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Indian Offshore Suppliers: The Market Leaders
by Stephanie Moore and William Martorelli
EXECUTIVE SUMMARY

Large suppliers continue to dominate the market for Indian software and services exports. This is due to the preference of North American customers for large, seemingly stable partners. Indeed, these Indian industry leaders remain ideal vendor partners for large customers seeking significant scale in their offshore operations. The leading Indian suppliers will continue to pace the market, but cracks are beginning to appear. Obliged to continue their rapid growth by seeking the largest opportunities, their customer responsiveness and recruitment/retention policies are being tested. Smaller Indian suppliers are emerging as viable alternatives. While customers struggle to differentiate the leading Indian suppliers, which all seem to have the same breadth of capabilities, important differences exist. One of the most significant differences is the relationship management philosophy by which they engage with their customers.
INDIA REMAINS THE PREDOMINATE OFFSHORE DESTINATION

Despite an intensifying — potentially political — backlash in its core North American market, the Indian IT service market continues to grow dramatically. Fiscal year 2004 should see an overall increase in software and services exports of roughly 30%. This growth is far in excess of that experienced recently by global providers, which are growing at a single-digit rate or shrinking in some cases.

Much of this growth has accrued to the largest Indian suppliers, which have done an excellent job in enlisting new customers and providing quality services at low cost. Indeed, most Forrester clients gravitate toward these larger firms for the bulk of their offshore outsourcing requirements. However, customers should keep in mind that it is not only overall size and breadth of services that matters, but also the manner in which these companies can engage with their customers. Forrester considers HCL, Infosys, Satyam, Tata Consulting Services (TCS), and Wipro to be the largest Indian vendors, as well as Cognizant, by virtue of its extensive growth and market leadership.

According to NASSCOM, the export market for Indian software and services is estimated to be $12.2 billion for FY 2004 (see Figure 1). This compares to $9.54 billion for FY 2003, $7.65 billion for FY 2002, $6.217 billion for FY 2001, and $3.962 billion for FY 2000. While these figures are impressive, they exclude the on-site work performed by US-based vendors — Cognizant, Covansys, Intelligroup, and Syntel — which would make the total revenue significantly higher.

The Indian Export Market Diversifies And Matures

In addition to its overall growth, the market is also diversifying and expanding to encompass nonapplication-related services. Whereas in the past, Indian suppliers focused primarily on delivering application-related services, they now offer everything from applications support to infrastructure management (including data center outsourcing, network management, data center consolidation, strategic consulting, and help desk outsourcing) to various flavors of business process outsourcing (BPO) — or IT-enabled services, as they are typically termed. Further, the market is maturing. In addition to offering a broader range of services, many of the players in the market now offer value-added services that help to ease the transition to outsourcing or improve an organization’s ability to effectively outsource. Skills like relationship management, organizational change management, and customer advocacy are now part of some vendors’ portfolio of skills. Leading Indian vendors deliver more customer-intimate enterprise solutions for clients, just as top-tier US and European vendors do.
Despite their impressive record of growth, there are several factors that challenge the continued dominance of leading Indian suppliers. Some of these challenges relate to the vendors’ rapid growth. Others have to do with emerging alternatives — smaller competitors in India, competitors in other geographies, or the leading global integrators moving into the Indian market. There are a number of challenges to the continued dominance of the leading Indian firms.

Alternative Geographies Are Emerging

The enthusiasm of North American customers for the leading Indian suppliers shows no signs of waning. Yet some companies are considering a number of offshore and nearshore alternatives, including China, Ukraine, Russia, Philippines, Ireland, and Canada. Forrester clients should beware, however, as they evaluate these alternatives: While costs are somewhat comparable in a number of offshore countries, few countries are as advanced as India in terms of their outsourcing capabilities, telecommunications infrastructure, experience, and quality. Despite the fact that leading Indian firms have yet to suffer materially from alternative geographies, they are mindful of the long-term threat and are seeking to expand their geographic footprints to serve both global and local customers.

