

SWOT: Cognizant, Consulting and System Integration Services, Worldwide

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Cognizant's C&SI service business continues to gain market share, growing by nearly 40% in 2010. This rapid growth, together with its strategy of vertical focus and ambition of moving up the value chain, makes it a competitive threat that other providers need to pay attention to.

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ANALYSIS

SWOT Analysis

Cognizant has been achieving above-average growth rates through a strategy of focused attention in four core verticals and key accounts within these verticals. By combining customer intimacy with a low-cost offshore delivery model, Cognizant has been able to use a "penetrate and radiate" account management strategy to offer increasing number of services to its clients. To become more strategic and to embed itself more deeply into the business processes of its clients, Cognizant is building out industry solutions and adding business consulting capabilities to target business buyers within these accounts.

This strength, weakness, opportunity and threat (SWOT) analysis draws on Gartner's analysis of Cognizant in various consulting and system integration (C&SI) submarkets, including but not limited to the following project-based services: business and IT consulting, SAP ERP and Oracle ERP, CRM and business intelligence (BI) services, and project-based testing services.

Cognizant is chosen for this SWOT because:

- It has consistently grown faster than both its global system integrators and the India-centric competitors.
- By focusing on four core verticals, it differentiates its strategy from other low-cost offshore providers, and this vertical strategy is one that other offshore providers are now trying to adopt.
- It has ambition to move up the value chain in the industries it focuses on, potentially challenging the global domestic players through a strategy of higher offshore consulting leverage.

Cognizant does not break out its business into C&SI project work versus outsourcing annuity business. However, according to Gartner's estimates published in 2Q11, Cognizant's worldwide C&SI revenue in 2010 was US\$2.4 billion and ranked 25th in the worldwide C&SI market, moving up four places from its rank of 29 in 2009, putting it now ahead of Wipro Technologies (see Table 1).

Table 1. Growth Rates of Top Five India-Based Offshore Providers in the Worldwide C&SI Market

Company	2009 Rank	2010 Rank	Change in Rank	2009 Revenue	2010 Revenue	2010 Market Share (%)	Annual Growth Rate (%)
Infosys Technologies	22	17	5	2,828	3,390	1.1	19.9
Tata Consultancy Services	24	22	2	2,289	2,658	0.9	16.1
Cognizant	29	25	4	1,723	2,409	0.8	39.8
Wipro Technologies	26	26	-	2,024	2,348	0.8	16.0
HCL Technologies	41	35	6	1,089	1,336	0.5	22.7

Source: Gartner (August 2011)

Cognizant is also aggressively growing its Cognizant Business Consulting (CBC) head count, which now numbers 2,800, and about 40% of these are in India. Cognizant hopes to move up the value chain to provide more transformational, higher value-add growth and innovation work, while

at the same time keep its business consulting costs and prices low through maximizing the offshore model.

Given its market-leading growth, vertical strategy and ambition in moving up the value chain, Cognizant is definitely a firm that other competitors need to pay attention to because it is taking share in current market segments and attempting to challenge full-scale providers by adding business consulting and industry process knowledge.

