

2008
THE YEAR AHEAD

IT industry, the flagbearer of India's technology exports, last went through trying times during the technology meltdown of 2000. While a strengthening rupee is reducing realisations per dollar, costs, particularly wages, are rising and attrition is worsening. What trends are in store for the software services industry in 2008? *BW* and HCL

Technologies organised a roundtable, 'Blueprint 2008: The Indian IT Industry', to understand the challenges IT will face in the year ahead. *BW's* **Jehangir S. Pocha** moderated the discussion. Excerpts:

Jehangir S. Pocha: The IT industry has done very well for itself. Initially, by accident. Then people saw an opportunity and built a business model around the circumstances and did very well. Now, the circumstances are changing. The currency value change is what people talk about the most but I think there are at least two more important things.

One, wages are changing. The second, which is slightly contrary, is that the IT industry's ambitions are also changing and that revolves around this basic idea of moving up the value chain. Of course, we have the competence. Maybe this is the time for us to go from coding, into applications, into Web 2.0, into Web applications, etc.

Do we think that we there are not Indian, we are global? That's the first thing. The second thing is, while that's the vision, there's always the mismatch between the vision and running the company, and that's where quarterly profits matter. What is it like for you to be running the business, what are the actions

IT IN 2008

Taming the challenges

and the options that you have chosen in your company? If we could communicate that with details, Sudin...

Sudin Apte: Over the next 2-3 years, the robust growth would continue, but the definition of robustness would change from 40 per cent in five years to around 20 per cent over the next 2-3 years. Having said that, the reason for reduced growth is clients' growing dissatisfaction with India. Our recent surveys show at least 15 per cent dip in satisfaction. It's about not only quality but attrition, rise in costs and a whole lot of other issues. Clients are concerned about reliability.

One large client, which spends more than half a billion dollars in India every year, recently told Forrester that the only reason it comes to India is that there is no option. So, clients such as GE, Citigroup, Morgan Stanley are not going to ramp up projects as rapidly as they were doing five years ago. The 20-25 per cent growth is a misnomer; that growth is locked in the top five players. Our research shows 500-odd Nasscom members continue to struggle. In many situations, their growth is single digit.

Where is the industry heading? First, the change of equation from onsite client and offshore India to more of a distributed global delivery. The word 'offshore' will possibly become obsolete in the next 3-5 years. Global delivery is going to be the way of life where firms such as Infosys or TCS are serving wider footprint of a client but also collaborating with the competition because that's how the clients want them to work. Out-

come? Two-three Indians and two-three multinationals will make it to the Nirvana of global delivery model. The other 500-odd mid-size and small IT companies in India need to choose their specialisation and the areas they can deliver value that the top five are not going to. If you see Nasscom's last year's top 20, half the companies have vanished. Six of the top 20 will get out of business in 2-3 years just because of very big offshore clients consolidating.

JP: Can Indian companies actually be globally competitive?

Vineet Nayar: After listening to Sudin, I get a sense that I am not from the same industry. I think the doomsday of this industry had been predicted 10 years ago and will be predicted 10 years after.

Every 2 or 3 years, I hear the industry is going to collapse due to a US slowdown or cost arbitrage or government policies. For an industry that is about \$40 billion with an average CAGR of 20 per cent for the past 10 years, to predict such a significant change is not feasible. I believe there is a momentum built on strong logic. Before I go there, there are two specific comments that I would like to share to put things in perspective. If you take the top 20 in any industry, you come down to irrelevant levels. So, to say that six out of top 20 will change is an alarmist statement, but it happens in all industries.

Let's go back a little. Let me make a comment on the question you asked and then move on. Fifty per cent of revenues on an average for the industry

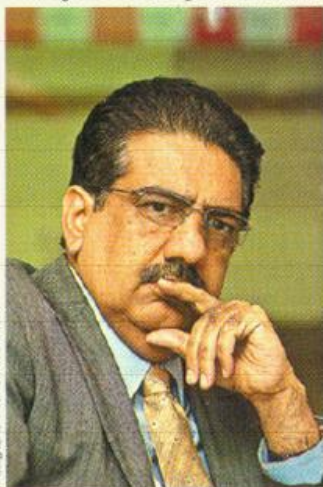
the
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ROUNDTABLE



The panelists: (L to R) Symphony Services' Ajay Kela, HCL's Vineet Nayar, BW's Jehangir S. Pocha, Forrester Research's Sudin Apte, Aviva's Abhay Johorey, Mercer's Padmaja Alaganandan and BW's K. Yatish Rajawat

come from onsite, that means using people who are working onsite on competitive pay structures, and 50 per cent comes from offshore. How is this different from a car manufacturer who is building his sub-components at low-



Photograph: IPR/ANAND SUDHANA

cost centres? This is not too different from assembling a car in Detroit and sending to New York. Every company today deploys bandwidth integration to access low-cost manufacturing countries. In our country and in our business, the raw material is people. Tomorrow it could be Malaysia, day after it could be somewhere else. That global integration is nothing unique to the software services industry; we are not unique in leveraging India. This is how Korea and Japan came in, this is how China is coming into manufacturing and this is how India has come in! Therefore, I would not say that India is not paying competitive salaries. So, India doesn't belong to Indians. India belongs to whoever wants to leverage India, which is true for the rest of the world.

