

What's next in Europe for Tata Consultancy Services (TCS), the fastest growing IT Services brand?

TCS 2015 review, part 1 (Daniel LeBourhis)



In a European market plagued with slow growth and local recessions, the development of Tata Consultancy Services (TCS) as a leading IT services provider stands out as a striking exception.

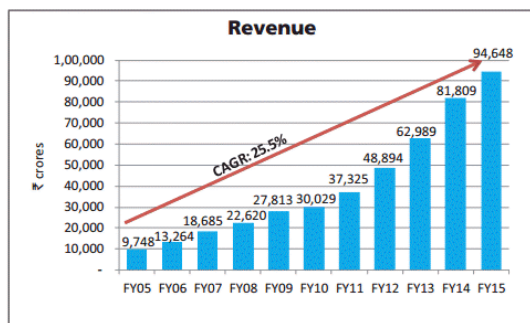
With a compound average growth rate (CAGR) of more than 32% over the 2005-2015 period, Continental Europe substantially surpassed the company's global performance (2005-2015 CAGR about +25.5%), while the UK, the

company's second largest market, was matching global performance. (See Figure 1 below).

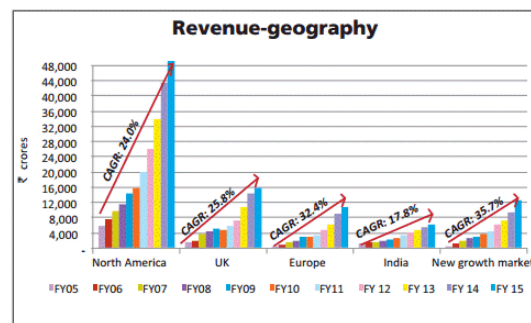
Figure 1. TCS revenue growth, 2005-2015

(Source TCS, all values in crores (1 crore = 10 million rupees))

Revenue trend



Growth in geographic revenue



The continued interest of large European organizations for offshore services doesn't explain everything. Although the company's Indian competitors have also posted substantial growth, none have been able to consistently sustain similar, continuous development in recent years, either globally or in Europe.

In Part 1 of this two-part series on TCS, we focus on the company's global business model to identify its strengths and its potential challenges.

Part 2 will dig deeper into the company's perspectives in Europe, a far from homogenous market where its presence is substantially different from country to country.

Major success factors: Coherent strategy, customer centricity, and quality of execution

TCS has an extremely strong customer centric culture. The company indicates that 98% of its revenue comes from repeat purchases and numerous independent industry surveys place it at the top in the customer satisfaction ratings. Indeed, this customer centricity is reflected in management metrics and practices: TCS manages each of its customers as a global P&L account, helping ensure a coherent approach to the numerous large to very large (revenues of at least a billion USD per year), mostly internationally active organizations that it serves.

Today TCS is a global, end-to-end services provider, addressing the needs and requirements of various corporate customer stakeholders, well beyond IT organizations and into lines-of-business (LOBs) as well as the executive suite. To achieve this, the company has completely evolved its own organization over time.

TCS initially built market share on offshore services provision, and historically had limited local execution resources outside India. However, the company has had a consistent strategy of reinforcing its local presence in key markets, at a quiet pace initially, while ensuring the global coherency of its delivery processes (notably with its "Global Delivery Network Model™"). Hence, over time, "globalization" meant increasing customer proximity for TCS while many other global competitors were moving in the opposite direction. The company initially reinforced its local resources in sales and customer care, later adding local project management and delivery capabilities, first by organic growth and later, when possible and appropriate, through selective acquisitions. TCS currently continues to further develop its local capabilities to provide customers with high value services such as strategic, digital transformation consultancy services.

Like some of its main competitors, TCS adopted a world-wide vertical market organization to achieve global critical mass in each key industry sector, which is a necessity to properly address the business requirements of large customers and deliver best practice services. However, unlike some of its competitors, this has not resulted in a loss of customer proximity and intimacy. IBM, for example, substantially reduced its local reach and presence in many markets over the recent years as it evolved from a "multinational model", essentially maintaining all major capabilities in each key market, to a "global model" based on concentrating resources for a given capability in a limited number of locations worldwide. As with several other (non-Indian) players, this evolution included multiple staff reduction plans over the recent years.

With ample financing capabilities and access to a large, cost-competitive and highly skilled workforce in India and other countries, TCS has been able to sustain growth and also respond to growing customer requirements by developing intellectual property in the form of tools, methods, solutions and products to address service requirements and expand its footprint in customer organizations.

Another key dimension of the company strategic fundamentals is rooted in its origins as an offshore services provider: operational excellence and efficiency. Achieving significantly higher-than-average staff utilization rates is, for example, one of the reasons for its profitability. Nevertheless, the company has also paid attention to attracting and retaining skilled personnel in all its markets, and has succeeded at establishing itself at a “top employer” in many of these geographies.

