

# Project 1

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## Overview

### Employee Base

- 5000+ resources all over the globe.
- Break Down:
  - India: 73%
- Contractors: (690)
  - India: 60%
  - Australia: 5%
  - Asia Pacific centres: 7%

These contractors are on an average 1.4 times costlier than permanent employees.

### Customer Base

Its customers are across 35 countries

- 32% - US
- 27% - Middle-east
- 21% - Other Countries
- 20% - Europe

### Revenue & Services

Main business: IT solutions and Annual Maintenance Services

IT Solutions Revenue Breakdown: (60%)

- 46% (42% Margin) - BFSI sector
- 33% (39% Margin (Retail)) - Other sectors (Retail, Public sector, Manufacturing, Travel, Entertainment etc.)
- 21% - Healthcare sector

Product-based Business (pre-made softwares and applications) Revenue Breakdown: (40%)

- 90% - Digital Marketing
- 10% - DevOps bundle & Cybersecurity

Country-wise Margins:

- 48% - US
  - 44% - Europe
  - 14% - Asia Pacific
  - 9% - India
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## Problem Statement

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

- ☒ ~~Identify the root problem and use the MECE (mutually exclusive, comprehensively exhaustive) principle, discussed already in the module videos, to break down the problem.~~
  - ☒ ~~Using the profitability tree down structure, divide it in two parts 'Revenue' and 'Cost'. 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.~~
  - ☒ ~~For revenue, 60% of it comes from IT solutions and maintenance, and rest comes from its products.~~
  - ☐ The company is looking forward to investing in India, US and Europe. See the potential growth for different sectors in these geographical locations.
  - ☐ 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.
  - ☐ Finally, provide recommendations for where the company should invest and what kind of acquisitions it should do.
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# Profitability Trees

## By Region

- US & Europe
  - Employees (Weighted by Cost): < 1435 ~ 27% of Total (Weighted) Employees  
(Non-Indian Permanent Employees) + (Unspecified Contractors) \* 1.4
  - Customers: 52% of Total Customer Base  
(32% for US, 44% for Europe)
  - Margins: 48% for US Revenue, 44% for European Revenue
- India
  - Employees (Weighted by Cost): 3725 ~ 62% of Total (Weighted) Employees  
(Indian Permanent Employees) + (Specified Contractors) \* 1.4
  - Customers: < 21% of Total Customer Base  
(Included in Other Countries)
  - Margins: 9% of India Revenue
- Asia Pacific
  - Employees (Weighted by Cost): < 1230 ~ 23% of Total (Weighted) Employees  
(Non-Indian Permanent Employees) + (Specified Contractors) \* 1.4
  - Customers: < 21% of Total Customer Base  
(Included in Other Countries)
  - Margins: 14% of Asia-Pacific Revenue

Total (Weighted) Employees: 5276

## By Service

- IT Solutions & Annual Maintenance:
    - BFSI sector
      - Revenue: 27.6% of Total Revenue  
(Share of BFSI Sector in IT Solutions & Annual Maintenance \* Share of IT Solutions & Annual Maintenance in Total Revenue)
      - Margins: 42%
    - Other sectors (Retail, Public sector, Manufacturing, Travel, Entertainment etc.)
      - Revenue: 19.8% of Total Revenue  
(Share of Other Sectors in IT Solutions & Annual Maintenance \* Share of IT Solutions & Annual Maintenance in Total Revenue)
      - Margins: 39% for Retail
    - Healthcare sector
      - Revenue: 12.6% of Total Revenue  
(Share of Healthcare Sector in IT Solutions & Annual Maintenance \* Share of IT Solutions & Annual Maintenance in Total Revenue)
      - Margins: Not Specified
  - Product-based Business:
    - Digital Marketing
      - Revenue: 36% of Total Revenue  
(Share of Digital Marketing in IT Solutions & Annual Maintenance \* Share of Product-based Business in Total Revenue)
      - Margins: Not Specified
    - DevOps bundle & Cybersecurity
      - Revenue: 4% of Total Revenue  
(Share of DevOps bundle & Cybersecurity in IT Solutions & Annual Maintenance \* Share of Product-based Business in Total Revenue)
      - Margins: Not Specified
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# Analysis

## Root Cause

This inability to maintain a competitive year-on-year growth is due to the performance of India and other countries in the Asia-Pacific Region. These countries have a very high cost in terms of Employees and Contractors (more than 62% of total employees), while they account for less than 21% of the consumer base. Consequently, they have very low margins, 9% for India and 14% for the Asia-Pacific region.

