

India's \$100-billion low-cost IT business model 'maxed out', must invest in proprietary software: Constellation Research

India's \$100-billion IT industry must grow beyond mere low-cost delivery of technology work by investing in re-usable, proprietary software if they are to survive fundamental shifts in the outsourcing marketplace, according to latest study from Constellation Research.

Increasingly, clients are looking for service providers who can offer business solutions rather than technology services and such a change calls for greater degree of innovation from IT firms, noted the study titled Clients Want Outcomes, Are Indian IT Services Vendors Ready?, released on Monday.

"Most IT services firms think in terms of getting the job done for the client instead of creating repeatable and reusable offerings," said Ray Wang, chief executive officer and principal analyst of Constellation Research. "Customers now require more than just staff augmentation, infrastructure, testing and advice."

Ever since the 2008 global financial crisis, growth has been erratic at Indian IT firms, with even the larger companies struggling with clients' reluctance to spend in an uncertain economic environment. From a little around 17% growth in 2011-12, the sector growth slowed down to just about 11% in the current financial year.

According to the study, the current business model of Indian IT services have "maxed out" amid clients' changing preferences, thanks to commoditisation of services, vendor consolidation, erosion of offshore cost advantage and intense competition from global multinational corporations.

"Indian players no longer have a sizable advantage in cost structures as most Western competitors have built massive resource bases in India. Meanwhile, Indian players have had to invest in onshore capabilities local to their customers, thus increasing labour costs," noted the study that surveyed Indian IT firms as well as over 50 corporations who are large buyers of technology services. "It is high time for Indian IT services firms to walk their decade-old talk of 'moving up the value chain'.

Increasingly, clients are looking for technology service providers to help them achieve specific business outcomes, Wang said. In fact, according to his research, so long as IT services companies deliver on promised outcomes, clients do not care what database, hardware or internal middleware is used to deliver the solution.

Recently, iGate **BSE 0.00 %**, one of the tier-II software services exporters, ran a multi-million dollar advertising campaign in the US asking corporations to insist on business outcomes rather than paying IT firms for the number of hours put in by software engineers.

(Economic Times)