NelsonHall
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NEAT EVALUATION FOR INFOSYS

Application Outsourcing

Market Segments: **Overall and Managed Services**

This document presents Infosys with the NelsonHall NEAT vendor evaluation for Application Outsourcing (Overall and Managed Services market segments). It contains the NEAT graphs of vendor performance, the latest market analysis summary for Application Outsourcing (AO), and a summary vendor analysis of Infosys in Application Outsourcing. An explanation of the NEAT methodology is included at the end of the document.

The vendors researched are: Accenture, Amdocs, Atos, Capgemini, CGI, Cognizant Technology Solutions Inc., HCL Technologies, HP, Infosys, Tata Consultancy Services, Tech Mahindra, Unisys and Wipro.

NEAT Evaluation: Application Outsourcing (Overall)
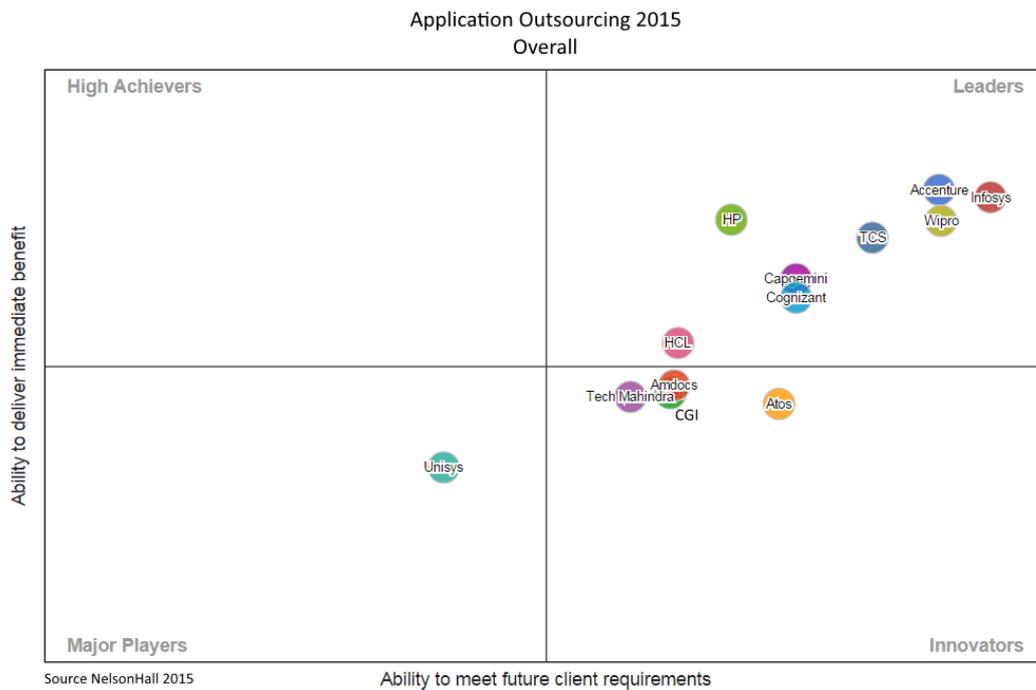
Buy-side organizations can access the NEAT tool here.

NelsonHall has assessed the Application Outsourcing value proposition of Infosys against demand for these services in the market.

Currently, client demand exists in the form of four main segments:

- *Consolidation clients* – clients aiming to reduce costs by centralizing their spending but not necessarily changing the way they operate

- *Managed services clients* – these clients share common goals with *consolidation clients*, e.g. vendor consolidation and centralizing of spending. They are also interested in industrializing their processes and using consistent tools internally. In addition, they are transferring some of their responsibility to their vendors through SLA-based rather than FTE-based pricing

- *Balance sheet optimization clients* – clients who take a broader financial benefits view of Application Outsourcing. They focus primarily on personnel transfer and potential on the sales of assets, e.g. real estate and proprietary IP

- *Transformation clients* – clients aiming to lower their spending on application maintenance, support and enhancements, to find funding for new systems integration or application development projects.

Vendors willing to address the majority of these client requirements, and hence be well positioned in the Overall market segment, need to demonstrate:

- A solid presence in India to attract, grow and retain talent

- Continued efforts to increase productivity gains

- Improved software quality, first through analytics based on ITSM ticket data and then based on software code quality analysis

- Knowledge of applications and domain/business of the client

- A track record in terms of handling contract transition and large contract complexity

- Innovative offerings to expand from the traditional application maintenance and support work to newer offerings, and overcome the traditional shortcomings of a purely IT-focused approach to Application Outsourcing.

