



## Infosys Kicks It Up a Notch and Propels a Shift in the Global FAO Supplier Landscape

### Details about Infosys BPO's Major Client Acquisition

Infosys BPO Ltd. announced on July 25<sup>th</sup> its achievement of winning one of the largest FAO deals out of India, with Netherlands-based Royal Philips Electronics. As part of this seven-year, \$250 million contract to begin in October, Infosys will gain 1,400 new personnel who will transition from Philips. Infosys also will acquire three of its new client's shared service centers, in India - Chennai, Poland - Lodz and Thailand - Bangkok.

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### Why Did Royal Philips Electronics Choose Infosys BPO?

The Chief Strategy Officer and Group Controller for Royal Philips Electronics, Gerard Ruizendaal, cited the following reasons as to why Philips selected Infosys BPO for this competitively-bid FAO engagement:

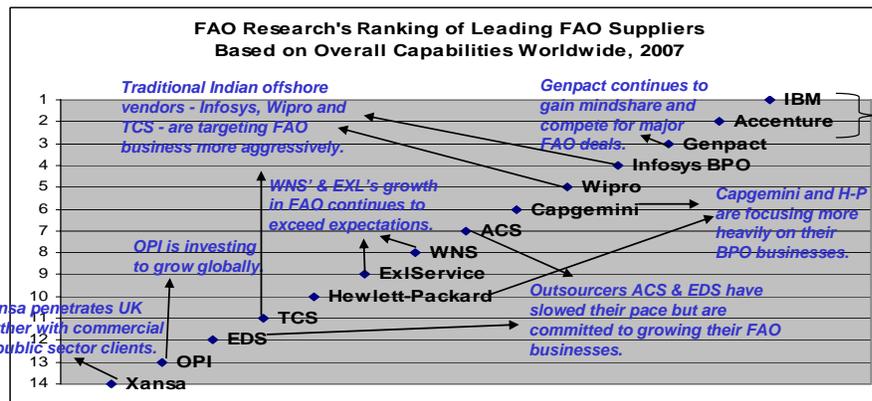
- Strong HR process
- Better solution quality (than other suppliers could offer)
- End-to-end process improvement
- Robust risk mitigation and transition plan
- Leadership involved in all levels of the sourcing process
- Strong focus on delivering high-quality customer service
- Established credentials

Infosys BPO senior executive, Ritesh Idnani, emphasized to FAO Research that despite Infosys' significant presence in India, "offshore execution in India (was) NOT a major factor" in Philips' selection of Infosys BPO. They suggested that it was Infosys' ability to operate seamlessly and deliver F&A and procurement services from multiple global locations that served instead as primary key advantages for its client.

### FAO Research's Analysis – What Does This All Mean?

FAO Research believes that Infosys BPO is the most enviable offshore service provider in terms of maturity of FAO service offerings and geographic bandwidth, both of which have been demonstrated over time but especially with this new contract. Infosys ranks as a significant FAO supplier, as shown below, based on year-over-year growth in its FAO business, service delivery capability, expansion of service offerings, types of new business won, global reach and industry expertise. The ever-important client "intangibles" – such as cultural alignment and "likeability" which cannot be represented in quantitative rankings – are driving factors also that continue to help Infosys score big during subjective contract considerations, as was the case with Philips.

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Source: FAO Research, Inc., 2007



## Our FAO Analysts' Observations

FAO Research's analysts' observations about this "hot topic" and its impact on Infosys BPO are listed below:

- **High Contract Value/Amount.** This \$250 million FAO engagement is at the extreme high-end of BPO contracts being signed as of late, especially relative to other FAO contracts that typically are valued at less than \$50 million. This contract is the largest ever to date inked by Infosys BPO.
- **Longer-Than-Usual Contract Length.** This seven-year Infosys/Philips contract surpasses the typical FAO contract length, which averages 3-5 years, further demonstrating the assurance that Philips has placed in the wherewithal and future success of its outsourcing supplier/partner.
- **Multiple Services Scope.** Encompassing both F&A and procurement functions, the scope of this FAO contract is larger than most, encompassing a great deal of accounts payable services, some in accounts receivable, a high level of general accounting and general ledger work for multiple business units as well as related procurement services within the procure-to-pay cycle (like category spend on the indirect procurement side relating to the invoice itself). The depth and breadth of contract services scope demonstrate the strong FAO and procurement offerings (and IT backbone) that Infosys BPO continues to build. (Note: FAO is the strongest growth area for Infosys BPO at present.)
- **Adds Depth to Industry Practice.** Infosys BPO has strong high-tech and manufacturing client bases already – comprising an estimated 30% of its revenue to date – so its win of Philips' FAO business will enhance top-line results and contribute additional subject matter expertise in these verticals. Infosys BPO has critical mass to claim expertise at a vertical-specific Finance function.
- **Expanded Geographic Capabilities and Reach.** Infosys BPO has expanded its reach, employee base and regional operating capabilities within Europe (a major area of focus for Infosys) and Asia as a result of its three shared service centers' acquisitions. This supplements from where Infosys BPO previously delivered FAO services at the beginning of 2007, in:
  - **Bangalore 1**- Infosys City, India
  - **Bangalore 2** – Towers, India
  - **Brno**, Czech Republic
  - **Pune**, Infosys Campus, India.
  - **Hang Zhou**, China
  - **Jaipur**, India
  - **Gurgaon (Delhi)**, India