Competition Is Increasing Due To Influx Of US And European Vendors

Global IT services companies like Accenture, IBM, Xansa, Cap Gemini Ernst & Young, and EDS are establishing or growing their offshore facilities in India for a variety of reasons: satisfying client demand for labor arbitrage; lowering their cost of delivery in highly price-sensitive markets; and competing directly with the increasingly influential Indian vendors. Already, Accenture has increased its Indian presence from approximately 150 staff resources two years ago (when it opened its first low-cost delivery center in India) to 4,100
staff resources at the end of November 2003. Similarly, IBM Global Services is counting on its global delivery capability (low cost, remote programming, and support capability) to differentiate it from competitors, such as EDS and CSC, and grow its overall business.

This influx of multinational firms has led to increased competition for qualified development resources. It has also contributed to upward pressure on wages, since the multinational vendors are luring staff away from the Indian vendors with higher wages and better benefits. Yet overall average billing rates within India have remained highly stable. This may not be the case as competition inevitably intensifies.

**Attrition Rates Are Soaring As Competition For Resources Increases**

As the competition for labor increases, the attrition rates also increase. Our research shows that in the IT services arena alone, attrition rates at Indian facilities have jumped to the 25% to 30% range depending on the firm. Our research also indicates that in the BPO arena attrition rates are inching into the 40% area in some cases. Clearly, it is extremely important for customers to ensure that the Indian vendor with which they work has state-of-the-art HR abilities and processes to recruit, retain, and train IT staff. In addition, companies must make sure contracts specify acceptable turnover rates on projects and the level of seniority required on projects.

**Rapid Growth Challenges Vendors And Adds Risk To Client Engagements**

To make matters worse, Indian vendors need to increase headcount rapidly to accommodate new business. Infosys, for example, grew from about 15,000 employees last year to about 25,000 employees this year. Today, Wipro brings in about 200 recruits every Monday. In addition to finding the qualified resources to hire — a Herculean task in itself — the vendors have to assimilate and train this new staff quickly. Each recruit has to learn the vendor's culture and processes required to deliver quality results. Even if we assume that every vendor can train and assimilate staff quickly, most clients are going to find themselves with a preponderance of unseasoned junior staff on projects.

Vendors have also had to expand their engagement and relationship management staff, an area where there has always been a critical shortage. Therefore, most staff in this category will have little offshore outsourcing experience and even less client engagement management experience. It is critical that vendor relationship or engagement managers understand the offshore outsourcing process fully and are able to help clients navigate its complexity. If they cannot, the project's chances for success are limited, particularly when the client does not already possess experience in outsourcing. Clients must ensure that the vendor's engagement or relationship manager is qualified to play this vital role.
The bottom line is that this scaling is likely to cause service degradation as the vendors attempt to assimilate masses of new employees. Clients must guard against such potential degradation of service through effective contract clauses and SLAs, as well as close examination of HR policies at the vendor selection stage.

**Breadth Of Service Lines Is Both A Boon And A Bane For Customers**

Vendors in the leader category are expanding their service lines to provide clients with a full-service offering. Clients are encouraging their vendors to provide additional services for a number of reasons: existing trust in their vendor partners; desire to replicate the value they have already received from offshore applications outsourcing; and a preference to minimize the complications of managing multiple suppliers. However, choosing a variety of services from a single supplier risks suboptimizing individual selections (as opposed to pursuing a best-of-breed strategy). While the leading Indian suppliers are certainly experts at rapid training, clients should not expect Indian vendors to become business process or data center outsourcing experts overnight. The truth is that the vendors are often learning from their clients in these new areas. This means that clients will need to exert more oversight in critical knowledge transfer and process synchronization processes. Moreover, because the vendor experience level is immature, clients cannot expect significant or immediate improvement in these new service lines as they can in the applications arena. For the near term, process improvement in nonapplication areas is going to be a joint client/vendor effort.

