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Infosys Eyes Consulting as Centerpiece for Growth Strategy

December 2005

“Infosys is attempting to leverage its low cost offshore strength into higher value-add, business-focused consulting.”

—John Madden

Market Strategy Report

Services
Strategies



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Infosys Eyes Consulting as Centerpiece for Growth Strategy

The impact of offshore-based services and systems integration firms on the broader IT market is clear and undeniable. For several years, we've charted how some overseas firms—most notably those based in India that can tap into lower cost labor pools—have carved out growing and profitable businesses, often at the expense of the larger global SI and services firms. In response, the larger firms have had to take a long, hard look at their operating models, and have started to make greater investments in offshore facilities of their own in order to remain competitive.

Infosys is one of the main India-based providers that has catalyzed these rapid market changes. The firm, which passed the \$1 billion revenue mark last year, is part of an Indian-based triad—along with Wipro and Tata Consultancy Services (TCS)—that consistently captures headlines and customers with their low cost and high quality overseas services. Now, as larger competitors attempt to bulk up their offshore capabilities, Infosys has embarked on a new strategy—to add higher-level consulting capabilities in the U.S. and other markets—that company executives believe will help bolster its future fortunes. Wipro and TCS share Infosys' goal—although the companies themselves might argue over which has the better strategy. We'll leave that debate for another time. For now, we want to profile Infosys as a representative example of the strategies of India-based services firms.

With a successful offshore formula under its belt, Infosys is now concentrating on growing its expertise in consulting and professional services, with an emphasis on business-focused and business management consulting to augment its technical consulting capabilities. The company's goal is twofold:

- To create new sources of revenue by showcasing consulting as part of its overall value proposition; and
- To increase its presence in the Americas—where firms such as IBM Global Services (IGS) and Accenture are dominant consulting forces.

Infosys' success comes at a time of changing customer attitudes toward the use of offshore facilities. Last year, the use of offshore facilities by U.S.-based IT companies was a political hot potato, caught up in presidential election year politics as various labor groups charged that offshore practices took away U.S.-based jobs. The politicized controversy surrounding offshore outsourcing caused many larger services firms to shy away from discussing their offshore plans. But India-based services firms such as Infosys prospered.

Not surprisingly, in the absence of national elections, the vitriolic offshore debate has quelled considerably. In addition, larger firms have had no choice but to ramp up their own offshore operations. The big U.S. firms understand that they won't be able to effectively compete in the future without a heavier investment in offshore services, and all are struggling to find the right mix of onshore, near-shore and offshore capabilities to serve customer needs around the world.

The end result of all of this competitive positioning is two categories of services firms proceeding in opposite—but still connected—directions. Overseas-based firms such as Infosys are attempting to adopt higher value-add, vertically focused consulting and professional services capabilities in order to move up the services food chain—and emulate the services that larger competitors have honed for years. Traditional services firms, meanwhile, are shifting—or realize that they need to shift—more resources overseas, and are trying to develop the right mix of onshore, near shore and offshore capabilities that will allow them to stay competitive and keep margins healthy.

Infosys has exploited the benefits inherent in offshore services to grow into a major market influencer. Now, it hopes to expand its reach—and protect its existing business—by diving into business-based consulting. It will take some time to see whether Infosys can combine its low-cost offshore services with its growing business consulting business in a way that truly differentiates it from its larger, more established competitors. However, it's clear that Infosys Consulting—with its impressive leadership team, its metric-based, business-value approach, and its ability to leverage the extensive offshore services of its parent company—is off to a promising start.

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***The report summarized here was written as part of Summit Strategies' Services Strategies Practice Area.
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Infosys Eyes Consulting as Centerpiece for Growth Strategy

The impact of offshore-based services and systems integration firms on the broader IT market is clear and undeniable. For several years, we've charted how some overseas firms—most notably those based in India that can tap into lower-cost labor pools—have carved out growing and profitable businesses, often at the expense of the larger global SI and services firms. The larger SIs are still mainstays in the market, and continue to capture huge customer contracts and loyalty. However, the success of offshore providers—especially for tasks such as application development and maintenance and customer support—has everyone involved in the IT services market rethinking how their companies do business.

Key Findings

- Infosys is attempting to add higher value-add, business-focused consulting capabilities—and leverage its successful lower cost offshore resources—as part of its future growth strategy.
- Infosys Consulting is attracting an impressive pool of talent from former Big Five systems integrators and management consultants.
- Infosys wants to bring integrated, end-to-end services capabilities to market by leveraging its traditional strengths in offshore development and enterprise solutions with newer skills in BPO and consulting.
- Infosys will need to contend with larger SI and services competitors that are recalibrating their use of offshore resources.

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1. To create new sources of revenue by showcasing consulting as part of its overall value proposition; and
2. To increase its presence in the Americas—where firms such as IBM Global Services (IGS) and Accenture are dominant consulting forces.

Infosys believes that its combination of high value consulting and low cost resources will be a market game changer. The strategy requires investments in new consulting capabilities—including hiring U.S.-based consultants with experience at global SIs—as well as increasing its vertical market expertise.

But what impact will Infosys' foray into consulting—combined with the prowess of its existing offshore capabilities—have on the greater IT services and SI market? Can the company realistically grow its consulting expertise and attract new customers? And how will other, larger services firms respond?

In this report, we explore those and other related questions. Section 1 discusses some of the overarching issues related to the use of offshore services (or offshore outsourcing, another commonly used term). Subsequent sections provide an overview of Infosys' business units, including its new consulting operations. The report concludes with our thoughts on Infosys' consulting initiative, its prospects for success, and how other services firms may respond.

