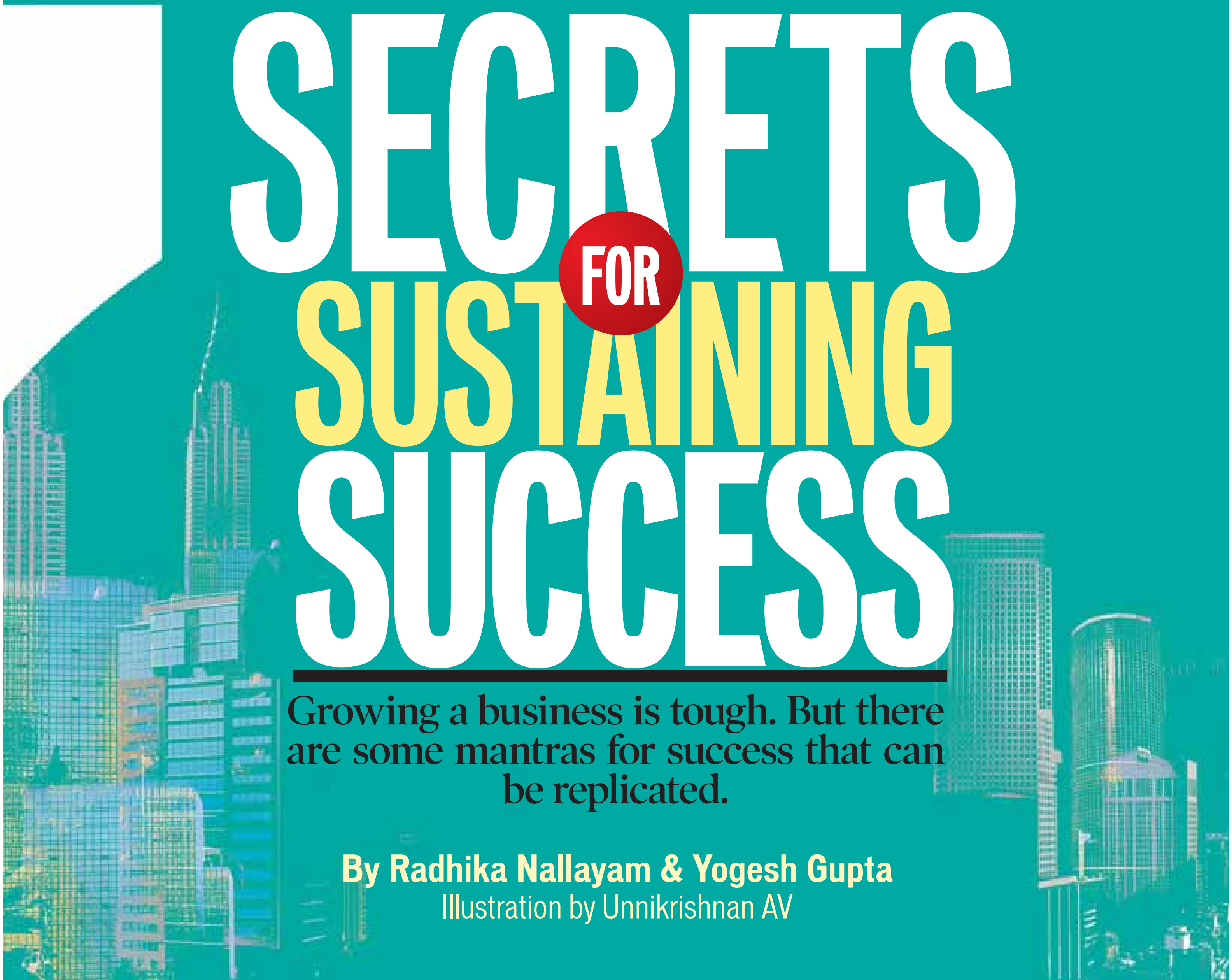

SECRETS FOR SUSTAINING SUCCESS

Growing a business is tough. But there are some mantras for success that can be replicated.

By Radhika Nallayam & Yogesh Gupta
Illustration by Unnikrishnan AV

What is success? I think it is a mixture of having a flair for the thing that you are doing; knowing that it is not enough, that you have got to have hard work and a certain sense of purpose.