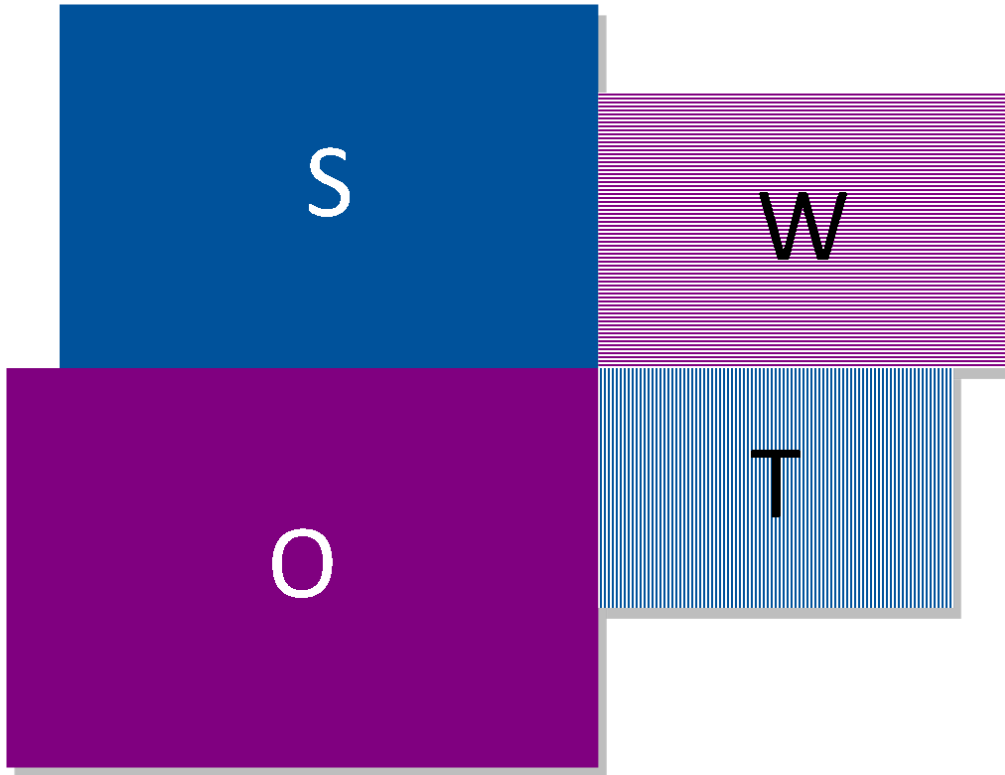
Highlights of the SWOT

A SWOT analysis examines a provider in a specific geographical area and market. This SWOT analysis will cover Cognizant's C&SI services globally. As in any SWOT analysis, the opportunities and threats are external to the vendor and should be reviewed by other vendors for the potential impact of these issues on their businesses.

In this SWOT analysis, we list only those characteristics (strengths, weaknesses, opportunities and threats) that have the greatest potential impact on Cognizant. Figure 1 shows a SWOT-weighted summary chart for Cognizant's C&SI business. Cognizant's strengths outweigh its weaknesses; this bodes well for Cognizant's position in the near term and in the future. The current C&SI market presents many opportunities, due to the cyclical demand for project work in an economic upturn, as well as structural changes occurring in many industries. This stage of the C&SI market, coupled with Cognizant's positioning and strengths, means that opportunities for Cognizant outweigh its threats. In this dynamic market, Cognizant's focus must be to capitalize on market changes to capture current opportunities, while at the same time evolve its current capabilities to be relevant in the future.

Figure 2 provides the highlights of the SWOT, explaining the attributes that are material to the success of Cognizant in the coming two years. Following this figure, greater detail will be provided on the categories of strengths, weaknesses, opportunities, and threats, as well as the implications we see that must be addressed in this horizon.

Figure 1. Graphical Representation of SWOT: Cognizant, C&SI Services, Worldwide



Source: Gartner (August 2011)

Figure 2. SWOT: Cognizant, C&SI Services, Worldwide

Strengths	Weaknesses
<ul style="list-style-type: none"> • Concentration on four key verticals enables focused investments • Rapid growth and resulting strong financials allow for investments in capabilities and solutions to further differentiate and gain market share • Good client relationships and high customer satisfaction result in high repeat business • Price competitiveness, coupled with client intimacy, makes it an attractive service partner to clients 	<ul style="list-style-type: none"> • Heritage as a low-cost offshore firm hinders ability to move up the value chain • Limited business advisory capabilities • Soft skills continue to be a challenge • Lack of presence in business buying centers
Opportunities	Threats
<ul style="list-style-type: none"> • Increased acceptance and penetration of offshore delivery model • Expansion into new geographies • Opportunities from emerging technologies and new services • Opportunity for deeper penetration into large accounts and business customers 	<ul style="list-style-type: none"> • Squeezed by large global system integrators on the one end and low-cost Tier 2 offshore providers on the other end • Losing track of its current attractiveness to clients in an attempt to move up the value chain • Market acceptance of Cognizant as a business consultant by business leaders trails its ambition • Growing pains

