

Business plan on market segmentation

[Business](#), [Company](#)



Business Project – Indian ICT Industry

Introduction

Information Technology (IT) today has a wide gamut of applications from running our cars and appliances to making telecommunications possible across continents and managing entire factories and cities. Thanks to the development of technology, information access at gigabit speeds is now considered a standard service, with users demanding even more data at higher speeds. A country's IT development potential outlines its technology-readiness and ability to meet the challenges of the coming future, along with a focus on growing gross domestic product (GDP) and meeting up energy and environmental challenges. The world's ICT industry is growing at a tremendous pace, and India continues to be at the forefront. The country is the first choice for outsourcing IT related services across the world, with approximately 52 per cent of the US\$ 124-130 billion market (IBEF, 2014). The country continues to be a significant cost-saving destination for companies, with services here priced at a quarter of what the US companies face. This gives additional incentive for many US based corporations to outsource their development work here as well.

The country has undergone a radical change in the last two years, opening up its economy and enabling the entry of multinational corporations. India with its significant base of trained young manpower found an opportunity in managing the world's IT and IT related processes and has grown that segment to a point where the country is synonymous with outsourcing IT. Any company looking to set up its technology development arm looks to India as the first option, thanks to the very large pool of technology

professionals developed in the country over the last two decades. The size of the industry has kept on growing in time, and has the potential to become a \$100 billion industry by 2025.

Given the present business potential and the rapid rate of growth, it makes sense for companies to tap into this opportunity to provide ICT services out of India by taking advantage of the various factors such as the positive attitude towards foreign investment in the IT industry, the talent pool of trained and experienced software developers and the lower cost factors involved in setting up a technology company in India.

Business Analysis

Industry analysis

The Information and Communication Technology (ICT) sector in India has demonstrated dramatic growth in the last two decades. India's recognition as a global leader in ICT sector has come about due to the low operation cost, perfection of the remote delivery model and the availability of a large talent pool. At last estimates, Indian IT industry is totally worth close to \$107 billion in revenues, in 2013. This includes a sizeable segment of domestic IT requirements, totaling approximately \$32 billion, besides over \$75 billion in exports. IT exports not including hardware, make up over 58 per cent of the country's total IT exports, and have been growing at a compounded annual growth rate of over 13 per cent in the period 2008 to 2013. This boom in the IT sector has changed the perception of India, from a slow sluggish bureaucracy to that of a services behemoth with a talent pool of entrepreneurial skills. As the emerging technologies of e-commerce, cloud computing and online retailing expand further, the domestic IT sector too is

set to boom, with a projected growth to a revenue of over US\$40 billion by year 2014 (OIFC, 2014).

The industry is showing a distinct trend of moving away from maintenance and development services to focus on research and development, in areas with high potential for technology innovation. With e-commerce, cloud computing and the Internet of Things (IOT) becoming buzzwords, the trend for development initiatives is now aligned towards these three areas.

Besides the evolution to cutting edge technology, a key driver to attract foreign investment from technology companies towards India has been the Indian workforce. Manpower here is less expensive than most developed countries, but with skills that are close to international standards, which works out to be much more economical for companies investing in technology development. While the core research and development may be carried out in the US, the conversion of that R&D into commercial projects with viable revenue generation takes place in India, since it is more economical to do so. Many companies like Intel, Microsoft, Oracle, IBM and Cisco, to name a few, have set up research and development centers here as well, as the technology capabilities of the country's workforce evolved. The key factors driving this have been the increasing diversification of the IT industry into numerous verticals, as well as the extremely competitive pricing model and utilization rate.

Some of these diversifications in key areas include the increasing business process enabling and vertical aligned applications that are currently driving new technology adoption in mobility. Apart from this, IT security associated with the advent of cloud computing is another area that is getting a lot of

attention (Businessworld, 2014). Cloud applications, mobile technology development, remote application/feature upgrades and modernization will also be areas seeing increasing developments coming out of India.

