Project-01

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

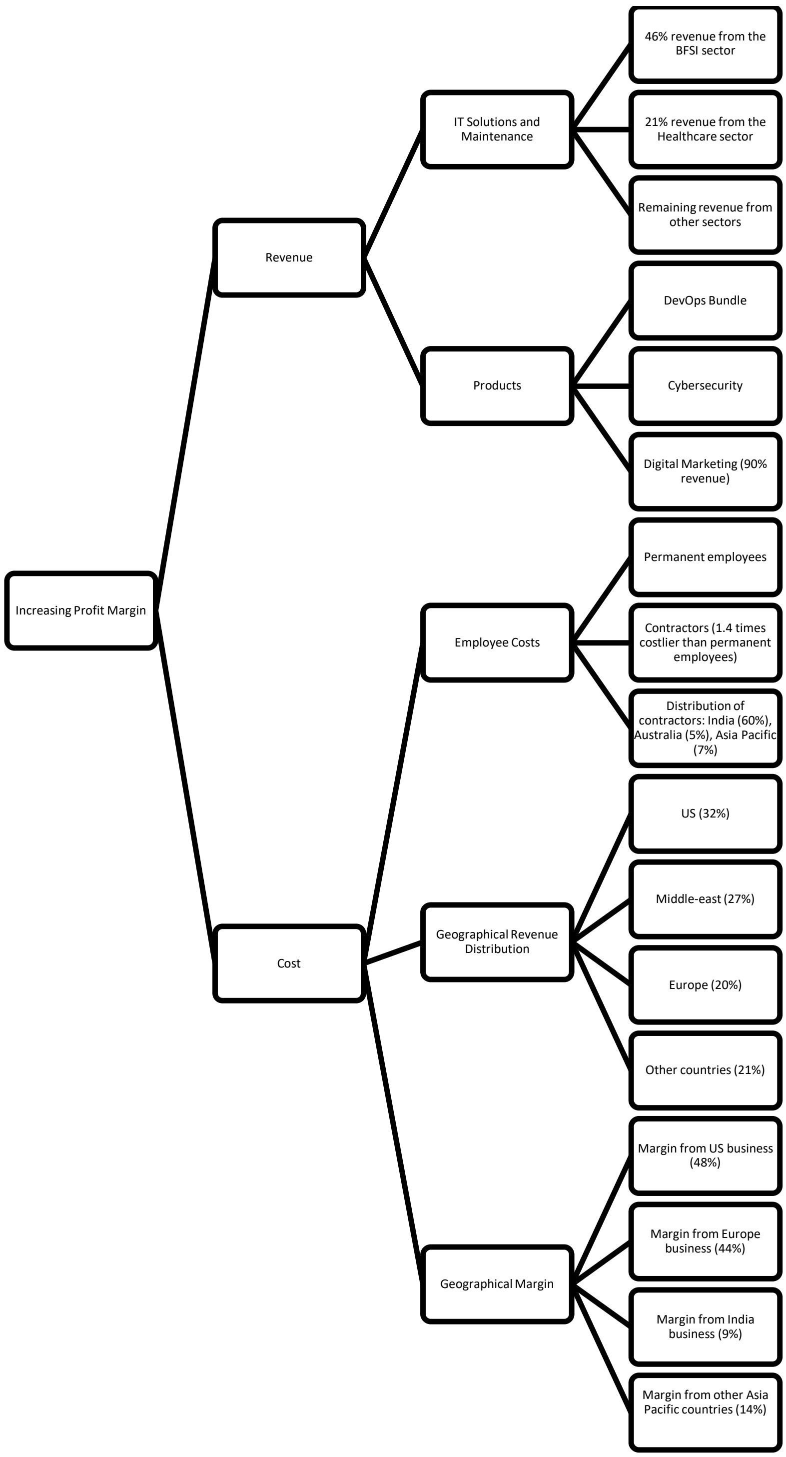
1. Identify the root problem and use the MECE (mutually exclusive, comprehensively exhaustive) principle, discussed already in the module videos, to break down the problem.
2. Using the profitability tree down structure, divide it in two parts ‘Revenue’ and ‘Cost’.
3. Further branching can be done according 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.

Solution from next page

Root problem: - The company is struggling to achieve a competitive margin improvement rate compared to other IT companies in India. This indicates a need to address the factors affecting profitability and explore strategies for improvement.

Profitability Tree: - Using the MECE principle, we can break down the problem into the following components:



Analysis:-

1. *Acquiring smaller organizations specializing in niche technologies:*
    - This can help increase the company's customer base and expand the business with cross-sell opportunities.
    - It may lead to revenue growth if the acquired companies bring in new customers and complementary technologies.
2. *Margins:*
    - The company enjoys good margins from the BFSI and Retail sectors, as well as business in the US and Europe regions.
    - Margins are low in India and other Asia Pacific countries.
    - Acquisitions may not directly address the margin improvement rate unless the acquired companies have higher-margin business models.
3. *Revenue potential in different sectors and geographical locations:*
    - The healthcare sector seems promising in the US and Europe.
    - The BFSI sector shows potential in India.
    - Other sectors should be explored for potential growth opportunities.

Recommendations: -

1. Acquisitions:

- Focus on acquiring smaller organizations in niche technologies that can provide cross-sell opportunities and access to larger customer bases.
- Prioritize acquisitions that can contribute to higher-margin business models, aligning with the sectors and regions with better margins.

2. Geographical Investments:

- Invest in expanding the business in the US and Europe, leveraging the promising healthcare sector.
- Strengthen the presence in the Indian market by capitalizing on the potential in the BFSI sector.
- Evaluate opportunities in other sectors in different regions to diversify revenue streams and reduce dependence on specific sectors.

3. *Cost Optimization:*

- Evaluate the cost structure of contractors and explore strategies to optimize their expenses without compromising quality.
- Focus on efficient resource allocation and cost control measures to improve overall profitability.

4. *Innovation and Product Development:*
    - Invest in R&D and innovation to enhance the product offerings and cater to evolving customer needs.

- Explore opportunities to expand the product portfolio beyond digital marketing, targeting sectors with higher revenue potential.

5. *Competitive Analysis:*
    - Conduct a detailed analysis of competitors with high margin improvement rates to identify their strategies and areas of focus.
    - Benchmark against best practices and implement relevant measures to improve margin performance.

By implementing these recommendations, the company can aim to improve margins, diversify revenue sources, and enhance its competitive position in the IT services and product market.