**Client Relationship Management Emerges As The Key Differentiator**

All of the leading Indian suppliers possess mature infrastructure, robust development processes, and typically very broad capabilities. In fact, these capabilities are so broad that it can be difficult for many customers to tell the leading vendors apart. Because significant differences exist, customers should evaluate these capabilities carefully. One of the most important areas of differentiation lies in the vendor's engagement and relationship management philosophy and overall relationship management skills. Some Indian suppliers are easier to work with than others. By providing the kind of engagement style that customers are used to from domestic suppliers, these suppliers provide transparency in relationship management. The level of relationship transparency required by any customer will vary depending on the offshore outsourcing maturity of that customer. Early adopters with significant experience in managing offshore suppliers, for example, will not need these skills as much as beginners. Moreover, these competencies will not be as important in a relationship based on staff augmentation as they are with project-based engagements, where a close, flexible, and transparent relationship with suppliers is essential. One of the principal reasons Cognizant has been included in the leader category is its mature relationship management skills.
The importance of relationship managers (called different things in different companies) cannot be underestimated. For the vendor, good relationship managers pay for themselves because they are experts at winning new business, as well as uncovering or developing revenue opportunities within existing accounts. Ideally, they also perform critical customer care functions by identifying and attacking problems as they arise. They also act as the intermediary between the client and the supplier’s numerous development or support teams. Unfortunately, Indian vendors are inconsistent in their approach to relationship management and have experienced difficulty in establishing effective relationship oversight across multiple service lines.

The goal for all leading Indian vendors is to become one of the top 10 IT services vendors in the world — not just one of the leading Indian suppliers. Although they still have a long way to go to match the size and scale of long-term global integrators, nothing less than the future of the entire IT services industry is at stake. In an effort toward this, many leading Indian suppliers have expanded their service offerings and put in place seasoned management teams. However, the key success factor will be the vendors’ ability to function at all levels like a global IT services consulting firm.

PROFILING THE SIX LEADING INDIAN SUPPLIERS

Cognizant

Overview: Cognizant has emerged as the most successful and prestigious of the US-based hybrid offshore suppliers. It has roughly $350 million in revenue, nearly all of which is application development and maintenance.

Strengths: Cognizant can point with pride to high customer satisfaction and a reputation for flexibility among its clients. The recent transition from former CEO Kumar Mahadeva to current CEO Lakshmi Narayanan has been smooth. Cognizant is known for its excellent customer relationship disciplines, including its pioneering use of American nationals for key customer relationship roles in North America.

Weaknesses: Cognizant has a relatively narrow range of service offerings and does not yet participate significantly in the infrastructure management and IT enabled services (ITES) segments. It has only recently moved to pursue the enterprise applications opportunity with a recent hire out of Intelligroup and its acquisition of Ygyan, an SAP consulting shop based in Pune, India.

The skinny: Cognizant is beginning to expand its range of options, but it remains firmly rooted in the application development and maintenance market. Potential customers should consider it a strong choice for application development and maintenance projects,
particularly for customers that need a high degree of relationship transparency and customer intimacy. Cognizant's emerging capabilities in package implementation and ITES are intriguing but remain in an embryonic stage.

**HCL Technologies**

*Overview:* Hindustan Computers (HCL) was founded in 1976 as a minicomputer-oriented IT hardware company. It is India's most well-known hardware company. In 1994, it spun off a separate software development company called HCL Technologies, which has since become one of India's leading export suppliers. HCL Technologies has been prolific in forming joint ventures with other companies, having established alliances with Perot Systems, James Martin (now Headstrong), and Answerthink. In 2001, HCL Technologies purchased a controlling interest in Deutsche Bank's IT subsidiary, Deutsche Software.