Source: Gartner (August 2011)

Strengths

Concentration on Four Key Verticals Enables Focused Investments

Unlike many other competitors, Cognizant recognized that with its smaller size comes the need to be a focused competitor. Instead of spreading its resources widely, it concentrates on four key verticals: financial services and insurance (42%); healthcare and life sciences (25%); manufacturing, logistics and retail (20%); communications, media, entertainment and technology (13%). Such a vertical approach allows for targeted account management and enables focus on a set of clients to serve them extremely well. At the same time, this focus builds Cognizant's understanding of these industries and defines competitive differentiation from more horizontally oriented C&SI providers. Furthermore, it has enabled Cognizant to invest in building solutions and industry knowledge specifically for these industries. As a result, Cognizant boasts an impressive list of blue-chip clients in these industries, including all of the top 10 European banks, 27 of the top 30 global pharmaceutical companies, seven of the top 10 retailers, and four of the top five online companies.

Rapid Growth and Resulting Strong Financials Allow for Investments in Capabilities and Solutions to Further Differentiate and Gain Market Share

Cognizant has achieved revenue growth and market share gains at the expense of its competition, advancing four positions in the C&SI ranking in 2010; C&SI revenue in North America grew nearly 40% in 2010, outpacing overall C&SI service market growth of 3.5% in 2010. Strong growth and financials allow Cognizant to solidify its core business as well as invest

in capabilities and in acquisitions to build out these capabilities, which will further improve its competitive positioning. Some key capabilities it has been developing or acquiring include large-scale project management capabilities through the acquisition of PIPC, and it has been strengthening and adding to its business consulting capabilities through key hires from industry (and now number 2,800 business consultants). In addition, Cognizant has been able to invest ahead of demand in micro-industry solutions, which it calls "slivers" — such as rebate and co-pay sensitivity analysis, electronic medical record (EMR) analyses to identify unmet or undertreated populations, patient outcomes, and pharmacoeconomic relationships, and prescriber access methodologies for accurately estimating physician access, among others — which allow it to further create differentiation, demonstrate domain expertise and deliver enhanced value in the key verticals it plays in.

Good Client Relationships and High Customer Satisfaction Result in High Repeat Business

For the accounts that Cognizant wants as clients, it takes a long-term relationship approach, as opposed to a short-term project approach, to its client engagements, which translates into a willingness to invest in the relationship, cultivation of customer satisfaction, quick reaction to any issues, and a willingness to work to the intent rather than the letter of a contract. As a consequence, Cognizant has high customer satisfaction ratings and high repeat business. Seventy percent of its revenue came from clients with whom it has relationships that spanned five or more years; 90% of its business is from existing clients. In Gartner research, feedback from Cognizant clients in ERP, CRM and BI project work has been consistently positive, with most indicating high likelihood of recommendation and rehire. Cultivation of client relationships is not limited to delivery, either. For clients that Cognizant targets, it begins with the account team — which now numbers 900 client partners — demonstrating commitment and responsiveness. Clients report that Cognizant's RFP responses are detail-oriented, even for small projects; their responses are well-organized; they are very valid with a keen eye at client requirements; and account teams often proactively review with clients their responses to make sure they are on point and comprehensive.

Price Competitiveness, Coupled With Client Intimacy, Makes It an Attractive Service Partner to Clients

While Cognizant does not see itself as competing on price, Gartner research has confirmed that clients see Cognizant as price-competitive — although not the least expensive — and is one of the key reasons clients engaged it. Cognizant's global delivery model approach of having approximately 70% to 80% of its resources in India results in high cost competitiveness. This highly offshore leveraged business model, coupled with investments in local resources to create what Cognizant calls the two-in-a-box model of pairing key onshore delivery roles with their offshore counterparts — as well as investments in knowledge management systems, such as the Cognizant 2.0 portal — have mitigated risks (real and client perceived) and resulted in greater client intimacy, responsiveness and high-quality work at a competitive price point.