- Margaret Thatcher

THE PROMINENT quote applies equally to the IT channel ecosystem and its business operations. Solution providers across India are striving hard to survive the competitive marketplace. The ever changing technology landscape is certainly not making life any easier for the partner community. Box pushers or resellers are becoming Value-Added Resellers (VARs), who in turn want to grab more business by offering systems integration services and regional systems integrators want to become larger national players. To be different in this competitive marketplace, a robust company strategy with the right ingredients becomes crucial for partners of all types.

One might argue that there is not a single 'One Size Fits All' formula, but there are a few steps that can broadly be applied to all.

Based on a series of discussions, interactions, and knowledge sharing sessions with solution providers across the country, ChannelWorld lists seven steps (in no particular order of priority or importance) to emerge as a successful solution provider. Of course, there may be more secrets to success, but these are some time tested ones that have a proven track record.

MONEY MATTERS

It is a never ending quest by solution providers to raise capital to grow their business, apart from managing cash flow in their day to day operations. IPOs (initial public offerings) by service providers like Paradyne InfoTech, Allied Digital, Omnitech Infoslutions, to name a few in past decade, have helped these companies catapult to new heights.

And others are contemplating about it, though are yet to bite the bullet. Ashtech Infotech thinks that IPO seems a little away for them at this stage. "The pre-IPO preparation stage takes approximately two years and we have not begun journey in that direction," says B Shankar, Director, Ashtech Infotech.

Others seem to think that private equity may be a good route for solution providers. "However, such investors are not willing to invest in thin margin business of a typical solution provider who has a bouquet of VAR, systems integration and services offerings. They desire numbers of assured annuity business which can be delivered by a large service provider," says a Mumbai-based systems integrator on condition of anonymity. It's a catch 22 situation as one first needs large capital to update the facilities and service offerings, he says.

Private equity is a thought, but plans need to be perfected before we approach any investors, comments Shankar. The challenges for channel partners today in terms of raising capital is the current size and the expected size. Especially with the commoditization of IT, it is areas like profitability that most investors look for, he adds. However, everyone agrees that raising capital is an important step in fulfilling the long-term growth dreams.

EYE ON BOTTOMLINE

The challenges for channel partners in today's times with commoditization of IT are evident. The networking, systems integration and the likes are more of fulfillment orders rather than ones that provide good margins, say most of the channel community.

'Anybody Looking for Fast Growth Should Opt for Equity Dilution'

Nitin Shah, *Chairman & Managing Director, Allied Digital, deciphers the journey after 'IPO' route.*

It's been three years since you launched your IPO. Has the decision paid off? The underlying principle was traversing inorganic growth path, especially to operate outside India. We wanted additional money to acquire En Pointe Global Services in US which we fulfilled. Pre IPO, as a domestic player we were clocking 95 percent of our business from India. Our larger competitors were minting money by earning in dollars and spending in rupees. Having demonstrated capability in India, we decided to replicate our model across other geographies. In 2006-2007, we decided to transition from bootstrap model and take a leap frog growth.

Apart from acquisition agenda, what are other benefits of 'going public'? US acquisition helped access new geography and acquiring Bangalore-based Digicom helped ease out our business. We had identified both companies for acquisition before going public. IPO also helped us expand our facilities like state of art NOC and global services delivery centre. It further helped us evolve as global IT services and solutions company providing end to end solutions for customers across domains and geographies. Last fiscal year, 30 percent of our revenues were from US and 70 percent from India.

Is IPO the easiest route to raise capital for solution providers? One cannot say IPO is easier. An organization comes into public eye only if it has been able to make good money and has relevant balance sheets to attract investors. Whereas when you want to raise private equity in terms of venture capital, or private equity, or from angel investors, they would look at company's inherent strength and not only the balance sheet. If the company is in debt stage where they created value which the management can demonstrate, then private equity investors will invest early money at early stage. Probably, they would go for IPO later.