Section 1 Offshore's Ongoing Industry Impact

Before diving into Infosys' capabilities and future strategy, it will help to first provide some context for the ongoing debate about offshore outsourcing, and also review some relevant market trends.

The IT industry experienced a spike in the use of offshore facilities last year. This spike was partially due to an improved global infrastructure that has matured to the point where services firms can locate teams of employees around the world. Companies also were taking advantage of lower wages in countries such as India, China, Russia and others (where workers make about one third of what their American counterparts do) for a myriad of location-independent services—including support call centers, application development, systems integration and so forth. (For a full discussion of these issues, see our October 2004 report, *Offshore Outsourcing Shapes IT Services Landscape*, and our December 2004 report, *How to Defend Your Offshore Strategy*).

Many firms turned to offshore facilities for application development and maintenance. Services firms, for example, could provide faster development times and streamlined testing by using global offshore facilities—where programmers work in virtual teams to write code and develop software. For instance, at the end of their work day, U.S. programmers can hand off their work to team members overseas—allowing application projects to continue uninterrupted around the clock.

Offshore firms were also being increasingly used for business process outsourcing (BPO)—taking over functions such as accounting and payroll.

Last year, the use of offshore facilities by U.S.-based IT departments was a political hot potato, caught up in presidential-election year politics as various labor groups charged that offshore practices took away U.S.-based jobs. The fact that offshoring was a decades-old business practice in many industries (particularly manufacturing) did little to quell the debate. Dueling statistics from a variety of industry groups showed that offshore outsourcing would either negatively or positively impact the U.S. economy in the long-term, depending on which group was sponsoring the study.

The politicized controversy surrounding offshore outsourcing caused many larger IT services firms to shy away from discussing their offshore plans. For example, IBM Global Services (IGS), the largest services firm in the world, announced intentions last year to move 3,000 jobs overseas. Responding to critics, it then retreated from that strategy and announced a two-year \$25 million Human Capital Alliance program, aimed at re-training IBM employees and business partners affected by offshore outsourcing.

In an attempt to stay above the fray in the offshore debate, larger firms such as IGS, Accenture and even Hewlett-Packard's services division placed a greater public emphasis on expanding their consulting capabilities and creating vertically aligned solutions, rather than drawing attention to their offshore efforts. While the offshore issue never went away, larger services firms steered discussions regarding their future strategy away from offshore services and outsourcing.

In the midst of the volatile U.S. political climate, and as larger U.S. firms struggled to defend and bolster their offshore strategies, India-based services firms prospered. Infosys, TCS and Wipro each passed the \$1 billion revenue mark in the past year, and each has stated the goal of reaching \$2 billion in the coming year. All three vendors announced plans to establish or expand facilities in other lower-cost/large talent pool countries, particularly China. They also won new contracts from customers accustomed to working with larger, more established services players, although they sometimes worked along side other larger services firms as part of contracts where customers used multiple service providers simultaneously as part of a competency-based sourcing strategy. Infosys continues to work on projects where other providers may be involved in another separate part of a customer's contract.

Not surprisingly, now that we are no longer in a national election year, the vitriolic offshore debate has quelled considerably. It has not gone away entirely, however. Services firms are still extremely sensitive when discussing their long-term offshore plans. They are mindful of potential political backlash and cognizant that some U.S.-based customers shy away from working with firms that rely heavily on offshore facilities. However, many services firms also report that customer resistance to offshoring has subsided, as customers realize (and often demand) that leveraging a firm's

offshore capabilities can result in lower priced contracts for services that are generally of quite high quality. It would be a stretch to say that customers have become completely comfortable with offshore outsourcing. But it is fair to say that many have come to accept the practice as an economic requirement. (Of course, next year's midterm elections might re-ignite the offshoring debate all over again.)