JP: We keep hearing that the middle layer is getting squeezed.

Ajay Kela: I don't see a squeeze at all,

Vineet Nayar, chief executive officer, HCL Technologies

which is a good thing. I'm not as optimistic as Vineet and, sorry Sudin, I'm not as pessimistic as you. I'd like to see 2008 in the context of some trends. The first trend I see is that, starting 2008 is where you will begin to see the explosion of globalisation. Let's look back four years; there has been a massive hug in the IT industry driven by Y2K, driven by the dot-com bust, especially for the high-value, high-end companies. That big hug has made the IT industry pregnant and I think it is only half-pregnant. It is in its first trimester of pregnancy.

So, if I look ahead, the penetration that we have seen in our customer base is only 10 per cent. The best-of-breed of our customer base — such as Oracle — have 20,000 people in the country already. Other clients cannot survive unless they get to similar numbers. So, the explosion will start to happen now. The explosion will create new challenges. I also think what is happening in the industry due to the US slowdown is going to accelerate this explosion further.

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ROUNDTABLE



Padmaja Alaganandan, business leader of human capital consulting, Mercer Consulting, South Asia



Abhay Johorey, director of transformation & service and COO, Aviva India



Ajay Kale, MD & COO, Symphony Services



Sudin Apte, country head-India, Forrester Research

I also believe that the Indian IT industry today is not efficient. And this rupee appreciation and shortage of talent will force them to the next level of efficiency, which is good news.

JP: Each one of you is talking about moving up the value chain, so then, which country will do the low-end jobs?

Abhay Johorey: When larger firms talk about moving up the value chain, there is an assumption that they will do it in addition to continuing ADM work. So work is not going to go away from anywhere. They want to grow and then the whole composition of the high-end work is growing. We have to also distinguish between output-based pricing and outcome-based pricing. Output based pricing has more to do with productivity and service levels, and outcome-based pricing is about a business outcome of the product or business that you are helping. I think output-based pricing has made good inroads. For outcome-based pricing, these are still early days. I think no one is making more than 5-10 per cent of revenues out of outcome-based pricing. But the good news is everyone — the supplier side and the client side — is trying out a few things. In some verticals, the pressure on R&D dollars is very high, whether it is semiconductors or software. Obviously, they are looking for someone to share or mitigate their risk in product development, which is a good sign.

K. Yatish Rajawad: The inefficiency that

Vineet and Ajay are talking about is largely people's business, so what kind of inefficiency do you see in corporates and will that become a major theme in 2008 from a people's point of view?

Padmaja Alaganandan: In 2008, it is going to be very important for the industry to take a good hard look at defining some kind of an employer value proposition. The reason is that IT is not necessarily the only preferred workplace. There are other industries that have higher rates of growth, be it financial services, retail, hi-tech or telecom.

So, one of the key things to address for companies will be to define how they are different and communicate the same not just to current employees but to potential employees as well. That is going to be very crucial going forward.

Second, I think the whole aspect of skill has to be built up. You have people expected to lead and build teams, who may not have the skills, competence or experience necessary and that to some extent could be leading to some of the inefficiencies. And the third aspect, which is directly related to margins and bottom line, is going to be compensation, segmentation and differentiation. That means looking at the workforce dividing into different segments on the basis of their importance and devising different compensation for those segments. While providing for some kind of attrition in less important segments, it is not necessary to pay the best across all segments.

AJ: Another focus area is training and the other is a lot of verification of what the guy has been trained for. Currently, there is this one time training but the employee has to show his skill again and again. Do that periodically because you train him for a whole host of things and the young kids didn't demonstrate their capability because they didn't get a chance to demonstrate it. And all that stuff is lost because it is like a half life, a half life of what we want to do through training. So, you've got to have periodicity in training and certification of skills. ■

Read full text of the roundtable on www.businessworld.in, including: the risk in attracting talent; inefficiencies in IT companies; will US elections affect us; and can domestic market save the industry