NEAT EVALUATION FOR INFOSYS:

Application Outsourcing

Market Segments: Overall & Application Development Focus

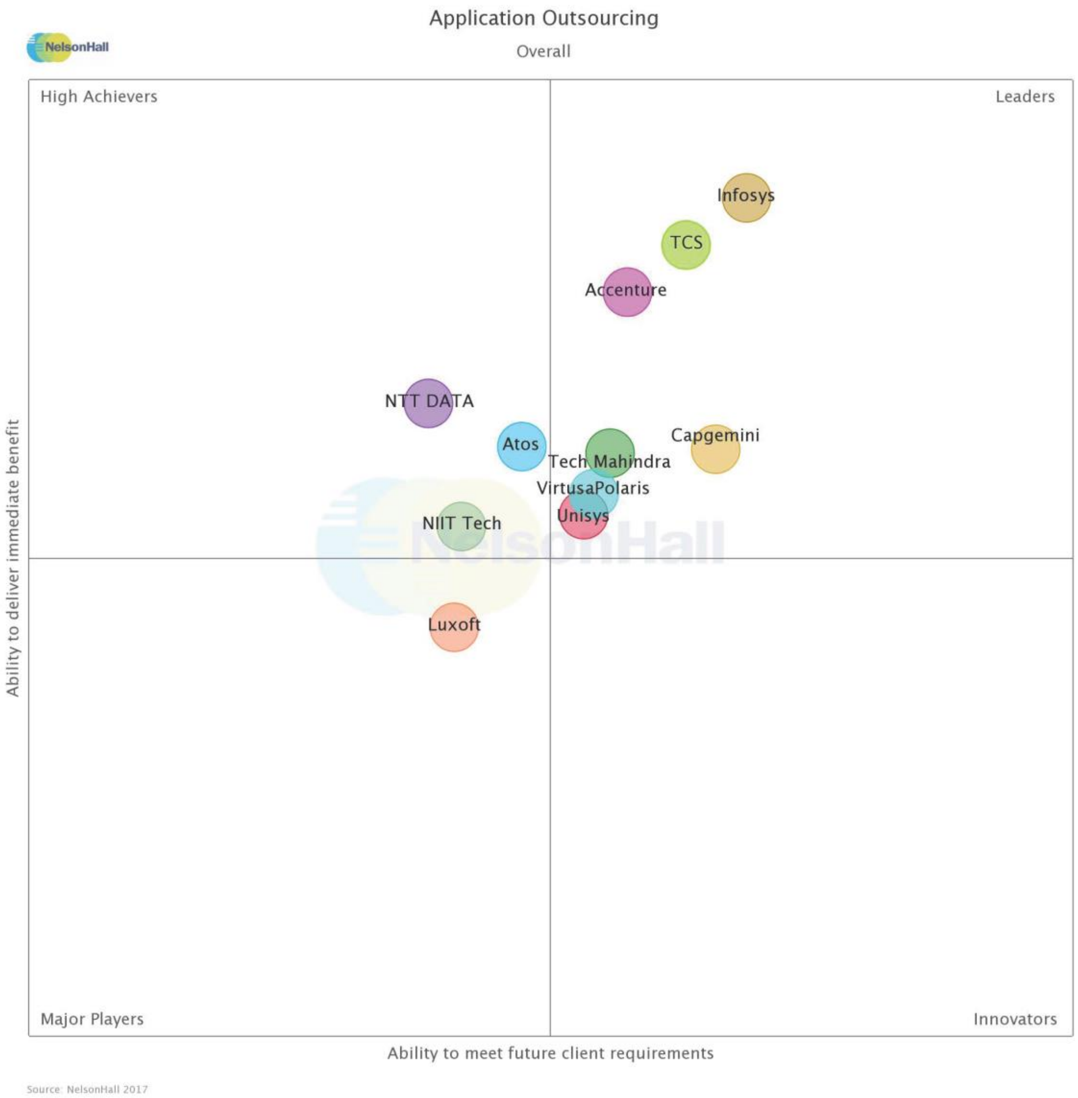
This document presents Infosys with the NelsonHall NEAT vendor evaluation for Application Outsourcing (Overall and Application Development Focus market segments). It contains the NEAT graphs of vendor performance, a summary vendor analysis of Infosys in Application Outsourcing, and the latest market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

The vendors evaluated are: Accenture, Atos, Capgemini, Infosys, Luxoft, NIIT Technologies, NTT Data, TCS, Tech Mahindra, Unisys, and VirtusaPolaris.

Introduction

NelsonHall has assessed and evaluated Infosys' proposition against demand for Application Outsourcing services, and has identified Infosys as a Leader in the *Overall* and *Application Development Focus* market segments, as shown in the NEAT graphs on pages 2 and 3.