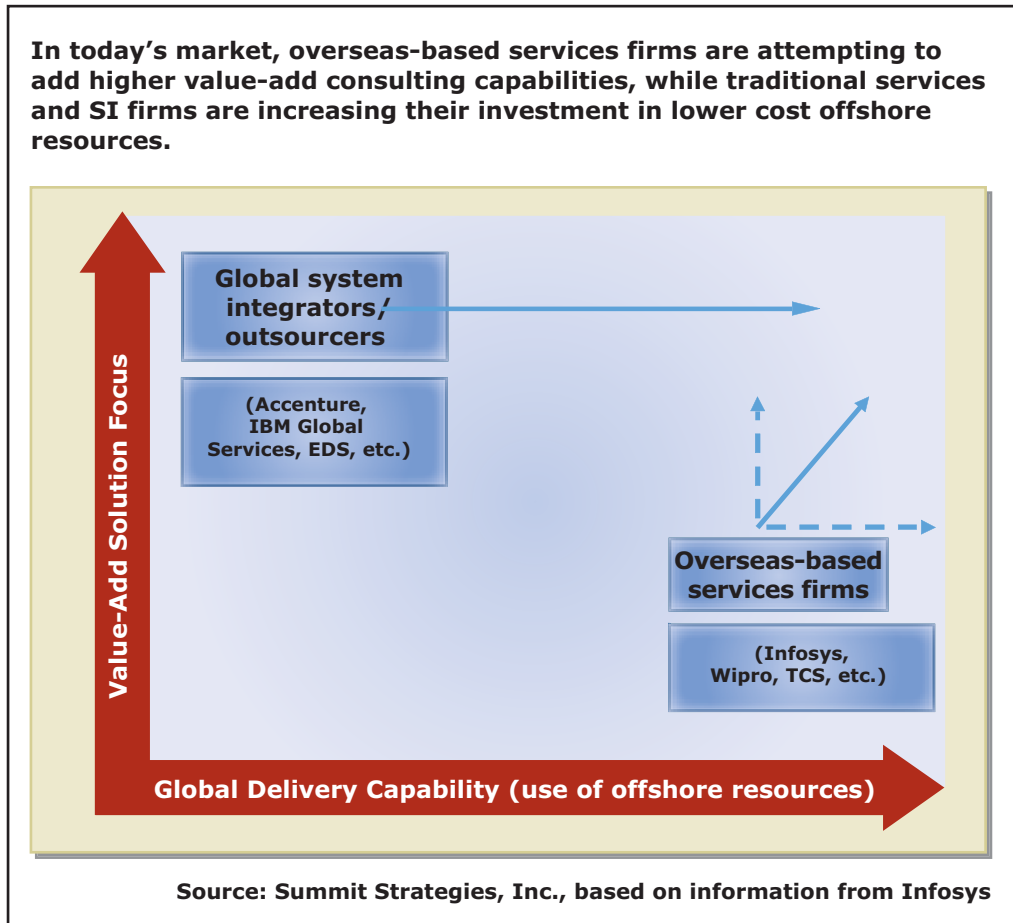
Meanwhile, "offshore" is no longer a dirty word for the larger services firms. In fact, given the continuing success of overseas services providers, these larger firms have had no choice but to ramp up their own offshore operations. The big U.S. firms understand that they won't be able to effectively compete in the future without a heavier investment in offshore services. All are struggling to find the right mix of onshore, near-shore and offshore capabilities to serve customer needs around the world. Electronic Data Systems (EDS), for one, consolidated its existing offshore facilities and has announced intentions to add more (some of those investments are centered on its joint initiative on human resources BPO with Towers-Perrin). Another major player, Accenture, announced plans this past summer to hire up to 30,000 employees across China, the Philippines and India.

As a result of this activity, the India-based services firms are seeing large competitors muscle in on their bread-and-butter business in areas such as application development and BPO. Infosys, TCS and Wipro believe that consulting—in concert with their successful offshore formulas—is key to keeping these competitive encroachments at bay while, at the same time, increasing their presence and capturing new clients in North America. Wipro, for example, recently opened a Boston, Massachusetts, consulting office with a focus on project management consulting. Wipro's goal is to engage clients at the beginning of a potential project, work with the customer on a project strategy, and then leverage its low-cost offshore services to bring that project to fruition.

The end result of all of this competitive positioning is two categories of services firms proceeding in opposite—but still connected—directions (see Figure 1). Overseas-based firms are attempting to adopt higher value-add, vertically-focused consulting and professional services capabilities in order to move up the services food chain—and emulate the services that larger competitors have honed for years. Traditional services firms, meanwhile, are shifting—or realize that they need to shift—more resources overseas. They are trying to develop the right mix of onshore, near-shore and offshore capabilities that will allow them to stay competitive and keep margins healthy. In the end, if successful, both the U.S.-headquartered global SIs and the India-based firms that operate globally may have hybrid models with high margin, local consultants paired with low cost offshore services. Given the push by the global SIs into offshoring, India-based companies have no choice but to diversify into consulting so they can match the emerging model the global SIs are pursuing. (We'll be keeping track of these kinds of trends as part of our ongoing research agenda.)

Figure 1

Moving Up and Down the Services Value Chain



With this context of the offshoring trend as a backdrop, let's now examine how Infosys is succeeding in the offshoring arena.

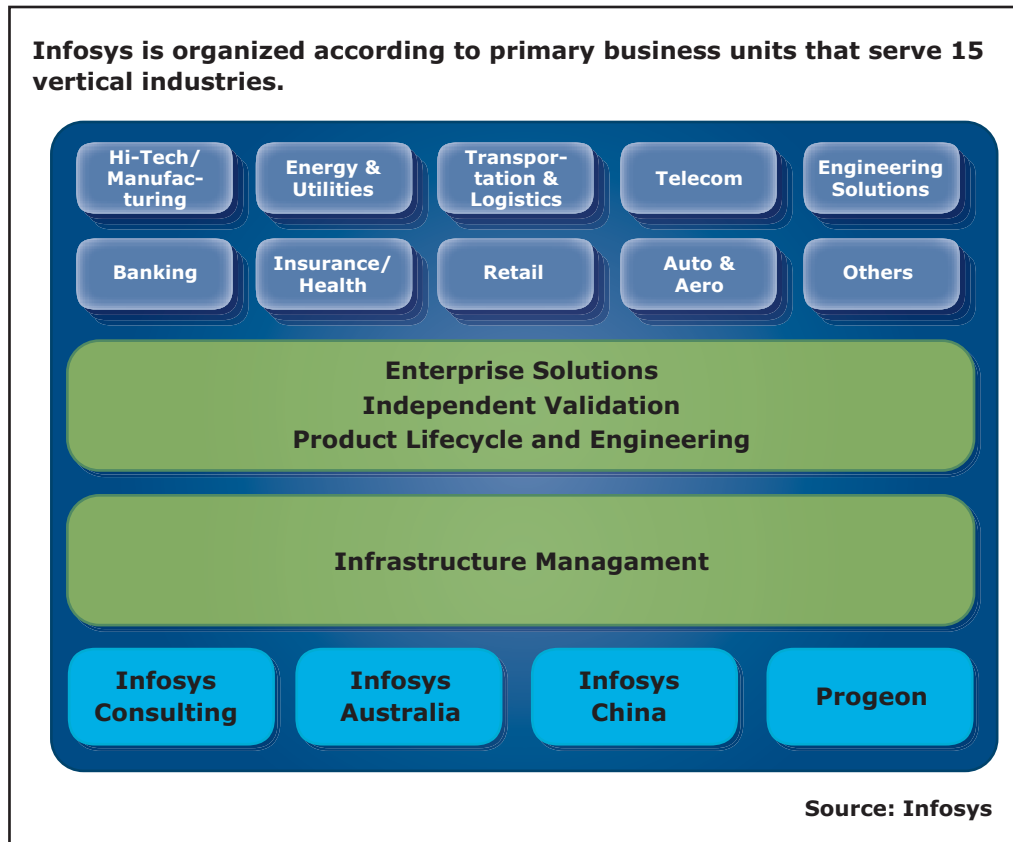
Section 2 The Infosys Organization and Services Roster

