

TCS in Europe: Expanding Presence, Scope and Customer Base

TCS 2015 review, part 2 (Daniel LeBourhis)



In part 1 of this series, we reviewed the global strategy and business model of Tata Consultancy Services (TCS). As can be expected from an organization with a strong “Global Network Delivery Model”, regions closely follow the corporate model.

However, TCS has developed its European presence over time, and there are significant disparities across the continent.

Nevertheless, the company understands the European market’s “distributed” nature, and the importance of a country-by-country local presence, as the only way to achieve sufficient customer intimacy.

TCS European presence in 2015

Continental Europe is a strong growth area for TCS (above 25% in fiscal 2015, ending March 2015) and Europe as a whole (including the UK) an important part of its global business (about 30% in FY 2015).

Out of a staff of about 70,000 (including personnel based in the country and personnel working for the country’s customers from abroad), around half work for UK customers. Nordic countries, Benelux and Switzerland also represent strong areas of presence, while Germany and France – the two largest continental markets – are less penetrated compared to the overall market size. This observation also applies to southern European countries like Italy, Spain and Portugal.

This situation is largely related to history, as Nordic countries and the UK (which also has privileged cultural links with India) were early adopters of both outsourcing and offshoring services, well ahead of southern Europe, France or Germany.

In this context, the company’s growth potential remains important, particularly in continental Europe. While TCS still has limited (but growing) general public awareness, it is a recognized player by businesses in its core target market: the FT 100, CAC 40 or DAX companies and more generally large accounts. Although the company still has to make its way into some of these companies, another challenge is to expand its presence within existing clients – an exercise in which it excels.

Nevertheless, the key challenge in the near future, and especially in markets such as France and Germany, is also to adjust and adapt to rapidly changing and geographically differentiated customer expectations.

A changing European services market

In 2014, offshore and outsourcing services continued to grow in Europe, fueling growth in TCS historic core business, and this trend is likely to continue as the continent sees some economic recovery through 2015 and beyond, and traditionally outsourcing-reluctant markets such as Germany and France open up. This trend is in line with the need for cost containment or reduction by most organizations. Even though TCS is not, and does not seek to be the lowest cost provider, notably in offshore services, it enjoys sufficiently competitive costs and prices while generating substantially higher relative profits than its competitors.

However, in line with global trends, the need to cope with digital “disruptions” is fueling growth in IT services, but also potentially shaking up competitive positions in the industry.

As they embrace “digital transformation”, client attitudes towards technology are evolving:

- It is now clear that “IT does matter” as a key competitive ingredient
- IT decisions are increasingly seen as business decisions, i.e. decisions made by business leaders (lines of business, executive suite) while IT management prepares, supports, contributes to, and executes these decisions.
- Agility and speed of execution are more important than ever before, driving multiple, smaller projects with shorter time horizons
- Skillset evolution is a key issue for IT departments and business alike: in many cases, the necessary reskilling cannot be conducted in time to address business needs.

Nevertheless, markets such as France and Germany display specific characteristics that differentiate them from the UK and Nordic markets:

- Outsourcing has seen significantly slower adoption in these regions in the past; however, demand for renewed outsourcing services is growing in these markets.
- Although cloud computing has gained wide adoption, the preferred delivery model for large enterprises is clearly the private cloud; hybrid infrastructures which combine cloud solutions with conventional infrastructures are the preferred way forward, but even these make limited use of public cloud services.
- Privacy remains an extremely critical issue in these markets, and represents one of the major drivers for the private cloud tropism of large enterprises, even though another factor is that public cloud does not present a significant cost advantage for such clients, particularly in Total Cost of Ownership (TCO) terms.

To effectively respond to this context, service providers need to emphasize a business-centric vision of IT projects, propose a flexible and integrated portfolio of services, and

implement business-related metrics and reporting to govern projects. They also need to recognize the market specifics, as competition includes major homegrown service providers with a strong cultural affinity with local clients (e.g. CAP Gemini, CGI, Sopra-Steria in France, or T-Systems in Germany). However, current market conditions are forcing all players to redefine their offerings and approach.

