

Infosys can't get Indiana off its mind as it introduces a way to finance SAP S/4 migration

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Introduction

Infosys identifies itself, along with the majority of its customers, as a Live Enterprise. These are businesses that are not digital native yet have to transform to be hyper-productive at scale, while meeting quarterly and annual numbers. To do this, there is an urgent need to release financial and human capital through optimization in order to invest in digital services. Infosys believes it can help its clients do both and explained how at its recent analyst event held at its Technology and Innovation Hub in Indianapolis.

The 451 Take

It is clear that Infosys is putting in the work to shift its business model to serve the requirements of the digital transformation market. It has made acquisitions such as Wongdoody and Brilliant Basics. To build up its design thinking skills internally it is creating strong centers of proximity to clients in Hubs such as the one in Indianapolis, and it has invested in talent refactoring with its Lex platform. All these initiatives are shifting the needle for growth of its digital revenue. Now it is coming to market with an interesting opex proposition for S/4 migration that brings to life the idea of the ecosystem to deliver cloud services.

Context

Under the leadership of CEO and managing director Salil Parekh, Infosys is seeing better revenue growth (12.4% Y/Y Q1 FY 2020) with much stronger growth in digital revenue (41.9% Y/Y Q1 FY 2020) with operating margins at 20.5% Q1 FY 2020. With an eye on margins, there is more of a focus on increased employee utilization and efforts to control visa costs – in particular, Infosys has been addressing the growing need of agile distributed teams for the growing demand of faster sprints and quicker technology deployment cycles to compete with digitally native companies as it orchestrates services delivered on-site, and from nearshore innovation hubs as well as offshore. The goal is to

reach a 15:15:70 split of the staff on projects with 15% at client locations, 15% at hubs and 70% offshore as the business needs of agile development are managed within the growing restrictions on the movement of human capital.

Human capital strategy

Much of the event was used to detail how Infosys is upskilling and retraining its own employees, those transferred from its customers and 'new badges' (recent hires) coming in from universities and community colleges.

To this end, the company has four portals for employees across the continuum from new hires to veteran employees. Launchpad is the first of these, which is designed for new employee onboarding. Thirty thousand joiners have already used this with elimination of the requirement for 300,000 documents, reducing the cycle time in areas such as background checks. The second is InfyMe, a personal productivity and convenience app, which provides services for things such as travel requests and project information and is used by 140,000 employees who have already run 125 million transactions on it with 40% of users migrated to the mobile apps version. This is paired with its work-productivity and insights sibling, InfyWork, which is being developed now to support specific roles and profiles. The final tool in the portfolio is Lex, the company's learning and career development portal, which is also productized for customer use as 'Wingspan.' In addition to these in-house tools, Infosys also has partnerships with Udacity and Coursera for online learning of skills such as autonomous technology, which the company says can take an employee from new hire to an autonomy engineer in 12 weeks. It also leverages SAP's online learning platform – Learning Hub, to train its SAP team on new products such as SAP S/4 HANA and SAP CX.

The company also uses a dynamic knowledge graph of the organization, named Digital Brain. This allows Infosys to quickly identify subject matter experts across the organization based on current work and communications when assembling project teams.

In the US Infosys began recruiting locally in 2017 when it had 371 US employees and 15 associates and in 2019 it has reached 1,600 US employees and 2,000+ associates, taking on 10,000 hires since 2017. As part of this momentum, Infosys has committed to hire 2,600+ American workers in Indiana by 2023, following the opening of its Technology and Innovation Hub in Indianapolis in March 2018.

Infosys will be opening its sixth innovation hub in Phoenix in September, alongside those in Indianapolis; Dallas, Texas; North Carolina; Rhode Island and Connecticut. These innovation hubs are collaborative efforts with local education facilities, such as Maricopa Community College in Phoenix or Purdue in Indianapolis. The organization has identified that a number of its prospective employees are coming from community colleges with non-STEM degrees, so has developed a finishing school ranging from eight to 12 weeks to upskill graduates to be productive at Infosys. In addition, the company has worked with major clients in engineering and health services on custom training and progression programs to take new hires from recent college graduate to industry-certified roles within those organizations.

With community colleges Infosys is training for five new age roles which it identified as BI and data support; BPM/helpdesk; cybersecurity, network admin and end user computing; application support and testing; and customer experience and creative. Once training is complete, Infosys is working with local businesses to help them understand that there is a need to create these 'new collar' jobs as the distinction between blue-collar and white-collar jobs blur.