Which other ways can solution partner organizations explore to raise funds? There are only two methods, debt and equity. It is promoter's thinking if they would dilute equity and again at what cost? Debt can turn out to be cheaper in the long run. Your equity might be more expensive expecting premium over your share price whether it is private equity, venture capital or public listed. This is a significant decision at what point your business stands and what is suitable for you - debt or equity? According to me, anybody looking for larger growth should opt for equity dilution.

If one really looks into the model of a systems integrator, they design and architect the solution for the customer and provide technology from the technology provider.

Nitin Shah, Chairman and Managing Director of Mumbai-based Allied Digital, says, "It is not their product, but it is integration and implementation. The dominant or tangible part of the project is hardware or product supply with limited margins."

Better margins come from value add business like value added services, managed services, life cycle management of the technology, professional services, etc. These are areas where system integrators can make good money over a longer period of time with a customer, says Shah.

Kalyx Infotech is concentrating on high margin business through HP's help on virtual desktop infrastructure (VDI) and thin computing solutions. "As the market reality is cloud and consolidation, thin computing is the way to go for us to diffentiate in the market and increase bottomline," says Vasant Vartak, Managing Director, Kalyx Infotech.

JOINING HANDS

Quantum jump in growth is a tough goal, especially when your company is not very small. Several systems integrators in the country are now going through this phase. While a few of them confine themselves to slow growth, others look for new ways to sustain the growth rate that they have been witnessing so far.

Thus, collaboration within the channel community is becoming widespread. Tier two systems

Margin Matters: Services is the Future

Services business contributes 30 percent to overall revenues for Frontier Business Systems. Anirvanjyoti Chaudhari, GM & Head of Services, Frontier Business Systems, speaks on high margin business of services.

THE RATIONALE: As we grew in business, we found that we had built up a pretty formidable skill set in the technology behind the solutions and products we were selling. It made sense to leverage this technology skill set. We could also see clients were increasingly more comfortable with a technology partner as their trusted technology advisor than a vendor of technology products. Of course, the margins were higher in such relationships. We are focusing at total infrastructure outsourcing which is aligned with our roadmap of becoming a total technology infrastructure services player.

WORTH THE INVESTMENT: We invested in building a solid delivery competency in services and in continual training and skill development of teams of delivery and services sales. Investment in creating a set of methodologies, processes, assets and artifacts that makes our services business acquisition as well as delivery scaleable, replicable, standardized and robust and inculcating global best practices in service sales and delivery in our teams. We are registering double digit growth YoY in services over past three years.

PITFALLS TO AVOID FOR PARTNERS: There is no way, but this (services) way for any serious player in this space. You need to build a services capability which is principal-agnostic, domain-agnostic and completely client focused. Evangelizing your brand as an independent and neutral infrastructure services player is the only way to protect and grow your margins. You should be careful not to get co-opted in principals' own branded service offerings because this carries the danger of you losing the ability to play across the entire market space.

CHALLENGES TO MANAGE PROFITS: The main challenge for partners is to avoid getting squeezed between principals' desperation to win business without sacrificing their own bottom lines. Today clients are much more aware of choices and therefore negotiate hard. Many principals are getting directly into spaces which were earlier exclusively reserved for channels. The conflicts of interest are becoming increasingly frequent.

integrators are now looking at joining hands with their peers (from other regions or having a different skill set) for better business prospects.

Such partnerships bring about immediate returns for most of the partners as it helps increase their reach to more regions and untouched territories. Another major reason why companies are looking at partnerships is to diversify into new technologies and thus to new markets. Instead of developing their own skill-sets in a new technology, which can be quite expensive, systems integrators believe that partnering with peers who already have the expertise in that area would make more sense.

This approach also results in a sudden increase in the number of customers, which would not have been possible otherwise through traditional methods. Besides, partners do not have to make huge initial investments in attracting and training more employees.

However, such partnerships need not always be successful, say few systems integrators. As a result, partners have to be extremely careful while deciding who to tie the knot with. If there is a conflicting interest between the two companies, a systems integrator would be falling on his own sword by getting into a joint venture.

It has been experienced that associating with a company that has a completely different portfolio is not a great idea. At the same time, if initiated and executed appropriately, collaborations can bring in instant and multi-fold growth for partners. More importantly, collaboration seems the only way a tier two systems integrator can compete with larger systems integrators in the country.

