

## Outsourcing RESEARCH PAPER

### Infosys Outsourcing Services

#### Abstract

*Infosys provides a range of IT outsourcing services to organisations looking for IT solutions to business problems. Outsourcing is increasing across organisations in response to business needs to cut costs, improve quality, and bring solutions to market very quickly. Infosys' Global Delivery Model, combined with its processes and methodologies, means that the company is well-placed to deliver good quality solutions at reasonable cost. Its decision to compete directly with the internationally-recognised large consultancies means that it is going to have to invest heavily in marketing initiatives to further the name of Infosys, particularly in Europe where it has set its sights for 2002. Large and enterprise-class organisations of 1,000 employees and above could benefit from the services of Infosys for solutions that cannot be supplied in-house, within budget.*

#### STRENGTHS

- SEI-CMM Level 5 assessment.
- Global Delivery Model.
- Research and development groups and working parties.

#### WEAKNESSES

- Heavy reliance on US market.
- Low marketing impact in Europe.

#### FUTURE POTENTIAL

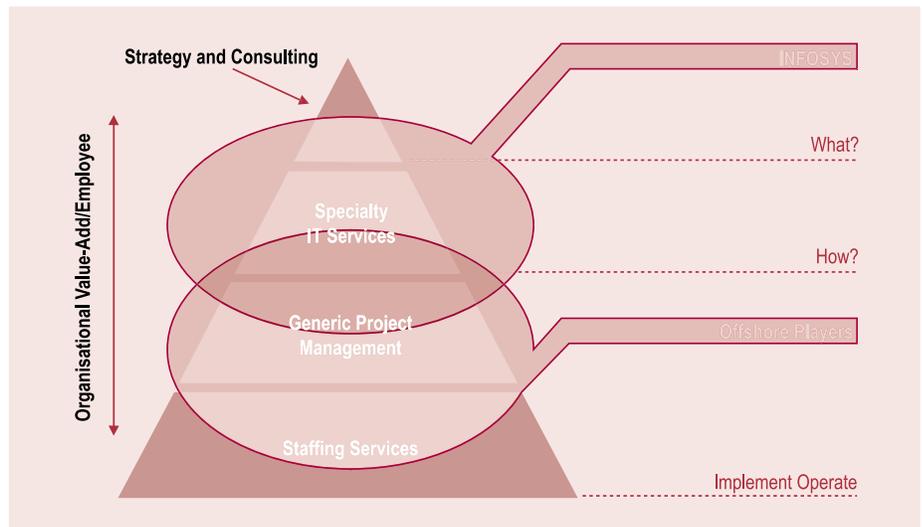
Infosys has the potential to become a major player in the worldwide outsourcing market with its Global Delivery Model, providing its target market of Global 2000 companies can accept using suppliers with IT delivery centres off-shore.

## ► FUNCTIONALITY

Using third parties to deliver some or all of the IT requirements of an organisation has been acceptable for some time now, in the form of outsourcing. The last ten years has seen the gradual entry of a different set of players into this market place – off-shore providers. These are companies with offices (delivery centres) outside the customer's country, often in India. Infosys is one of the largest such companies gaining an increased presence in this market place, with the various outsourcing services in its portfolio.

### Service Delivered

In terms of the precise positioning of Infosys, the following diagram illustrates the company's offerings:



**Positioning Diagram**

Infosys believes it operates in a space above that traditionally occupied by off-shore providers, by offering higher-value, value-add services to its customers. It does not offer pure strategy consulting, nor does it offer the so-called 'body shopping' at the other end of the market (identified as Staffing Services above), but it focuses on most of the services in between with the aim of helping customers transform their businesses through IT.

Infosys has its Global Delivery Model (GDM) as key to the operation of the organisation. This is the framework for its combination of client site and delivery centre locations for the customer's service.

