

# IT sector sailing into a perfect storm in '17

## Surge in protectionism and its inability to go into a higher orbit pose challenges

**VENKATESH GANESH**

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On the threshold of 2017, the Indian IT sector in 2017 finds itself at a crossroads. On the plus side of things are the client base that the sector has built up over the years, its centrality in running the back-end of almost all the financial institutions, the capability of its software engineers and the advantage of a large pool of engineering graduates.

On the other hand, the sector finds itself unable to propel itself to the next level in technology, the effect of which can render these service providers utterly useless to their clients in a matter of months.

Also on the downside for the sector is the rising tide of protectionism in developed markets (which collectively account for over 70 per cent of India's software exports) and the stance adopted by some of them, notably the United Kingdom (following the Brexit vote for the UK to leave the European Union), in putting in place stricter curbs on hiring foreign nationals by rendering the visa procedures more stringent.

The protectionist furor reached a fever pitch in the recent US elections, where the Republican candidate Donald Trump won on the promise that he repeatedly made to white- and blue-col-

lar US workers that he would get their lost jobs back to the US.

According to former Infosys CFO V Balakrishnan, all of these factors will result in the rise of short-term uncertainty around the visa regime. Infosys CEO Vishal Sikka has often pointed out the need to move towards a visa-independent scenario in the future.

"This is possible because of advances in technology such as Virtual Reality and collaborative technologies through which we can do the same thing sitting out of any location," Sikka told *BusinessLine* during a recent interaction.

For now, however, the Indian IT sector is reliant on onsite presence.

### Perfect storm

Visas are one critical area of contention for companies. On the other side, rapid technological shifts are causing widespread disruptions in, for instance, banking and oil and energy prices (which are upsetting the dynamics of utilities' companies). Additionally, retail giants are facing the heat from e-commerce retailers.

Marc Carrel-Billaud, Global Managing Director, Technology R&D, Accenture calls it a perfect storm. "Disruption in businesses, cloud computing, advances in automation, have made us think of things



differently from before," he says.

Under their influence, although the business pie is not shrinking, the deals are getting smaller in size. "It is getting fractionalised and larger players are fighting for contracts of around \$25 million, which has become highly competitive," points out Dinesh Goel, Partner, ISG India, an outsourcing advisory firm.

To understand the magnitude of competition, one needs to look at the way clients perceive the business. For one, they are constantly battling to look at cost takeouts, but unlike in earlier times, it is no longer about replacing a worker earning \$50 an hour with one who can do it for \$5 an hour.

While costs continue to be a draw, what matters more is a company's ability to innovative, design a software that

looks cool on an iPhone, which in turn drives traffic to the website and results in a purchase. But these are areas where traditional IT services companies don't have an edge.

"Now we have true democratisation of not only technology, but even capability (of a company); the number of people on projects is not relevant anymore," explains Manas Fulgora, CEO of Nagarro, a part of Germany-based Allgeier Group.

Sandeep Kishore, CEO and MD, Zensar Technologies believes there is a need to reskill existing teams to ensure that they can upskill where needed or learn new competencies. "A balance between having the digital talent in place, with a consulting approach will be the growing trend," he says.

Nasscom recently took up the issue of protectionism

with the Indian government. Industry watchers believe that India has some advantage in this negotiation, on the strength of its reserves of qualified manpower.

### Protectionism challenges

"Shifting software development work from India to the US will not make sense for Trump," says Peter Schumacher, CEO, Value Leadership Group. Part of Trump's rationale seems to be his keenness to narrow trade deficits with countries like China and India. But the US trade deficit with India is minuscule compared to its trade deficit with China.

The US will benefit significantly more from reducing its trade deficit with China, which is predominantly made up of manufactured goods. Shifting some of this outsourced manufacturing back will create jobs, in particular, in the rust-belt States, where manufacturing jobs have been lost, according to Schumacher.

Yet, relative merit of the sorts that India enjoys counts for little when the overall political mood – in both the US and in Brexit-struck UK – is as sharply polarised in favour of protectionist sentiments.

As it floats into 2017, therefore, the IT sector must brace itself to face some pretty choppy waters.