This situation is of particular interest in the two largest continental Europe markets, France and Germany. In both countries, TCS has established solid bridgeheads, initially via organic growth, and has achieved significant success in gaining business and building an image of credibility and quality. The company has also built local resources, albeit at a prudent pace. However, due to the sheer size of these two markets and the strength of “local” competition, represented notably by locally born global competitors, the company has not yet achieved major market share in these countries but is growing very rapidly. The current context represents an opportunity, however, for TCS to emerge as a top-ranked player in both markets over the next few years.

France

In France, TCS focuses on large enterprises, primarily the “CAC 40”, and on some very innovative, possibly somewhat smaller customers. This positioning makes sense in a market where substantial mid-sized companies represent an abnormally small market segment.

After building a good level of customer intimacy with a substantial client base, TCS has been able to accelerate its development by acquiring Alti (an SAP and Microsoft technologies-focused French services company) in 2013. This acquisition has boosted its presence in France, adding a local workforce of more than 1,000 people to the organization and bringing it increased “legitimacy” in this market. More than 50% of the personnel working for French clients are actually now based in France and this is the highest ratio for any European country. This profile is also well-suited to French market expectations where outsourcing and offshoring are still only partly accepted. Even though the Alti workforce specializes essentially in SAP and Microsoft technologies, TCS can now leverage Alti to increase its customer presence and, if needed, to mobilize a greater amount of offshore resources on French projects.

The French market for IT services experienced very limited growth in 2014, while some substantial consolidation was taking place (Sopra / Stéria, Atos / Bull). Further concentration is likely in a slightly improving economic climate. It is noticeable that market data for France indicate that in 2014, most large service players in the industry “top ten” posted lower growth rates than the overall services market, with only very few exceptions. This tends to indicate that, despite replacing a significant part of their traditional activity with digital transformation projects, the market leaders still have to redefine themselves in a changing environment. Meanwhile TCS has a real opportunity to reshuffle the deck...

TCS should be able to leverage its new capabilities and its global services portfolio to achieve sustained growth in France in its FY 2016 and FY 2017. After establishing an SAP Innovation Center (leveraging Alti's key expertise) in Paris in mid-2014, it announced a Digital Reimagination Center (see Part 1), also in Paris. In addition, it is planning to reinforce some parts of its portfolio that have not yet been fully exploited locally, notably infrastructure services. In this space, the company's proficiency (and infrastructure capabilities) in private cloud will prove relevant to large customers. TCS can also be an attractive potential partner for third party infrastructure providers.

The company's efforts to "localize" its resources, processes, and delivery and its focus on customer centricity and innovation will enable it to expand its French business and become more relevant and strategic for clients, especially as it raises its management consultancy profile.

Germany

Germany is a different situation, both as a market and for the company. With a better economic situation and a broader base of large companies, Germany is a key market for TCS, where it has been growing steadily, via organic growth, over the last 5 years.

The target market in Germany is different from the French case: while targeting the DAX 30 firms, TCS also addresses a broader spectrum of companies, including other large industrial firms and part of the "Mittelstand" – the large population of intermediate size companies that form a substantial part of Germany's industrial structure.

While the German IT services market is huge, it also presents specific difficulties for providers. It is a highly competitive and crowded, and most players are more or less on a par in "standard" services provision. In addition, this market is characterized by:

- Relatively limited cultural acceptance of outsourcing, notably in the Mittelstand
- Strong security sensitivity, resulting notably in relatively low public cloud acceptance
- Scarce supply of skilled local personnel
- An aging workforce, with reskilling an increasingly critical issue.

However, there is still a dynamic demand for innovative services, notably in domains such as customer experience, mobility, analytics and big data, Internet of Things (IoT), and of course ERP.

With such a strong and diversified industry base, the capability to address specific industry requirements is key, and vertical expertise is an essential competitive element.

