

In slump, even mid-tier firms have a chance

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May 19: At times, it is difficult to separate marketing noise from reality. Currently in the IT world, for instance, it is hard to get a fix on whether the economic slump is leading to market polarisation favouring larger players.

There are arguments on both the sides. Price bargains have led the larger IT vendors to demand higher volumes from clients in return. Higher volumes imply vendor consolidation.

On the other hand, mid-tier firms say the trend is towards multi-supplier strategies. Enterprises want to de-risk by breaking up work and are looking for "specialists".

If history is a correct precedent, some amount of vendor consolidation is indeed a possibility. Executive director and CFO of mid-tier firm 3i Infotech Amar Chintopanth says consolidation did happen during the last slump, in 2001 and 2002, helping bigger vendors get better rates.

Both India's largest and second largest IT services exporters have confirmed the trend in different forums. Infosys CEO Kris Gopalakrishnan said his firm has noticed polarisation towards the larger vendors over the "last several quarters".

"Clients want to work with less riskier partners; they want to work with stronger companies — firms that can provide them multiple services," he said.

COO and executive director of TCS N



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Chandrasekaran said that in today's context, scale does matter and larger players tend to be considered for more deals.

The recession apart, the fraud at Satyam may have added more muscle to the "give us higher volumes" pitch. There are questions asked around credibility and corporate governance.

"It would be very difficult for small and medium players to project an equal footing with large established ones whose corporate governance standards are much

stronger. There will be further consolidation from a sentiment as well as corporate governance standpoint," said the executive director of advisory services with KPMG, KK Raman.

However, other industry watchers say even mid-tier firms have strong corporate governance standards and that vendor consolidation is not a trend.

Diptarup Chakraborti, principal research analyst with Gartner says there were a few cases of consolidation post Satyam but no indus-

try-wide leaning. "We haven't seen it across the industry. In fact, mid-tier firms such as iGate and MindTree have done well compared to many large tier firms," he said.

In rupee terms, MindTree's revenues jumped 62 per cent during the March quarter over the year-ago period — Infosys, in contrast, grew 24 per cent. It is an unfair comparison since MindTree is growing from a much smaller base. Nevertheless, its guidance for fiscal year

2010 is also more encouraging. While the firm expects revenue growth in the year to be flat, Infosys indicated its revenues could decline between 3.1 per cent and 6.7 per cent.

"The consolidation stories are not true and are being spread by the larger companies who fear multi-vendor strategies. If you value-add, customers will not go to large vendors. We have not lost any of our customers to large vendors because of vendor consolidation," CEO and managing director of Mindtree Krishnakumar Natarajan had commented in response to a question at the firm's quarterly results conference.

Customers, he added, were looking for agility and specialisation, which mid-tier firms are adept at.

Managing director of Sonata Software B. Ramaswamy agrees. "We play in niche areas (product engineering, for instance). We are specialists in these areas. We mostly serve the small and medium sized enterprises who do not have the pricing power of a GE," he said. Sonata, he added, was now attracting first time offshorers — a good sign at a not-so-good time.

Gartner's Chakraborti, however, says tier three vendors — firms with a turnover in the range of \$10-20 million — have been badly hit by the slowdown and are eliminating workforce in bigger numbers.

So will the polarisation wave, if any, hit the really small? What's true in consumer electronics (small is cute), unfortunately, is hardly accurate in IT services.