Infosys was founded as a corporation in Bangalore, India in 1981, but it wasn't until more than a decade later that things really started to take off. In just about five years, from fiscal 1999 to fiscal 2004, Infosys' annual revenues went from just over \$100 million to more than \$1 billion, with its workforce growing from just under 10,000 to 40,000 employees in the same time frame. In fact, the company (which has its U.S. headquarters in Fremont, California) reported more than \$1 billion in revenue in the first half of its current fiscal year, and believes it is on track to be a \$2 billion company when 2006 rolls around.

In its current organizational format, the company operates under a decentralized management structure with self-governed business units divided according to types of services, geographic regions, and 15 primary verticals (see Figure 2). The service lines include:

Figure 2

Infosys' Organization at a Glance



- Enterprise Solutions, which consists of packaged application services (systems integration is performed by a separate but related group, application management and development as well as maintenance is handled within each vertical group);
- Independent testing and validation services, for testing the performance of systems and software; and
- Product lifecycle and engineering, for product engineering, testing, and research and development functions.

The business units include Progeon, a BPO subsidiary, and Infosys Consulting, which Infosys established with a \$20 million investment in March. While the organizational structure is designed to be flexible, the company relies on common platforms, systems and technologies across its business units in order to deliver integrated end-to-end solutions to customers.

Two separate initiatives lie at the heart of Infosys' offerings: its Global Delivery Model (GDM) and Catalytic IT.

Infosys' Global Delivery Model, which leverages lower wage/high talent employee pools in India and other countries, is the engine driving much of the

company's success. To tackle tasks ranging from software engineering to application development and maintenance to customer support, the company relies on 34 development centers worldwide (half in India) to provide low cost, round-the-clock, "follow the sun" services. Employees are able to pass off projects and tasks to virtually connected teams over a secure global network.

The company is relying on the power of its GDM to accelerate growth in both BPO and consulting by applying the same low cost, rapid deployment formula to outsourcing and consulting engagements (what it calls the "GDM-izing" of more strategic services). For consulting, this means hiring U.S.-based consultants for work in areas such as business strategy (Infosys says it will price those traditionally higher cost services below traditional SIs), and leveraging the GDM for tasks such as project planning and application development. In fact, Infosys is promoting a concept it calls Modular Global Sourcing as a decision-making framework for customers to implement a more holistic approach to outsourcing and the use of offshore services. This framework, according to Infosys, allows customers to:

- Examine how outsourcing can be used to create greater business/IT alignment;
- Create a phased-in approach to execute changes to both IT systems and business processes in a way that's both practical and affordable; and
- Ensure more predictable costs.

The GDM is augmented by Infosys' growing expertise in 15 verticals, including automotive, health care, energy, and banking and capital markets. (Infosys offers its own financial software suite for banking solutions through Finacle, a small subsidiary. The software is currently in use at banks in more than 40 countries.)