Within its Consulting and IT Services stream, Infosys offers the following service lines:

- **Systems Integration, Application Development and Maintenance:** This is the company's most mature service. It develops applications according to customer specification. This also includes implementing and customising complex product suites or best-of-breed solutions, and enterprise application integration solutions. The maintenance of custom-built applications or product implementations includes not only routine maintenance, but also support.
- **IT Outsourcing:** This is the take-up of larger outsourcing requirements such as an IT department, or elements of that department. Although Infosys has not yet negotiated a major integrated deal in this area, it anticipates that the increased adoption of the

global delivery model by customers means that it will be able to compete with the usual players in this market place very shortly. It has expertise in the various elements that go towards comprising an integrated deal, such as software, hardware, and infrastructure.

- **Business Process Outsourcing (BPO):** BPO can be defined as using a third party to run and manage an entire business process. To date, only Financial BPO has been included in the Infosys portfolio. The company believes this service leverages its strengths of processes and IT. In Butler Group's opinion, BPO is a highly specialised field currently dominated by a few key players, and a comprehensive BPO offering is vital to achieve success. Although Infosys' entry into this market place is fairly recent, we expect that the expertise it can offer is reasonably comprehensive, and it is correct to specialise in one area only, for now.
- **Consulting:** This is particularly along the lines of business process and IT consultancy to help organisations achieve their objectives through the application of IT. The majority of the consultants at Infosys have a strong consultancy background and the company believes that the combination of the skills of these people, with the GDM of Infosys, makes it well-positioned to compete with the other major players in the market place.

Infosys is continually expanding its services portfolio, and introducing new services within the integrated services model. This offers its customers a more rounded, end-to-end service. It is anticipated that opportunities to extend the services offered to customers will be more easily identifiable using this model.

Infosys operates in the following verticals:

- Retail and Distribution
- High Technology and Telecommunications
- Financial Services
- Energy and Utilities
- Healthcare
- Transportation
- Manufacturing
- Media and Entertainment
- Public Sector

The first three in particular have been a strong focus of Infosys for some time, therefore it can demonstrate its expertise with case studies and reference sites.

## Service Analysis

The Global Delivery Model is key to Infosys delivering customer requirements for a lower cost and higher quality than a customer might be able to source domestically. Taking cost into consideration first, the customer's requirements are delivered approximately 30% by onsite staff (at the customer's location), with the remaining 70% at Infosys' Global Delivery Centres (GDCs) in India. The salaries and overall cost-base in India are lower than, for example, the US and many other countries in western Europe. Thus, the costs for Infosys in India are lower than they would be if it delivered everything domestically. Additionally, the quality of IT graduates from India is extremely high, and Infosys believes this combination points towards a substantial market opportunity. Butler Group expects that the current uncertainty in the off-shore market, owing to the geo-political situation of the

off-shore providers such as Infosys, means that the market is likely to remain fairly static, if not reduce, in the short term. However, once confidence returns, then companies such as Infosys could be well-placed to take advantage.

Infosys has also been assessed at Level 5 of the Capability Maturity Model (CMM) of the Software Engineering Institute (SEI) at Carnegie Mellon University. This assessment evaluates maturity and capability of software processes used by service providers across the enterprise and Level 5 is the highest achievable. In Butler Group's opinion, any organisation operating an outsourcing delivery model, incorporating staff in at least two locations, requires tight processes in order to deliver successfully. Independent assessment will be important to customers considering using such a provider, particularly those with an overseas component, and Butler Group believes that SEI-CMM Level 5 will go some way towards providing customers with the assurance required.

In terms of Research and Development (R&D), Infosys has set up a number of groups and working parties to enhance its service portfolio:

- The Domain Competency Group (DCG) focuses on specific industries, including specific regional issues, such as the public sector in the UK and rest of Europe. In this case, the DCG considers the issues that the public sector is facing and formulates a strategy for responding to these issues through the use of IT. In turn, Infosys builds up a more detailed understanding of the particular vertical sector.
- The Software Engineering and Technology Labs (SETLabs) is a technology group that works with technology companies such as Microsoft and Intel to pilot emerging technologies, and build roadmaps and strategies to deploy them for customers.
- Other groups include the Enterprise Solutions Group, looking at packaged applications and enterprise application integration; Engineering Services Group, considering the specialised arena of engineering software and design; and a group focused on telecoms, high-tech, and emerging technologies.