India has built up its image as a technology powerhouse, with capabilities that are fast catching up with the developed countries. It is seen as a source of software engineering and innovation in technology to solve many developing world problems, since it faces many of those problems internally as well, and can come up with solutions for them. Due to the definitive policy changes undertaken in the last two decades, such as deregulation, opening up of economy and privatization have created a fertile environment for the growth of ICT industries. This, supported by a continuous focus on developing a highly capable work force based on the education system in the country will set it apart (KPMG, 2012). Not only does the market represent an opportunity for large technology firms, even SMEs from other nations are finding it reasonable to set up offshore development centers in the country.

The bulk of India's IT services are concentrated in the banking and financial services sector, accounting for the lion's share of revenues from IT exports. BFSI was responsible for a revenue share of 37 per cent in 2004, which went up to 41 per cent in 2008. Other sectors with a substantial hold over IT services include Telecom and Manufacturing. These three sectors together contribute over 78 per cent of the IT sector revenues, up from 64 per cent in 2004. The global financial crisis resulted in a slowdown of revenues from BFSI but the revenues seem to be rising again after 2009 (PWC, 2010).

Competitiveness

This is an area of major concern for companies looking to invest in India. India ranked 44th out of 122 countries for network readiness (OECD, 2010). The country has seen major policy issues and scandals relating to telecom sector, with the rollout of 4G services slated only for 2015. The country is also poorly networked by landlines, with a penetration of only 3 per cent across the country. Some of the other driving factors that determine suitability of a country for business include cost effectiveness, quality assurance, supply of technical graduates, availability of an adequate telecommunication infrastructure and a favorable time zone to do business with the United States and Europe. In spite of some of the negative implications, multinationals such as IBM, Accenture, Hewlett Packard, Cisco etc. have established in the country and are rapidly expanding in India thanks to the low-cost, high quality workforce available, using it to support the delivery of high-end consulting services in the United States and Europe. These competitiveness reports are useful to outline the position of India in various areas and what advantages and disadvantages it holds as a business destination for ICT. India has a very large pool of high quality manpower at a very young age, compared with other countries like Japan. India's workforce is far ahead in terms of quality when compared to countries like Mexico, the Philippines, Israel, Ireland and Brazil. In fact, Indian companies have now expanded into these markets in order to acquire more human capital to help expansion in order to meet the increasing demand in the Indian IT sector. Starting from a handful of locations like Bangalore and Hyderabad, the IT / ITeS activities are now concentrated across several Indian cities/clusters.

While Bangalore has been saturated owing to the infrastructure limits like transportation and the rising wage bills of qualified and experienced workers, Hyderabad and Chennai are now alternative locations in the south, with Delhi/Gurgaon in the north. The spread of these activities is also expanding to tier II cities such as Ahmedabad, Pune, Chandigarh, Coimbatore, Jaipur, Kolkata, Kochi, Madurai, Mangalore, Mysore and Trivandrum.

Driving Factors for growth

The major cost advantage of sourcing from Indian IT/ITeS firms has been lower wages that Indian employees work for. In spite of the increase in wages in the last few years due to increasing demand as more companies come to India, the cost is still lower than Western countries by a significant level. In addition, the recession had resulted in wages actually declining due to lower demand for IT professionals during the period 2008-2010. As demand increases, companies have been setting up facilities in tier 2 cities in order to lower the cost of manpower acquisition, and make it easier to retain talent. Essentially, since the cost of living in the tier 2 cities is lower, people are willing to work there for lower wages than the major cities. With telecom infrastructure now spanning the country and increasingly becoming more accessible, that particular issue is no longer a constraint on locating a the setup in major cities in India. The Indian government has also made considerable efforts to provide dedicated, international quality, cost effective real estate for technology development firms and the setting up of Special Economic Zones (SEZs) and knowledge sector industrial estates and corridors. For example, in 2008 a scheme for Information Technology Investment Regions (ITIRs) was approved and these have begun to be

implemented by mid-2010, with announcements from Andhra Pradesh (Hyderabad) and Karnataka to set up ITIRs. Under the ITIR scheme each State in India can set up an integrated township for facilitating growth of IT/BPO, with provision of world-class infrastructure, supported by investor-friendly policies. These regions would aim to become magnets for investment, employment opportunities and economic growth.