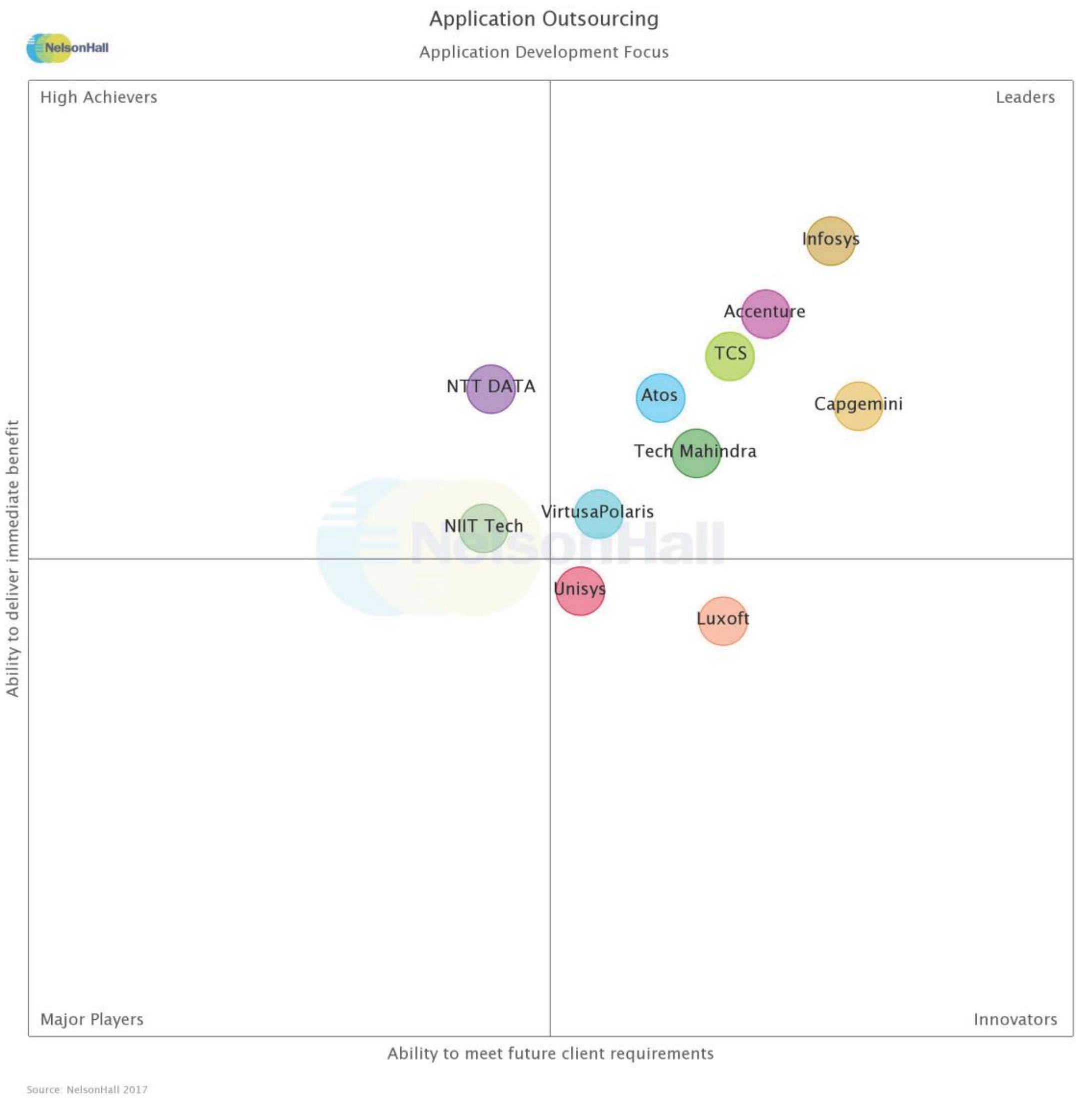
NEAT Evaluation: Application Outsourcing (Overall)



The *Overall* market segment reflects Infosys' overall ability to meet future client requirements as well as delivering immediate benefits to application outsourcing clients.

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

NEAT Evaluation: Application Outsourcing (Application Development Focus)



The *Application Development Focus* market segment reflects Infosys' ability to meet future client requirements as well as delivering immediate benefits to application outsourcing clients with a specific focus on application development services.

Buy-side organizations can access the Application Outsourcing NEAT tool (Application Development Focus) here.

Vendor Analysis Summary for Infosys

Overview

Headquartered in Bangalore, Infosys was founded in 1981 in Pune by a group of seven programmers. It became a public limited company in India in June 1992 and was listed on NASDAQ in 1999, having set up development centers in several Indian cities to serve the global market.

Infosys' largest business segments are focused on the development, testing, and management of client applications. In FY 2016, this accounted for more than 75% of its total revenues.

Since his arrival as Infosys CEO, Dr. Vishal Sikka has shared his long-term vision, consistently speaking of the drive to both "renew the core business", and "innovate into new businesses".

Renewing the core business includes the following:

- The application of automation, robotics, and AI in BPO Services, applications services, and infrastructure services. In recent years, there has been an acceleration of effort to reduce the cost to serve in these services
- An increased focus in product engineering services on IoT and areas such as predictive maintenance, machine learning, and intelligent and adaptive systems
- The application of design thinking (DT) in consulting services.

Financials

For CY 2015, Infosys reported total revenues of $9.2bn. NelsonHall estimates Infosys application management services revenues (which include application development, maintenance, testing and packaged services) accounts for ~75% of this ($7.2bn).

