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## It's 'fuzzy' business

**Amit Garg**

*Software players must play on the 'services' side, and avoid the 'manufacturing' mindset. Here's more on why the model has to be 'fuzzy.'*



IT is commonplace to refer to the Indian software sector as a services business. Till sometime back, that appeared to be a logical interpretation. But lately I have been asking myself whether that is a completely accurate description. To start with a fundamental question, what is a services business? A services business has three basic components that distinguish it from manufacturing:

- **Intangibility:** Services are non-physical in nature, and with a high level of intangibility (e.g., advisory services). On the other hand, manufacturing results in products with clear, specification-driven, tangible properties.
- **Inseparability:** In services, production and consumption occur together (e.g., a haircut or a meal in a restaurant). In manufacturing, the two are separate.
- **Variability:** The quality of services you receive depends upon the provider (e.g., hotels or airlines). Manufacturing is much more standardised.

At the core of it, there is a 'fuzziness' to services, an intangible element. As a result of this, reputation and individual experiences play a big role. Thus, differentiation is possible and a brand commands a premium. Jet is different from other airlines — though all airlines take you from a defined point to another. The Taj is different from a motel, though the basic needs it addresses are the same. Services can thus be differentiated, though it is often hard to pinpoint the exact basis of differentiation.

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Coming back to the Indian software industry, over the past decade, the one thing we have managed with great success is to define the services and reduce the variability in delivery. We addressed the intangibility of services by working with clear specifications and testing against them. As a result, the output can be 'measured' and checked against standards. The 'fuzziness' of the output has been taken out.

Move on to inseparability. Modularisation and offshore development have ensured that the customer rarely sees the producer. With our offshore model, we have proved that software services are separable.

The aspect of variability was tackled by quality programmes and certifications. As a result we have the highest number of SEI CMM level 4/5 companies in India, and ISO is now taken as a pre-requisite for being in business.

What have we done in the process? Increasingly, we have transformed a 'fuzzy' business into a more clearly defined one. Many Indian companies have equally strong delivery processes. As a result, the differentiation among them has diminished substantially and one company has become replaceable by another. The Indian software industry has developed the ability to handle large projects as per customer specifications. But that is what the manufacturing sector does too — it delivers as per specifications! So, services are now being transformed into manufacturing. Evidence of this shift is also found in the billing rate pressures faced by software companies and the loss of accounts to other competitors. Is it any surprise that you hear terms like 'software factories', 'software sweatshop' or 'manufacturing code'? China, anyone!

Is this good news or bad news? The good news is that this was inevitable and one of the key factors in shifting work to India. Without the kind of accountability that this shift brought, it is hard to imagine the continued growth of the sector. If the software industry was to grow, services had to be transformed into manufacturing. This is generally true for the growth of most businesses. This change has been inevitable.

The bad news is that this shift means higher expectations and a decline in margins for most companies. For the smaller ones, it is enough to drive them out of business.

#### Get back to 'services'

For those that remain, it is time to start thinking how to be a services company once again. I do not for a moment suggest an abandonment of all the good work of the past. Instead, companies need to think about bringing back a 'fuzziness' into their business models, where they can develop capabilities and command a premium. The Olympian motto for the Indian software industry in the past has been Cheaper and Faster. One needs to substitute Cheaper with Smarter. For companies, it may be time to ask if they have been falling into a trap of a 'manufacturing mindset'. If yes, consider taking the following leaps:

- As a minimum first step, one needs to move to a stage where the company has the ability to define specifications,

rather than simply receive and execute against them. This requires a combination of domain and software capabilities. A few companies appear to be doing this through a planned set of consulting acquisitions. Managed properly, there will be significant long-term benefits from these moves.

- The next step is to start building IP in one's business area. For the quantum of software work done in India, there is still very little IP creation. It is important for a company to have a strong perspective on the trends that will shape their customers' industries and how software can assist them.
- The third leap is to start developing solutions, rather than black boxes that form a part of one. This is akin to moving from the position of a Tier II/III supplier of auto components to a Tier I supplier. The skill upgradation required is immense. Partnerships and alliances may help accelerate the learning process. There are signs that several Indian companies are beginning to take this leap, combining software and hardware. Some may fail, but others will succeed. As a country, India will gain.
- The final leap is one of marketing. It is also imperative to start investing more heavily in brand building. Premium services companies have an element of mystique built into them. Indian companies will need to develop this factor.

Each of these will prove to be a huge challenge. The key is to move beyond one's comfort zone into less defined areas. The quality of specifications developed, IP created and solutions cannot be measured very objectively. Moving away from objective to grey areas requires a shift in mindset that may prove to be the biggest challenge of them all. However, continuing the *status quo* represents a downward spiral, where margins and growth will be under constant pressure. It is an endgame that we cannot afford.

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