

REPORT REPRINT

Co-Innovation is growing in Tata Consultancy Services' customer relationships

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The company has been running its Co-Innovation Network since 2007 and its strength lies with the continuity of the network's leadership under Tata Consultancy Services' CTO K. Ananth Krishnan.

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Innovation is what the tech sector does. However, in the IT services sector, innovation has a checkered history because when it comes to a safe pair of external hands managing IT for the enterprise, innovation can be a troubling idea. With the rise of digital transformation on everyone's business agenda, IT service providers need to sell innovation as part of their ongoing service capability. 451 Research joined Tata Consultancy Services (TCS) and its 200+ customers at a recent Innovation Forum in London to see how the company's innovation strategy is progressing. At the event, we were also briefed by Shankar Narayanan, VP & Head, TCS UK & Ireland, and K. Ananth Krishnan, TCS's CTO, on the current state of the company's business and future direction.

THE 451 TAKE

Somewhat surprisingly, given that technology drives change and innovation, the majority of IT service providers have, until recently, ignored the whole process of innovation and how to better support customers actively seeking to innovate around technology opportunities. One of the exceptions in this regard is TCS, which has spent more than a decade evolving its innovation model, beginning with academic collaboration in the 1970s, launching the strategic partner ecosystem in the 1980s, adding the emerging technology ecosystem to this in 2003, and has had its Co-Innovation Network in place since 2007. Whatever the status of the innovation project that a customer requires, be it derivative, transformational or disruptive, TCS has the experience, processes and network in place to assist. It is addressing the growing requirement for design thinking with initiatives such as the launch of its Innovation Lab in London with the UK's Royal College of Art.

CONTEXT

In FY 2016, TCS reported that its digital revenue grew by 52.2% due to faster adoption of digital solutions by customers. In Q4 2016, TCS reported that 15.5% of revenue was derived from digital projects led by Analytics & AI, as well as cloud, social and mobility. In order to report digital revenue, TCS has not changed any of its existing service line financial reports, but rather the revenue is determined by contracts associated with social media, mobile, analytics, cloud and AI (SMACAI) technology. This approach is proving controversial with competitors that have, so far, not reported digital revenue.

STRATEGY

Business innovation and business leadership can be a gating factor for IT service providers, which is why TCS has put so much effort into this area of its business over the past decade. It is important to have processes and mechanisms in place to be able to deliver executables based on the customer's innovation agenda. Largely thanks to Krishnan's leadership, TCS is able to support conversations about innovation with an evolving but tangible execution model.

TCS's approach to innovation continues to evolve; however, it has operated in a systematic way since 2010, when it established a formal framework known as EQuIP (Establishing Quality Innovation Partnerships). The framework spans the running of innovation days with 'co-solutioning' exercises addressing information exchange and new technologies. The Corporate Technology Office sits at the center of the innovation evangelization within TCS, supporting account managers who are working out the best way to work with clients according to their maturity. For example, within EQuIP there are three main levels of client maturity. There are the Explorers, which are accounts that have regular contact with TCS and are feeling their way into innovation by, say, attending one of TCS's Innovation Forums. These are offered by TCS in North America, Europe and Australia/New Zealand, where they give the 60-70 customers that belong to each Forum the opportunity to do a bit of innovation window-shopping.

At the next stage, there are the Collaborators – accounts that are actively working with TCS on proofs of concept and pilots during Innovation Days, where there is an element of shared risk and some collaboration. TCS is now running about 100 Innovation Days per year with clients. Where the relationship is a mature one and more than a handful of Innovation Days have been run, such events will involve the customer's CEO and the TCS business leadership team 'dialoguing at a deep level' about innovation within the business.

The third stage is the Co-Innovators phase, where there is shared risk based on a formal Memorandum of Understanding (MoU), which defines the commitment of time and engagement of each party, with each participant investing at their own risk. There are five elements to the TCS Co-Innovation Network – there is the customer ecosystem that forms the focus of this report, as well as the emerging technology vendor ecosystem, the academic ecosystem, Tata's own internal ecosystem and its strategic partner ecosystem.

Once a MoU is signed, the development of a custom Co-Innovation Network is undertaken by TCS to cross-pollinate ideas and practices from other industries and partners. For the 'two-dozen' customers with this type of relationship, there will be a global co-innovation agreement in place around the joint sharing of risk and investment. This agreement explicitly lays out IPR, respecting existing IP. IP that is created as part of the partnership is owned outright by the customer, TCS or the partner (this is decided up-front) and then typically licensed for the others to use (sometimes under time restrictions).

