

## PAC Research Note

# HCL: A growing IT service player in the DACH region

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## 1. INTRODUCTION

With revenues of \$6.7 billion and 116,000 employees in 32 countries, HCL Technologies (subsequently referred to as HCL) is among the top 25 global IT service companies and one of the leading India-centric players. HCL has been a global success story in the IT services market by managing to achieve a profitable revenue growth of 42% for the period 2010-2016. Its stock price has grown 337% since 2012.

HCL offers a comprehensive IT services portfolio, including infrastructure and application management as well as consulting and systems integration, engineering and R&D services and business process services. In the past years, HCL has been moving away from “commodity”/labor arbitrage-based offshore services towards higher-value services and from a “managed IT-focused” to a more “business outcome-focused” approach. HCL sees its distinguishing feature in the manner it delivers outcomes for its clients, without a lock-in phenomenon.

This is achieved through a strategy of three growth modes and a strong set of capabilities, models and tools, such as DRYiCE, Digital & Analytical Services and IoT Works (including engineering), as well as domain knowledge and highly-motivated staff.

This report analyzes and evaluates HCL's positioning and strategic development in the DACH region (i.e. Germany, Austria and Switzerland).

## 2. DEVELOPMENT OF HCL IN THE DACH REGION

HCL has been active in the DACH region for well over 10 years and counts some very large, well-known companies among its long-established client base. Among those are most notably Deutsche Bank, Novartis Merck and a large Swiss global financial services company. Over the past 5 years, HCL has seen continuous double-digit growth in both revenues and headcount, making the DACH region one of the fastest-growing markets for HCL in Europe. The company generates more than \$500 m from DACH-headquartered customers (note: this includes contracts closed and delivered outside the DACH region and would therefore not be considered in PAC's local vendor figures).

Services are delivered with locally-based employees as well as near- and offshore associates. HCL offices are located in Frankfurt, Munich, Zurich and Vienna, but services are often provided at the client site. For example, HCL is working on engagements with clients in Germany (Frankfurt, Berlin, Hamburg, Munich and Stuttgart), Switzerland (Zurich, Basel, Geneva, Freiburg) as well as Vienna, Austria. One third of the DACH employees are local hires, with the remainder representing a multi-cultural diverse workforce spanning 33 nationalities.

HCL has fully-operational registered entities in Germany, Austria and Switzerland, to ensure that the company conducts assignments for companies in the DACH region in full compliance with local laws and regulations.

Within the DACH region, HCL targets customers in the financial services, manufacturing, retail/CPG, construction and utilities industries. Some well-known clients in the region are: Thyssenkrupp, Kion,

Siemens, Wincor-Diebold, OTIS, DancoHappel, GEA BOSCH, Marquardt, Schindler, John Deere and P&G.

### **Strategy of three growth modes**

HCL groups its offering into three modes with different outcomes and growth potentials:

- Mode 1: agile, lean, and service-oriented. This includes application services, infrastructure services, engineering and R&D as well as BPO. The focus is on automation using DRYiCE autonomics (DRYiCE is HCL's operational framework and service management platform). Mode 1 is HCL's core operation, where it sees solid growth opportunities for several years to come. It will provide operational stability and cost efficiency to clients.
- Mode 2: experience-centric and outcome-oriented. This includes digital (branded BeyondDigital to emphasize it is not about technology but about business change), IoT Works, cloud and cybersecurity. DRYiCE is the underlying operational framework for these services, too, however the emphasis here is on the orchestration capabilities. HCL sees the strongest growth potential in mode 2 (20%–30%), as it helps clients transition to new business models and develop new offerings.
- Mode 3: ecosystem-driven with a focus on products and platforms. This is about collaboration with technology and services companies and development of reusable IP. Mode 3 entails “future proofing” your business by making the required business model changes and building innovative alliances within an ecosystem of strategic partners. A successful Mode 3 approach connects the dots between existing strengths, the focus points of tomorrow and the shifting conditions under which to operate to stay ahead in the future.

