TCS is growing its 'je ne sais quoi' in Continental Europe

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Tata Consultancy Services (TCS) is the largest India-headquartered IT services provider in the world, by 2013 revenue. It is also now considered one of the most valuable IT services brands in the world, ranked fourth behind IBM, HP and Accenture globally by the brand-valuation consultancy Brand Finance.

This is impressive, given that TCS only set up a marketing function in 2004 for its IPO. It is the second largest IT services company by headcount behind IBM. While size matters when it comes to delivering services at scale, resource location is more important for building European market share. TCS recently shared its strategy for Europe at its analyst event held in Paris.

The 451 Take

TCS is putting thought and effort into its strategy to grow in France, and setting up a Paris innovation hub for Europe would help its ambitions in this country market. In this regard, it joins Accenture, Atos and IBM, which also each have innovation centers located in Paris. However, it has pulled away from other Indian heritage providers operating in France by increasing the ratio of onshore to offshore staff. French buyers are noticing the difference after the company's acquisition of ALTI, and are now inviting TCS to tender alongside French and US competitors, when previously they would not have. TCS also continues to invest and further localize itself to become more attractive to European corporations.

Context

Within TCS, continental Europe is its fastest growing region year-on-year (fiscal 2013 to 2014),

enjoying a 52% growth rate to account for 11% of total revenue. The UK revenue grew 32% to 17% of total revenue in the same period. Serving Europe as a whole (including the UK), TCS employs 70,000 consultants to support 350 clients. Of those employees, we estimate that about 20,000, or more than 25%, are based within Europe. Given that this is a fairly typical onshore to offshore ratio for Indian heritage service providers, why is the company beginning to see greater traction within continental Europe?

Several reasons are contributing to the change. First, the continuing challenges within the EU economic region mean that to reduce operational spend, buyers are more seriously considering the unpalatable option of using a non-native-speaking offshore capability in the key economies of France and Germany.

Second, the TCS staffing figures for Europe as a whole look different when considered on a country-by-country basis. So, for example, TCS has 2,500 resources serving France, and 1,400 are located in France – which suggests a delivery ratio of 40 offshore to 60 onshore staff for this country market. This change in staffing ratios was enabled by the company's acquisition of ALTI in 2013, meaning that TCS can take a 'milder' approach to offshore leverage for new accounts. TCS intends to replicate this approach in Germany.

Parisian innovation hub

As part of its localization for the French market, TCS leveraged its ALTI acquisition to set up an SAP Innovation Center in Paris in May 2014. The center has four key objectives:

◦ Work with customers to provide proofs of concept and demonstrate case studies

◦ Provide the space to co-innovate with customers

◦ Act as a proximity center for customer visits to Europe

◦ Act as an incubation center for SAP consultants in France

The center is focused on SAP technologies for HANA, mobility and the cloud. In particular, TCS has been working with SAP Fiori to showcase modern design principles for the SAP user experience by creating role-based screen personas, for example. Combining this with the Run SAP methodology for NetWeaver, TCS is working with customers to reconcile the business and IT views of SAP

systems to help develop a more meaningful catalog of KPIs for service delivery. TCS is also developing projects around using SAP HANA for predictive maintenance at the Parisian center.

The company is adding to its flagship Paris headquarters by opening a Digital Reimagination Center in the city later in 2015. This will work with TCS's Silicon Valley collaboration center to take new offerings and localize them for France.

Strategy

A large part of the TCS strategy to develop its business in continental Europe is to localize itself further. In 2013, a pivotal event in developing its French business was when the company acquired ALTI. This privately held systems integrator with revenue of €126m in 2012 worked with French companies in the banking, financial services, luxury, manufacturing and utilities sectors. Once the acquisition was complete, TCS aligned ALTI operations with its Group Industry Solutions units, and retained ALTI's dedicated account teams for about 30 accounts.

However, TCS didn't rest on its laurels, and it has continued to recruit French staff, adding 500 local staff to its payroll since July 2014. It also participates in the French graduate program, is working with Alliance Française to develop French language skills in India and is seeking out Indian expats living in France to help build its connections with French communities. Given the success this approach is having in France, TCS is now looking for acquisitions in Germany to enable a similar transformation in its activities there.

As part of this strategy to build stronger local connections in Europe, TCS expects to be able to increase the Transform consulting business within Enterprise Solutions to account for 30% of revenue in order to move away from just being considered a managed application services player. A large part of the TCS business will remain implementation, rollout and upgrade of enterprise applications from SAP, Oracle, Microsoft and salesforce.com, since this is a business that continues to grow for the company.

For TCS, the biggest vertical industry sector remains banking, financial services and insurance, accounting for a third of the business, and the unit has local European delivery centers in Germany, the UK, Hungary and Luxemburg, as well as two in France. TCS helped develop the first 100% digital bank in France: BNP Paribas Fortis.

TCS is also making headway in Europe in providing cloud services – it has displaced infrastructure services from IBM at Carlsberg Group in Denmark, and from CSC at Diageo in the UK. The company

believes wins such as these are driven by its high customer satisfaction rates, as well as its commitment to rapid transformation against competitors that are slower to migrate infrastructure to cloud delivery, and are, consequently, perceived to have more of a 'push back' culture than a 'can do' culture.

Customers

At the event, a number of TCS customers were present, and told 451 Research about their experiences. It became clear that application infrastructure, transformation and automation capabilities are strong enablers. A large French telecom company works with TCS as an engineering partner to help develop new offerings. TCS provides flexible resourcing for projects with a guaranteed baseline, and the customer is pleased with the cross-fertilization of ideas between France and India.

A large European financial services group headquartered in France used to consider TCS purely a technology partner rather than an IT service provider, but changed its view after TCS's acquisition of ALTI, and went on to contract managed services with TCS. A leading French utility company commented that in France, the utility companies did not tender with offshore players, preferring to contract with Accenture, Atos and Capgemini. However, following the ALTI acquisition, this view shifted, and TCS is perceived as a more credible competitor. Following some initial projects that this company undertook with TCS, it found that the offshore leverage was not too aggressive, with services delivered by a combination of French, Belgian and Indian resources.

Competition

Very large and influential indigenous providers dominate the French IT services market, because the past year has seen rapid consolidation among IT service providers headquartered in France. Atos acquired Bull, and Sopra acquired Steria; both are looking to compete more strongly with Capgemini and the non-France-headquartered global systems integrators such as Accenture, IBM and HP.

To date, it has proven extremely difficult for offshore providers such as Infosys, HCL, Tech Mahindra, TCS and Wipro to build market share in the French IT services market against these large national champions and the American global giants. However, it does seem that TCS is reaching an important transitional point in gaining acceptance in the French market, by reducing the ratio of offshore staffing for initial projects with French customers, and by acquiring a credible small player in ALTI. In this sense, it has pulled away from other Indian heritage providers operating in France.

SWOT Analysis

Strengths

TCS is making the effort to build empathy with the French market by increasing its French headcount, investing in improved French language skills within its global labor force, and opening its Innovation and Digital Reimagination Centers in Paris to ensure that it can localize offerings.

Weaknesses

A clearly articulated explanation of the company's country market ecosystems, especially in terms of hosting and datacenter partners, would be particularly pertinent for the development of TCS's cloud services on the Continent.

Opportunities

Because continental Europe still accounts for only 11% of TCS revenue and it can potentially offer an ailing economic region significant cost reductions alongside innovation, the market opportunity is large once local buyers trust the company.

Threats

It's questionable whether replicating the French strategy in Germany will work, because Germany is so regional in its attitude to the location of services. France has much more of a national approach, while Germany looks to buy within local regions, not simply Germany.