture, consumer acceptance, risks and returns, functional differences, cultural differences, talent requirements, and retention.

**Lavanya Rastogi (CEO)**

If we continue with the current strategy of continuing as a niche open source technology and professional service provider, we face the situation of “feast and famine” in our business results. We need to move our client acquisition from hunting to farming and get into account management to harness such opportunities. But the change would also make us come under the radar of many of the big competitors. The value chain would change, and how would OSSCube fit into that ecosystem? I am concerned about how to arrive at the decision—through a consultative process with a larger set of stakeholders, or include only a few top management team members? There is also a need to deliberate on how to implement the decision, whether it should be declared as a shift in strategy or just a gradual drift into newer ways of doing business? What would be the sequence of the different changes that we would have to make?

**Vineet Agrawal (COO)**

It is a challenge of making a change from technological evangelists to a generic company. Finding an answer for why employees should work at OSSCube and why customers should do business with OSSCube would become critical. Would OSSCube be able to actually gain the customers and the business it is planning? The company would have to invest heavily in repositioning. Could it still be a case of “one in the hand is worth two in the bush?” Would OSSCube not be better off if it made continuous and significant investments in open source technology as a door opener and expanded the account management function to harness the business potential of its clients?

**Sonali Minocha (Head of Delivery)**

The open source technology enthusiasts are very narrow in their domain expertise, and they are normally not ready to train across different domains. They are mostly technology focused and not customer-centric. It was found that the productivity of the coding team improves with higher levels of customer orientation. So far, customers have come to OSSCube with technical problems, but if we change our strategy, then customers would come to us for a solution to their business problems. We would need people with different mindsets. Even now, we have the challenge of meeting customers’ needs and managing their satisfaction for the businesses that the U.S. office is acquiring.

**John Bernard (Executive Vice-President, North America)**

Many of the big customers do not choose open source because of the security concerns. Internet‑based customer-facing assignments are easier to solve using open source, but the problem is with the legacy systems. [Further,] the big customers increasingly want to deal with a small number of vendors while their needs are diverse. Hence, a vendor having a large number of technological solutions is likely to be more useful and become a long-term and reliable service provider. OSSCube is better positioned to meet the requirements of the market if it expands to non-open source technologies.

Top executives of these large clients do not want to take risks and select vendors based on their past performance, understanding of the problem, where they are today in terms of technology, and what their future business plans are. There is a large gap between small technology vendors like CIGNEX Datamatics Inc., Xebia Labs Inc., Icreon Communications Inc., and Srijan Technologies Pvt. Ltd., and large multinational technology solution providers like IBM and Accenture. OSSCube could possibly aim to fill this gap and acquire many customers.

**Shashin Shah (Chief Technology Officer, North America)**

The change from open source to other technology is more about willingness to accept and adapt, and opening up for newer skill sets. If we can provide our technical [staff members] with more client‑facing exposure, they would make the transition toward a client-centric approach with ease. We need to satisfy customer needs, and if it is to be done by using non-open source technology, we could subcontract those jobs, which is a tried and tested business model in IT. Only when we have predictable and assured business should we recruit appropriate talent.

**Sachin Khurana (Head of Human Capital Management)**

Moving from a niche company specialized in open source solutions to a trusted full-service IT solutions partner will significantly impact hiring and talent retention strategies. The business would require people with newer skills, and differentiating ourselves as an employer of choice would be challenging in these newer areas. Many people joined us considering us to be a thought leader in the space of open source. They would require other reasons to stay and grow with us. On the contrary, with openings in new skills and capabilities, employees interested in expanding their knowledge would [relish] this opportunity to explore newer skills and technologies. But these numbers are generally less, and we may expect resistance from members in experimenting with newer technologies. Change is constant, and organizations need to transform every few years. This may be the time to get into a transformation, and internal communication would play a very important role in achieving any transition.

The Decision

The deadline from Nathan was nearing, and Agrawal and Rastogi had to make a decision. They knew that the CIOs of many important clients wanted to rationalize their vendor lists, and that this would be the trend moving forward. Both of them were certain that OSSCube would have to make the shift to becoming a complete business solution provider in the future. Rastogi was in favour of immediate change, while Agrawal was for a delayed implementation. Whether OSSCube was now ready to successfully make the leap to the next level of evolution or the exercise would jeopardize its existence was anybody’s guess. The problem was not only about making a decision related to the timing of change, but also about the decision-making process and its subsequent implementation. Should Agrawal and Rastogi involve other management team members in the decision? If so, how many should be involved and in what manner? Should they make a big announcement or just keep making small changes that would lead to big changes over time?