With this mind, in recent years, Infosys has:

- Continued to grow significantly in India. The company is, and remains, the second largest India-headquartered IT services vendor in terms of headcount (165k) and revenues

- Invested continuously in achieving productivity gains, through IPs and automation tools, as well as from deployment of project management, communication tools across personnel, and tool standardization across projects

- Unveiled several new offerings, of which Business-IT Alignment and its agile maintenance and support stand apart in the company's service portfolio.

NEAT Evaluation: Application Outsourcing (Managed Services)

Application Outsourcing 2015
Managed Services

Source NelsonHall 2015
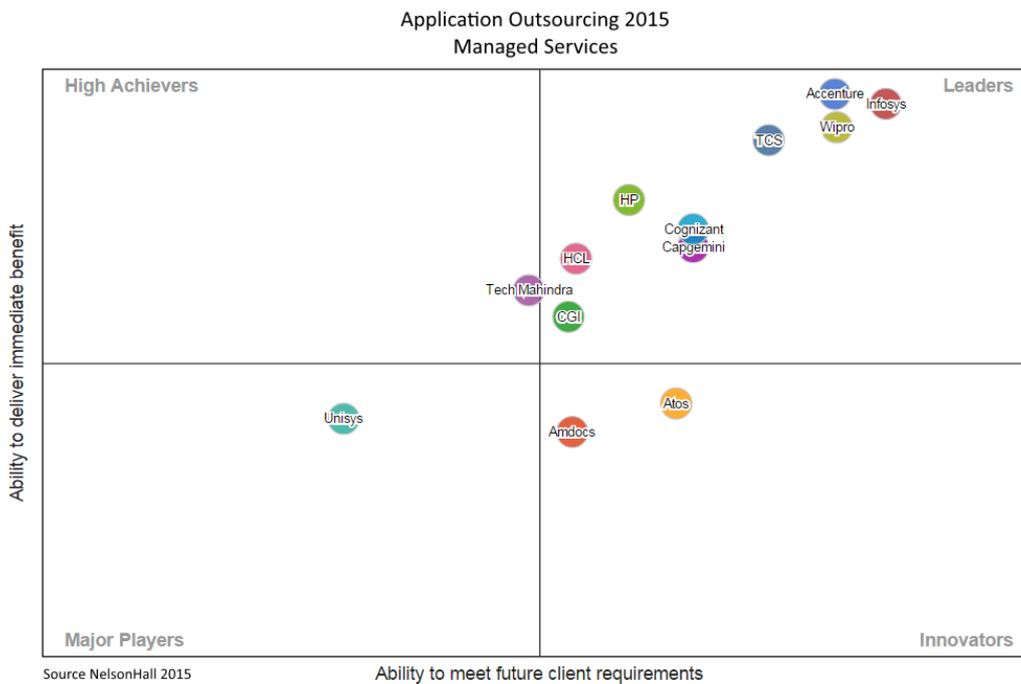
Buy-side organizations can access the NEAT tool here.

The *Managed Services* assessment represents a refined view of Infosys's Application Outsourcing positioning, taking into account factors specific to their ability to address the needs of *managed services clients*.

NelsonHall identifies *managed services clients* as buy-side organizations aiming to reduce costs by centralizing their spending, industrializing their processes, and using consistent tools internally. In addition, they are transferring some responsibility to their vendors through SLA-based rather than FTE-based pricing, centralizing their software testing activities to lower their spending, and standardizing their testing tools and processes within the IT function and potentially across service lines to increase their testing effectiveness overall.

Vendors willing to address the needs of *managed services clients*, and hence be well positioned in this market segment, need to demonstrate:

- Critical mass in India in terms of recruiting, retaining, rewarding, growing and training personnel

- Expertise in transitioning large contracts to India and driving application and domain knowledge in their delivery personnel

- The ability to deliver industrialized services and continuous investment to achieve productivity gains throughout the life of a contract.

Infosys matches these criteria by means of:

- Continued growth, significantly in India. The company is, and remains, the second largest India-headquartered IT services vendor in terms of headcount (165k) and revenues

- Continuous investment in achieving productivity gains, through IPs and automation tools, as well as from deployment of project management, communication tools across personnel, and tool standardization across projects

- The financial profile to continue investing in its personnel, contracts and clients.