The majority of customers that TCS works with are involved in derivative innovation, where the service provider works with its strategic partners to solve business problems over 12-18 months. This is a type of innovation that is now baked into TCS contracts as a hygiene factor. The real disruptive innovation projects tend to take advantage of TCS platforms, and in this context TCS is often involved with startups and universities to develop a capability that looks beyond the 18-month horizon. Particularly within sectors such as financial services, heads of innovation are appointed that have budgetary responsibility for supporting innovation, separate from the normal 'fintech' budget. So how is all this internal effort around innovation measured in terms of output? The tangible benefits lie with growing revenue, repeat business, improved margins and higher customer satisfaction levels. There are no line items for innovation at TCS.

One of the areas of investment for TCS is providing innovation for customers looking to reimagine the customer experience, to use data to create a customer '720-degree' approach. This means that the customer has a 360-degree view of the provider, as well as the provider having a 360-degree view of the customer. As part of this initiative, TCS is launching an innovation lab in London with the Royal College of Arts to further inject design thinking into customer service. TCS has also recently widened the scope of its Innovation Model to include behavioral, business and social sciences.

SERVICES

TCS created the Corporate Technology Office in 2006 with a brief to span both the 'supply-side' of innovation in terms of creating intellectual property, and to be able to provide input to an innovation funnel that could help existing customers create new business opportunities for the future. An outcome of the development of an innovation-enabling agenda was the creation of a 'nuanced' approach to innovation, which addresses a spectrum of requirements.

- TCS can incrementally improve existing customer operations or change or transform their business depending on what the customer articulates both at the IT level and at the business level. Basically, TCS offers three types of projects to customers:
- Sustaining/Derivative Innovation that helps the customer run its business better by working to a delivery excellence promise with each customer. It targets improvements to existing solutions from either TCS or the client. This is provided to every customer and is characterized by a spirit of 'creative dissatisfaction with the status quo.'
- Transformation/Platform Innovation: This approach prepares customers for near-term transformations and falls into the 'I wish I had' category. This type of innovation leads to significant new solutions to improve a client's competitiveness and transform its business. TCS's SaaS platform, ignio – a neural automation system for enterprise IT for the datacenter – is one capability that fits into this type of innovation.
- Disruptive Innovation: This does not target existing markets but looks at the creation of new products and services. TCS is currently in conversation with customers in the areas of the connected home and connected health in this context.

CUSTOMERS

Within its Digital Products and Platforms business, ignio, TCS's flagship automation product for enterprises, has acquired 16 customers since its launch in mid-2015.

TCS's anchor customer for its ignio AI platform is Nationwide Building Society in the UK, which is in the process of moving its services onto a digital platform. Ignio is being used to simplify the management of back-end systems as new services continue to be introduced.

Ignio can blueprint and 'self-learn' an enterprise's technology and operations context using neural networks to help organizations make informed IT decisions quickly. It can also self-heal after operational incidents have occurred. Via its real-time blueprint, ignio provides traceability for hundreds of thousands of infrastructure elements, thousands of applications and the dependencies between them.

Initially, ignio was deployed across Nationwide's IT batch systems. The blueprint it has created has given the customer the ability to quickly and easily model and predict the impact of business or technology-level changes and events on its batch systems and develop proactive plans accordingly.

COMPETITION

TCS is one of the IT service providers with a long pedigree in using IP management and partnering strategies to drive innovation for customers. CSC is another service provider with a strong track record in this area because its Leading Edge Forum has been providing research, study tours, workshops and briefings to CIOs on technology innovation for more than a decade.

However, the emergence of digital transformation agendas has increased the relevance of these types of approaches, so more recently, Cognizant has developed its Global Innovation Ecosystem and Accenture has its Open Innovation initiative that was launched in 2014 to connect its Global 2000 clients with startups. In 2015, Capgemini launched its Applied Innovation Exchange, with a focus on working with customers to set up a methodology for them to manage innovation as an internal process with managed service support from Capgemini.

Against all these competitive offerings, TCS's advantage lies with its dedicated pursuit of the innovation agenda with customers for a longer period of time, and the consistency of leadership from Krishnan across TCS Research and Innovation.

SWOT ANALYSIS

STRENGTHS

TCS takes a measured view toward helping clients innovate, both recognizing the value of incremental change as well as understanding what is required to develop a disruptive product or service, while also offering software assets to underpin a customer's ongoing transformation strategy. This has helped TCS emerge as a top IT service global brand.

WEAKNESSES

The weakness TCS shares, along with many competitors, is that it is primarily a technology services organization, and so earning a place at board level to talk about business transformation remains work in progress without a stronger consultancy arm.

OPPORTUNITIES

The opportunities are potentially huge for IT service providers that can help customers address digital transformation requirements - TCS is looking well positioned because it has spent the time to get its Innovation Model working, while also investing in skills around advanced technologies to assist customers with implementation requirements.

THREATS

TCS is going to compete with larger well-established digital agencies and the management consultancies for digital transformation projects, both of which already have board-level access. The question is whether TCS has the brand strength against these competitors to inspire enterprises to overcome corporate fear of failure to trust its Co-Innovation services.