

INDUSTRY

# When technology bolsters identity



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## Gold Miners Inc

The number of non-digital companies buying technology firms in the U.S. has been peaking recently, touching 132 of a total 506 tech deals in Q1, 2018 and rising to 137 of 485 in the most recent quarter



### RECENT TECH INVESTMENTS IN INDIA



Source: PwC, Venture Intelligence, Industry Data

### Old-economy companies are buying or investing in tech firms, as their definition of 'core' changes

Ask Pirojshaw Sarkari why a traditional business such as Mahindra Logistics, of which he is the CEO, picked up stake this year in ShipX, a provider of transport management solutions and he tells you, "Because data and technology are critical to our business. ShipX will help us increase digitisation and bring in operational efficiencies."

India seems to be slowly catching on to a global trend that began in 2017, when the acquisition of technology firms by non-digital companies crossed 51% of total deals in the U.S., according to research firm CB Insights.

Earlier this year, FedEx bought digital logistics company P2P for \$92 million. Retailer Nordstrom bought BevyUp and MessageYes, both in the messaging space, to help connect better with its consumers. Aerospace and defence firm General Dynamics acquired IT services firm CSRA for \$10 billion. The first quarter of 2018 saw a record number of deals in which non-digital buyers scooped up tech firms in the U.S., according to PwC.

This is a marked change from having trusted partners execute implementation.

In India, such activity has risen over the last two years, with the growth of e-commerce. Retail chains facing an e-commerce threat, or logistics firms facing stiff competition due to opportunities offered by online purchase trends, are investing in or acquiring technology firms.

"Indian buyers have been hard-nosed when it came to a choice between buying and building," says Arun Natarajan, CEO, Venture Intelligence. "Five years ago, they had to be brought kicking and screaming to the acquisition table. Not any more."

He cites Kishore Bijani's Future Group buying Fabfurnish.com as also the logistics arm of e-commerce player Snapdeal. This year, TVS Logistics picked up majority stake in freight data solutions provider White Data Systems that belonged to the Murugappa Group.

### Clamour for data

"Old economy ecosystems in India are often characterised by disorganised, backward-looking and unusable data – on customers as well as internal processes," says Amit Garg, CEO, MXV Consulting. Companies have now gained access to computing capabilities unimaginable a few years ago, as well as to tools to accurately collect data.

"Reliable data flowing in, and integrated with systems, has turned out to be a huge competitive advantage for those who can achieve this."

The more 'old-economy' the industry, the weaker the underlying processes, and hence greater the competitive advantage from technology and data, he adds.

"Investments you see in India stem from a combination of fear and greed," adds Mr. Natarajan. "Fear that they might miss out on a technology trend that is critical or greed for some great valuations in the future."

Financial services is another area that has seen disruption. Bajaj Finance investing in e-wallet firm Mobikwik is an example.

"Paytm is an example of wide-ranging capabilities with the use of technology. It is no more just an e-wallet," he says. Paytm Mall is a name to reckon with in e-commerce. The parent firm now has capabilities in ticketing and savings management through the purchase of Balance Technology in Bengaluru and Chennai's TicketNew, respectively.

Companies seek expertise not only with acquisitions but also with some in-house ingenuity. An Indian firm in an unorganised market has used its 200 sales people to connect with 10 new prospects per person every month. That works out to data on 2,000 new client prospects monthly. "Over 3-5 years, the company gets reliable data on about 1 lakh prospects. This kind of repository works to an unparalleled competitive advantage [in tracking a customer's journey]."

### The in-sourcing debate

But what is core to businesses today may not continue to stay core. So, will we soon see traditional enterprises outsourcing technology as well as data analytics to trusted partners? "These trends are cyclical. There is a thin line between data and technology today," says Mr. Natarajan. Technology, too, has seen eras of increased outsourcing, followed by some 'in-sourcing' which was soon succeeded by more outsourcing.

"It is a question of whether a traditional firm wants to stay 'single', get 'married' or 'live in,'" says a senior executive in a top-three IT services firm.

From technology services, the IT industry has gone on to offer BPO and network management and now offers data science services too. "User firms cannot ignore the economies of scale that the IT industry offers. It is only a matter of time before outsourcing for data analytics and related technologies becomes the norm."