Overall, TCS has effectively executed on a very coherent strategy to establish itself as a first-tier global player in the IT services market. In the recent past, the company has also made major efforts to reinforce brand awareness, resulting in substantial improvement of its “brand valuation” by specialists such as BrandFinance™ and being named as a Superbrand in the UK, its second biggest market. Leading IT service firms do not really differentiate based on their products and services portfolio, and not even on their technology visions, which in fact are indeed all very similar. Differentiation results much more from their actual business and delivery performance, and TCS has put together a very effective model to attract, retain and grow its customer base.

Sustaining growth and profitability in the future will however pose a new set of challenges. Issues confronting customers are evolving rapidly, and multiple disruptions are opening opportunities while driving major changes in business and society. Responding to customer needs will require faster than ever adaptation, while competition will also profoundly evolve.

Meanwhile, TCS no longer has the comfort of being a challenger. Doing things better, faster or cheaper than its competitors is no longer enough. Being a global leader, Tata Consultancy Services now has to invent its own vision for the future of IT services to continue to remain so.

The demand landscape is changing rapidly

Growing demand for IT services

The cumulative impact of multiple technologies, which TCS refers to as ‘Digital’ (Social, Cloud, Mobility, Big Data and Robotics/ Artificial Intelligence) is profoundly changing business models and processes, as well as information systems. As the pace of innovation accelerates, both in terms of technologies and usage, most organizations cannot cope alone with this speed of change, driving growing demand for services. However, at this point in time, the services industry has not been able to fully benefit from this potential demand, since the services offerings (and the associated engagement and business models) have not sufficiently evolved.

The need to “transform the business” is also a potent driver for growth in IT outsourcing, which allows companies to focus their own resources on key strategic initiatives (including the necessary re-skilling). While this will lead to growth in demand for IT services, the nature of these services and the delivery models will evolve drastically.

Need to renew business and technical architectures

As technology becomes more and more an essential component of corporate strategy and processes, permanent innovation (including both incremental and disruptive adjustments) becomes the rule, and organizations must define strategic IT orientations that enable change and keep it manageable. A new approach to business and technical architectures is needed.

These architectures will be primarily open (i.e., oriented towards the organization’s environment) and hybrid (taking advantage of a diversified portfolio of technologies and infrastructures). Strategic innovation may come from various horizons, so customers need to preserve their freedom to choose technologies and solutions while relying on trusted “partner suppliers” to help implement and integrate their future information and communication systems.

In this context, being able to offer both business and technology consulting is essential. TCS has responded by expanding its capabilities in business consulting, hiring highly qualified consultants from leading firms. While it still needs to build its business consulting image, the capabilities are there to support customers, notably, but not exclusively, for digital transformation projects.

Fighting uncertainty and complexity: secure and simplify

In this fast-changing context, organizations have two major “enemies”: uncertainty and complexity. Neither of these two enemies can be eliminated, but minimizing their impact is paramount as this will give an organization more “degrees of freedom” to cope with disruptions. Eliminating avoidable uncertainties requires improving the predictability of projects in terms of costs, delays and business outcomes. Unnecessary complexities must be eliminated, both in legacy systems and in new projects to free up resources, eliminate potential failures, facilitate change and improve security.

With its strong focus on execution in a global context, TCS has the experience, the organization and the processes to ensure project predictability and on-time, on-budget delivery. Its expertise with quality assurance in software development and business assurance is also a key element that it can leverage to bring more “certainty” to initiatives such as DevOps implementation projects, for example.

TCS is also now emphasizing the need for “simplification” and offering specific consulting services. This is an important issue, from business process to IT infrastructure levels, and often a prerequisite to

major transformation efforts, as well as architecture redefinition. A specific simplification offering can be at least as strong a differentiator, notably in the short-term, as a state-of-the-art “digital transformation” offering.

Digital innovation and transformation

On the digital transformation front, TCS proposes a “Digital Reimagination™” approach that encompasses all the “usual” dimensions of such initiatives, but can be flexibly deployed on specific projects, adapting closely to a customer’s priorities and plans. Its portfolio of competencies is extensive, and the delivery model is well suited to enabling global access to expertise while maintaining strong customer “proximity”.

It is worth noting that among the five key technologies that will enable digital transformation, TCS includes artificial intelligence and robotics, a dimension that is often underestimated, except by a player like IBM, particularly with its Watson cognitive system technology. AI, cognitive systems and robotics will definitely play a key role in digital transformation, well beyond their applications to technology infrastructure optimization and deep into business processes and operations.