For TCS to compete in this crowded market where a skilled workforce is a rare resource, leveraging the group's global delivery capabilities is a necessity. Competing with organizations that have much broader local workforces remains a challenge. Building

customer intimacy and accompanying the necessary evolution of the customer's internal IT staff is of paramount importance. This may involve "acquiring" and reskilling personnel in some cases, but also ensuring knowledge transfer to the client.

In addition, Germany epitomizes an evolution occurring in most developed outsourcing markets: contracting for services is moving towards a more granular "deconstruction" of previously large contracts. Suppliers can be awarded part of a project and need to cooperate (and/or "co-compete"...) with other players to deliver the service. TCS has developed, to a particularly high degree, the necessary skills to operate in such environments, either as a prime contractor or within a multivendor arrangement.

In this market, the company will need external growth to expand its resources and sustain its development. TCS Germany has enough experience and credibility in the German market to successfully execute substantial non-organic growth. This may take the form of acquiring a company (but such opportunities may be difficult to find) or acquiring personnel in the context of an outsourcing agreement, as discussed above. In this case, a substantial reskilling effort is generally required. The company has already successfully conducted such re-training operations. In all cases, taking particular care of the newly "acquired" personnel is key to success, and the TCS model of rapid integration addresses this issue.

Overall, while growth in Germany will involve more localization efforts, particularly centered on verticals, it will also have to leverage the company's global delivery capabilities. This will continue to reinforce its attractiveness for German clients.

Bottom line: TCS becomes increasingly relevant for large European clients

In part 1 of this series, we discussed how Tata Consultancy Services has been able to coherently align its key propositions (value, profit and people) and to differentiate itself, notably through innovation.

Of equal importance is the ability to combine its Global Delivery capabilities with proper localization in its key markets. Adjustments need to be made based on each market's specifics, but effectively blending the two dimensions results in increased, differentiating customer value.

Meanwhile, reinforcing its business consultancy capabilities and making them more visible will be essential to enable the company to leverage its portfolio of capabilities to accompany and facilitate digital transformation.

Continuing to innovate and localize its services in the framework of a well engineered, global delivery model, TCS should be able to continue to increase its relevance to European clients. The challenge will be to remain innovative while also building the organization, which may force the company to accelerate non-organic growth, possibly beyond pure IT services and into strategic and business consultancy.

Like all of its IT competitors, TCS needs to further reinforce its business-related consulting capabilities to properly address customer transformation issues, which go well beyond technology and information systems. As opposed to competitors such as Accenture and IBM, it also needs to build image and recognition that are more in line with its real and rapidly growing capabilities in transformation projects.

Indeed, for TCS as a relatively new entrant into business consulting, the digital disruption opens a major opportunity to expand into more business-related domains, and its European sales force and management teams have already expanded their reach towards executive suites and line of business (LOB) management, all increasingly influential publics and decision makers when it comes to IT spending.

The company will also need to fine tune its communication to position itself as a business problem solving company and move further away from being purely a technical supplier with numerous specialized, somewhat “siloe” service offerings. Nevertheless, TCS can leverage specific capabilities, inherited from its history as an offshorer, which will prove increasingly relevant in this era of fast changing applications and systems. Notably, its capabilities in quality assurance and testing will be of paramount business importance as agile and DevOps-like practices become the norm to deliver applications faster.

Combining a more integrated, business-centric approach with structured digital transformation offerings is key to achieving growth in today’s market.

Meanwhile, TCS also needs to build its continental European service delivery footprint through both organic growth and additional acquisitions. The successful and rapid integration of Alti into TCS-France has enabled its European organization to develop experience, paving the way for other, possibly more ambitious operations.

On the one hand, TCS carefully selects its acquisitions, taking the necessary time to properly assess the target’s potential to integrate with the company. On the other hand, after the acquisition, TCS focuses on rapid integration and alignment with its global organization, notably the Group Industry Solution Units. This tight integration contrasts with the more loosely-coupled approach to acquisitions favored by some of its Indian-originated competitors, but it is better suited to maintaining delivery excellence and – even more importantly today - to addressing customer business needs in a truly integrated way.