

CONNECT

Issue 65 - 15th December, 2011

Are small and mid sized companies also venturing into

Eyeing the IT Future Ameet Nivsarkar

"The tech industry will not face a demand constraint" says Mr. Ameet Nivsarkar, Vice President NASSCOM in a face to face interview with Connect as he also talks about the recent IT mission to the Netherlands, the growth of the Indian technology industry, trends and challenges. Given the many advantages of location, business climate and infrastructure that the Netherlands has to offer, he feels confident of the opportunities that are available for companies to leverage on either side.



How would you describe the landscape that exists today for the Indian technology industry vis-à-vis Europe?

The Indian technology industry is now about \$88 billion in size. From being a majority exports driven industry it has changed so that now exports and the domestic business are both growing rapidly, though exports continue to dominate which are about \$59 bn last year. The domestic sector made out the rest.

In the foreseeable future, the US will continue to be the single largest trade partner for us, by sheer virtue of the size of its GDP as well as the fact that a lot of the technology evolution happens in the US to begin with. Today the US is about 61 percent of our total business but this figure was way up in the 1980s and 1990s. Continental Europe is the second largest market and roughly about 30 percent of our business comes from Europe which also includes the UK. UK by far is the largest within the European Union and Continental Europe is about the same size as the UK. Companies in the US and UK have been far faster to adopt new trends in technology. Their propensity to work with a global sourcing model in technology with service providers from across the world has been higher. We have seen that in the past 3-4 years, a trend that started off before the Lehman Brothers and the 2008 crisis, Continental Europe began picking up and has been growing faster than the US and UK. Since it is under penetrated, the opportunity for growth is much higher. Second, European companies are looking favorably towards a globally sourced model. When I say global sourcing it could mean getting designs done from the best in the world and best in the world could be in France, for example. Getting it manufactured in the most efficient place in the world which could be in China and getting your technology support development done out of India. So we see companies in Europe now slowly evolving to the global sourcing model and that's why the opportunity is higher.

What have been major changes in the last decade and the trends you think we may witness going forward?

The industry has evolved from being a pure cost arbitrage player. A lot has changed over the past 10-15 years, starting from the year 1999 when the Y2K requirement was a finite time bound activity. For the first time, the West then realized that they do not have the resources; they needed to either get the resources from outside to come in or send the work outside. Companies started opening up and governments started understanding the possibility of remote delivery of services of technology. So, while the outsourcing trend started out for reasons of cost, the access to resources became the second catalyst of this trend. The third catalyst was the ability to work on a 24X7 work cycle, especially companies in product design and new product development, which are highly competitive spaces. Through a global sourcing model, product development cycles can really be shortened and your product can come to the market much faster. For these reasons the industry started embracing the global market and many companies set up global delivery centers across the globe. As we go forward, we foresee more changes.

The first and the biggest change facing all of us is the demographic shift. Europe is ageing. If you see what's happening in Greece, Italy for example, citizens are not willing to take lower level of services from the government. Now, for a country such as Germany which after the WWII had 8 people contributing to the social security and one person drawing from it, this ratio has changed to 4:1 and then to 2:1. For every two persons contributing to the social security, one person is drawing from it. The government cannot sustain the earlier levels of service. This ratio is expected to fall to 1:1 in the next 5-10 years time. So governments will need to look at more unique options of trying to continue to deliver on citizen services and technology forms a very key part of it.

The trends we are seeing in sectors like energy, healthcare and e-governance will drive more technology usage. Another trend is that markets are moving Eastwards – to India, China. So it is no longer the story of a Western company looking to these markets to outsource to but at the same time are also looking to target these countries as growth markets. So the approach is more integrated.

India will have 500 million people below the age of 29. If areas like poverty and education are addressed, India can offer a large surplus of a skilled working age population to service the world.

We do not foresee a demand constraint situation, but a supply constraint situation. Exports will grow from the current \$59 billion to a projected \$175 billion in the next 10 years, while the domestic market will be another \$ 50 billion. So by 2020, we expect the Indian technology industry to be \$225 billion in size.

What impact is the Indian IT industry likely to face because of the EU crisis?

There is a lot of uncertainty in the system. This leads to slower decision making. Discretionary spending in newer technologies, newer applications, and newer projects become a little bit slow. But we have not seen anything so far that suggests we may see a repeat of the 2008 collapse. So while decision making may have slowed down, growth continues.

TOP

Many Indian technology companies have set up operations in the Netherlands. What in your opinion are the reasons for it?

The Netherlands has been a very important partner country for us. One of the best part of dealing with the Netherlands and the Dutch people in particular is that they hit it straight, they are direct in their dealings and easy to do business with. Almost everyone I have met from the Netherlands speaks excellent English. As a country, it is easy to do business with and in. I think the Netherlands, among Indian companies, is seen as the second most frequented business destination in Europe. The Netherlands can definitely become the continental Europe HQ for our companies. In addition to its location, the government has also been very trade friendly. Many companies are already doing a lot of work there.

Europe?

Mid sized companies will probably look to continue to invest in their offices and look at opportunities and set up development centres in Europe. It's the smaller companies which are less than \$50 million that would need a lot of investment and discussion with partners because they do not have the wherewithal to perhaps set up a center all by themselves. For such companies to partner with a Dutch company of similar size or with other European companies to work across Europe would be an interesting way forward.

What was the objective of the mission that went to the Netherlands in early November? What profile of companies were a part of this mission?

This particular mission was driven by the Indian Embassy and the Dutch government. A day-long ICT seminar was hosted at the Hague and had a good participation of close to 100-120 people.

The mission from India had as its participants mid sized to small companies with the objective of looking out for business partnerships similar to the ones I just talked about. Consider if you are a company in the Netherlands that is into software development or application development and a few million Euros in size in terms of revenues. A company such as this would understand the benefits of globalization but would perhaps not have the bandwidth of coming to India and set up a delivery center. In such as case, a small company in India could turn out to be an ideal partner. You use a partnership model. We are seeing a few success stories in Germany and Sweden and it seems to work quite well.

The delegation was very optimistic, happy with the reception as well as with the possible opportunities that they see. We hope that we can actually see this translated into a lot more business. The Netherlands is a very progressive country within Europe. So we hope to further build our ties and take it forward from there!