Application Outsourcing: Market Summary

NelsonHall defines Application Outsourcing (AO) as application services activity performed as part of multi-year contracts. These services include, as standalone or bundled:

- Core application management (AM) services, i.e. application support, application maintenance and enhancements

- Professional services, which have become a significant part of AO contracts, typically as part of frameworks or master service agreements.

NelsonHall does not include multi-year software testing contracts in its AO category. This is because software testing is a very different service from applications outsourcing; software testing does not include the core AM, support and enhancements on which AM and AO contracts are built.

Buy-Side Dynamics

Client demand remains centered on cost savings, mostly through labor arbitrage and productivity gains, as part of multi-year contracts; this is favoring the relocation of work to India. The majority of work is priced under IT SLAs/fixed priced model, or the traditional T&M model. Business outcome based contracts are rare.

The improved economic conditions across the world and especially in developed/mature economies is likely to lead clients to expand their focus from pure cost savings to some investment, either for new business models (e.g. mobile apps) or to rejuvenate applications in order to lower maintenance costs.

Four client segments co-exist in the market, as defined earlier (see page 2):

- Consolidation clients

- Managed services clients

- Balance sheet optimization clients

- Transformation clients

Market Size & Growth

Total AO spending is valued at ~$64.5bn in 2015; this represents 19% of the total application services market.

AO is a relatively mature market. NelsonHall is expecting AO spending to grow by 4.0% in 2015, which is twice as fast as overall IT services spending growth.

Growth is largely driven by the following factors:

- Clients are transferring their spending budget away from short term project services, e.g. software development and systems integration, towards multi-year AO contracts

- Better economic conditions in the world from 2015 onwards. Overall, developed economies are accelerating GDP growth while fast-growth countries are yet to rebound. In detail, market conditions are a bit more complex: China, U.S., U.K., Nordics and Germany are increasing spending, while Netherlands and Brazil continue to decrease spending. Moderate-growth countries include Southern Europe.

Conversely, Indian offshoring has a deflationary impact on prices and overall combined spending.

Key Selection Criteria

Key selection criteria for AO vendors vary by client segment:

- Clients adopting consolidation approaches to reduce spending look for large vendors with presence in India, proven references and knowledge of applications in scope

- Clients adopting managed services favor vendors with the following characteristics: scale in India and availability of personnel, proven ability to transition work, and expertise in providing an industrialized service

- Clients looking at AO for balance sheet optimization purposes look for financial strength, the ability to handle HR issues, and the ability to provide an industrialized service

- Clients considering investing in their applications look for systems integration/software development capabilities, reusable artifacts, and application management expertise.

Outlook

Over the next few years, the main challenges in the industry and the greatest client expectations are likely to be:

- Continuing to achieve productivity gains and drive further cost savings

- Moving small-scale contracts from dedicated delivery to shared delivery to further drive down costs

- Improving software quality, initially through proactive maintenance (based on ITSM ticket analysis) and code quality analysis

- Increasing end-user centricity of applications, from self-service portals to including an application usability perspective

- Driving adoption of BP-led AO (equivalent to business IT-alignment).

Vendor Analysis Summary for Infosys

Overview

Infosys is now the third largest provider of AO services, by revenues, and the second largest among India headquartered IT services vendors.

Like other Indian IT services vendors, Infosys based its initial success in IT services around Application Development and Management (ADM), initially through contracts in applications maintenance, support and enhancements (or application management/AM).

With the June 2013 return of NR Narayana Murthy as Chairman and the subsequent appointment of CEO Dr. Vishal Sikka, Infosys has renewed its focus on core IT services such as application development, application management and IT infrastructure management services. Part of the reason for its renewed focus on IT outsourcing is that Infosys still derives ~63% of revenues from its core IT services, and needs to win large outsourcing contracts to drive revenue growth, since EdgeVerve and Finacle only represent ~5% of revenues.