Infosys BPO has made only one acquisition to date – in 2003, Expert Information Services of Australia, but its "acquisition" of this new arrangement provides that opportunity for expansion of its global FAO network almost "organically".

- **This is a Unique Public Announcement:** It has become a very rare occurrence for an FAO service provider to claim publicly their progress in the FAO space, let alone their actual contract wins, most of which are driven by client confidentiality concerns. Infosys BPO is fortunate to have been given the opportunity to "show off" this competitive win – a sure vote of trust by Royal Philips Electronics in its new outsourcing partner. The global media likely will jump onto the fact that Philips is a publicly-traded company (NYSE: PHG, AEX: PHI) and outwardly is transferring mission-critical finance functions and such a large # of personnel to an offshore-based external supplier – another natural market perception builder for Infosys BPO. The latter point is especially in line with its former rebranding strategy, when, in year 2006, Infosys BPO become a fully-owned subsidiary of Infosys Technologies Ltd. and changed its name from "Progeon" to "Infosys BPO".
- **Acquisition of People Skills.** The acquisition of senior and middle management skills via outsourcing contracts – of human resources who are skilled already in F&A processes specifically as related to its new client, folks who are skilled in general (a huge coup in a market where qualified Finance talent is difficult to find) and those with local, regional language and cultural familiarity – is a unique phenomenon with outsourcing in general but within FAO specifically. India-based suppliers generally are less inclined than are US- or European-based

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*FAO Research asserts that this landmark FAO contract from Infosys further shifts the global FAO supplier landscape, which we monitor exclusively, from dominance by traditional US-based outsourcers towards a more sophisticated, global model encompassing service providers with different heritages, specialties, track records and IT expertise.*

service providers to offer "onshore" or "nearshore" job opportunities to new clients' employees. In this situation, Infosys BPO's "acquisition" of the people, facilities and related FAO processes is more of a sure-fire strategy for successful transition and implementation success.

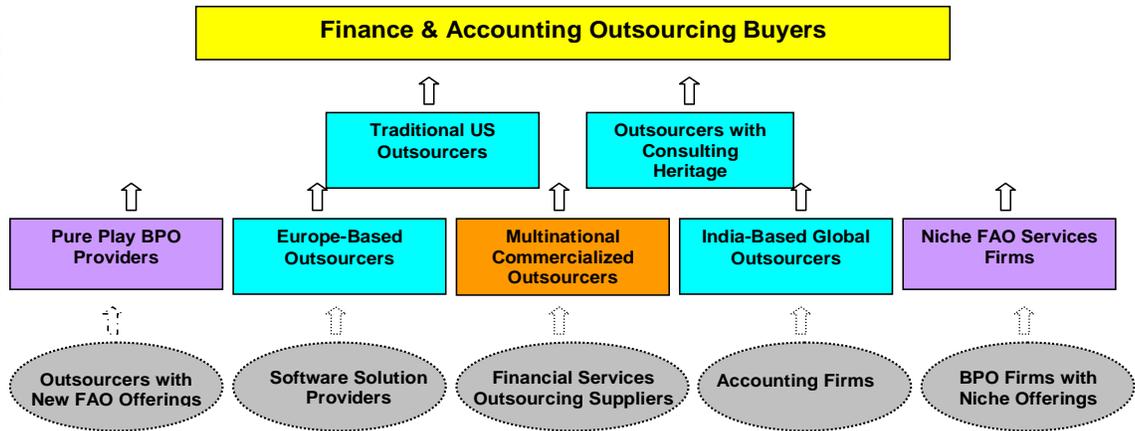
- **Competitively Bid...and Won.** Infosys BPO faced stiff industry competition by a myriad of major FAO suppliers to bid on this engagement and ultimately win it, a huge achievement and addition to Infosys' market share.
- **Brought to the Table by a Sourcing Advisor.** According to Infosys BPO, this FAO engagement was a clean, succinct contract to understand – with clear objectives and mandates, because Philips came to the table with an experienced sourcing advisor. As FAO Research continually notes, the increased use of external consultants and lawyers to facilitate and shorten the sourcing lifecycle is evident yet again in the case of Philips which approached Infosys BPO with a more educated stance as to its objectives with FAO. Ultimately, this three-pronged relationship helped to shorten the sourcing lifecycle significantly – from nine months for typical "best case" FAO engagements to an estimated four months with the Philips relationship, start to finish.
- **This is not the first foray of Royal Philips Electronics into the outsourcing realm.** Philips is a slight expert itself at outsourcing itself, having a number of other outsourcing initiatives in play, including Atos Origin as its preferred IT services supplier, a \$300 million ITO engagement with IBM Global Services, and miscellaneous services engagements with Dell and others. And for those who do not know this, in 1996, Atos Origin spawned, in part, as a sort of commercialized outsourcing venture from Philips Communications and Processing division, similar to GE's spinoff of leading FAO service provider Genpact which it sold off in late 2005.
- **Not Emphasizing the "India Advantage" Is Interesting.** Infosys BPO is an offshore service provider, as defined by today's market – headquartered in India with most of its service delivery and personnel residing in India. Buyer inclination has been towards India as a geography of choice for the delivery of high-quality services at low-cost rates (relative to onshore or nearshore operational alternatives). The fact that Philips is a European-based organization and one with global operations has allowed this buyer to think more strategically about global service delivery optimization and even diversification of its workforce by spreading its operational resources within multiple geographies, even via outsourcing. With Infosys BPO stressing its globalization message, Philips thrust into this FAO engagement not purely as a cost-savings opportunity to leverage a low-cost labor pool but also to focus on opportunities to think more strategically about global transformation initiatives, not only within the confines of this contract but more holistically for its global business. Offshore was only one element of the value proposition.
- **Robust Revenue Growth:** Infosys BPO rests upon a solid financial base and claims to have experienced 70% growth in revenue, from \$85 million last year to \$147.5 million in its latest fiscal year. As a result, the group has generated significant cash flow to invest in capability building, client acquisition, growing its business development network, etc. FAO buyers value the financial strength of their service providers, intuitively within the Finance realm.