EXPANDING FOOTPRINT

It is a logical practice for a systems integrator to add branch offices to target new geographies and hence net new enterprise customers. The recession however seems to have taken a toll on plans of many solution providers. Lauren Information Technologies had a branch at Baroda but opened a branch in Ahmedabad a year back. "The rationale was to target large customers in and around Ahmedabad," says Shailesh Mallya, AVP, Marketing & Communications, Lauren Information Technologies.

For Mumbai headquartered Dynacons Systems and Solutions, geographical expansion is key to success for a solution provider. The organization has been steadily growing branches across Goa, Delhi, Bangalore, Chennai, Hyderabad, Ahmedabad, and Pune.

Dharmesh Anjaria, its Director says, "The strategy is to provide service support to existing clients in new locations. Then gradually, appoint marketing people to add new customer accounts."

Manageability of multiple locations is not a big challenge as the branch team has regular meetings with customers. "The biggest challenge is in getting the right people to hold the fort and generate business for us," says Mallya.

Dynacons team is identifying major zones around major metros which can be addressed from a branch location at that city. The company has service engineers across 65 locations which address their customers

'We Virtualized our Production Environment'

Chennai-based Veeras Infotek is one of the early players in the virtualization space. CEO & MD **Sudarsan Ranganathan** *talks about the gains and challenges of 'being the first'.*

Veeras has been talking about virtualization since 2007. Did you have a tough time selling a technology at its early stage?
Initial stage was very challenging. Customers were not willing to move away from the traditional methods of IT. More than anything, certain perceptions about the company, both of the employees and the customers, were tough to change. We also faced a challenge in terms of technically enabling our sales team. We had the task of identifying the right set of people who can effectively communicate the advantages of a relatively new technology. Lack of references was another big hurdle. Customers wanted to know whether we have implemented this technology successfully and it was impossible for us to present a case study at that time.

How did you finally manage to win their confidence?
We realized that we have to do 'marketing' and not just 'sales'. We invested in the technology (over Rs 80 Lakh) and got our production environment virtualized. We did a lot of road shows and hands on labs. We invited our customers to visit our facility and try out their environment. Besides, we even borrowed servers and demonstrated the technology at their premises, at our cost. It was a lot of effort but it gave the fulfillment of having done a real marketing job instead of a quick fix sale.

How satisfying are the returns? Do you think this approach has helped you witness faster growth? It gave us a genuine face-lift and helped us get recognized a serious enterprise player. We were beginning to get tired of being called a reseller in the market. We wanted to be known as a solution provider and to be able to compete with the big names in the industry. We also wanted an opportunity to extend the scope of services beyond the Indian shores and virtualization provided us with all these opportunities. This approach also resulted in long term engagements with enterprise customers. Though initial years were tough, profitability took a huge upswing after a point of time.

at places where offices are not there. Recently, the company is consolidating Pune branch and operating it from Mumbai itself. Opening too many branches becomes a manageability issue, says Anjaria.

THE HUMAN LINK

Stagnancy and employee retention seem to have very close connection. A company that is not able to retain its talent pool would definitely face a slower and tougher growth path. Thus, HR management is one of the most important factors that decide the growth of a company.

A successful HR strategy would consider all the aspects including attraction of talent, its retention, as well as the development of quality manpower. Only a company with sufficient and competent manpower would be able to take up larger and challenging projects (that provide better margins) and hence to move to the next level.

Unfortunately, employee retention contunues to be a tough nut to crack, despite repeated efforts of companies. This, opine partners, is the root cause for the staggered growth of many companies.

Low retention rates are followed by unfruitful investments and further spending in acquiring a new set of people. Systems integrators also end up frittering a lot of time and energy on people who may or may not stay back and work for the company. More than anything, high attrition rates finally result in unhappy customers with a potential loss of business.

On the other hand, HR challenges can't be tackled easily. In fact, certain issues still stand the test of time and remain unresolved. Though, there is no 'one size fits all' solution for all the HR issues, factors like money, flexible and challenging work environment, have proven to be important in retaining talent.

At the same time, such strategies do not work wonders and are futile beyond a point. That's where the significance of innovations comes in.

