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Will survive: midtier CEOs

BY GOUTAM DAS

BENGALURU

Aug. 28: While India's top three IT service providers have been giving multinational giants a run for their money, the health of second and third tier vendors have been concerning some. There is enough food available; what is suspect is their ability to eat it.

A study by market research firm Forrester, released this August, stated market polarisation with the top three players and predicted hard times for mid-tier firms that do not specialise: "Fast growing and enviably profitable, India's top three providers — Infosys, Tata Consultancy Services (TCS), and Wipro — now drive almost half of India's total IT services exports by value. While Cognizant, HCL, and Satyam still hold their ground and continue to grow, most non specialised and undifferentiated tier two and tier three firms stand to lose out."

The report pointed out that offshore stalwarts such as Citibank and General Electric have been pressuring their vendors in annual price drills year over year. They pushed their suppliers to such a low price point that these providers could not invest enough to build specialisation or high-end domain skills.

"The result? The majority of sub-billion-dollar firms is falling prey to a staff augmentation deathtrap and is increasing headcount without corresponding returns," the study concludes.

While some mid-tier firms agree with the observations dissenting views as well. Bengaluru-based service vendor Sonata Software is one of them.

"I completely disagree with the hypothesis though it may be seen as public denial of reality. Many firms who had specialised — in product lifecycle management, outsourced product development or telecom products — have hit a growth roadblock or are making losses. In comparison, Sonata has been growing at 60 per cent over the last five years. The theory is a generalisation that may hurt people like us," president and MD of Sonata Software B. Ramaswamy retorts.

A highly specialised service line player can hit a roadblock since the capability many not account for much of the client's requirement. "If you only do Oracle applications implementation and don't know anything before or after, clients will say 'thank you'. Oracle apps may be only 5 per cent of the story. Similarly, if you do only product lifecycle management, you are addressing only 5-10 per cent of a client's requirement. A customer may need at least three more skills. That's where the breadth comes in," Ramaswamy says.

However, CEO of NIIT Technologies Arvind Thakur believes there is place for both the specialist as well as the scale player in the market. "Large corporations have multi-vendor strategies. Mid-sized companies can compete on their specialisation," he says. British Airways, for instance, works with both NIIT and the bigger vendors. "They give us the maximum business," Thakur expalins. The company has focused on select industry segments to create a differentiation. Travel and Insurance are two of them. Service line wise, the mid-tier player offers application development maintenance, package implementation, managed services and BPO - enough breadth to keep clients interested.

Smaller clients, he tells, don't want to work with large service providers - scale players may not give them the flexibility they demand. "The transformation deals ($50million-100million plus) are for the scale players. But there are enough $10million-$40 million deals available," the CEO asserts.

Other smaller firms agree. Infrastructure management services vendor Microland says the outsourcing market is expanding and the larger players are unable to provide the personalised service and management attention that mid-sized enterprises and SMBs deserve. "So the story for tier-two and tier-three providers is not over — if anything, it has just moved into an interesting phase as outsourcing becomes a reality for SMBs," the firm's head of services-marketing, Anindo Sengupta tells.

Besides attention from senior management, it is the partnership that is mutual and not one-way when it comes to dealing with smaller vendors, CEO of Cybernet-SlashSupport Shiva Ramani argues. "Large outsourcing providers may not be too happy with the size of the business. Having said that, all the large service firms are also seen in mid market deals and they are aggressive," he tells.

The bottom line: there is a place for mid-tier players in the global outsourcing market provided they have certain fundamentals in place - stable management, healthy financial position as well as ability to be responsive to the customer.

"Global enterprises don't want to miss out on the global delivery model, nor do they want to deal with a monolith. They want size compatibility," Sonata's Ramaswamy says.

second take

While market research firm Forrester now says that most non specialised and undifferentiated mid-tier firms can be in trouble, an earlier report from the same firm had painted a more optimistic picture. The report, dated April 2008, and titled 'Not the usual suspects: cost, quality and client service benefits from mid-tier providers' said that many clients felt "disenfranchised with top-tier Indian providers". Top-tier players, the study stated, was now focusing more on large projects in contrast to their previous willingness to take on any size client or project. "Mid-sized clients or large firms that do not wish to spend $10 million per year with their Indian partner may be either disappointed by the lack of client service and flexibility they receive or even be rejected outright by these providers," the report reads. Forrester clients, the study informed, are therefore now continually asking for provider recommendations beyond the usual suspects of top-tier India players.

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"The result? The majority of sub-billion-dollar firms is falling prey to a staff augmentation deathtrap and is increasing headcount without corresponding returns," the study concludes.

While some mid-tier firms agree with the observations and believe specialisation is the way forward, there are much of the client's requirement. "If you only do Oracle applications implementation and don't know anything before or after, clients will say 'thank you'. Oracle apps may be only 5 per cent of the story. Similarly, if you do only product lifecycle management, you are addressing only 5-10 per cent of a client's requirement. A customer may need at least three more skills. That's where the breadth comes in," Ramaswamy says.

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