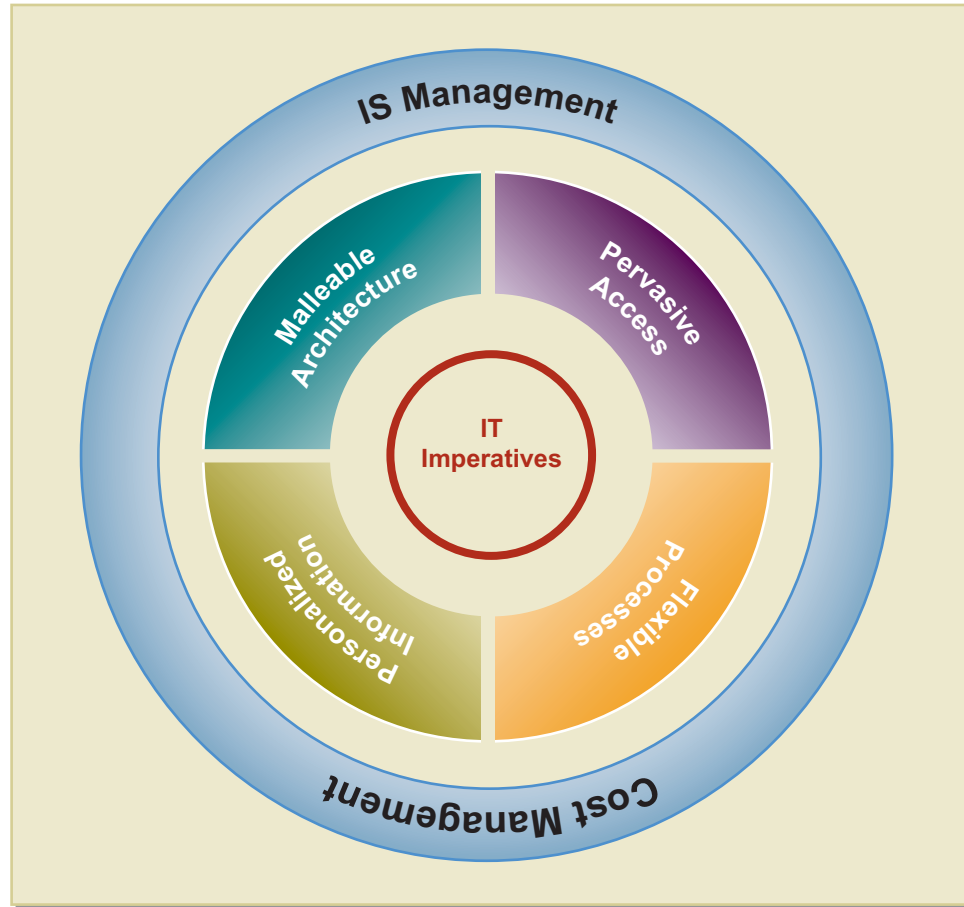
The second initiative, Catalytic IT, is an approach that embodies many features and characteristics of dynamic computing—a trend that has anchored Summit Strategies' research for more than three years. A central theme to dynamic computing is the implementation of flexible IT systems and solutions that allow customers to respond quickly to rapid competitive changes, resulting in a greater alignment between IT and business processes. Infosys characterizes Catalytic IT in much the same way—and it somewhat mirrors approaches used by IGS, Accenture and others for business transformation. By leveraging Infosys' GDM-powered, lower cost services and its entire portfolio, Infosys can work with a customer to plot out a transformation roadmap with a phased-in approach, with definitive metrics on cost savings and business benefits (see Figure 3).

Not only is Catalytic IT a framework for planning critical and long lasting changes to a company's IT and business processes, but Infosys also has developed a

Figure 3

Infosys' Catalytic IT Initiative

Catalytic IT is a solutions approach that embodies many of the characteristics of dynamic computing, including customers' needs for flexible IT systems. Infosys has developed a Catalytic IT solutions portfolio around four primary areas.



Source: Infosys

Catalytic IT solutions portfolio and more than 30 reference blueprints around four broad categories:

1. *Legacy Modernization*: For migrating and modernizing legacy applications through offerings such as re-hosting;
2. *Connected Business*: Involves integrating existing and new business applications and users across an enterprise through offerings including Web services, service-oriented architecture and mobility solutions;
3. *Infrastructure Optimization*: Focused on building more secure and flexible IT systems; and

4. *ERP Consolidation*: For packaged ERP implementations of applications from SAP, Oracle (including PeopleSoft and JD Edwards) and Microsoft Business Solutions (MBS).

Infosys believes that as customers use these solutions to lower costs, they can reinvest those savings into other, more transformation-based initiatives—and, of course, the company wants customers to turn to Infosys for those services in areas such as BPO and consulting. As with much of Infosys' portfolio, Catalytic IT solutions are offered either independently or in combination with other Infosys services offerings. Obviously, the company hopes that successful customer engagements with one kind of project or service will open the door for Infosys to cross-sell more of its services.

With that broad overview of Infosys' organization and services, let's drill down into the continuing expansion of Progeon, its subsidiary in the rapidly expanding and ultra-competitive BPO market. After that, we review Infosys' ambitious plans for its consulting division.

Section 3

Meet Progeon, Infosys' BPO Subsidiary

As we've detailed in other reports, customer interest in BPO—beyond discrete, transaction-based services—is on the rise. Many customers now view BPO as a cost effective method to dramatically improve their business processes. As a result, many vendors this past year—Infosys among them—ramped up their BPO-related investments, and standardized their global infrastructure resources. More often than not, this activity was done with an eye toward horizontal, cross-industry offerings in areas such as health care and financial services.

Infosys's BPO efforts are relatively new, getting underway only in the last few years with its Progeon subsidiary. Progeon has about 5,000 employees serving 20 clients. However, Progeon—which last year generated more than \$40 million in revenue from its base at Infosys' Bangalore campus—has eyes on expanding its presence in higher value, end-to-end BPO services, leveraging Infosys' well-known brand name and acting as a natural extension to its parent company's GDM-based offshore capabilities. After all, Infosys has years of experience handling secure outsourced application development and other services across a global network, working on some of the same principles that constitute successful BPO engagements.

Progeon focuses on six strategic market segments:

- *Capital markets*: Including brokerage and asset management services;
- *Insurance*: Life insurance and pensions;
- *Banking*: Retail, credit card processing, consumer banking and investment banking;
- *Enterprise services*: Horizontal services such as general ledger, and sales order management and administration;

