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AVASANT

# FROM IT SERVICE DELIVERY TO BUSINESS CONSULTING:

## UNDERSTANDING THE WIPRO - CAPCO DEAL

### *Takeaways from the recent Wipro-Capco deal*

As IT services increasingly become commoditized and with rising price pressure, technology service providers have long realized the potential growth in the consulting segment, driving efforts to expand their consulting businesses.

Wipro, in particular, has been on an acquisition spree, relying on inorganic routes to regain its position among the top three Indian IT services providers. Its biggest acquisition ever, Wipro's purchase of Capco is a turning point, leading the company in delivering high-end consulting.

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*June, 2021*



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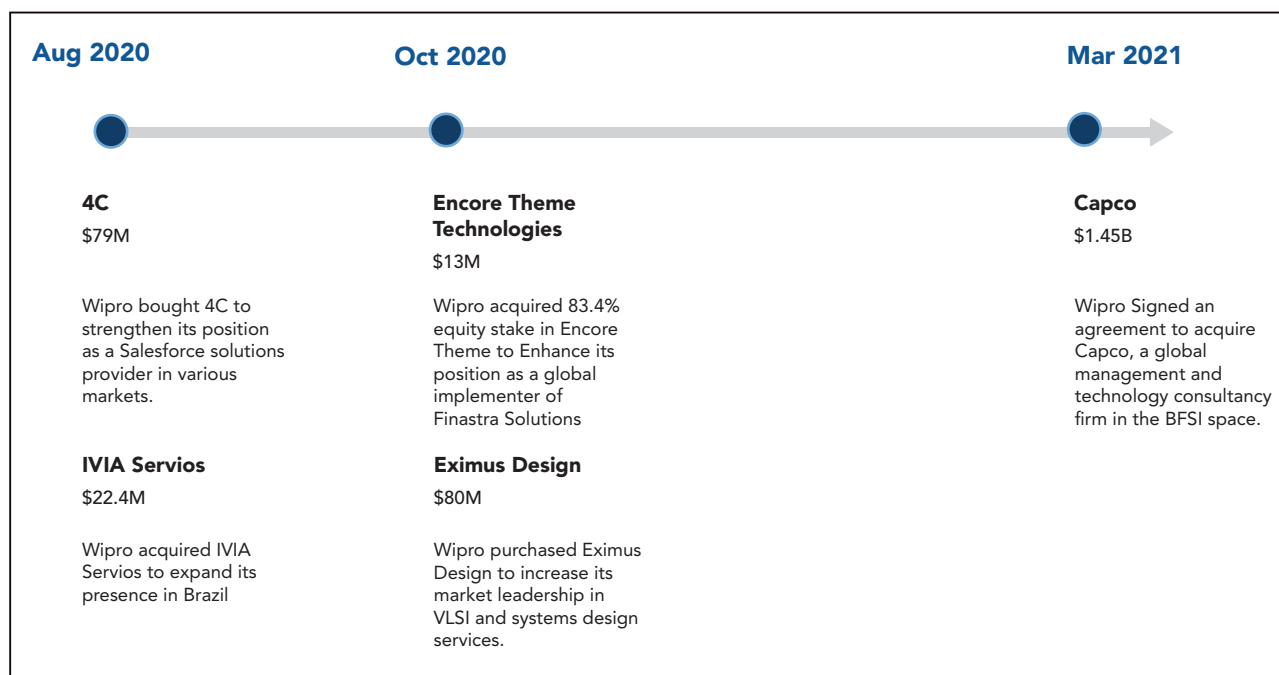
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## INTRODUCTION

Wipro has been on an acquisition spree since Thierry Delaporte took the reins as Wipro's Chief Executive Officer (CEO) in July 2020. The recent Wipro-Capco deal announced in March 2021, worth \$1.45B, is one of Wipro's largest investments yet, as shown in Figure 1. It is the second-largest acquisition in the Indian IT industry since the \$1.8B HCL-IBM deal in June 2019.

