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Accenture, Cognizant, And Infosys Boost R&D Services Competition

Three Major Services Firms See Opportunity In Offshore Product Development

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EXECUTIVE SUMMARY

The previously uneventful offshore product development market is poised for significant change. Anticipating a huge growth in this untapped market, top IT services firms Accenture, Cognizant, and Infosys are investing in it. These firms are tapping their prominent market presence, relationships, brand and reputation, experience of serving global enterprises, and deep pockets to make their presence felt. Sourcing professionals and product R&D executives should leverage the increased competition to get better rates and service from their incumbent R&D service providers. Additionally, prospective clients should consider the new entrants as catalysts to pilot deals based on new engagement models and intellectual property assets.

NEW ENTRANTS SEE HUGE OPPORTUNITY IN R&D SERVICES

Product development is expected to substantially grow in the next two years. To sell in worldwide markets, product companies need to cut their product costs, so they are compelled to leverage distributed design centers and send work offshore much more than in the past. As a result, the R&D services market is seeing sizable growth, even in these tough economic times. However, the market is undergoing fundamental changes such as emerging new business models focusing on domain intellectual property (IP), a shift in focus from using low-cost offshore resources to co-innovation and using partners across the product life cycle. The three major IT services companies — Accenture, Cognizant, and Infosys — are trying to tap this opportunity as they build their product development practices. Cognizant and Infosys had practices in place but are now expanding aggressively while Accenture is entering the market for the first time. Why? These providers expect that:

- **Product firms will expand their offshore usage.** Irrespective of the hype around their India and China initiatives, almost all product companies are underutilizing offshore delivery. While many high-tech firms and automakers entered offshore more than a decade ago, very few companies do even 30% of their overall product development effort in locations like China and India. This poses a huge upside that Accenture, Cognizant, and Infosys wish to unlock. These three providers enjoy strong partnerships and executive relationships with almost all top product companies that they believe can help mobilize many more jobs offshore. Just 10% of incremental work at Microsoft or Oracle moving to India equals a business of 2,000-plus FTEs.
- **The R&D services market is a relatively level playing field.** Historically, product companies conceptualized products in their R&D headquarters, leveraged facilities and suppliers in India to churn out designs at low cost, or manufactured products using cheap labor and then sold the

products back in their home regions. This model is undergoing fundamental changes as a result of: 1) the emergence of new markets in Asia and Africa, and 2) changing business models that focus on domain intellectual property (IP) clients addressing the evolving business landscape by reinventing their relationships with their R&D outsourcers — moving more work offshore and doing co-innovation with their providers. As a result, the three new entrants believe that they are just as capable of creating these emerging capabilities as current market majors like Wipro.

- **Incumbent leaders shift focus from R&D services to enterprise IT.** The world's largest R&D outsourcer, Wipro, is now changing gears to focus more on scale-driven services like BPO and testing. Almost all new corporate investments and strategic initiatives that Wipro management told Forrester about focus more on enterprise IT, with Wipro's product engineering division getting low priority. The R&D division has also seen three leadership changes in the past four to five years. While HCL has not lost its focus on engineering and R&D services, the firm's acquisition of SAP services shop Axon shows its ambitions to play and grow in the mainstream IT services space as well.
- **Many product development specialists succumb to recession pressures.** Challenged by poor marketing ability, lack of strategic direction, and limited scale, product development specialists are struggling.¹ Our interviews with these specialists also reveal drops in their profitability and a loss of business to top firms like HCL and Tata Consultancy — either as a part of vendor consolidation or as a result of not being able to keep up with the cutthroat competition driven by the risk-reward model. Accenture and Infosys believe that they can win over many clients of these struggling specialists, especially the accounts where Accenture and Infosys have existing IT or BPO relationships.
- **Captive center struggle continues.** Learning from the success of firms like HCL and Symphony Services in captive centers, these three companies see a huge opportunity in acquiring product companies' India facilities. They think their aggressive acquisition strategies, coupled with consulting offerings and C-level relationships at product companies' headquarters, will open doors much faster for them. Accenture and Cognizant both have already made their presence felt in this space, and we expect many more such deals in the next two years.²

NEW ENTRANTS PREPARE TO COMBAT R&D COMPETITION

For many years, Infosys and Cognizant looked opportunistically at product engineering and addressed only those clients that were low-hanging fruit. For example, the Infosys focus on telecom and its Nortel relationship are a decade old, but the company still could not leverage both to win many other telecom giants, like Wipro successfully did. Cognizant and Infosys also did not expand their capabilities in areas like auto electronics or medical equipment, like HCL did, to tap these new markets. Similarly, Cognizant focused on online portals. Accenture started its embedded practice when one of its top clients pushed it to do so. But in the past eight to 10 months, these

three companies changed their approach to this business path and are remodeling themselves by revisiting their strategy, increasing their number of focus verticals, revamping positioning and messaging, and in the case of Infosys, changing the leadership of the practice. They all now have product engineering services as one of their strategic growth engines, and they're preparing to wage war against incumbent vendors. Each of these new entrants is taking specific steps and making investments to build their R&D business faster.