The company ensures a constant supply of real-world-environment people to participate in these groups by taking Infosys staff from completed projects and dedicating them to one of these groups for a period of time. The aim is to create new methodologies and tools to help Infosys and its customers move forward, building capability in the particular area they are focusing on. In Butler Group's opinion, this is an important function of Infosys, as its expertise is not local to the countries it is targeting, therefore this will go some way towards adding value internally.

## **Service Emphasis**

The propensity to outsource is being driven by a combination of cost and speed, to help an organisation to maintain its position in the market place. Infosys believes that its capabilities and GDM enable it to compete with the so-called 'Big-5' consultancies as well as other systems integrators, IT outsourcers, and the software services departments of hardware suppliers.

In Butler Group's opinion, the portfolio and capabilities of Infosys are certainly comparable in areas to those companies with which it believes it is competing. However, the marketing impact does not appear to be comparable, and Butler Group believes it will take some time for customers to recognise that Infosys is indeed capable of competing in the same space.

## ► DEPLOYMENT

As with most services, there is a process that the provider follows in order to deliver the required service/solution to the customer. When utilising Infosys' IT and Consulting services, the process is as follows. Not every point is applicable to every project.

- **Consulting and Strategy:** The best solution to respond to the customer's requirements and budget is constructed. This is very much a two-way process between Infosys and the customer and, in the vast majority of cases, it takes place on the customer's site. According to Infosys, the solution must not only respond to customer requirements, but also add business benefit, hence the focus on strategy during this stage. In Butler Group's opinion, this may not always be possible in the current 18-24 months contracts Infosys is winning today, but certainly, impact in its target market should help it move more in this direction.
- **Architecture and Integration:** The agreed solution is architected by Infosys factoring for the incumbent environment and existing IT investments. The company believes that architecting a solution is a response to the customer's current IT environment and the changes that are required, whilst leveraging the customer's current investments. Butler Group concurs with Infosys in its assessment of the pressure on organisations to integrate the disparate systems they operate. Infosys recognises that companies are likely to have an integration policy and, as such, Infosys will fit its solutions into the necessary framework.
- **Custom Systems Development:** Infosys' processes for managed requirements analysis and design are key to its ability in this area. All requirements are tracked so that a full delivery is achieved. The process-oriented development methodology is utilised, and the development can follow iterative, as well as classical, lifecycles. Butler Group believes that this is an area often overlooked by service providers, certainly in terms of the amount of detail necessary, and Infosys can offer customers the level of project tracking they are entitled to expect.
- **Re-engineering and Migration:** This part of the process is only undertaken for specific re-engineering and migration projects. Infosys claims it provides best practice in this area through the provision of templates and guidelines. Butler Group believes that re-engineering and migration projects can be an extremely large and complex undertaking, and a company with successful reference sites and past customers should be sought.
- **Maintenance and Support:** Following implementation, the solution provided to a customer can be backed up with a Maintenance and Support contract. Support is provided 24x7 (as required by the customer) from Infosys' Indian offices. Additionally, Infosys can provide management and 'future proofing' (maintenance) of applications that it has not developed. It claims that this is enabled through stringent Service Level Agreements (SLAs), and Butler Group agrees that this would not be possible without a comprehensive SLA.

The above is a review of the processes that Infosys goes through in order to deliver a solution to a customer. Of course, not every element is applicable to every project, but in Butler Group's opinion, it gives a good indication of the detail that Infosys applies.

At the front-end of the relationship with customers are Business Development Managers (BDMs), who are dedicated to the sales function. It should be noted that BDMs are generally from a business, rather than IT, background, so they can demonstrate knowledge and expertise in the customer's business area. Account Managers and Client Relationship Managers (CRMs) are brought in once a relationship/deal has been set up with the customer. The CRMs stay in place for the lifetime of the contract, so the customer always has a single point of contact. Delivery Managers are brought into the relationship at the development stages, to ensure that the project is delivered. Subject-matter experts, including industry experts (typically from DCG), technology architects (typically from SETLabs), or process re-engineering consultants, are brought in, based on customer or project needs.