*Strengths:* HCL Technologies is the fifth largest Indian IT services supplier and is one of the oldest. It has an impressive breadth of skills outside the enterprise application space. HCL also has significant experience providing product development services to independent software vendors and also possesses strong expertise in embedded systems.

*Weaknesses:* HCL has only recently begun to focus on growing its own direct user business and is still learning how to accommodate the enterprise customer. While it has an impressive list of enterprise customers, HCL's revenues have been derived primarily from joint venture partners. This means HCL is less experienced in addressing the nontechnical, soft needs of enterprise customers.

*The skinny:* For companies that want to form a joint venture in India or engage in a large staff augmentation relationship, HCL is a top choice. It is also a top choice for embedded systems engineering and product development work. To accommodate the enterprise user customer that wants to fully exploit offshore outsourcing, however, HCL will need to improve its customer relationship management skills and processes.

**Satyam**

*Overview:* Satyam was founded in 1987 and is listed on the New York Stock Exchange. It's core business is application development and maintenance, primarily to North American customers. In addition to serving customers directly, Satyam partners with large US-based systems integrators like EDS, CSC, and IBM to support its customers' global delivery needs.

*Strengths:* Satyam possesses excellent skills across the IT spectrum — from application development and maintenance to enterprise resource planning (ERP) and infrastructure management. It is also one of the few Indian vendors that has taken over a US-based
client’s data center. Satyam’s geographic reach is also superior to any vendor in the leader category, except TCS. Satyam has strong practices in the financial services, insurance, and healthcare industries. Its telecom and automotive industry practices, in which Satyam provides IT support as well as embedded and engineering support, are especially strong, too.

**Weaknesses**: Satyam’s strategy of holding strong partnerships with large global players has a downside — it often leaves the company in the position of a subcontractor, which doesn’t encourage Satyam to develop its relationship management skills. Consequently, Satyam’s relationship management capabilities lag those of other leading Indian suppliers — Cognizant and Infosys, in particular.

*The skinny*: Companies in the automotive and telecom space, where Satyam has robust relationship management and industry skills, should consider Satyam a top alternative. However, customers in other industries should be prepared to participate in project oversight because Satyam has yet to develop the client management skills to provide full relationship management transparency. In some industries, such as automotive and telecom, Satyam clients can expect the vendor to be proactive. In others, clients will have to take a more active approach.

**Infosys**

**Overview**: Infosys is among the largest and most successful of Indian outsourcers and has demonstrated mature relationship management skills in dealing with its large North American client base. Infosys expects to end fiscal year 2004 with $1.05 billion in revenues and 23,000 employees. Software package implementation and management are growing priorities: Infosys expects to perform $140 million in package business this year, primarily in SAP and Oracle.

**Strengths**: Infosys possesses great strengths in application development and maintenance. In 2002, it formed its Progeon BPO subsidiary, which had roughly 1,400 employees at the end of last year. Infosys has been able to maintain impressive growth despite some executive turnover, particularly in the marketing ranks.

**Weaknesses**: Although Infosys’ progress in ITES and IT infrastructure management are promising, the company’s revenues remain highly concentrated in application development and maintenance activities. Infosys is growing so rapidly that it may be a victim of growth — some customers detect arrogance in its recent approach to the market.

*The skinny*: Infosys should be considered among the premier suppliers of application development and maintenance and evaluated primarily as such. Its significant investment in ITES and infrastructure management skills will improve Infosys position and skills in
these areas by year end 2004. Its mature go-to-market disciplines are strengths for North American customers, despite the challenges brought by rapid growth.

**TCS**

*Overview:* TCS is part of the Tata Group, the largest industrial conglomerate in India, and was spun off in 1968. It is arguably the first firm to provide offshore development and maintenance for US-based firms and is indisputably the father of the professional services industry in India.

*Strengths:* TCS has a strong blue-chip client base and can provide a client with a full-service offering. Since its CMC acquisition, TCS has the most experience with infrastructure outsourcing of any of the Indian vendors. Most of these services are delivered on-site. TCS also possesses expertise in financial services and strong ERP skills, and its size and geographic reach are unparalleled among leading Indian suppliers.

