



FUTURE IS HERE: WHAT DIRECTIONS FOR INDIAN IT SMES AND START-UPS

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Introduction

Indian IT firms, even the large ones, are facing strong winds of change in the year's tailwind on many fronts. Large deals, >100 million are becoming far and few. Most deals are sub \$15 Million. With the fear of recession looming large, many customers are not keen on opening up their purse. They are not biting into the cloud-based pricing of OEMs. Both demand and supply side realize the raw code approach is being disrupted through low code development. Throwing bodies at problems is also passe. While some CIOs may prefer to pursue people-based execution and support, many are open to embracing newer approach to run and manage IT. Companies that earned a lion share from third-party contract hiring are finding the clients going direct on contract hiring. Many large companies are also developing gig portals as a platform to engage their employees for moonlighting assignments.



However, not that demand is evaporating; it is just the nature of demand that is changing. Demand for micro solutions, say lending or edge computing is on the rise. Many IT companies, including the SME, have a healthy pipeline of opportunities for digital solutions, data engineering, and data science. Fulfilling both at Onsite and offshore is proving a challenge because of their unique complexities. Capex to OPEX migration is becoming the norm in many industries and IT companies struck with their legacy models are finding going tough. Human resources are posing newer challenges. Attrition has hovered around double digits for many months and voluntary attrition numbers have cooled a bit in the last few weeks.

With WFH becoming the new normal, managing productivity, bonding and culture are posing a challenge. Moonlighting has opened another pandora box with compliance, remuneration, project delivery and conflicts of interests spilling over to the boardroom. An old proverb says, every storm is an opportunity for skilful rider. What changes must Indian IT SMEs and start-ups to survive this chill and prepare for any black swan moments. How can they build “resilience”, not just efficiencies to survive. What must they plan to execute. Listed below is how Indian IT SMEs must reimagine and redirect their efforts and seize to ride over the waves.

Strategic directions to stay ahead

Focus on building an ambidextrous organization with a small core and a flexible peripheral resource available to meet fluctuating demand conditions. Replenish talent at entry and mid-level through low-cost hire-train-deploy mode. Go beyond financial measures to manage retention. Create an extensive network of training associates and exploit academic programs to build flexible capacities and extensive competencies. Build structures and systems that allow for managing work from anywhere. Adopt OKR for better alignment between individual, teams and the organization. Bring HR back into the boardroom with a focus on utilization, talent management, bench costs, salary costs and net billings.



On the product and solution front, move away from monolithic platform to point solutions (or microservices). Pursue a platform focus on offerings front, products, solutions and services, including managed services if the way forward. Building committed capacities and capabilities is still a viable option. Productize solutions and use POCs refining features early. Ensure dedicated engineering and client success teams with continuous feedback and information sharing. Strengthen PMO to ensure delivery is on promised time and quality of outcomes delight the customer.

Sales needs an integrated view of sell-to (customer), sell with (product/solution vendors) and sell for (OEM platforms on which your solutions/product are deployed). Unbundle the offerings to capture multiple customer segments and price to performance expectations. Keep discovery to closure process simple, traceable and owner driven. Empower inside sales team to harness low value tickets and free direct sales to pursue large deals. Account mining must include edge offerings, stretching beyond what you have today. Tightly monitor follow up of sales patches from various sources including OEMs and Partners. Focus on both domestic demand and international markets with high capital munificence and ease of doing business. On the domestic front it is not just the emerging sectors such as renewables, EV and others that would throw up opportunities, it is also the host of GICs based out of India. Cost of customer acquisition remains same, whether at the head or tail end of the market. Chasing the long tail is a long road to profitability. Focus on a few of larger customers to benefit from account mining and de-risk from dependencies.

Focus on gross margins to drive revenues against the budget and EBITA growth QoQ with simple assessments of risks, including liability write offs. If a pure-play SaaS, measure MRR, AOV, LTV/CAC, customer churn, and return on advertising spend (RoAS) to manage and grow the business. Monitor DSO for both AR and unbilled revenues and collections must be a priority for both finance and sales teams. Evaluate short-term borrowings and optimize sources of capital.

While performance marketing is key to SaaS and B2C companies, for B2B IT SMEs and start-ups marketing needs to go beyond standard artifacts like newsletters, webinars and social media posts. For one, face-to-face meetings are back in fashion as people are hungry to travel, meet and discuss. Breakfast meetings, curated workshops and industry events have a better reach. More impact is when companies can create an experience centre to showcase potential solutions to their prospects and speed up closures. Analyst's ability to influence decisions is increasingly losing ground and they can optimize marketing spend to artifacts that influence purchasing decision and impact revenues.



Finally, Boards must play a significant role in redefining the business model of the company, directing and supporting the required changes to build a strong future. Boards must identify “leverage points” around existing capabilities and resources. Boards have to support executive management in knitting together deeper engagement models that can be more of the “managed form”, including BOT, BOOT and others. Board have a critical role to play as the gatekeepers and enablers in initiating programs on external linkages. Boards must ensure when the company is pivoting towards a new direction, with a nice balance between growth and profitability, and risk.

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