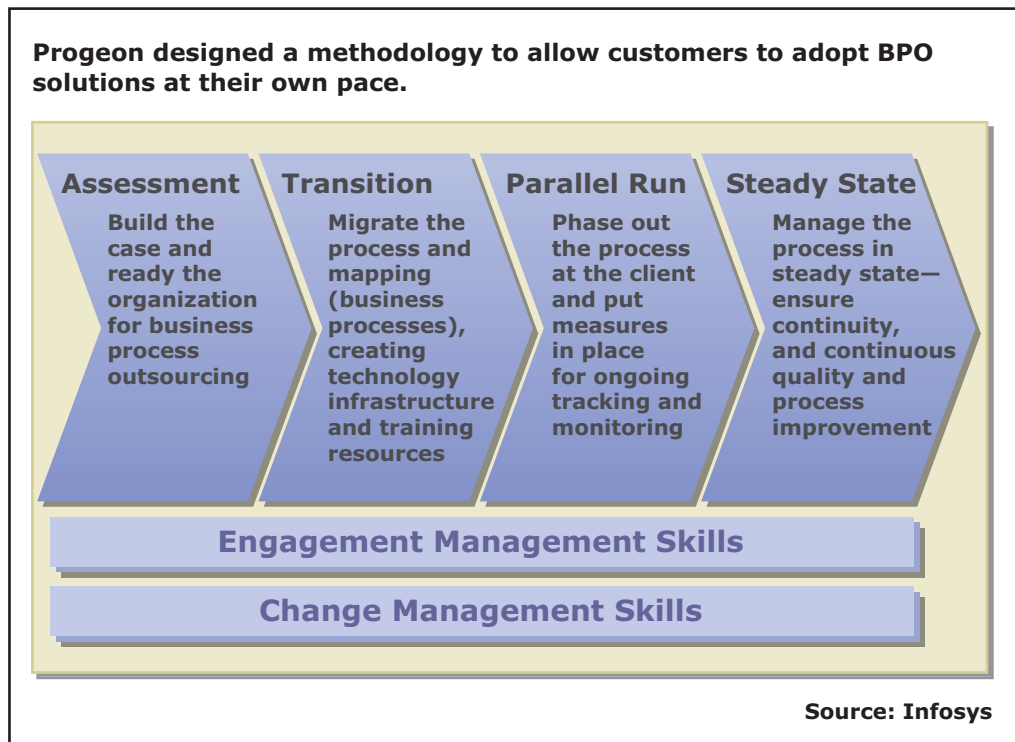
- Telecom: Billing and service provisioning; and
- *Knowledge services*: Including equity and credit research.

As part of its methodology, Progeon executives say they focus on more than just cost arbitrage with customers. They work with customers in four phases to implement full-on process re-engineering, complemented with ongoing change management expertise and project management tools—including online portals for monitoring and tracking (see Figure 4). According to Progeon, customers want “flexible” BPO engagements that give them the ability to adapt a solution at their own pace. The unit’s methodology includes:

- *Assessment*: A customer works with Progeon to develop a case for implementing a BPO solution, and to anticipate how it will impact their internal operations;
- *Transition*: Progeon migrates a process to a customer’s operations after ensuring the proper infrastructure and training resources are in place;
- *Parallel Run*: The process runs in tandem at both Progeon and the customer’s site while proper management tools are put in place; and
- *Steady State*: Progeon takes over full control of the process, tracking overall quality and making improvements.

Figure 4

Progeon’s Business Process Outsourcing Methodology



One of Progeon's most immediate challenges, company executives acknowledge, is to foster better integration with the other parts of Infosys, including the up-and-coming consulting group that could provide additional sales leads and an integrated, vertically-aligned approach to customer challenges. Progeon, like other India-based firms, also needs to address the growing challenges from firms based in other countries with even lower labor costs, including China and the Czech Republic. That requires a watchful eye on employee resources and training. Within the past year, for example, Progeon also began expanding beyond India and has added locations in the Philippines and the Czech Republic.

Now that we've reviewed Infosys' primary business units, let's take a look at Infosys Consulting. This is the smallest and newest of the company's divisions, but it could prove critical to Infosys' continued success.

Section 4 Infosys Consulting Organization

Infosys Consulting is being built from the ground-up by former partners from global consulting and SI firms. Stephen Pratt, former partner at Deloitte Consulting, heads the organization. The six-person management team consists of all former Big Five SI partners or executives from global outsourcers such as EDS.

Launched in March 2005, the 150-person Infosys Consulting organization is based at Infosys' U.S. headquarters in Fremont, California and has offices in Boston, Massachusetts and Dallas, Texas. Its goal is to execute on its business model in concert with Infosys' offshore capabilities, and drive value to customers through a metric-heavy approach to project management. Infosys Consulting wants to build upon the IT-centric consulting expertise that Infosys has established in its core verticals—in areas such as application development, BPO, and so forth—by assigning practice leaders to each vertical and by bringing business management consulting skills to customer engagements.

The unit's goal is to have 500 business consultants within two years, part of a network of about 2,000 consultants across the entire company that includes technical personnel located at offshore facilities in other company divisions. If Infosys achieves its target of a 1:4 or 1:3 ratio of business to technical consultants working together on customer projects, its executives say the company can succeed in offering a spectrum of services—from business-focused consulting, to BPO, to application development and ongoing support.