Nevertheless, applying such technologies to the company’s own operations is clearly the first step both to maintain/increase cost competitiveness and to demonstrate their potential value. TCS recently launched Ignio™ – the world’s first neural automation system for enterprises. This is likely to provide TCS a further differentiator as the industry continues to seek cost efficiencies and quicker speed to market.

The ability of TCS to accompany customers in the “Reimagination™” of their businesses (notably through business consultancy) will be of paramount importance to turn such technologies and the associated skills into differentiation and value creation.

Re-inventing customer-IT supplier collaboration

To a large extent, however, client organizations still have to invent the proper way to effectively collaborate with their technology and service suppliers in the new, “disrupted” context. New modes of collaboration need to be invented, to enable fast-enough adaptation and to secure proper returns on investments in transformation. As a result, sourcing models also get disrupted.

It has been widely noted that outsourcing contracts, in this context, tend to become more fragmented and may be awarded as multiple, more limited projects to different suppliers. Foreseeable evolution includes more emphasis on sharing value: this will involve multiple aspects, from pressure to share the productivity gains achieved through increased automation (often referred to as “autonomics”) to intellectual property sharing on co-innovation projects.

Large IT service providers have all identified this evolution, and technical offerings abound. However, there is still a need to better and more closely combine the business and technology dimensions. In addition, service providers' ability to design the proper working relationship and contractual solutions will be of paramount importance to win clients and projects.

Reshaping the competitive game

It is clear that we are still only at the beginning of a sea change affecting organizations as well as society. Related services offerings are evolving rapidly, but are still in their early stages, and currently only provide fragmented answers to customer needs.

Indeed, many IT services providers are still focusing on addressing the “disruptions” in terms of adjustments in their own organizations, processes, and business models. IBM, for example, has identified the relevant trends and taken bold steps to redeploy to address them with innovative technologies, products and services. Even so, it is still facing organizational problems that have prevented it from resuming growth as a company and as a services provider, despite substantial expansion of its innovative activities.

In their best-selling management book, “Blue Ocean Strategies”, Professors W. Chan Kim and Renée Mauborgne from Insead distinguish “structuralist” or “red ocean” strategies, which assume competition and market structure primarily shape strategy, from “reconstructionist”, or blue ocean strategies, where a firm’s innovative strategy can reshape (i.e., change) market structure and competitive positions.

The latter, game changing type of strategy requires some degree of innovation to change the “rules of the game”, and is particularly well suited to periods of economic crisis and to times of disruption. Both types of strategies require alignment of three key “propositions”: customer value, profit, and people.

One big difference is that, through some kind of innovation, a blue ocean, or reconstructionist, strategy will pursue both low cost AND differentiation, while red ocean, or structuralist, strategies emphasize one OR the other.

TCS has properly aligned its three propositions (value, profit, people) while reconciling “low enough costs” and strong differentiation through delivery model and customer care and satisfaction. This has allowed TCS to build market share and profitability – changing, to a certain degree, the rules of the game, or at least presenting a significantly different value proposition to stand out from competition.

However, at this point, this differentiation remains limited, and neither TCS nor any of its competitors have really been able to profoundly redefine the IT services market, which predominantly remains a “red ocean” (read: fiercely competitive) industry.

Nevertheless, players that have been able to achieve some degree of differentiation and business redefinition, such as TCS or Accenture, have clearly been able to generate faster growth and better profitability than their peers. As IT services become even more Intellectual Property (IP) – intensive, we expect service and technology providers to gain additional room for differentiation.

Next steps

While TCS is well positioned to meet the upcoming challenges, it will need to continue reinventing itself in the new services marketplace where all major players have similar “nominal” offerings, notably in digital transformation.

On a global level, the company will need to expand its IP portfolio and convert it into a broader, more visible range of software products to establish itself as a major technology player. This may take the form of more “vertical focused products” like the already well-known B@ncs product for the banking sector as well as infrastructure products. External growth could also be relevant, as exemplified by the recent acquisition of Panaya (an automation software vendor) by Indian competitor Infosys. TCS could also raise its profile as an open source “contributor” by extending its efforts in this field and communicating more about them. Meanwhile, TCS will need to remain largely technology-agnostic in order to preserve its capability to collaborate with various partner vendors and of course various customers.

Overall, TCS has demonstrated a certain ability to change the competitive landscape. It has made appropriate strategic choices and properly executed on them with excellent timing, being patient enough when necessary, for example on acquisitions. Continuing this success will require TCS to maintain its momentum and accelerate development.

It's the next big challenge for Tata Consultancy Services: lead the race for innovation and differentiation in the services market. In this endless business marathon, top-tier runners also need to know how and when to sprint.

July 13th 2015

Daniel LeBourhis