## Stance on Acquisitions

Acquisition of smaller organisations specialising in niche technologies and having a larger customer base, will help in increasing the company's consumer base, especially if done in India. This in turn will help increase margins and boost the year-on-year growth.

We make the assumption that the increase in sales due to this acquisition is sufficient to offset the cost of the acquisition. The costs would include the purchase of the smaller company and the increase in payroll costs due to the increase in the number of employees.

## Potential for Growth

### India

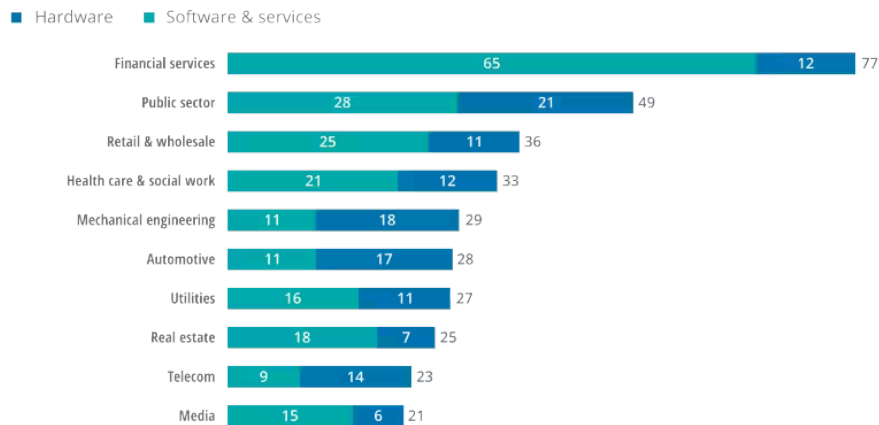
- IT Sector
  - People Employed: 5 Million
  - Contribution to GDP: 7.4% (As of 2022)
  - Estimated CAGR: 11-14% (over the next five years)
  - Projected Value of Industry: USD 350 billion by 2026
- Medical Technology
  - The projected revenue in the Medical Technology market in India is expected to reach US\$8.93bn in 2024.
  - It is anticipated that the revenue in this market will experience an annual growth rate (CAGR 2024-2028) of 7.78%, resulting in a market volume of US\$12.05bn by 2028.
  - India is witnessing a surge in the adoption of telemedicine technology, revolutionising healthcare access in rural areas.
- Digital Health
  - Revenue in the Digital Health market is projected to reach US\$9,390.00m in 2024.
  - Revenue is expected to show an annual growth rate (CAGR 2024-2028) of 16.20%, resulting in a projected market volume of US\$17,120.00m by 2028.
  - The market's largest market will be Digital Fitness & Well-Being with a total revenue value of US\$8,159.00m in 2024.
- BFSI
  - In FY22, the BFSI sector's share of Indian GDP increased to about 12%.
  - With the country's GDP poised for growth, the BFSI sector is a key facilitator, positioned to thrive alongside the overall economic expansion.
  - With the implementation of UPI and the rapid increase of FinTech Startups in India, any investment, as company acquisition or for logistical growth, is very likely to pay-off.

## US & Europe

- In Europe, the financial services area plays a special role for tech companies—no other industry/sector generates more revenue. Demand from the public sector is also considerable, but significantly lower. Sales to the mechanical engineering and automotive industries rank in the middle range.

Source: <https://www2.deloitte.com/us/en/insights/industry/technology/eu-european-tech.html>

European B2B tech sales to selected other industries/sectors shown as gross output, in € billions



Sources: Oxford Economics; Exiobase; Deloitte research.

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- In the upcoming years, the tech industry as a whole is expected to grow with a CAGR of **5%**.
- In the US,
  - Revenue in the Digital Health market is projected to reach US\$50.17bn in 2024. Expected to show an annual growth rate (CAGR 2024-2028) of 7.48%, resulting in a projected market volume of US\$66.96bn by 2028.
  - The projected revenue in the Medical Technology market in the United States is expected to reach US\$215.80bn in 2024. The revenue is anticipated to exhibit an annual growth rate (CAGR 2024-2028) of 5.01%, resulting in a market volume of US\$262.40bn by 2028. In comparison to other countries, the United States is predicted to generate the highest revenue, amounting to US\$215.80bn in 2024.
  - Over the last decade, the IT sector as a whole has shown a CAGR of 10%
- As a software company, we should target sectors where the demand for Software and Services is considerable, such as Financial Services, Health Care and Social Work, and Retail and Whole-sale in Europe and US.