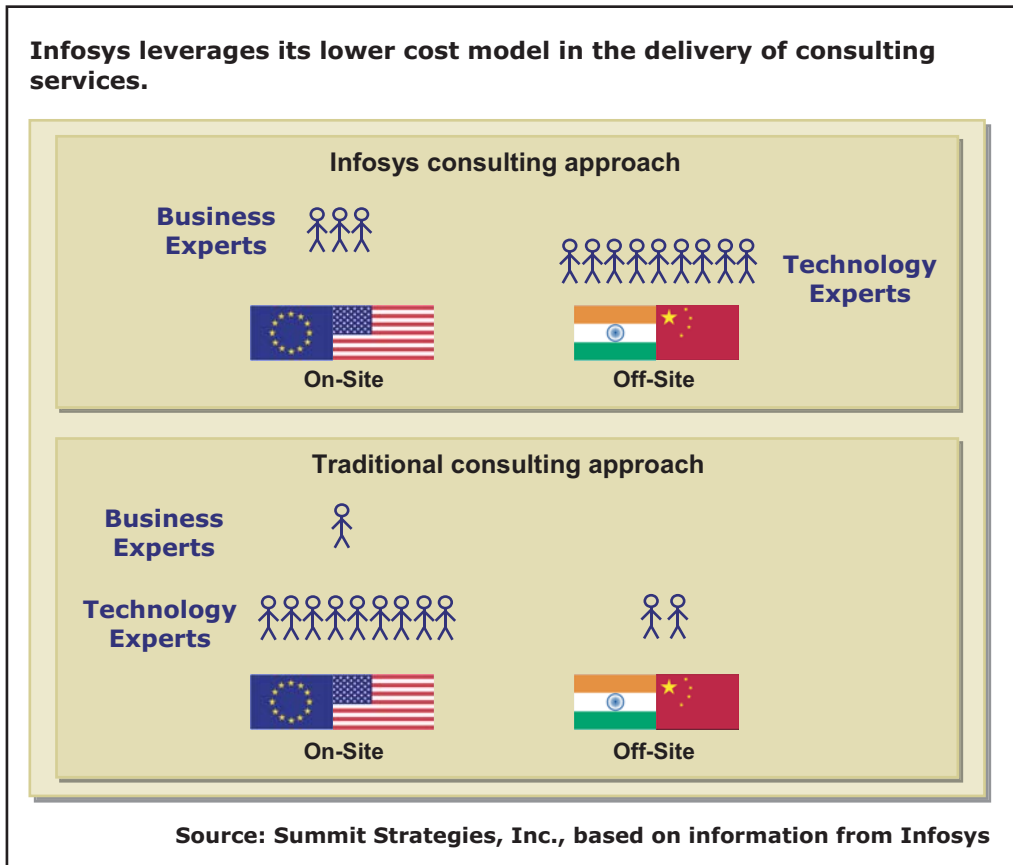
Infosys Consulting is focused on aggressively recruiting from the "top 10%" of consultants throughout the industry. Of the consultants already hired, more than 80% have experience at former Big Five or management consulting firms such as Bain and McKinsey, and 75% have specific vertical industry experience. Infosys Consulting is also actively recruiting new talent from the top U.S. business schools. (Although the consulting group is intent on establishing a U.S. presence, it also intends to work with customers around the globe.)

At this point, the consulting group is engaged in about 40 customer engagements—many of which are existing Infosys clients—and is actively pursuing other deals, often competing against IGS and Accenture. Even so, Infosys views its consulting group more akin to management consulting firms such as Bain or Booz-Allen, rather than global SIs like Accenture.

A major differentiator for Infosys Consulting, executives say, is its ability to apply Infosys' GDM principles to consulting engagements and keep costs down for customers. For example, in most consulting projects, customers need access to experts. Many U.S.-based services firms—at least historically—have brought both business and technology consultants to their customer site for all kinds of engagements, resulting in a run-up of billable consulting hours. In contrast, Infosys Consulting keeps the business experts on-site, but then taps into the technical expertise in lower cost offshore locations (see Figure 5). Of course, the global SIs, with their aggressive moves to add offshore resources, are shifting to this dual on-site/off-site model as well.

Infosys executives decline to discuss specific clients or deal sizes, but claim that Infosys Consulting can save customers as much as 35%, compared to other services and consulting firms.

Figure 5 Infosys Consulting's Business Model



As Infosys Consulting adds consultants in the coming years, it intends to be a heavily metrics-driven organization, relying on detailed project management and customer satisfaction ratings. Driving this approach is its Value Realization Model (VRM), which focuses on defining metrics to improve customer business processes and deliver additional value. Infosys characterizes the model as a method to show the synergies between business and IT investments, and provide a framework by which customers can measure benefits of both those investments.

The VRM metrics are defined along two broad categories: creating operational advantage for a client, and growing shareholder value. To establish the VRM is a central element in Infosys Consulting's emerging culture, the company has tied its consultants' bonuses to how much value they deliver to clients, measured by the VRM results and other factors. The consulting group also follows up each project with detailed customer satisfaction surveys and ratings to determine how they can improve their operations and deliverables.

As noted, the consulting group's success will depend largely on its ability to provide differentiated services that integrate into offerings across Infosys—but that's not the sole success factor. All consulting firms need technology vendor partnerships, including consulting firms that, like Infosys, have a significant management consulting and business focus. Partners provide access to previously unreachable groups and types of customers, they give consultants exposure to the latest and greatest technology innovations, and they can help consultants make better informed decisions about what technology recommendations to make to their clients.

To this end, Infosys has a high-level solution and alliance program (lead by a former Accenture executive who worked on alliances for the global SI). Infosys' partner program is focused on creating solutions that can be applied across multiple business units and/or several vertical industries. But company executives say they have no interest in creating an expansive alliance program with dozens or hundreds of partners. In fact, Infosys has only 15 formal alliances, ranging from technology vendor heavyweights such as IBM, Sun Microsystems, Microsoft, SAP and Oracle, to more specialized ISVs such as MatrixOne, which provides a product lifecycle management solution.