Weaknesses

Heritage as a Low-Cost Offshore Firm Hinders Ability to Move Up the Value Chain

As is true of all India-centric delivery service providers, there continues to be a widespread perception of Cognizant as a low-cost provider, and many of its engagements continue to be in low-cost staff augmentation or in more commodity services, such as testing. As Cognizant tries to move up the value chain, this perception and position make it harder for clients and prospects to accept and hire Cognizant for higher-value services. While Cognizant has grand plans to be an innovator and business partner to its clients, acceptance in the market trails its ambition.

Limited Business Advisory Capabilities

Gartner research shows clients see Cognizant as very good technically but cite the need for broader business advisory capability in ERP, CRM and BI engagements. CBC has managed to break into the business consulting market to some extent and has delivered several business process redesign, harmonization and ICD-10 compliance programs, in addition to IT consulting projects, but these represent a very small part of Cognizant's C&SI business, and business and process advisory services are yet to be an integral part of most C&SI projects that Cognizant delivers. Industry expertise is limited to point solutions and specific processes rather than a broad business advisory ability. It bears pointing out, though, that Cognizant's thought leadership (for example, on the Future of Work and the Intelligent Store) and business consulting are slowly but surely improving. Whether this can be sustained or made pervasive throughout its engagements remain to be seen.

Soft Skills Continue to Be a Challenge

Apart from business advisory skills, program success is dependent on several "soft" skills — namely, communication, organizational design and change management skills. Clients have commented on the Cognizant project team's lack of assertiveness and reluctance to push back on user requests, even though such requests threaten the aim of consistent processes. Although this same trait can be seen as flexibility and responsiveness to clients' demands, Cognizant project members need to understand and walk the fine line between being responsive to and being disciplined in adhering to the right solution. Cognizant is also not seen as having good organizational design and change management skills. With Cognizant and its CBC practice's ambition to take on transformational programs, being able to help clients with people and process issues are critical to round out its end-to-end capabilities and ensure successful adoption of such programs.

Lack of Presence in Business Buying Centers

Cognizant's traditional buyer is the IT department. It is not known by the business side of client organizations and has limited credibility to sell to business leaders. Cognizant clients have also remarked on the lack of Cognizant's influence on senior management. Cognizant's industry "sliver" solutions are designed to help break through to businesses because these solutions are meant to solve industry business problems, and they can be small-enough engagements to be acceptable testing grounds for the buyers. However, these sliver solutions are fairly new, and it remains to be seen if they can make inroad into business buying centers.

Opportunities

Increased Acceptance and Penetration of Offshore Delivery Model

Acceptance of the offshore delivery model received a boost during the most recent recession, as companies looked to save costs through lowering their service spending. Many companies engaged in offshore delivery for the first time and are now more comfortable about global delivery. This is true in North America as well as in Europe, where offshore delivery is still in its infancy and presents an attractive growth opportunity for Cognizant, given its expanding footprint in financial services, manufacturing and pharmaceuticals/life sciences. While most domestic providers offer offshore delivery as well, companies tend to think of and engage those they perceive as Indian providers for offshore delivery. Although Cognizant, strictly speaking, is not an Indian firm, its India-centric delivery model helps it capture increased share in this portion of the market. As more companies increase their embrace of offshore delivery models and as companies increase the offshore delivery portion of their projects, Cognizant — as well as its India-based competitors — stands to gain a disproportionate share of the C&SI service market.

