

'Client relationships and business models outweigh size' -- Mr B. Ramaswamy, President and MD, Sonata Software

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AS a medium-sized company, Sonata Software has consciously employed the strategy of honing its horizontal expertise (say, in Internet, component- or object-oriented technology first), and applied it across vertical segments (such as banking, financial services, insurance or healthcare). As an architect of this strategy, Mr B. Ramaswamy, President and Managing Director of Sonata Software, feels that the company has suffered the downside of lower growth, though enjoyed also the upside of less aggressive investment in infrastructure and manpower vis-a-vis its peers. Business Line spoke to him on the key issues facing the industry in the light of the US slowdown.

Excerpts from the interview:

Since slowdown is a reality facing different companies across the globe, what are the areas/projects continuing to offer opportunities for the Indian software industry?

I see the opportunity emerging from three areas. The ground reality today is that I need to spend money on keeping my systems going. Because my business has to go on. Translated to Indian industry opportunity -- legacy management, re-engineering or slowly having a roadmap of converting those into technology initiatives. That spending is going to be maintained. Second, people have invested in front-end applications, say, in e-commerce. Now they want to know how they can leverage that or how can I make incremental additions to what I have done.

For example, Merrill Lynch has already invested in online stock broking. Can I look at personalisation or can I look at CRM. Or, say, this tool is available to me and without my knowledge, customers are coming to the Web site -- 'can I profile them' and 'how can I target them'? Those kind of initiatives are passing through.

Finally, initiatives that have a high or good RoI (return on investment) justification. If I spend a million dollars, there is something I can clearly see on the table, say, in areas such as data warehousing. These are the common trends we are seeing from different customers -- whether in the financial services, banking or other domain.

Of these, how much is likely to translate into offshore outsourcing opportunities?

The good news is that offshore outsourcing is beginning to happen. People are saying... my own customers are saying...in a 500-person project, why cannot a 50-person effort be done offshore. Because, today, the tightening of IT budgets has not been relaxed. To that extent, there is an increasing realisation of how I need to stretch my IT dollar to the maximum. It will unfold, my feeling is, by the last quarter (October-December) of this calendar year.

An increasing number of people want more work to be done offshore. Those who have not done offshore work will start looking at it seriously. You may ask why. Because, when budgets are squeezed, from the CIO's or project manager's perspective, the risk premium attached to offshore projects will be different (probably below), and that is what will make outsourcing happen at least by the first quarter of next calendar year. Take Cognizant Technologies, an overseas company pitching offshore outsourcing as a big advantage for them.

Do you think that frontline companies, to utilise their investments in infrastructure and make their employee utilisation rates high, will resort to undercutting or engage in pricing discounts that may affect the fortunes of medium-sized companies?

Let me tell you the reverse hypothesis. If the assumption was that second-rung companies grew because frontline companies rejected work as they had no capacity, this argument is true. Now that they have capacity, everything would be theirs and there will be no overflow. No, that is not the issue. I do not think there is much of an overlap of customers between frontline and second-rung companies.

I feel there are a large number of medium-sized banks, financial services or insurance companies that may not have outsourced before, and they may not be attracted to the brand offered by frontline companies. It is what I have experienced so far. For these medium-sized overseas companies, it is a question of clarity on what they are looking for. The client is not interested if you are listed on the BSE or Nasdaq. He is very clear about what he wants. Have you handled similar work in the past? Can you show me, not one, but five projects you have done of the kind that he requires. As long as companies have a proven track record, say, in re-engineering or maintenance projects, being small may not be a disadvantage at all.

Do you think that the areas/domains/projects being addressed by the frontline companies tend to overlap with that of the second-tier companies, creating further pressure on revenues and margins inevitable?

I am saying size is not so much the differentiating element between frontline and medium-sized companies. Even the frontline companies were small only a few years ago. I think more than size, it is client relationships and business models that are far more important. In our business model, what are the segments we are focusing on? Today, technology segments have taken a beating more than anything else. If your clients are predominantly technology companies, then you take a beating. Since scaling up is not an issue, we feel we might survive just like other frontline players have done in the past.

Following a stagnating sequential growth over the past couple of quarter, you have announced a three-pronged strategy to emerge stronger in the future. Can you elaborate on that?

The first strategy is revamping our business offering. Since 57 per cent of our revenues come from e-commerce, we cannot say at this point in time that we will offer plain vanilla e-commerce offerings. It may have been alright around 18 months back, but today we have to be more specific in our offerings. We have decided to focus on three or four technology areas, say data warehousing or eCRM, which fits well with our domain expertise.

Our second strategy is to expand into Europe. And we are saying this not because the opportunities in the US are waning. But because, our first customer happened to be from Germany, way back in 1993 and we set up our UK office in 1997. Today, we have all the customer references needed to be the driver of our growth in Europe.

Finally, we plan to look at other domains, such as healthcare, in a bigger way. That is because we have worked in the healthcare segment in the past and even in the US, healthcare is insulated from the recession to a large extent.

In the past, Sonata's stated strategy has been to acquire horizontal skills, and after acquiring them, apply them across different verticals of your choice. Do you think that you have lost out, in the bargain, to companies that had deployed this cross-functional expertise (both horizontal and vertical) as growth strategy?

I think what we did has worked. But the downside in our strategy has been that we have not had the aggressive growth which other companies have had. If the market has not changed the way it did, we would have also had aggressive growth by pursuing dotcom and product companies through horizontals, and made up the 100-per cent growth rates. Since that has crashed, we are flat.

The upside of this is we have not made sizeable investments in people and infrastructure. At least today we are in a situation where we have cash in the bank. And we are only addressing the issue of growth, not survival. This kind of a sudden downturn in the US economy was not planned for by anybody.