Spreading Wings: Difficult, but Fruitful

STARTING geographical expansion in 2002 beyond 4 metros, Micro Clinic India with 22 branches is a national solution provider for IT needs of enterprise customers across India. It looks rosy from business point of view to open branch offices but it takes one to two years to come on par with income levels, cautions Tarun Seth, Managing Director, Micro Clinic India. You need right people as manageability is a key issue, he adds. Micro Clinic added branches at Trichy, Kochi, and Hyderabad in past one year.

TARUN SETH: Managing Director, Micro Clinic

Opening a branch is virtually a new start up right from relation with principal, documentation, customer calls, etc. Investments in each branch becomes a major concern as volume of business is not the same across each branch, he says. Managing fund flow is equally important as each branch needs a set of funds. "Each branch is an individual business center that executes business calls, deployment order through regional heads," he says. All branches work on profit sharing model. "We give them share from customers they handle on behalf of us in that region. We are more like customers to each other internally," he says.

"When you have good branches across geographies, customer will trust you more for pan India support .He will prefer a single contact point than interact with different vendors across locations," he says. Having registration of sales tax, service tax and local billing with vendor/distributor is a plus point to have branch offices as per Seth. Being HP's authorized service centre in 15 locations, the vendor also helps us expand our national network faster, he says. A partner as a service provider starts accumulating customer loyalty as per Seth.

Micro Clinic India adopted ERP four years back for streamlining inventory across multiple branches and it has helped increase bottom lines and reduce bad debt. Few guidelines for solution providers willing to expand? Seth replies, "Trustworthy people who transact your money in the business, study potential of the region and right business model (with services and technical team). Flexibility and accountability of each branch on your radar on daily or weekly basis is a must."

Companies that think out of the box have definitely seen the results and have been able to maintain talent. A simple example is initiative by Bangalore-based Kinfotech and its 'stay on bonus' program for employees who stay with the company for a considerable time period. As market becomes increasingly competitive and customer demands more from each player, people management is vital in deciding the fate of a company.

AT THE SHARP END

There are two ways of selling a technology. One is to wait till your customer asks for it, whereas the other one is to take the lead and knock on his doors. While the former ensures business, the returns are seldom extra ordinary. On the other hand, the second approach may take a partner organization to new heights, though the risk involved is quite high.

A company's growth may well depend on which approach it takes. There are many channel players in the industry who have taken the tough road with the hope of getting better rewards. If not all, some of them have definitely reaped the benefits and have become leaders in their space.

PLACING ALL EGGS IN ONE BASKET

Delhi-headquartered Zest Systems derives 85 percent of its revenues through HP (products, solutions and services). An ardent HP partner since 2000, the company sells HP products – Servers, PCs (Desktops and Laptops), Networking, Software & Imaging and Printing. Rajeev Mehta, CEO, Zest Systems shares his views on aligning with single vendor.

KEY MERITS

- HP since its inception has been a channel friendly company and so are their policies on sales/market approach
- HP's consistency has been the key and so are the deliverables accounting to customer satisfaction
- A complete product offering ensures end to end customer fulfillment
- Technology updation of work force through consistent certifications – technical or sales – is an asset for the partner

FEW CHALLENGES

- Business dependability is high on partners as they are collectively responsible for goals

There are many advantages of selling a technology at its early stage. It allows you to be the 'first' to approach a customer and thus your chances of bagging a deal with better margins are better. Besides, it helps you get into new markets and target a new set of customers, besides strengthening your relationship with existing customers. If the technology witnesses a rapid adoption, then the partner can see immediate results in both top line and bottomline. More than the monetary benefits, this approach permits the partner to graduate to the next level and become a serious player who can compete with larger systems integrators in the country on projects that require cutting-edge technology.

At the same time, it's not an easy task for partners. They will have to make substantial investments in the initial stages to develop skill sets and other resources to take the new technology to the market. At worst, if the technology fails to pick up, all the investments would go down the drain, which can have substantial impact on the business.

Interestingly, many partners still believe that it's a risk that's worth taking. Being an early promoter of a technology is a tough call, but it often becomes the shortest or fastest route to success.