## ► STRATEGY

Infosys' Global Delivery Model is key to the company's strategy for the foreseeable future. It believes that the GDM is here to stay, and that this is compounded by the knowledge that a number of the 'Big-5' consultancies have been opening offices in India. Infosys claims that having off-shore offices is not necessarily the key to a successful GDM, as tight systems are equally important, and Butler Group concurs with this opinion. Infosys also claims that customers will not be concerned where services are built and delivered from, and that this will be to the benefit of the GDM. Butler Group believes that this is not representative of the current market perception, but there is certainly the opportunity for it to develop this way.

Infosys is building a local presence in most of the countries it is targeting, and, in Butler Group's opinion, this is important. In addition to offices in these countries, local people are being employed to reflect the need for local knowledge, and Butler Group believes this will help the sales push, particularly in areas with significant regional variations, such as Europe.

The target market of Infosys is Global 2000 companies. As stated earlier, the impact of Infosys' marketing effort needs to be assessed in order to get this target market to consider Infosys alongside the 'Big-5' as a potential provider. The payment options provided are the usual ones associated with outsourcing contracts, including: part up-front, part on completion; regular payment periods through the lifetime of the contract; and shared risk/reward. Services can be offered on a time-and-materials basis, as well as fixed price. As such, the payment options are flexible according to customer requirements.

Infosys will assist its customers with Return On Investment (ROI) calculations and business case justification. It recognises that both these factors are vital to organisations today to justify any IT spend, and as such it has developed its own ROI tools.

Europe is at the centre of Infosys' strategy in 2002. The company intends to reduce its dependency on the US market, which currently accounts for in excess of 70% of Infosys' revenue, a figure Butler Group agrees is too high. Also, Infosys believes that the European market is approximately 18-24 months behind the US and is ready to demand services from companies such as Infosys. Butler Group would concur with this opinion to an extent, but repeats that the geo-political situation could have some bearing on demand. European marketing for Infosys will be based in London, in the belief that the UK will be the first

country to widely adopt the GDM through Infosys. Infosys has offices in other major European countries (Germany, France, Belgium, Switzerland, and Sweden).

## ► COMPANY PROFILE

Infosys was founded in 1981 by seven people, five of whom are still with the company and on the board. The first decade was a period of consolidation for the company then, in 1991, the Indian government opened its economy and actively encouraged IT organisations to win overseas business. The corporate headquarters are located in Bangalore, India, with over 30 offices worldwide (12 in the Americas, seven in Europe and Middle East, five in the Pacific Rim, and ten in India).

The company employs over 10,000 staff, the vast majority of whom are based in India. During project delivery, approximately 30% of India-based staff will be located at the customer's site. The project teams also use staff from, or at, its development centres near customer locations, called proximity development centres. Also, around 1,000 staff are employed in support functions (R&D, Sales and Marketing, and Administration) with the remainder working directly on customer requirements.

The chairman of Infosys is Mr N R Narayana Murthy, and much of the company's vision and success is attributed to him and the leadership team. He has been named recently as one of the world's most influential executives by Times CNN. Additionally, Infosys has received a number of other awards, including being ranked number one amongst the most respected companies in India by the Business World IMRB survey. The composition of the Infosys board and directors is something that Infosys is justifiably proud of, and it believes this corporate governance has significantly contributed to the achievement of these awards.

Infosys is publicly traded on the NASDAQ, under the symbol INFY, and has a market capitalisation value of around US\$8 billion (as at January 2002). The current share price is around US\$61, with a high of around US\$120 and a low of around US\$33 in 2001. The fiscal year to 31 March 2001 achieved total revenue of US\$413.5 million, and US\$203.5 million the previous year. Results to the end of the third quarter of the current fiscal year show revenues of US\$405 million, with a projection for the year of US\$538-543 million.

## ► SUMMARY

Butler Group believes that Infosys provides more than the traditional perception of an off-shore provider, and is capable of competing with domestic outsourcing providers. Independent assessment at SEI-CMM Level 5 is verification that the company's processes work for the business in which it operates, and an 85% repeat business rate is another positive corroboration of the quality that Infosys aims to achieve.

In order to compete with the 'Big-5' and regional European players in the domestic outsourcing market, Infosys needs to step up its marketing effort and complete some more deals as reference sites. Particularly in Europe, this will be required for the individual countries in which Infosys operates, in order to gain the confidence of potential customers.

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