

Digital Transformation Deals may Weather Covid-19 Storm: Analysts

Automation, Cloud adoption & AI-based processes may continue as they lead to short-term savings

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Bengaluru: Indian IT firms are likely to persist with ongoing digital transformation projects that save costs for clients, even as they witness a drop in discretionary spending as businesses focus on survival in the wake of the Covid-19 pandemic, said analysts. Service contracts for works such as automation of processes, movement of business applications to the Cloud (remote servers) and AI-based process transformation are expected to continue since they result in short-term cost savings for businesses, analysts said.

“Where digital transformation saves the client money in the form of lower operating costs, we do see an appetite to move forward,” said Peter



Bendor-Samuel, chief executive officer of Everest Group, a US-based IT advisory and research firm.

“Having said that, it looks like we are entering a recession where capital for projects may be hard to find, hence these digital projects which save money have a quick ROI (Return on Investment),” he added.

This is, however, a “mixed bag” and many organisations have started cutting discretionary projects including digital transformation contracts, Bendor-Samuel cautioned.

IT firms generate higher margins in projects that are discretionary as it is outside planned budgets. Clients of the Indian IT services companies in the travel and transportation sector, including airlines and hotels, have begun to cut services and outsourced staff. Top tier software services expor-

ters such as Infosys and Wipro reported 40.6% and 39.8% revenue, respectively, from digital technology-led services for the October-December period last year.

Technology services providers have seen outsourcing work across various industry sectors and types of projects being suspended. However, some large clients have continued discretionary spending on digital technology transformation despite a dip in overall business in the United States and the United Kingdom.

“Large companies may absorb the cost of contracts in such difficult times, but small enterprises in the UK and other markets are more interested in saving their current business and not ready to spend on any incremental tech projects,” said a senior executive at a large services firm.