PEOPLE MANAGEMENT

Zero attrition is almost impossible. But certain ingenious strategies can bring a company close to this mark. For Mumbai-based Enhanced Software Solutions, a three-tier system among employees worked wonders. The company could bring down attrition rates to a very low level, while keeping all its 300 employees happy.

TIER 1: A team of core people who get better remuneration, responsibilities, and importance. The team is selected based on various parameters like leadership qualities, and positive attitude. Currently, there are 50 members in the team and this number is fast growing as people from the other two tiers get promoted based on various factors. The attrition rate at this level is zero.

TIER 2: The bulk of the employees at ESS belong to this group. At present, there are more than 150 employees in this team and the attrition rate at this level is as low as 4 percent. Though the employees in this category get adequate importance and payment, they are one level below the core team in many things.

TIER 3: The non-core team at ESS comparatively small and is given less preference when it comes salary and job roles. The attrition rate is comparatively high at this level.

ESS maintains a transparent system and promotes healthy competition among employees to graduate to upper levels.

ONE PONY TRICK

The aggressive approach adopted by most technology vendors to expand their partner base to gain market share is nothing new. Most partners sell products of multiple vendors (even multiple products of rival vendors in each technology domain) to emerge as complete solution providers to their enterprise customers.

This approach looks fine but the investment and management of team size (sales/technical) across domains and brands can be a tough and more importantly costly investment for a solution partner. The emerging technology landscape means regular expenses on training & certification from each vendor throughout the year.

However, many partners prefer to work with one dominant vendor for most projects, though they have alliances with other vendors. Such partners emerge as a stronger official voice of a vendor in front of a customer due to their aggressive pitch for a particular vendor.

Working majorly with a single vendor has pitfalls too as partner targets in this case are generally based on vendor's approach and not on market realities. But, working closely with a dominant vendor yields its share of fruits as the vendor rewards that loyalty by passing on lucrative deals and offers.

HORSES FOR COURSES

While all of these mantras may not be applicable for all solution providers, some of these will certainly be useful for all. Solution providers will have to pick and choose which ones are most suited and best aligned to help them achieve their goals.

In the context of Indian market, the recession has thinned out to a large extent and Indian enterprises and SMBs are making considerable investments in their IT infrastructure. The onus lies on solution providers to leverage their technical expertise and domain knowledge to increase their business revenues. If they have some of these seven key ingredients in place, then they can expect success to follow. ■

Partnering for Prosperity: Co-operation With Competition

CHOICE Solution, an SI specialized in datacenter solutions, took a different approach to growth. This Rs 87 crore company decided to bank on collaborations and partnerships within the partner community. In 2007, the company identified government as the largest market that it can target and decided to increase its focus towards this sector. But Choice Solutions could not have started things from the scratch as competition was really fierce in that segment. Though the company had unprecedented expertise in the data center domain, it was not the only criterion for being a strong player in the government sector. It also required huge working capital and money power to compete with the bigger SIs who already had a foothold in the government sector.


KV JAGANNATH: MD & CEO, Choice Solutions

Thus Choice decided to take the path of companionship. It partnered with the larger national SIs for various government-sector deals across the country and worked hand-in-hand with them in designing and implementing various data center solutions. The strategy worked. Though the company was getting only the smaller portions of the deals, it started making profits. Today, these partnerships have become full blown and Choice has collaborations with most of the leading SIs in the country, except for a few big names.

As the next step, the SI has now started forming consortiums with its peers (similar sized SIs) to bid for government deals. This initiative would give more authority to the company and also the ability to decide the pricing of a solution. It however does not plan to go alone and be a sole player in this market. "We want to take advantage of the relationships we have made and do not want to be a competing player for the larger SIs," says Jagannath Kallakurchi, MD & CEO. The SI is also planning to rely on these partnerships for selling its edFusion, an enterprise education product that it is currently marketing in the US, in the Indian market.

Besides its partnerships with the national SIs, the company has also set off new alliances with smaller SI across the country. The SI's aim is to capitalize on its expertise in the data center domain to reach out to more customers and new geographies. "We hope that these partnerships would help us to be a Rs 400 crore company in the next five years," concludes Jagannath.