Figure 1: Wipro acquisitions since Thierry Delaporte became CEO



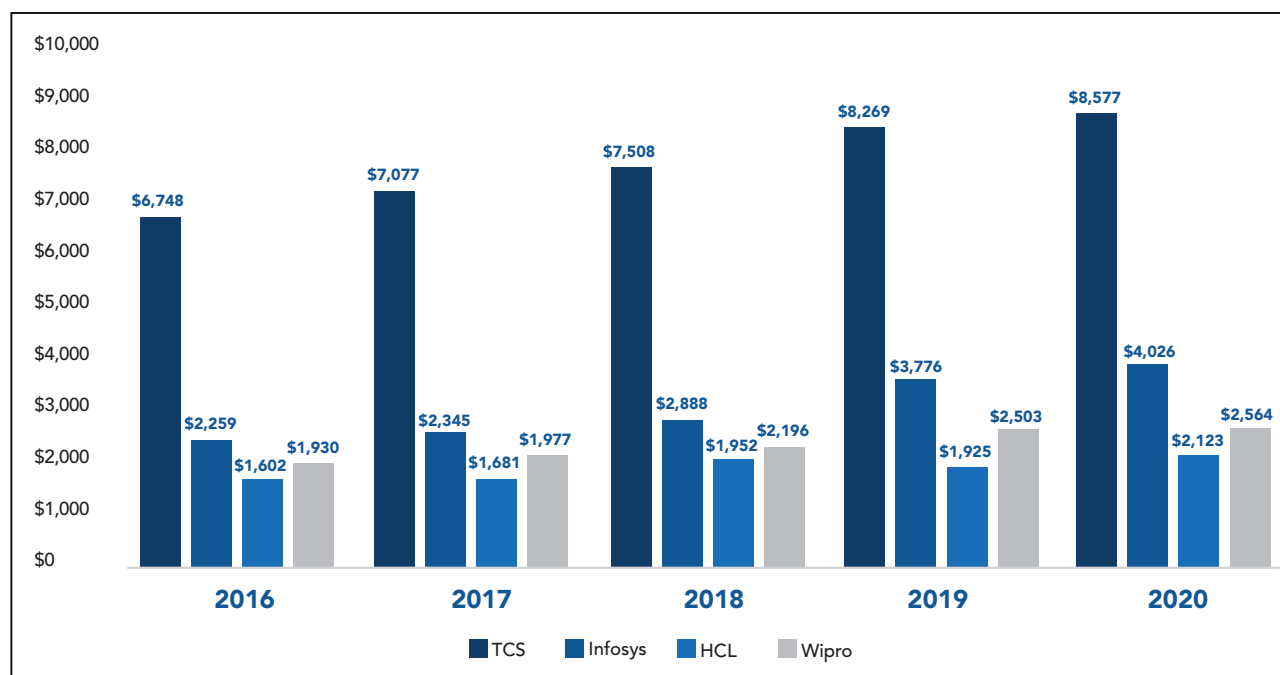
Source: Wipro press releases

## WIPRO STRENGTHENS ITS POSITION IN THE BFSI SECTOR

Wipro has been lagging behind its peers in the banking, financial services, and insurance (BFSI) sector. Through Capco, Wipro aims to revive its BFSI business, establishing itself as one of the largest, end-to-end global consulting, technology, and transformation service providers in the BFSI industry.

With over 5,000 employees, Capco brings digital, consulting, and technology services capabilities in the financial services space, covering banking, capital markets, wealth, asset management, and insurance sectors.

Figure 2: Wipro's BFSI contribution a distant third among the top four Indian service providers



Source: Annual Filings











It serves some well-known customers in the Americas, Europe, and Asia Pacific and adds 30 new, large banking and financial clients to Wipro's portfolio. Capco's revenue of around \$700M will help Wipro increase its BFSI revenue to \$3.2B from the current \$2.5B.

Last year, though a smaller transaction, Wipro acquired Encore Theme Technologies, a specialist in providing software as a service (SaaS) and cloud solutions in the financial services industry, for \$13M. It was a strategic move to address the trade finance and cash management needs of financial institutions, using Finastra solutions.

## SCALING THE CONSULTING SIDE OF THE BUSINESS

Apart from strengthening its BFSI portfolio, the Capco acquisition is another attempt by an IT giant to diversify its services through expanding into consulting. Though IT service providers have been organically building their consulting businesses, they also have made a series of acquisitions in the past to strengthen their consulting capabilities, a trend led by Cognizant.

Table 1: IT service providers are building strong consulting practices by acquiring capabilities

Year of acquisition	Service provider	Consulting firm acquired	Rationale
2021	<b>Cognizant*</b>		Servian expanded Cognizant's integrated, end-to-end digital transformation capabilities.
	<b>Cognizant*</b>		Cognizant acquired Linium's cloud transformation consultancy capabilities, specializing in the ServiceNow platform.
2020	<b>Cognizant*</b>		Code Zero broadened Cognizant's healthcare consulting, information technology, and business process services.
2018			BridgePoint Group augmented TCS' financial services and insurance domain knowledge, especially in the area of US retirement services.
	<b>Cognizant</b>	  	Cognizant made three acquisitions in 2018, expanding Salesforce cloud consulting and Quote-to-Cash capabilities and a range of digital healthcare solutions, respectively.
2012			Lodestone strengthened SAP-enabled business transformation capabilities for Infosys.
2008			AXON, based in the UK, brought capabilities in SAP consulting to HCL.