Large Contracts

Since 2013, Infosys has accelerated its effort to win large IT outsourcing contracts. It is using its Strategic Global Sourcing (SGS) unit to target contracts with TCV of over $50m, looking at rebids and new scope opportunities in Application Outsourcing, IT infrastructure management and software testing. Recent examples of large ITO contracts include:

- A five year Application Outsourcing contract renewal awarded by BP (September 2014, NelsonHall estimated TCV of ~$250m)

- A datacenter services contract with Daimler (July 2014, NelsonHall est. TCV ~$50m)

- An IT outsourcing contract renewal with Microsoft (May 2014, ~$100m)

- A testing contract awarded by a large APAC bank (November 2013, ~AUD138m)

- An IT outsourcing contract awarded by a large U.S. footwear company (June 2013, NelsonHall est. ~$70m)

- An IT infrastructure services contract awarded by BMW (March 2013, NelsonHall est. ~$100m)

- An IT outsourcing contract awarded by Harley-Davidson (July 2012, NelsonHall est. ~$200m). The contract involved the transfer of an estimated 70 employees.

Next-Gen Application Management Services

In 2013, Infosys launched its next-gen application management services, with the aim of driving further differentiation in its AM offering. Over time, it has continued to work on its AM service offering, particularly on increasing productivity in its AM delivery.

The company has launched several IPs and offerings in recent months, most notably its Infosys Automation Platform (IAP) and Continuous Improvement (CI).

IAP focuses on automating labor intensive workflows. The company examined the tasks of its application management delivery teams, particularly its L1, L1.5 and L2 personnel. It found that 40% of tasks performed could be automated, and has therefore worked on automating them. Examples of tasks identified as automatable include simple tasks such as resetting a password, printing a report, or assigning a given ticket to a given employee (which is based on the skills and experience of personnel). Infosys also highlights that it can automate more complex workflows.

A second key initiative within Infosys relates to continuous improvement. Infosys is conducting CI through two channels: through the traditional bottom-up approach, from day-to-day delivery operations (for small scope changes in processes and applications), to the innovation committee (for larger scope changes); and based on using its Infosys Problem Analytics (IPA). IPA is largely based on analyzing data retrieved from ITSM tools to identify root cause analysis and to proceed to root cause analysis.

As well as productivity initiatives, Infosys continues to develop its service offerings; in 2013 it launched two main offerings of note: business IT-alignment, and its Scrumban service for agile development projects.

Infosys' business IT-alignment offering is based on its Infosys Command Center (ICC) IP. ICC draws on the work Infosys had done for a large CPG client, where it mapped tasks and steps involved in fulfilling an order-to-cash business process (e.g. pick up goods in the data warehouse and move to a truck, truck departure and delivery to the client). For this client, Infosys monitors the flow of data entering and exiting each application involved in the business process; it alerts the client whenever bottlenecks appear and checks whether the delay is caused by business or by IT. It extends its business process monitoring services to applications and the underlying IT infrastructure and networks.

Finally, with its agile development service (based on its Scrumban IP), Infosys has introduced an agile-specific AM offering based on the understanding that the difference between development and maintenance (enhancements) is blurring, for applications developed and maintained under agile methodologies. The goal of Scrumban is to combine KANBAN and Scrum approaches, and to provide underlying communication and collaboration to overcome the difficulties arising from working in different locations. Scrumban also includes common technology tools and agile specific tools for use by all delivery personnel.

Financials

NelsonHall estimates that in CY 2014 Infosys had AO revenues of ~$3.35bn. This includes application management revenues, but no other application services such as software testing and development.

NelsonHall estimates the CY 2014 breakdown of Infosys' AO revenues to be:

- Custom software and small COTS: ~$1.65bn (as published by Infosys in its AM segment reporting)

- SAP, Oracle, Microsoft Dynamics and other: ~$1.7bn.

The breakdown of CY 2014 revenues, by geography, is as follows:

- North America: ~$2.0bn

- EMEA: ~$0.86bn

- Rest of the world: ~$0.77bn.

Strengths

- Infosys is one of the heavyweights of application management contracts, having a track record for large deals in the U.S., U.K., Continental Europe and Australia. This presence means that Infosys will very often be included in calls for tender

- The company has the right cost structure; its cost competitiveness means that it can afford not to push as hard as onshore competitors towards standardization of service catalog, ITIL processes and tools for contracts. It provides a cost advantage over onshore IT services vendors, which are pushing harder for multi-client factory based delivery of AM

- Investment in more automation tools to further improve productivity. Infosys has taken a pragmatic route by focusing on stepped productivity improvements that, combined, can significantly increase productivity and savings:

  - An example where Infosys stands apart is in its workflow automation work: few vendors have begun similar projects. It has decided to build its own IP rather than use COTS in this effort; this shows that it is serious about workflow automation

  - Another example of investment by Infosys is its Infosys problem analytics IP. IPA itself is not significantly ahead of the competition, but it is another sign of investment, and is an area in which NelsonHall expects to see further progress.