Although there is some chronology in the model (mode 1 represents more traditional services that will eventually see less potential and mode 3 will see faster growth in the long term), all three modes can be part of the same deal. For instance, Deutsche Bank is serviced in all three modes, combining infrastructure automation with service management and digital services in the co-innovation center which also includes third-party providers.

## **3. HCL PORTFOLIO IN DACH**

In the DACH region, HCL is best-known today for its infrastructure services, which make up approx. 40% of the business there. However, it is also increasingly being recognized for its work on cutting-edge R&D services and digital consulting and transformation capabilities.

### **Infrastructure services**

The company is particularly strong in further optimizing already outsourced data center and end user operations. This is achieved, for example, through autonomics – AI and orchestration deployment in service desk operations (e.g. HCL Lucy, a cognitive service desk agent able to handle chat tickets) as well

as automation and diagnostics. HCL states that this generates cost savings of approx. 30% as well as improved end user computing support (globally, if needed) and increased end user satisfaction.

The data center services focus on infrastructure run optimization to realize cost savings of approx. 40% as well as greater agility through DevOps. This is achieved through automation, enabled through HCL's DRYiCE best-of-breed automation & orchestration framework, enablement of cloud solutions (hybrid cloud), as well as the use of cloud adoption tools and a cloud orchestration layer.

With this offering, HCL is focusing on what it calls Gen 2 outsourcing, which is more about driving results that support the overall goals of the business rather than purely reducing the cost of IT operations.

A further offering within the infrastructure portfolio is HCL's mainframe management services. Especially for financial services clients, but also others with mainframe installations between 1,000-5,000 MIPS, HCL offers cost-effective and future-proof managed mainframe services.

### **Application services**

In the application services space, which accounts for approx. 35% of HCL revenue in the DACH region, HCL is focused primarily on application support optimization, offering AMS, apps modernization (esp. cloud migration) and collaboration. A key client in Switzerland is Novartis, for whom HCL is working on digital and advanced analytics, innovation, mobility solutions, private and public cloud offerings and infrastructure modernization for a large-scale transformation.

### **Digital consulting and transformation services**

The digital business focuses on customer experience and business model innovation. HCL's typical model for its strategic, disruptive work includes setting up innovation labs with key clients. HCL currently runs six digital innovation labs with European clients. Its role in these will vary but spans client research, ideation, design, prototyping, business case development, user testing, solution development and implementation as well as project and program management. HCL will bring relevant third parties to the project and manage the whole ecosystem.

### **R&D services**

HCL is one of the largest R&D service providers in the world. It has been active in R&D services for 20+ years, and is now strongly expanding this market segment within the Machine 4.0 or IoT context, as IoT is often combined with engineering services. HCL has been instrumental in engineering multiple products for 300+ customers globally across 10 industry verticals. The engineering services span the entire product development lifecycle from new product introduction to the end of lifecycle for a variety of industry sectors, including aerospace, semiconductor, electronics/engineering, energy and natural resources, CPG, medical devices, etc.

### **Next-generation network services**

An additional, somewhat new and unique offering taken to the DACH market by HCL are next-generation network services for multinational corporations. HCL offers to set up a backbone (in cooperation with Telstra) as well as manage and optimize MPLS bandwidth using internet breakouts and a cloud approach, thus reducing the price per link as well as the number of links required. With this approach, HCL has proven to be able to achieve cost reductions of 30%+, e.g. for Nokia. Further benefits beyond cost

reduction include an improved digital workplace environment (optimizing international collaboration) as well as enablement of remote site consolidation and enhanced network security.

#### 4. HCL'S LOCALIZATION STRATEGY

In the DACH region, where customers have in the past been less open to India-centric IT service players, offshore delivery models (and the English language), HCL managed to build local presence through a carefully-devised localization strategy focused on working with long-standing customers (such as Deutsche Bank) and gradually building out relationships (and share of wallet) with those, while at the same time targeting a select number of new customers. It appears that customer satisfaction and contract renewals/extensions with existing clients has priority above new logo wins.

HCL has adopted its service portfolio to the local market requirements and is continually building out its onsite, onshore as well as nearshore delivery capabilities, thus responding to DACH customer demands for proximity as well as flexibility in delivery locations.

