

# Twitter Thread by Intrinsic Compounding



**Intrinsic Compounding**  
 @soicfinance



## Five types of Businesses in the IT Industry!

Full post ■: <https://t.co/N4e3a5KQao>

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## 5 TYPES OF BUSINESSES IN THE IT INDUSTRY

With Indian Examples

INVESTING MADE SIMPLE

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IT INDUSTRY

### IT Products & Solutions

Pros	Cons
<ul style="list-style-type: none"> <li>- Scalable with less employees</li> <li>- Subscription based revenue</li> <li>- ROCEs can be decent with scale</li> <li>- Critical products can have pricing power</li> </ul>	<ul style="list-style-type: none"> <li>- Continuously evolving technology making products obsolete.</li> <li>- Operational overheads to maintain product</li> <li>- Highly competitive industry</li> <li>- Concentration risk</li> </ul>

Examples

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IT INDUSTRY

### IT Services

Pros	Cons
<ul style="list-style-type: none"> <li>- Initial Investments are not high</li> <li>- Consistent ROCEs</li> <li>- Employee skills are fungible and can be used across segments</li> </ul>	<ul style="list-style-type: none"> <li>- Lower barriers to entry leading</li> <li>- Employee attrition</li> <li>- Low pricing power</li> <li>- Constant upskilling of employees required.</li> </ul>

Examples

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IT INDUSTRY

### Engineering Research & Development

Pros	Cons
<ul style="list-style-type: none"> <li>- Niche areas of operations with slightly higher barriers to entry than traditional IT services due to requirement of higher domain knowledge.</li> <li>- High growth compared to traditional IT services.</li> </ul>	<ul style="list-style-type: none"> <li>- Prone to global macroeconomic trends</li> <li>- Constant upskilling of employees required</li> </ul>

Examples

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IT INDUSTRY

### Communications Platform as a service (cPaaS)

Pros	Cons
<ul style="list-style-type: none"> <li>- Niche solution provider to enterprises for communication with their customers.</li> <li>- High growth industry</li> </ul>	<ul style="list-style-type: none"> <li>- Low to moderate Gross and EBITDA margin business with lesser pricing power.</li> <li>- Threat of technology change requires constant innovation.</li> </ul>

Examples

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IT INDUSTRY

### Software as a Service (SaaS)

Pros	Cons
<ul style="list-style-type: none"> <li>- Customers can be extremely loyal and sticky to the product.</li> <li>- Recurring revenue stream model.</li> <li>- High gross margin business</li> <li>- Highly scalable</li> </ul>	<ul style="list-style-type: none"> <li>- Initial investments are high</li> <li>- Business is loss making initially</li> <li>- Operational issues can come up after product launch in the market</li> <li>- Constant innovation required to prevent customer churn.</li> </ul>

Examples

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