Simultaneously, this will reduce the pressure on existing urban centers by enabling growth of new townships.

More than 50 per cent of the country's population is below the age of 25. This represents a significant resource pool that can be utilized. Despite the lack of universal literacy, the Indian education system creates a large number of IT professionals. Due to its focus on science, mathematics and engineering, the Indian education system creates a large number of students who can be trained as IT professionals. Even though companies claim that only one fourth of the talent pool is employable, India still has the largest pool of offshore resources which accounts for nearly 30 per cent of the global outsourcing talent pool available internationally. However, Indian education still continues to emphasize rote learning and ignores elements like creativity. This leads to a workforce that is capable of doing what it is told, but feels under pressure if it is expected to deliver creative or innovative solutions.

Telecommunications play a major role in the growth of the IT sector as well. The second largest telecom market after China, India is one of the fastest growing telecom markets with over 600 million subscribers, and continues to add 10 million more very month. Mobile tele-density is more than 50 per

cent, but the presence of mobile internet services is still lagging, mainly in rural areas. Internet and broadband penetration has tended to remain very low. In April 2010, the number of broadband subscribers was just 9 million. The development of 3G services for mobile internet access will make it easier for many more to access the internet.

The Indian IT industry has been heavily dependent on imported technology and on technical collaboration agreements to meet its own hardware technology requirements. India is currently in the process of changing from a back office to the development center through innovation. One of the key things required to do so is a suitable product patent regime to protect Intellectual Property Rights (IPR). With the advent of the new product patent law, this should bring India's patent protection system more in alignment with international standards. Other areas of development include fostering a strong relationship between technology industries, academia and research institutions in promoting research and innovation. By strengthening patent rules, simplifying procedures and reducing the cost of patenting, innovation in the country can grow significantly

Cost factors of Doing Business

In spite of liberalization, India remains a bureaucracy bound in red tape. Unlike China, India is yet to implement actionable steps to simplify procedures for setting up a business in the country, though many steps have been taken. The dichotomy of state and central government rules are also a dampener on doing business. India continues to perform poorly on the corruption index, and this needs to be rectified if the country hopes to attract investments. The multitude of authorities one has to deal with while setting

up a company are painful, ranging from local government and utility companies to central regulatory authorities to get a clearance on foreign exchange regulations. The recent cases of retrospective taxation on companies like Vodafone have also created a climate of uncertainty. Unless a clear and transparent regime of doing business is created, companies will hesitate to set up business in India.

Global Marketing

In the ICT space, there are plenty of companies which carry the tag of “Made in India” with pride. Companies like Infosys, Wipro and TCS have become well-known names across corporations around the world. However, smaller companies are yet to make their mark, unless they cater to a particular niche segment or product category. Mid-sized companies from outside India do not usually emphasize their India operations, preferring to bank on the brand value of their parent country. Therefore, the impact of operating out of India is not felt on the brand value of the company. This needs to improve, given the fact that Indian software development activities are so well-known across the world. Since the ICT service sector is location independent, the location of the company in India does not affect the company’s ability to do business in Europe or America, two of the largest markets for ICT services. However, being present in India gives the company access to the domestic ICT market, which too is sizeable and can provide a buffer against international fluctuations in business.