HCL has around 17 delivery centers across Europe (mostly in the Nordics and in UK, as well as in Poland, Italy, Estonia and Hungary), which are used for DACH clients. In addition, it runs a local innovation incubation center for Deutsche Bank in Frankfurt, providing digital services by leveraging the design thinking approach, user experiences, visual design, development, enhancement, mobility application, data analytics and testing services. Together with the high number of onsite personnel, this illustrates the high level of customer centricity that HCL is providing to its clients, allowing for flexibility in onsite, onshore, nearshore or offshore delivery.

To alleviate potential concerns of DACH customers about IT security in global delivery, HCL has developed its “Digital Fortress” framework, consisting of governance as well as logical & physical security controls that can be deployed in any technology environment to ensure comprehensive security and control as well as compliance with industry-specific (or country-specific) regulatory requirements.

## 5. PAC'S EVALUATION AND OUTLOOK

HCL has consistently built up its capabilities and customer base in the DACH region over the past few years. Its impressive and long-standing client base of blue chip companies in the region, the high renewal rates (98%+) and high customer satisfaction are testimonies of its success.

In PAC's opinion, this success is founded on some key aspects:

- The focus on customer satisfaction and mutual success in any given project is certainly similar to some other India-centric players, but might be even more pronounced at HCL. With high levels of flexibility and transparency as well as a focus on openness and communication, HCL is able to build a relationship that goes well beyond the contract (and avoids any change request costs), as this builds trust and shows a high level of commitment.
- In PAC's view, a key factor in ensuring this commitment is the company's organizational structure and processes, which are designed to focus on customer needs. The idea is for employees to work more closely with the customer so as to trigger innovative proposals and joint incubation to drive a greater level of innovation for customers.
- HCL's "Employees First" philosophy supports this, as it helps to ensure employee retention and commitment by empowering its staff at all levels to work closely and collaboratively with the customer.

With these differentiators, as well as its continued focus on technology and service development founded on IP-based assets in automation, AI and DevOps, HCL is well-positioned for further growth.

What does HCL need to do to continue on its DACH growth path?

In PAC's opinion, HCL is on a promising track but needs to continue to carefully adapt its localization strategy to the local markets, where even between the three DACH countries differences exist, for example in terms of cultural characteristics. The build-up of a local headcount needs to be continued, which also implies an adaption of cultural requirements in the context of employees. This is an important aspect to consider so as to be perceived as an attractive employer.

Nearshore delivery is becoming an increasingly important topic. Consequently, HCL will have to continue building out its headcount and capabilities in nearshore locations (esp. Eastern Europe) but also integrate this well with its global delivery network.

The implications of digital transformation are having an increasing impact on companies, also in the DACH region. With HCL having significant capabilities at a global level in addressing this subject for its customers, there now needs to be a higher investment level also at the local level. Building out local domain expertise with a clear understanding of and perspective on the specific, local requirements is required as well as initiatives to increase visibility and build thought leadership in key "digital" topics.

## ABOUT PAC

Founded in 1976, Pierre Audoin Consultants (PAC) is part of CXP Group, the leading independent European research and consulting firm for the software, IT services and digital transformation industry.

CXP Group offers its customers comprehensive support services for the evaluation, selection and optimization of their software solutions and for the evaluation and selection of IT services providers, and accompanies them in optimizing their sourcing and investment strategies. As such, CXP Group supports ICT decision makers in their digital transformation journey.

Further, CXP Group assists software and IT services providers in optimizing their strategies and go-to-market approaches with quantitative and qualitative analyses as well as consulting services. Public organizations and institutions equally base the development of their IT policies on our reports.

Capitalizing on 40 years of experience, based in 8 countries (with 17 offices worldwide) and with 140 employees, CXP Group provides its expertise every year to more than 1,500 ICT decision makers and the operational divisions of large enterprises as well as mid-market companies and their providers. CXP Group consists of three branches: Le CXP, BARC (Business Application Research Center) and Pierre Audoin Consultants (PAC).

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