EXHIBIT 1: OSSCUBE KEY BUSINESS INDICATORS

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Number of Employees** | |  | |  |
| **Year** | **India** | **Total (Global)** | **Business Turnover**  **(in US$ Million)** | **Number**  **of Clients** | |
| 2009 | 40–50 | 40–50 | Less than 1.0 | 32 | |
| 2010 | 70–80 | 80–100 | 2.0–3.0 | 40 | |
| 2011 | 110–125 | 120–135 | 3.0–5.0 | 55 | |
| 2012 | 180–200 | 190–210 | 5.0–7.5 | 78 | |
| 2013 | 220–240 | 250–260 | 7.5–12.5 | 100 | |
| 2014 | 220–240 | 260–290 | 12.5–15.0 | 95 | |
| 2015 | 250–280 | 300–320 | 15.0–20.0 | 70 | |

Source: Company documents.

EXHIBIT 2: KEY MILESTONES

Started operations

Partnered with MySQL and Zend Technologies Ltd. (Zend)

Major portfolio included training and development

Added Intel Corporation as a client

Added Medtron, Naukri.com, and Cox & Kings as clients

Hosted first OSSCamp

Partneredwith SugarCRM and Acquia Inc.

Set up U.S. office

Co-hosted OSI Days

Added MakeMyTrip Pvt. Ltd. and CU Solutions Group as clients

Made numerous contributions to open source community

Set up U.K. office

Named system integration partner of the year by Zend

First Indian reseller of Talend products

Entered cloud applications with AWS partnership

Became world’s first Zend Centre of Excellence

CMM Level

Partnered with MariaDB

Became a 300-member team

Named an Inc. 5000 fastest growing private company

Named one of top 100 companies to work for in India by Great Place to Work®

Added Global Media House as a client

Received CEO of the Year award

Named again as one of top 100 companies to workfor in India by Great Place to Work®

Received Inc. 5000 recognition for second year in a row

Added Acer, leading multiplex chain in India, and a large FMCG company in the United States as clients

Partnered with Pimcore

**2009–10**

**2011**

**2012**

**2013**

**2014**

**2015**

Source: Company documents.

EXHIBIT 3: OSSCUBE ORGANIZATION CHART

Note: CEO = chief executive officer; EVP = executive vice-president; COO = chief operating officer; AVP = associate vice-president; CTO = chief technology officer; HCM = human capital management; VP = vice-president

Source: Company documents.

EXHIBIT 4: MARKET POTENTIAL ESTIMATES by segment

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Segment** | **Average Size of Individual Customer (Annual IT Budget in US$ Million)** | **Average Potential Business for OSSCube**  **(Annual Business in US$ Million)** | **Sales Cycle (Number of Months)** | **Average Customer Acquisition Cost**  **(in US$)** | **Average Duration of Business (in Months)** | **Average Gross Margin Expected for OSSCube as % of Turnover** | **Difficulty of Acquiring the Business (1–10 Scale)** |
| Small and medium business | 200 | 2.0 | 2 | 60,000 | 2 | 20% | 1 |
| Mid-market | 500 | 6.0 | 6 | 200,000 | 6 | 50% | 4 |
| Enterprise | 5,000 | 1.5 | 9 | 500,000 | 12 | 25% | 7 |
| Fortune 500 companies | 30,000 | 0.5 | 12 | 150,000 | 24 | 20% | 9 |

Source: Company documents.

**EXHIBIT 5: COMPETITIVE LANDSCAPE**

**Bargaining Power of Suppliers**

**High**: Talent is the most critical and highly sought after resource, but it always gravitates toward great places to work and career accelerators. OSSCube has a current advantage but needs to be focused.

**Threat of New Entry**

**High**: Because of high profit/high growth, lots of start-ups and boutiques keep entering the marketplace. OSSCube doesn’t compete on projects those companies can deliver.

**Rivalry among Existing Customers**

**Low**: There is an abundance of business for companies that can deliver niche results.

**Substitutes**

**Low**: Some services are being replaced by mature products/platforms.

**Complements**

**Modest**: Alternative business models in specific industries are emerging; OSSCube needs to learn those fast.

**Bargaining Power of Customers**

**Moderate to Low**: For mission critical systems, price is not a deciding criteria, and a handful of reliable partners can deliver boutique-complex projects. There is a high cost to switch. There is also a threat of larger players coming down the value chain.

Source: Company documents.

1. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-1)