Supply Chain

Since ICT services involve largely project based delivery to individual companies, the business is largely one-to-one and business to Business (B2B) in nature. Therefore, there is little scope for supply chain creation on a steady basis. However, in case of long term projects which may involve technology areas spanning multiple domains or technology platforms such servers, mobile platforms, cloud technology, etc. vendors with specific domain expertise could be partnered with to deliver the essential components in those areas. Partnerships with various technology and networking platforms such as Oracle, IBM, Cisco, Microsoft, etc. can also be beneficial in bringing additional System integration (SI) business to the company. This is a model followed by most of the large technology services firms based out of India, such as Infosys, Wipro, Tata Consultancy Services, Accenture, Cognizant, etc.

Trade Decisions

Since the business is largely driven by a one-to-one relationship, client acquisition has to be directly through the company's business development teams in various geographical locations. Another possible route of acquiring business is through the use of sales commissions to individual technology consultants who suggest and advise the IT departments of various companies, banks, etc. on how they should be developing their ICT structure to meet regulatory and industry norms, etc. These can serve as a good channel for sourcing business as building client relationships and industry presence in a B2B environment takes time.

Conclusion

India is an ideal destination to set up an ICT services company, given the country's relatively cheap talent pool of highly qualified software engineers and developers. However, it must also be taken into consideration that for a small operation, the costs of doing business in India may far outweigh the advantages of setting up a presence in that country. Therefore, a sizeable investment is needed to set up a good base. At the same time, depending on the kind of industry verticals and functions being targeted, the company location will have to be chosen with care. If the requirements call for highly qualified technology professionals, places like Bangalore, Hyderabad and Chennai should be considered, while in case if mid to low value technology services, a tier 2 city would be more cost effective and better suited for the needs, making it easier to generate a positive return on investments.

The country has recently seen a significant change in the political scenario, and the policies of the new Government will also have to be reviewed before making the decision. However, given the success of the ICT industry over the last couple of decades, it is unlikely that the new Government will do anything to jeopardize this excellent source of earning foreign exchange.

Clarification on previous tax and regulatory policies would also help make the decision easier. India has a number of areas where improvements need to be made in order to encourage more foreign investment, such as telecom infrastructure and simplifying business procedures. The biggest factors that support the growth of the ICT industry include the pool of talent and the low cost structure. However, unless steps are taken to improve education and the regulatory regime of laws, the country will lose its advantage to others.

Based on the current information available, India is a good destination for the company to invest. It can start with a small operation to understand how things will work and then expand as the requirement for manpower increases with increasing business. Targeting domestic business as well as international opportunities will help stabilize the business in the initial stages and provide a sustainable base for operations. Hiring suitable manpower will be critical, as the team will have to be able to work with clients in international locations. However, given the pool of experienced talent this should not be too difficult. The company can look at consolidating its base in a couple of years during which it can determine the right technology areas in which it can create a differentiation through innovation. The new patent regime will allow for more innovation in India as compared to previous years, and this is an encouraging picture for future opportunities in the country. Initially using consultants to generate business, and by partnering with the right technology platforms and vendors, the business can grow significantly even in a highly competitive environment, provided the cost structure is well managed and quality of employees is maintained.

References

Businessworld (2014) For Indian ICT Industry, Year 2014 Is The Transition Year available at <http://www.businessworld.in/news/business/it/for-indian-ict-industry-year-2014-is-the-transition-year/1289915/page-1.html#sthash.WdTI7pmz.dpuf> last accessed 2 December 2014

IBEF (2014) IT & ITeS Industry in India, available at <http://www.ibef.org/industry/information-technology-india.aspx> last accessed 2 December 2014

<https://assignbuster.com/business-plan-on-market-segmentation/>

KPMG (2012) The Indian ICT Industry, CII.

OECD (2010) Information and Communication Technology Sector in India: Performance, Growth and Key Challenges, OECD Working Party on the Information Economy (WPIE), DSTI/ICCP/IE(2008)7/FINAL.

OIFC (2014) Information and Communication Technology (ICT) available at <http://www.oifc.in/information-and-communication-technology-ict> last accessed 2 December 2014

PWC (2010) Indian IT/ITES Industry, CII.