

IT firms cut prices to retain existing clients

The move comes as companies across the board are looking to get their technology work done by fewer vendors

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Software exporters Tata Consultancy Services Ltd, Infosys Ltd and Wipro Ltd and their global rival, led by Accenture Plc and International Business Machines Corp., have started to drop prices on outsourcing contracts as they try to retain existing clients at a time when companies across the board are looking to get their technology work done by fewer vendors.

This wave of vendor consolidation is most visible in telecoms and energy—two sectors where companies are cutting their technology spending—and will hurt mid-tier IT firms the hardest, even as it erodes the profitability of larger software exporters, experts said.

UK-based BP Plc has started discussions with the largest software exporters before it outsources technology work, estimated to be valued at at least \$1.5 billion, in the current fiscal year.

"We are reviewing how we source our IT services in order to consolidate all of our third-party spend into fewer strategic and preferred suppliers," a spokes-



Pricing war: Analysts say TCS and Infosys are the most aggressive in dropping prices to their incumbent clients for getting more work.

man for BP said in an interview, adding that the company was in the process of "discussing with its suppliers", which includes Hewlett-Packard Co., Accenture, IBM, TCS, Infosys, and Wipro. The spokesman declined to share details of the scope and value of work which the company will outsource.

As companies globally hold back their IT spending, software exporters are looking to get additional business from existing clients when their contracts come up for renewal, industry experts concurred.

Over the next 18 months, about 1,200 deals valued at \$100 billion are up for rebids, accord-

ing to Joe Frampus, partner at Avasant, a US-based technology advisory firm.

This has made bosses at Indian IT companies, including Vishal Sikka, chief executive officer (CEO) of Infosys and N. Chandrasekaran, CEO of TCS, make aggressive pitches of their company's offerings during their meetings with clients.

"You know one thing we are hearing from our sales heads is how clients are telling Chandra (Chandrasekaran) like how Vishal was here last week and made this pitch. Vendor consolidation is most visible in these two sectors (telecoms and energy) and more in the US. In

Europe, we still see a healthy appetite for outsourcing," said a senior executive at Infosys, who did not want to be named as it is in a quiet period ahead of declaring first-quarter earnings.

Understandably, TCS and Infosys are most aggressive in dropping prices to their incumbent clients for getting additional work.

"TCS, because it works like a very well-oiled organization, has been very aggressive, even ready to drop prices for a work which its rival was doing (for the same client). Infosys, too, has been aggressive as it realizes not much new business is coming," said a Mumbai-based analyst at

a domestic brokerage.

Companies are also bundling deals to lure their clients.

"In last few months, we are observing that multi-tower outsourcing deals in which range of functions are bundled in one contract and awarded to a single service provider are active. The corollary of multi-tower outsourcing deals is that vendor consolidation is going on as well," said Pareekh Jain, research director of engineering services at HfS Research, the US-based IT outsourcing research firm.

A good example of multi-tower outsourcing deals, according to Jain, is the multi-year deal won by French IT services company Capterio last month from TGI, the US-based casual-dining chain, under which Capterio would help in application development and maintenance, move some of the applications to cloud and also oversee back-end support work.

"We believe that the major impact of vendor consolidation will be on mid-tier vendors, who may lose out to tier-I vendors," said Jain of HfS Research.

Jain's views are reflected in the performance of Accenture and mid-tier firm Tech Mahindra. Accenture's third quarter saw a revenue growth of 10%, on constant currency basis or not being impacted by cross-currency volatility, and saw a 17% jump from client spending in the communications or telecoms space. Tech Mahindra, which generates about half of its total revenues from clients in the telecoms