*Weaknesses:* TCS’ weaknesses are not related to its technical skills or its ability to deliver quality results. The company is well-equipped on both counts. Rather, they are related to its lack of transparency in financial results and relationship management. TCS, because of its size and staff augmentation history, tends to lag some of the other providers in its relationship management capabilities. TCS is working to improve these capabilities, but it still lags the leaders. In terms of its financial transparency, it has long planned to join the ranks of publicly held companies but has not yet found the right moment.

*The skinny:* TCS’s on-again, off-again plans for public ownership can be a distraction. Its role in project-related engagements may lag that of other providers, but its size, track record, and broad capabilities cannot be overlooked. Companies interested in working with TCS simply need to ensure that TCS provides sufficient relationship management expertise.

**Wipro**

*Overview:* Wipro was originally a cooking oil company (Western Indian Vegetable Products), but Azim Hasham Premji took over the company in 1968 after the death of his father and formed Wipro Technologies. Since that time, the company has diversified into hardware, software, and IT services, and today Wipro Technologies is the second largest software services exporter in India (behind TCS).

*Strengths:* With Vivek Paul currently at the helm, Wipro is a well-managed and progressive company. Since Paul runs Wipro from his office in California, the company has a good feel for the North American market and what it needs to do to become a strategic supplier. Paul’s placement in North America also helps Wipro build brand awareness. In fact,
because of its brand, impressive size, and breadth of capability, Wipro is often selected as a strategic partner by customers seeking large, broad-based capability in their primary offshore outsourcing providers. Recent acquisitions aimed at improving vertical go-to-market efficiencies are bearing fruit.

**Weaknesses:** The transition from an India-centric firm to one of the favorites among North American customers is well under way but remains incomplete. Wipro is improving its relationship management disciplines but still lags the world-class capabilities of Cognizant and Infosys.

**The skinny:** Customers that have a broad range of requirements but only have one major supplier should choose Wipro. It is active in all major functional segments with a broad range of vertical industry capabilities.

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**RECOMMENDATIONS**

**EVALUATE THE VENDORS THOROUGHLY FOR OPTIMAL RESULTS**

- Their maturity in tools and infrastructure make leading Indian suppliers ideal candidates for very large application development and maintenance engagements. Infrastructure maturity also yields value in IT infrastructure management and BPO/ITES relationships. However, keep in mind that the relative strengths of leading Indian suppliers across these service lines varies considerably. Intensive evaluation will be rewarded.

- While all of the leading Indian suppliers possess strong application development and maintenance skills, capabilities in BPO, embedded systems, and IT infrastructure management vary widely. Customers seeking strong BPO expertise should evaluate Wipro. Those requiring strong IT infrastructure management capabilities should evaluate HCL, Satyam, TCS, and Wipro. Those customers seeking embedded systems engineering skills should evaluate HCL, Satyam, and Wipro.

- Although the largest Indian firms definitely have advantages, do not automatically assume that they are the only viable alternatives, particularly if you require specialist skills or prefer to work on a staff augmentation basis.

- New customers should seek out suppliers that represent an optimal fit with their anticipated scale. Organizations with limited goals in offshore outsourcing may find that larger suppliers will optimize their resources for larger clients with higher anticipated scale.

- Customers with little experience in offshore outsourcing should seek out suppliers that offer significant transparency in relationship management, including Cognizant,
Infosys, and Wipro. Experienced practitioners, on the other hand, can safely engage with virtually any reputable Indian supplier. Clients should also ensure that the relationship manager with whom they engage is smart, savvy, accommodating, and is empowered within the supplier organization.

- Make certain that the vendors you work with, regardless of their size, have mature HR capabilities and processes to recruit, retain, and train IT staff adequately.

ENDNOTES

1 Source: www.nasscom.org.
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