Challenges

- Resuming high growth in application management services

- Its nearshore and onshore presence is limited, potentially limiting access to specific language requirements and public sector contracts:

  - Ramp up in nearshore centers is possible, however: Infosys has a presence in Brno, Czech Republic and in Monterrey, Mexico, targeting Continental Europe and North America, respectively

  - With its BMW contract in Munich (IT infrastructure services) and Harley-Davidson contract in Milwaukee (bundled IT infrastructure management and application management), Infosys has proved that it is open to personnel and asset transfer. It highlights that it could also do this for standalone AM, provided the economics work

- Infosys' business IT-alignment offering is less developed than other offerings in the market which combine the monitoring of data flow and messages across applications, the monitoring and management of applications, and the management of the underlying IT IM.

Strategic Direction

Infosys' AM unit remains focused on several key priorities:

- Internally:
    - Continuing its effort on productivity enhancements by focusing on internal tools and adoption of best practices
    - Its consulting-led business value articulation offering, which is essentially an application portfolio management offering, to drive systems integration activity or legacy modernization services
    - Creating and enhancing existing and new offerings, such as agile development
- Commercially: focus on bundled AM and IT IM contracts, mostly in the $50m to $200m TCV range.

Outlook

Infosys is well positioned, with a service offering that is showing signs of increased adoption of offshoring in Continental Europe, expanding from its traditional U.S., U.K. and Australia markets. The company is a tier one vendor and is often invited for AO calls for tender.

The company has taken several actions to rejuvenate its service offering; most of these actions are productivity related, and are small steps, e.g. the virtual operations center and integrated application management platform. However, these actions show that Infosys is taking a pragmatic approach to productivity increase. Other initiatives such as the CXO dashboard also reflect Infosys' investment effort, and provide a clear view of its level of productivity. Infosys' productivity and automation effort is therefore welcome in this industry. Finally, Infosys has taken a step ahead of the competition with its work on workflow automation.

Looking ahead, expect:

- Commercially: more standalone AM contracts and multi-tower contracts in North America and select geographies in Europe, including the U.K., Nordics, Netherlands, and to a lesser extent Germany
- Service portfolio: Infosys will further expand its business outcomes offering
- Relatively low expansion of AM delivery centers outside of its existing centers.

NEAT Evaluations for Application Outsourcing

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet client future requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet client future requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders**: vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements

- **High Achievers**: vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements

- **Innovators**: vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit

- **Major Players**: other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

Exhibit 1

'Ability to deliver immediate benefit': Assessment criteria

Assessment Category	Assessment Criteria
Completeness of AO offering	Maintenance and support
	ITSM based analytics
	BP-led AO
	Customer experience focus
	Adjacent offerings to AO
	Ability to handle complex engagements
	Ability to handle multi-scope ITO contracts
AO delivery capability	Overall headcount in India
	Overall Indian attrition levels
	Onshore factories
	Nearshore factories
	Tool standardization
	Process standardization
	Catalog based services
	LEAN management
	Across client shared services delivery
	Cross AM/IM delivery
	Other productivity gains
AO customer presence	Customer presence in North America
	Customer presence in U.K.
	Customer presence in Continental Europe
	Customer presence in APAC
	Customer presence in Latin America
AO benefits achieved	Cost reductions
	Service quality and continuous improvement
	Proactivity in innovation
	Speed in expansion contracting
	Increased visibility on pricing

Exhibit 2

'Ability to meet client future requirements': Assessment criteria

Assessment Category	Assessment Criteria
Areas of investment	Investment in automation through IPs and COTS
	Investment in shared delivery
	Investment in tool standardization
	Investment in BP-led AM
	Investment in delivery onshore and nearshore
	Investment in delivery offshore
	Investment in workflow automation
	IPs
Financial security	Financial rating
	Ability to finance development

This report provides two of the four separate NEAT market segment evaluations for Application Outsourcing, which are:

- Overall

- Balance Sheet Optimization

- Managed Services

- Transformation.

For more information on these and other NEAT evaluations, please contact the NelsonHall relationship manager listed below.

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Sales Enquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:

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