\*Including Linium, Cognizant invested about \$1.4B in acquisitions over the past 12 months.

Source: Avasant Research

The table above may not provide an exhaustive list of acquisitions and represents some of the key acquisitions that happened in the consulting space.

As IT services increasingly become commoditized and with rising price pressures, technology service providers have long realized the potential growth in the consulting segment. The drive to scale their consulting businesses becomes even more relevant amid the pandemic.

However, this transition comes with its own set of challenges, demanding a shift from an implementation-centric model to an integrated service model that calls for a consultative approach to sales and solutions delivery. This requires firms to bring in consulting professionals, those with a specific domain or industry background, to work with sales and delivery executives to manage key accounts.

## WHAT IS IN IT FOR WIPRO'S CUSTOMERS?

The deal could possibly benefit Wipro's customers in sectors such as banking, payments, capital markets, wealth, asset management, insurance, energy, and commodities trading in the following ways:

- **Integrated solutions:** As enterprises move from traditional operational processes to digitized and automated ones, they can look forward to integrated and bespoke solutions that come with a consulting layer. This involves exploring digital technologies like artificial intelligence (AI), data analytics, and cloud computing platforms to sustain growth and introduce new revenue models. By leveraging Capco's experienced executive team with over 5,000 business and technology consultants spread across more than 30 global locations, Wipro can help enterprises achieve their transformation objectives.
- **Strengthened risk, regulatory, and compliance posture:** Amid COVID-19, there is increased pressure on enterprise leaders to ensure transparency and alignment with third-party vendors, regulatory compliance, internal controls, and security frameworks and tools. Capco strengthens the risk, regulatory, and compliance capabilities of Wipro and enables enterprises to develop risk and compliance management frameworks and customized policies and procedures. Capco adds six hubs to Wipro delivery centers, which engage with over 50 regulatory bodies and more than 30 industry and trade associations. This helps enterprises keep up with the ever-evolving regulatory landscape.
- **Increased partnership:** As organizations look for a partner to identify new growth opportunities, co-innovate, and develop joint solutions, service providers need to elevate their relationships with their clients. Capco allows Wipro to expand its role from a pure implementation partner to someone who can collaborate strategically with business leaders, including boards and C-suite executives, leading to faster decision-making.

## THE ROAD AHEAD

Taking its cues from similar acquisitions in the past, the journey might not go as smoothly as expected with Capco for the following reasons:

- **Incompatible business approaches:** Capco engages with its customers by offering premium consulting services and builds relationships to deepen the portfolio. On the other hand, Wipro's strength has been in commoditized managed services designed to engage the customer and eventually push premium services as the relationship matures. These styles could cause some confusion in the market. They could also lead to Capco customers being alienated by Wipro's approach. Integrating the two methods could lead to growing pains and some broken customer relationships.
- **Pricing:** As for the common set of customers, there might be pricing concerns, as rate cards for both companies for similar services would be different. This might create challenges for the delivery team to renew existing relationships while keeping the margins intact. And it is not merely about price consistency but making the case for increased value and higher prices, as Wipro begins to move upmarket.

Even though there is a positive sentiment around the new CEO and the reorganized operating model, there is a market expectation that it will take 18–24 months for things to stabilize at Wipro. There are also concerns about some senior-level executives leaving the company.

At the time of this writing, Wipro acquired another company, Ampion, to strengthen its position in the Australia and New Zealand market and further augment its cybersecurity, DevOps, and quality engineering services portfolio. Also, Wipro released Q4 2021 financial numbers, providing a sense of resurgence over the last four quarters, as it achieved \$2.152B in revenue, for a third consistent quarter of growth. With this, Wipro closed FY 2021 at \$8.136B, a marginal dip of -1.4% YOY during the pandemic, with improved margin of 220 bps YOY. While these continued acquisitions might press Wipro on integration, Ampion and Capco represent a consistent strategy toward building more capability and scaling the consulting business. These higher margin companies are likely to impact the bottom line further positively if they can successfully execute.





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Avasant is a leading management consulting firm focused on translating the power of technology into realizable business strategies. Specializing in digital and IT transformation, sourcing advisory, global strategy, and governance services, Avasant prides itself on delivering high-value engagements through industry-focused innovation and flexible, client-based solutions.

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