Accenture Builds Out From A Core Of 1,200 R&D Resources

What started as an unwilling response to the push by a European client, Accenture's embedded practice at Bangalore is now well over 1,200 resources. For five years the group focused on serving this single client, but now it is winning other clients and looking at product design and testing as one of the firm's fastest-growing business lines. In line with its global delivery program, Accenture already established delivery facilities in Italy, Brazil, and China. In addition, it acquired Nokia's captive facility in Europe and created onshore engineering teams in Finland, Japan, Korea, and the United Kingdom — taking its total embedded practice strength to more than 2,000 employees. Accenture's management told Forrester that the embedded practice is one of its top five corporate strategies as the provider commits management time, R&D resources, and investments to build a foundational offering. The company continues to invest substantially to create several Innovation Centers in Bangalore, New Jersey, and Rome and intellectual property assets (IP) in domains such as enterprise mobility, user experience, and convergence of device technologies, and Intelligent Home. Accenture has also created a sophisticated simulator-based facility for remote verification and validation services with an intent to cut up to 40% of device and equipment testing costs.

Cognizant Makes Its Interest Loud And Clear

Cognizant now looks at offshore product development as another growth engine to meet its aspiration to be a top offshore service provider. Over the past 18 months, the firm's R&D practice grew by nearly 30% and it now has 6,500 resources across various subareas like software products and online platforms, and industry-focused software products. In fact, Cognizant is substantially larger than many specialists in these spaces. It also recently announced an Invensys partnership in which the company rebadged more than 520 resources from Invensys' Hyderabad facility and got two labs as well as expertise in more niche product engineering areas such as process control software and a railway operations management platform. Our interviews with Cognizant executives show that it plans for this practice to double in size over the next two years, possibly broadening out to another eight to 10 new client relationships for Cognizant.

Infosys Reinvents Itself To Regain Lost Ground

As recently as 12 months ago, Infosys executives have told Forrester that R&D services are not one of the firm's focus areas. This decision was also made clear by the investments, strategic initiatives, marketing campaigns, and even executive sound bites in the media. But now, Infosys takes every opportunity to express a keen interest in this space. Working on the goal of building

the billion-dollar practice, Infosys is modifying its product engineering division's leadership and offshore delivery management with extended management and investment support. Rather than focusing on just telecom equipment and software space as it did in the past, it is now building skills and capabilities in new spaces such as medical equipment, green and sustainability, and network products. Infosys is also aligning this practice to its vertical-focused manufacturing and telecom sales team to gain better internal support and position services in more client situations. To make the offering complete, Infosys also merged its mechanical engineering services practice with its product engineering practice to create an integrated engineering offering suitable to a large set of verticals ranging from automotive, aerospace, healthcare, energy, and various high-tech verticals. While Infosys has yet to demonstrate any huge success in this space, it is clearly investing to become a recognized player.

RECOMMENDATIONS

BRING IN NEW ENTRANTS TO FUEL COMPETITION AND INNOVATIVE MODELS

Buyers of R&D services — even those that have solid relationships with their existing service providers — should investigate the capabilities of these newer entrants. Why?

- **Staying current on market offerings helps your existing relationships improve.** How? When you have an up-to-date understanding of players, offerings, and delivery models, you can more accurately judge whether your existing deal is keeping pace. It also provides insights you can bring to your incumbent provider so the relationship can evolve — rather than simply just changing providers. This could be as simple as understanding rates for a renegotiation or working with your provider to move to a co-innovation model.
- **Opening communications with new entrants makes changing providers easier.** While you may not be in a position to cancel your existing relationship, if you are unsatisfied with your existing R&D services provider, start now and look at all the market entrants. Give yourself one year to study and talk to new providers so that when you are ready to issue a new RFP, you will have enough relevant information to make the selection and negotiation process shorter.

ENDNOTES

¹ Forrester defines offshore generalists as players such as HCL, Tata Consultancy, and Wipro that offer a range of product development services as part of their wide offshore service lines portfolio, whereas product development specialists are firms that offer focused services to customers who have complex requirements and look for firms with specialist skills. These companies' main business is offering R&D or product engineering services. See the August 3, 2006, "[Offshore Product Development Has Arrived](#)" report.

² In July 2009, Cognizant announced a strategic relationship with Invensys Operations Management. As a part of this relationship, Cognizant signed a five-year, multimillion dollar contract with Invensys Operations

Management to co-innovate and roll out Invensys' suite of products. In addition, Cognizant made offers to more than 400 Invensys Operations Management professionals to join Cognizant. In December 2009, Cognizant extended the relationship with Invensys Rail for offering R&D services in railway control and communications systems. This second part included the rebadging of Invensys' 120 staffers in Hyderabad to whom Cognizant made offers.