NelsonHall estimates that~71% (~$4.9bn) of the application management services revenues are associated with next generation application outsourcing.

Strengths

- Broad set of automated offerings tailored to specific industry and business function requirements
- Large agile and DevOps capability
- Use of Infosys Mana to improve application outsourcing delivery efficiency
- Deep ADM client footprint
- Significant investment in training of personnel
- Strong enterprise application, in particular SAP, capabilities including proprietary tools
- Longstanding relationships with key enterprise application vendors
- Major investment money focused on artificial intelligence and IoT

- Industry visibility, through consortium membership, as a leader in cutting-edge technologies.

Challenges

- Significant T&M footprint requires educating clients to realize value of increased automation
- Large portion of footprint tied to package enterprise application solutions
- Significant reliance on North American market
- Low onshore presence in EMEA
- Manufacturing vertical growth concentrated in existing client base.

Strategic Direction

To continue the growth of its next generation application outsourcing practice, Infosys is focusing on the following growth strategies:

- Expand use of AI and automation capabilities
- Expand big data, cloud, and IoT offerings
- Role and seniority targeted training.

Outlook

Application services make up a significant majority of Infosys' revenues and therefore receive a significant focus. With Dr. Sikka taking over the role of CEO (coming from software company SAP), a significant focus has shifted from resource-centric models to developing frameworks and tools to increase automation and cognitive capabilities. These have included tailored solutions for target industry verticals, toolsets to increase delivery efficiency and effectiveness, and Infosys Mana, which directly impacts application delivery effort. These new capabilities align well with the delivery of next generation application services and enable Infosys to move beyond its time and materials, legacy package solution application management core.

The flip-side of increasing automation is the impact that it can have on offshore-centric delivery models. With automation completing activities previously carried out by lower level personnel, increasing the overall blended rates while reducing total cost of ownership, Infosys' challenge will lie in educating clients to focus on overall value, and evolving its delivery model to remain competitive on an hourly rate basis.

As part of its focus on expanding its application services capabilities, Infosys has developed a broad set of offerings and is positioning itself to develop deep relationships, take a business advisor role, and play an end to end delivery partner role. As applications, business outcomes, and infrastructure converge with increasing focus on digital transformations and adoption of cloud environments, Infosys needs to continue to position itself with business buyers in addition to IT buyers.

Application Outsourcing: Market Summary

Overview

Cost reduction remains a commonly cited objective for application outsourcing; in the past cost reduction through labor arbitrage of application support helped clients to achieve IT operating support cost targets, whereas clients are now increasingly using this reduced support cost to achieve other objectives.

The primary target of this available funding is transformation initiatives, focused on the modernization of application environments and digital transformation to achieve other benefits, including increased speed to market and improved end user satisfaction.

These changing objectives have driven two major focuses for application outsourcing vendors: increasing the use of automation to address application maintenance needs, and using agile and DevOps capabilities to deliver modern applications in a shorter timeframe.

Buy-Side Dynamics

The key drivers of implementing next generation application outsourcing services are:

- Reducing operating cost
- Increasing application service levels
- Increasing end user satisfaction
- Increasing speed to market
- Reducing application development and test effort
- Reducing incident volumes
- Increasing speed to market for digital initiatives.

Market Size & Growth

The global next generation application outsourcing market is estimated by NelsonHall as ~$67,542m in 2016. It is expected to grow at 10.6% CAGR to ~$101,067m by 2020.

Outlook

The future direction for next generation application outsourcing vendors includes:

- Machine learning capabilities: incorporating machine learning capabilities into automation solutions to expand the role and value that can be realized without human intervention
- Build out industry verticals: developing tailored cloud offerings to meet the needs of specific industries
- Non-resource based contractual structures: expanding the use of contractual vehicles that are not tied to underpinning resource pools

- Increase in DevOps and agile capabilities: as agile increases as a proportion of total application development work, clients are looking for guidance from vendors on evolving their own capabilities.

NEAT Evaluation 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
Offerings	Range of capabilities Automated AM offerings Modernization offerings DevOps offerings
Delivery	Ability to deliver agile apps development Ability to maintain apps through automation Agile & DevOps delivery capabilities Ability to modernize application environments Level of automation - application development N. America AO delivery EMEA AO delivery APAC AO delivery LATAM AO delivery
Presence	Scale of Ops - Overall Scale of Ops - Agile apps development Scale of Ops - Apps maintenance Scale of Ops - N. America Scale of Ops - EMEA Scale of Ops - APAC Scale of Ops - LATAM
Benefits Achieved	Cost reduction Time to market Incident reduction

Exhibit 2

'Ability to meet client future requirements': Assessment criteria

Assessment Category	Assessment Criteria
Overall Future Commitment to AO	Financial rating Commitment to AO Commitment to innovation
Investments in AO Capabilities	Investment in agile & DevOps capabilities Investment in automated apps maintenance capabilities Investment in apps modernization capabilities Investment in geographic expansion
Ability to Partner & Evolve Services	Key partner Ability to evolve services

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

research.nelson-hall.com

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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