Expansion Into New Geographies

North America represents the lion's share of Cognizant's revenue, accounting for 78% of its latest quarterly revenue ended 31 March 2011. Europe accounted for 18.7%, while the rest of the world (Asia/Pacific, the Middle East and Latin America) accounted for only 3.3%. Cognizant is gaining share in Europe (increasing 44% in constant currency year over year), and European organizations, while behind their North American counterparts, are becoming more accepting of the global delivery model, creating opportunities for Cognizant. Cognizant has opened several new offices in Europe in the past couple of years and now has presence in Sweden, Switzerland, Spain, Hungary, the Nordics, the U.K., Germany and the Netherlands. In Europe, Cognizant is still much stronger in the U.K. and Ireland than in Continental Europe. It plans to expand in the latter, including acquisitions and partnerships; for example, Cognizant acquired IT testing consulting service provider Galileo Performance, increasing Cognizant's presence in France. Its partners in Europe include T-Systems and Ordina. The business process outsourcing (BPO) captive center acquired from UBS also allows Cognizant to penetrate the region, which it is now leveraging into the pharmaceutical vertical in Switzerland.

Opportunities From Emerging Technologies and New Services

As the economy improves, organizations are again looking to emerging technologies and innovative services to grow revenue while at the same time cut costs. A host of emerging technologies — cloud computing, software as a service, virtualization, mobility, social computing and analytics — presents exciting opportunities for end-user organizations to take advantage of and allow their service providers to assist in. Cognizant has executed projects leveraging these emerging technologies — for example, in building private clouds, migrating test and development to public clouds, implementing salesforce.com and Workday solutions, providing mobility solutions in retail, and having a practice in Enterprise Analytics — which allow it to participate in market growth in these segments in the future. Although still nascent, its CBC practice also provides a means for Cognizant to participate in the consulting market.

Opportunity for Deeper Penetration Into Large Accounts and Business Customers

Having good client relationships and a broad array of services gives Cognizant a privilege position to cross-sell and sell higher-value services into its current client base. It has done so fairly successfully so far: 10 of its top clients generate more than \$100 million in annual revenues. Slivers of industry solutions and analytics solutions target the business customers and, if successful, allow Cognizant to embed itself deeper into its clients' business processes, making it that much more strategic as a partner and that much more difficult to replace.

Threats

Squeezed by Large Global System Integrators on the One End and Low-Cost Tier 2 Offshore Providers on the Other End

While Cognizant has its differentiators, it nevertheless occupies a middle space between large global system integrators that have more global reach and bigger scale on the one end and low-cost Tier 2 offshore providers that are more cost-competitive and are commoditizing services, such as testing, on the other end. Successfully navigating this middle ground of moving up the value chain to challenge the global system integrators while remaining highly cost-competitive on the low end to fend off Tier 2 providers will be necessary to maintain its current momentum.

Losing Track of Its Current Attractiveness to Clients in an Attempt to Move Up the Value Chain

Even as Cognizant tries to move up the value chain, most of its revenue will come from its current core business of application development and maintenance, testing, and package implementation. Balancing investment and attention to current clients and core offerings with moving into higher-value solutions (for example, business consulting and analytics) and selling to business buyers is essential so as not to lose its current attractiveness (low cost, technical expertise, reliable testing and application development/maintenance capabilities) and not to alienate current buyers (IT department).

Market Acceptance of Cognizant as a Business Consultant by Business Leaders Trails Its Ambition

Business leaders perceive Cognizant as being a low-cost provider of technical services. While its thought leadership in the Future of Work and other CBC thought pieces, industry sliver solutions, as well as its involvement with leading universities around the world to build and demonstrate innovative solutions, should contribute to raising its profile as an innovative provider of IT-enabled business solutions, Cognizant needs to accelerate this process to ride the current wave of growth and innovation-driven IT agenda.

Growing Pains

Cognizant now boasts 111,000 employees and is expected to add employees rapidly. Such rapid growth is expected to be accompanied by challenges associated with people issues, such as maintaining the culture, ensuring consistent quality, instituting the right balance of processes and controls, keeping employees engaged and happy, stemming rampant attrition, and so forth. Simple math dictates that increased size comes with lower growth rates — a state of affair that may not be palatable to investors or employees used to industry-leading growth. Cognizant needs to manage this carefully so as not to lose its currency with investors. Even more importantly, it must ensure growth does not compromise the quality and consistency of its project delivery. After all, in a service industry, nothing destroys reputation as quickly as a series of failed implementations.

