

MANAGERIAL ECONOMIC



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Short Description

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case study

Description

CASE – 2 IT Industry: Checkered Growth

IT industry is now considered as vital for the development of any economy. Developing countries value the importance of this industry due to its capacity to provide much needed export earnings and support in the development of other industries. Especially in Indian context, this industry has assumed a significant position in the overall economy, due to its exemplary potentials in creating high value jobs, enhancing business efficiency and earning export revenues. The IT revolution has brought unexpected opportunities for India, which is emerging as an increasingly preferred location for customised software development. Experts are estimating the global IT industry to grow to US\$1.6 million over the coming six years and exports to reach Rs. 2000 billion by 2008. It is envisaged that Indian IT industry, though a very small portion of the global IT pie, has tremendous growth prospects.

Stock Taking

The decade of 1970 may be taken as the stage of introduction of the Indian IT industry. The early years were marked by 75 per cent of software development taking place overseas and the rest 25 per cent in India. Exports of Indian software until the mid-1970s was mainly Eastern Europe, followed by US. Tata Consultancy Services (TCS) was among the pioneers in selling its services outside India, by working for IBM Labs in the US. The hardware segment lagged behind its software counterpart. With instances of exports worth US\$ 4 million in 1980, the software segment of the industry has shown an uneven profile. It was not until 1980s that vigorous and sustained growth in software exports begun, as MNCs like Texas Instruments started to take serious interest in India as a centre of software production. Destinations of export also underwent changes, with US dominating the main export market with 75 per cent of the exports. The IT Enabled Services (ITeS) segment, however, had not emerged at this stage.

It was also during the mid to late 1980s that computer firms shifted focus from mainframe computers (the mainstay of MNCs) to Personal Computers (PCs). In March 1985, Minicomp installed the first ever PC at CSI, Delhi; this changed the entire industry for good. With the entry of networking and applications like CAD/CAM, PC sales soared in 1987-88, touching 50,000 units.

From a modest growth in the mid-1980s software exports moved up to Rs. 3.8 billion in 1991-92. Since then, it grew at an incredible rate, up to 115 per cent in 1993. The hardware could also register an annual growth of 40 per cent in this period, backed by a surging demand for PCs and networking. Growth of the industry was also driven by the emergence and rapid growth of the ITeS segment.

IT sector's share of GDP rose steadily in this period, rate of increase being the highest at 44.91 per cent in 2000-01. It was in the same year that the size of the total IT market was the biggest in the decade, at Rs. 56,592 crore. The overall IT market was also found to increase till 2000-01. The overall IT market was also found to increase till 2000-01, with the only exception of 1998-99. The domestic market also showed an overall increase till 2000-01, registering a spectacular CAGR of 50.39 per cent. Aggregate output of software and services also increased in this period, though at an uneven rate. Of approximately \$1 billion worth of sales in 1991-1992, domestic hardware sales constituted 37.2 per cent (13.4 per cent growth over the previous year), exports of hardware 6.6 per cent.

During 2000-01 the growth in the hardware segment was driven mainly by PCs,

which contributed about 58 per cent of the total hardware market. This period also witnessed the phenomenon of increasing share of Tier 2 and cities in PC sales, thereby indicating PC penetration into the hinterland. PC shipments had increased by 35 per cent every year from 1997 till 2000-01 when it reached 1.8 million PCs. The commercial PC market saw a growth of 23.5 per cent mainly due to slashing of prices by major vendors.

It was in 2001-02 that the industry had a sharp fall in rate of growth of its share of GDP to 5.90 per cent, from 44.91 per cent in the previous year. The total IT market also showed a fall in growth rate from 56.42 per cent in 2000-01 to a mere 16.24 per cent in the next year, growing further at the rate of 16.25 per cent in the next year. Software export was also affected, registering a low growth of 28.74 per cent and failed to maintain its growth rate of 65.30 per cent in the previous year. It got further lowered to 26.30 per cent in 2002-03. CAGR of total output of software and services (in Rs. crore) came down to 25.61 in 2001-02 and further to 25.11 in 2002-03. The domestic market showed a steep decline in growth to 3 per cent in 2001-02 from an outstanding 50.39 per cent in 2000-01. It could, however, recover by growing at 4.11 per cent in the next year.

Table 1: Indian IT Industry: 1996-97 to 2002-03

Year	A*	B*	C*	D*	E*
1996-97			3,900	6,594	9,438
1997-98	1.22	18,641	6,530	10,899	12,055
1998-99	1.45	25,307	10,940	16,879	14,227
1999-00	1.87	36,179	17,150	23,980	18,837
2000-01	2.71	56,592	28,350	37,350	28,330
2001-02	2.87	65,788	36,500	47,532	29,181
2002-03	3.09	76,482	46,100	59,472	30,382

***A: share of GDP of the Indian IT market, B: size of the Indian IT market (in Rs.**

crore), C: software and services exports (in Rs. crore), D: size of software and services (in Rs. crore), E: size of the domestic market (in Rs. crore)

Questions

- 1. Try to identify various stages of growth of IT industry on basis of information given in the case and present a scenario for the future.**
- 2. Study the table given. Apply trend projection method on the figures and comment on the trend.**
- 3. Compute a 3 year moving average forecast for the years 1997-98 through 2003-04.**

Details

- 1. Case study solved answers**
- 2. pdf/word**
- 3. Fully Solved with answers**