SAP-led business transformation

In May at SAPPHERE NOW, SAP announced project Embrace, a collaboration initiative between Microsoft Azure, AWS, Google Cloud and Global Strategic Service Partners. The key components

offered by Embrace are foundational services supported by SAP Cloud Platform to help integrate SAP systems and third-party applications running either on-premises or in the cloud; a technical blueprint to bring together the necessary SAP and hyperscaler components to run a customer's applications; a road map to SAP S/4HANA specific to each industry, jointly created by hyperscalers and service partners; and new SAP MaxAttention services and SAP ActiveAttention services to support customers running either hybrid infrastructures or cloud on a hyperscaler.

As an SAP Global Strategic Service Partner, Infosys itself is an SAP customer and uses S/4 HANA and SuccessFactors. It also has over 400 customers for which SAP forms the core base of how they run their businesses. However, most of these engagements are currently traditional mode and so Infosys is keen to elevate its approach to the next level by offering industry-specific models to show customers how SAP can be used to enhance their business.

Infosys has announced a new strategic program 'Innov8.' Together, Infosys and SAP are collaborating for project Embrace designed to drive enterprise customer adoption of cloud and digital technologies from SAP. Infused with more than 70 ready-to-deploy use cases spanning artificial intelligence (AI)/machine learning (ML), blockchain, the Internet of Things (IoT) and analytics, the Infosys Innov8 program paves the way for clients to invest in purposeful innovation and build enterprises for the future.

The Infosys goal is to smooth out the investment needed to deliver this transformational value by bundling the costs of SAP, the hyperscaler services and the Infosys capability together to create small, medium and large packages for the total bill of materials along with management and maintenance costs. In this way, capex investment is flatlined for the customer over the length of a 5- to 7-year contract as Infosys manages the costs across all three main players.

Speaking at the Indianapolis event, SAP commented that no other service provider is taking this particular approach and said that Infosys is the first Embrace Global Service Provider Partner that is leveraging hyperscalers such as Microsoft along with SAP to create a new engagement model. Under the financial arrangement of Infosys Catalyst, SAP software revenue is led by Infosys within the Embrace program, while Infosys Total Contract Value is influenced by SAP.

At the event SAP also referenced the global talent shortage of 350,000 people with SAP skills, and so praised the Infosys Innovation Hubs as a way to scale up the talent for both partners by certifying and enhancing new talent creation in the market.

While the primary execution venues for SAP ERP and CRM remain on-premises IT environments; according to 451 Research, SaaS and IaaS are the key migration destinations for both ERP and CRM (Digital Pulse Workloads and Key Projects Q1 2019) and the data indicates that engagements with service providers will grow as the execution venue for SAP CRM moves from on-premises to the cloud (up from 16% of organizations currently, to 23% by 2021).

Infosys customers in Indianapolis told 451 Research that they like the company's nearshore approach to providing SAP services because of the growing talent scarcity around S/4, which means they need short-term staff augmentation and nearshore resources could fill some of these gaps as long as it doesn't raise overall costs. Others said that they found that the opex for cloud from hyperscalers was always more expensive than the vendor claimed and so the Infosys financial engineering approach to migration would be of interest.

Competition

Consultancy-led SI businesses such as Accenture, IBM GS and Capgemini are strong competitors for Infosys for digital transformation projects involving SAP because of their mix of operational and consultancy skills, as, of course, are other Indian heritage service providers including Cognizant, HCL, TCS and Wipro.

SWOT Analysis

Strengths	Weaknesses
<p>The combination of the Infosys reinvigorated partnership with SAP, its innovative financial modeling approach to S/4 migration, along with its demonstrable commitment to growing hubs within the US to foster local talent all suggest Infosys is accelerating more aggressively with its live enterprise strategy.</p>	<p>The main weakness with the nearshore Infosys approach is that customers will push Infosys to take on internal staff who do not have the digital skills to support the new systems, leaving Infosys with the cost of retraining and redeploying those staff members, which could affect margins.</p>
Opportunities	Threats
<p>The localization strategy that Infosys is pursuing with the opening of Digital Studios, Living Labs and Innovation Hubs in different cities in the US and Europe is increasing its ability to engage with buyers that are not only global multinationals, but also national companies in each region that may never have previously considered working with an offshore provider.</p>	<p>Infosys is confident that once it engages with Western companies via its on-site and nearshore staff it can reduce its dependency on offshore locations especially at the moment because globalization is under political threat. But will world events outpace the transformation of IT services companies with significant offshore skills?</p>

Source: 451 Research, LLC