Implication for Cognizant

The future of C&SI services is one marked by low-cost commodity services coexisting with high-value IT-enabled business solutions. Capabilities in each of these segments are strikingly different: operational efficiency, repeatable methodology underpinned by reusable intellectual property assets and labor arbitrage are the key success factors of commodity services, while business consulting, process knowledge, application of emerging technologies to solve business problems and agility to evolve solutions as business requirements change are some of the key success factors of high-value IT-enabled business solutions.

Currently, Cognizant is trying to play in both segments — which is fine, but it must recognize the differences and develop the appropriate capabilities according to the type of projects, and govern its portfolio of project offerings accordingly. This means making conscious decisions about the proportion and mix of commodity versus high-value solutions as well as appropriate investments (acquisitions, training, assets, vertical solutions, and so forth) and the right kinds of talent it hires in each. Above all, it must not dabble but must strive to be best-in-class in the spots it chooses to compete. To do this in the high-value solution segments, Cognizant needs to pick the right spots and to continue to invest in business, industry and process knowledge; close the perception gap on its capabilities; and create opportunities to gain access and sell to business customers. Only then can it ensure its place as one of the premier global IT services providers.

Company Overview

Cognizant is a global provider of information technology, consulting and BPO services headquartered in Teaneck, New Jersey. Cognizant was founded in 1994 as an IT development and maintenance service arm of Dun & Bradstreet. The company was spun off as an independent organization two years later. Although headquartered in the U.S., its delivery is offshore-centric, with more than 70% of its delivery resources in India.

Its C&SI portfolio includes:

- Business and technology consulting
- Project-based application development and integration, including Oracle and SAP implementation services, CRM, supply chain, data warehousing, BI and analytics, as well as custom application services
- Project-based testing services

Cognizant's key competitors include Tata Consultancy Services, Infosys, Wipro, HCL, Accenture and IBM.

Methodology

The knowledgebase of this analysis comes from the analysts' day-to-day coverage of the market, client interaction, publicly available sources, as well as in-depth, research including but not limited to the following:

- "Magic Quadrant for SAP ERP Implementation Service Providers, North America"
- "Magic Quadrant for Oracle ERP Implementation Services, North America"
- "Magic Quadrant for Global Business Intelligence and Performance Management Service Providers"
- "Magic Quadrant for CRM Service Providers, North America"
- "Magic Quadrant for CRM Service Providers, Europe"
- "Market Share Analysis: Consulting and System Integration Services, Worldwide, 2010"
- "Forecast Analysis: Consulting and System Integration Services, 2008-2015, 2Q11 Update"

The Gartner vendor SWOT analysis is designed for the use of providers as well as individuals in strategic planning, marketing and competitive analysis roles as a supplement to their planning processes. Its primary value is as an independent analysis of the provider's competitive situation. The SWOT analysis provides a unique independent view of the strengths, weaknesses, opportunities and threats for a specific part of a provider's business in a specific market and geography.

Definitions

C&SI services encompass business consulting, IT consulting, infrastructure services, application development (packaged and custom), deployment, integration and testing.

RECOMMENDED READING

Some documents may not be available as part of your current Gartner subscription.

"Magic Quadrant for SAP ERP Implementation Service Providers, North America"

"Magic Quadrant for Oracle ERP Implementation Services, North America"

"Magic Quadrant for Global Business Intelligence and Performance Management Service Providers"

"Magic Quadrant for CRM Service Providers, North America"

"Magic Quadrant for CRM Service Providers, Europe"

"Market Share Analysis: Consulting and System Integration Services, Worldwide, 2010"

"Forecast Analysis: Consulting and System Integration Services, 2008-2015, 2Q11 Update"

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