## **Impact on the FAO Supplier Market**

FAO Research asserts that this landmark FAO contract from Infosys further shifts the global FAO supplier landscape, which we monitor exclusively, from dominance by traditional US-based outsourcers towards a more sophisticated, global model encompassing service providers with different heritages, specialties, track records and IT expertise. Our view of the FAO supplier world, which consists of 12 external service provider types (as shown on the next page), is becoming "flat", in alignment with Infosys' stated objective to "win in the flat world" (as taken from the progress of globalization perspective by best-selling author Thomas L. Friedman). We believe that the natural progression of a healthy market – like FAO – is growing competition, with the most successful FAO suppliers maturing in such a way that they are beginning to demonstrate unique strengths and cultures that make them among the strongest candidates to win FAO engagements worldwide.



## Landscape of Finance & Accounting Outsourcing Service Providers, 2007



Source: FAO Research, Inc., 2007

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So what attributes help FAO service providers, like Infosys BPO, succeed in this evolving paradigm? FAO Research believes that as prospective FAO buyers develop a greater comfort level with the FAO value proposition and offshore play, the big winners in the FAO supplier world will be those who offer the following capabilities and can differentiate themselves through multiple intangible touch points:

- FAO supplier market leaders will be those that can provide the fullest scope of services to the greatest number of industries across the widest breadth of geographies.
- They will have the longest track records of providing a full scope of outsourcing services and possess strong capabilities surrounding risk management, contract governance, process transition, systems management and processing expertise.
- They will have deep expertise and process knowledge not only around the Finance business process but also as related to areas (such as procurement and HR) that could be affected by the outsourced F&A functions so that they can further alter clients' cost structures and help them be more competitive.
- They will own and/or operate a strong technology platform capable of scaling enterprise-wide and spanning geographies to enable not only routing transaction processing functions but also encompass strategic, customized tasks and allow for fluctuations in market demand and/or business climate changes.
- Alignment of cultural and intangible relationship-based efforts to those of their clients is the secret sauce of suppliers to finalizing and winning FAO engagements.

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This transition of Royal Philips Electronics F&A shared services to an outsourced model is indicative of what FAO Research is seeing as a maturation of operational alternatives in business environments. The shared service model, although successful thus far for many, is often far better managed and resourced by external subject matter experts with heavy IT investments than if handled internally. We expect the shared services and even captive center markets to transition, as has Philips', to a more future-centric model as in FAO.

### For More Information

FAO Research, Inc. welcomes your comments, questions and suggestions. Please visit our website at [www.faoresearch.com](http://www.faoresearch.com) or call us at #617-787-FAOR (3267).

This FAO Research report is one of FAO Research's "HOT TOPICS" thought pieces that highlights timely news and events and provides our analytic perspective on FAO market impact. Our Hot Topics reports are published as part of our 2007 Annual Subscription Package. Analysts who contributed to this report include Lisa Ross and Ned Madden.