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CEO Spotlight

**THOLONS**

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Avinash Vashista,
Chairman & CEO
Tholons

How should pure services firms adapt in the era of consolidation and innovation?

Leverage their
process
optimization
expertise using
domain expertise
and technology
innovation to match
client expectations
for the future...

Leading services players have developed excellent process based offshore delivery models with significant cost savings to their clients. Most firms operate at high margins even during the current prolonged down turn and are aggressively focused on margin defense. A number of firms have large cash balances in their balance sheet with increasing pressure from shareholders to use it for growth or increase dividends. Many clients are using the high margins of these firms as one the reasons for demanding price discounts. What should the firms do over the long term to stay competitive in the market in an industry that has seen disruptive innovations models built literally from people's garages? How should they plan for a scenario where cost will continue to lose its luster as the 'most compelling proposition on why to outsource'; especially when technology continues to lower costs.

The cash rich firms have a few excellent options to sustain their growth in the years to come:

- Build domain expertise – a key differentiator will be to provide domain consulting to clients. Short term this will impact negatively to margins as this requires on site presence. Local resources on the payroll in the US and other countries will also help negate the perception that offshore jobs are being created at the cost of local jobs. Strategically over the long term these resources can help win transformational contracts that until now were a purview of MNC players. An example of investment will be developing the IT systems and domain expertise to optimize infrastructure systems (i.e. to smartly and effectively manage commuter traffic in highways or electricity flow in utility grids, etc). Such investments make good business as enterprises and governments are going green and want vendors to help them with sustainability metrics around water and power usage and also in the process help save money.
 - Provision Integrated Solutions - The new trends in the space are CISCO's unified computing system comprising virtualization technology, services and blade servers aimed at helping enterprises develop and manage what it calls "next-generation data centers." Cisco's new data-center architecture comprises compute, network, storage access and virtualization resources in a single rackable system designed to cut IT infrastructure costs and complexity. Oracle acquisition of Sun Microsystems will also enable it to compete with HP (having acquired EDS) and IBM to provide the next generation of data centers, essentially in-house computing utilities, or "private clouds". Customers increasingly prefer to buy integrated systems from one vendor, rather than doing the plumbing themselves. This is bound to have a significant impact on India based service providers who typically provide point solutions rather than an integrated end to end solution and should look at investing in migrating the process solutions they have fine tuned over the years to a multi-tenant "private cloud" model. As an example, managing critical but non core activities such as HR soup to nuts where vendors are responsible for the hardware, installation & support of the systems and also provision services. An investment or acquisition in technology firms that specialize in deploying and managing applications "in the cloud" and offer integrated solutions to their clients will be a good option.
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The recommendation is not that these firms transform to product vendors or hardware providers but leverage their process optimization expertise using domain expertise and technology innovation to match client expectations for the future.



If you have any questions or comments about this article please contact at avi@tholons.com