Infosys claims to have about 15 more alliances on tap, but each must first pass a rigorous review process. Once an alliance has been formalized, Infosys manages the program through a governance board that oversees alliance activities. One notable and laudable feature of Infosys' partner program is that the company will not accept so-called "influence fees" from vendor partners—thus it will maintain a level of objectivity when recommending products to customers. (The use of such fees varies from firm to firm, and they take various forms. It's not uncommon for vendors to offer discounted product pricing for partners or issue bonuses or commissions to partners based on the deal size.)

These formalized alliances are separate from the arrangements that Infosys occasionally engages in with fellow SI and consulting firms on larger services

contracts. For example, Infosys is one of several firms—along with IGS and TCS—that was awarded contracts as part of a \$2 billion deal with the Dutch ABN Amro Bank, which wanted a multi-vendor approach for its wide-ranging services and outsourcing contract. For that contract, IGS will provide primary infrastructure management services, and Infosys will provide application support. Infosys Consulting will play a key role in shaping the Infosys approach to such multi-year deals to ensure that Infosys can bring a transformational value over time to clients.

Section 5 Can Consulting Provide A Real Differentiator for Infosys?

Infosys' efforts to build a business management consulting group are rooted in its desire to maintain a dominant position as an offshore services provider. As other more established firms invest in offshore resources, customers will have more choices when it comes to leveraging offshore outsourcing as part of services engagements. Infosys—and other offshore-based services providers—have no choice but to seek out new ways of diversifying their services portfolios as the offshore movement picks up speed. Adding business-focused consulting capabilities is one way to accomplish that goal. Of course, the momentum of offshore outsourcing has potentially damaging implications for larger firms as well—a subject we'll explore in future reports.

Infosys' push into business consulting may be largely a defensive move to counter the global SIs' push to add their own offshore capabilities, but the Infosys initiative comes at a good time in the context of the broader dynamic computing trend. Increasingly driving this trend is the customer demand to be able to realize (and measure) the business value of their IT investments. Many customers have bought into the central themes of dynamic computing, and want to implement more flexible IT systems and architectures so they can rapidly respond to new business challenges and opportunities. However, until recently, vendors' messages have primarily focused on technology benefits and cost savings.

Going forward, technology vendors and services firms will achieve credible and competitive differentiation only when they can clearly demonstrate the business value of their products and solutions (which is why Summit Strategies is emphasizing the business-value theme in its 2006 research agenda). A fundamental requirement in delivering business value will be the need to assist customers in achieving greater synergy between their business process and IT needs. In this effort, business-focused consulting will play a critical role by helping customers better align their technology investments and resources with their core business processes, and by helping to identify and measure business-value metrics on an ongoing basis. Up to now, Infosys has been viewed as a leader when it comes to saving customers money by leveraging its lower cost offshore facilities but not as a trusted business adviser. Infosys hopes that its consulting group will change this perception. But will it?

Infosys Consulting, even at this early stage of its development, has a strong foundation in fulfilling this role. The pedigree of its management team is unde-

niable, and its members are determined to leverage the well-oiled Infosys GDM to provide a differentiated kind of lower cost consulting—and a “low pressure,” customer centric selling approach—that the market has never seen before. Part of that differentiation, the company believes, will be in how Infosys Consulting leverages the GDM for consulting contracts that, in aggregate (combining business and technical consulting), will be priced lower than what competitors can offer.

Still, despite its prowess in offshore services and some initial success with existing clients, such differentiation may not be long lived—given that global SIs and other competitors have Infosys in their crosshairs and are making greater offshore investments. However, Infosys Consulting is off to a promising beginning. For example, by compensating its consultants based on business metric and customer satisfaction measurements, Infosys is setting the stage to ensure that customers receive and recognize demonstrable business value from Infosys engagements. The consulting group also should allow Infosys to build relationships with CXOs and business leaders within customer accounts—accounts in which Infosys has worked primarily with CIOs and other technology managers.

However, Infosys still needs to work on some areas. For example, it needs to better demonstrate and market how consulting plays into its overall value proposition and must still execute on its plan to integrate its business consulting capabilities into its broader portfolio. Granted, the young consulting group is the smallest part of the company and the integration of services is still a work in progress. But even as Infosys executives work on effecting broader integration behind the scenes, they must take more incremental public steps.

One small example is that Infosys Consulting has a separate Web site from the parent company, and there’s no mention of the new business-focused consulting capabilities within Infosys’ marketing materials. The company could follow the lead of some of its larger competitors such as IGS or even Computer Sciences Corp. (CSC), which for years have effectively marketed their end-to-end services capabilities. To that end, the Catalytic IT framework could be leveraged and extended to encompass business-focused consulting, and provide a conduit by which Infosys can market its evolving, integrated services portfolio. It’s true that Catalytic IT is based on concepts similar to those offered by IGS (Component Business Models), HP Services (Adaptive Enterprise) and others. However, Catalytic IT already has business/IT alignment at its core, so including Infosys Consulting as part of this framework seems like a natural fit.

On another front, Infosys has an effective alliance program based on building specific solutions, both horizontal and vertical. As mentioned, the company has no interest in expanding either its consulting group or its alliance program to an unmanageable size. But as Infosys Consulting grows in size and interacts with more customers, it makes sense that Infosys may want to expand its partnering and alliance efforts in order to bring together all of the necessary solutions elements.

It will take some time to see whether Infosys can combine its low cost offshore services with its growing business consulting business in a way that truly differentiates it from its larger, more established competitors. However, it's clear that Infosys Consulting—with its impressive leadership team, its metric-based, business-value approach, and its ability to leverage the extensive offshore services of its parent company—is off to a promising start.

What's your opinion? E-mail the author:

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