Indian Information Technology Software and Services Industry (Export Market)

Research Methodology:

I.T. spending by geography → Verticals Focus → Service Lines → Global Trends → Future Trends & Opportunities

I.T. spending by geography:

India has been expanding its focus on geographies beyond the US market since 2001, when corporations in that market cut their IT spending. Indian companies are now catering to the software development requirements of corporates in Europe and the Asia Pacific regions

North America: Within North America, the US continues to be the largest market for India's software services exports. Indian software exports to the US increased significantly during 2002-03, despite the depressive economic environment in that country due to increased outsourcing of ITES/BPO activities to India. Of India's ITES/BPO exports, around 80-85 percent are to the US.

Europe: Indian software companies have been attempting to increase their presence in countries such as Germany, UK, France, Italy, Norway, Sweden and Switzerland in order to reduce dependence on the US market. On account of the global economic slowdown, software exports to Europe grew slowly during 2002-03. The trend is likely to continue into 2003-04.

Asia Pacific: Major opportunities are expected to come up for the Indian software industry in countries such as China, Australia, New Zealand, Taiwan, Hong Kong, Singapore and South Korea. Both IT services and ITES/BPO outsourcing is expected to witness a hike from this geography.

Verticals focus:

The vertical segments that Indian companies are focusing on, which are likely to bring them maximum revenues and benefits include the following:

- ***Financial services.*** Financial services include securities, banking and insurance and is the largest user of IT solutions. According to NASSCOM, during 2001-02 this segment accounted for the largest share of Indian software and

services exports. While IT investments by this vertical slowed down during 2002-03, they are likely to pick up again during 2002-04

- **Telecom.** The telecom sector is a large IT spender and invests substantially on IT services. According to IDC, IT services spending by telecom services providers will grow at around 20 percent in the medium term, while IT investments will grow at 11 percent.
- **Manufacturing.** Even though IT investments by the manufacturing sector reached a plateau during 2002-03 on account of the global economic downturn, it continues to be a big investor in IT services. Manufacturing companies are focused on improving competitiveness through enterprise software related to product life-cycle management, SCM, CRM, ERP and e-business.
- **Healthcare.** Healthcare is an emerging vertical for the Indian software and services markets. Several Indian companies are providing solutions such as customer management systems, maintenance of electronic medical records services, etc. for healthcare service providers, health insurance companies and life sciences and medical equipment firms.
- **Utilities.** IT services spending in the utilities market is expected to grow at a CAGR of around 12 percent. Key drivers of this segment are deregulation and increased competition, which have created a need for improved efficiency, profitability and customer services. This have in turn increased IT investments by players in this space.
- **Retailing.** Cost reduction and increased competitiveness are expected to spur IT spending by the retailing vertical, even in challenging times. This vertical will therefore create a major opportunity for Indian software and services companies, particularly for vendors supplying solutions in areas such as supply chain and logistics management, CRM and e-business
- **Travel, Transportation and Logistics.** The IT spend, particularly in the long term, by the travel, transportation and logistics sector is expected to go up significantly, particularly in Europe and Asia. Indian companies operating in the Internet based application software and CRM domains are likely to be the major beneficiaries.
- **Government.** Governments, especially in the developed markets such as US, Canada and the UK are expected to increase IT spend over the next few years. IT services spending during 2002-05 is forecast to grow at a CAGR of around 11 percent.

Service lines:

Currently India has a high penetration in two IT services markets, namely, custom application development and application outsourcing. NASSCOM estimates indicate that in 2001-02, the revenues of the Indian software industry from custom applications development and application outsourcing were around US$ 4.4 billion (over 80 percent of total IT software exports). However, since these two service lines account for only around 10 percent of the global IT services markets, Indian software and services companies are beginning to focus on the other high opportunity service lines with a bigger share of the IT spending pie.

Indian companies are now looking at:

- **Enterprise integration.** The market opportunity in this segment is expected to go up to US$ 18 billion in 2005 (up from US$ 6 billion in 2001). Indian companies, particularly those with experience in large enterprise projects, have an edge in this market
- **Consulting.** Some of the large, global IT consulting firms such as Accenture, IBM Global Services, KPMG Consulting, Cap Gemini Ernst and Young, EDS and CSC are already present in India. Indian companies have until now been involved in implementing IT solutions designed by these established consulting firms, which has helped them build domain knowledge in verticals such as telecom, financial services and manufacturing. This experience can be leveraged to provide IT consulting solutions.
- **Package implementation and support.** Implementation, customization and support of packaged applications offers a major opportunity for Indian players as they have a highly offshore-able component. ERP and CRM applications are expected to register high growth.

The global scenario:

Business intelligence majors such as IDC state that the ***IT services market will grow at a CAGR of 5.4 percent over the next five years.*** Some of the other developments defining this segment include the following:

- A high growth IT outsourcing industry which will maintain a momentum of five percent in 2003-04. Application outsourcing will remain the focus within this segment
- A high growth Application Service Providers segment which is forecast to grow at a healthy five year CAGR of 25.3 percent

- A return to moderate growth of the custom applications development segment, which was the worst hit by the off shoring phenomenon
- A mild recovery by the US IT services market which is expected to achieve growth of around two percent during 2003-04 and around six percent by 2005.
- A healthy growth of around 8.6 percent in the IT services market within the Asia Pac region, and a five year CAGR of 12.6 percent
- High growth rates of IT services in the rest of the world (including central and Eastern Europe, Middle East and Africa).
- The rise of off shoring as a mainstream strategy based on overall savings of 30-60 percent for outsourcing companies. According to Morgan Stanley, the percentage of CIOs outsourcing software applications offshore is likely to triple to 28 percent from 8 percent in 2003. IDC expects offshore volumes to double to US$16 billion in 2004and jump to US$ 40 billion by 2007.

Future trends and opportunities:

According to leading global business intelligence analysts, the offshore outsourcing market, still in a nascent stage, is expected to witness substantial growth over the next few years.

- Forrester Research estimates that *only 3-4 percent of the Fortune 500 companies offshore more than 10 percent of their IT services spending.* Considering the mammoth IT budgets of these companies, there is a vast untapped potential that the segment offers Indian software and services vendors.
- Industry watchers are hopeful that industry pricing will remain relatively stable over the near-to-intermediate term and that Indian services firms may even be able to raise prices.
- Supply side factors indicate that India will continue to have a significant pool of "tech-ready" and "tech-trainable" students over the next few years. It was estimated that during 2003 around 375,000 students joined up engineering or other technical programs. This was in addition to the 500,000 non-engineering graduates that passed out of India's higher education institutions.
- It is expected that over the next few years, Indian software and services companies will adopt a global delivery model based on four components: onshore (same country as client); on-site (at the client site), near-shore (country near to client country) and offshore (based in India)

Reference:

1) NASSCOM Website, www.nasscom.org
2) INFOSYS Website, www.infosys.com
3) GARTNER Research
4) FORRESTER Research