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By Abhay Singh and Ron Day

Aug. 23 (Bloomberg) -- On a July morning, a dozen engineers from Wipro Ltd., India's third-biggest software exporter, gather at their desks. Vinod Jayaraman is enjoying the sunshine: In a few months, temperatures will plunge as low as minus 27 degrees Celsius (minus 17 degrees Fahrenheit) and his cricket matches will give way to the national passion: ice hockey.

Jayaraman, 33, is what Wipro calls an on-site coordinator.

He has been transported 170 kilometers (107 miles) north of Helsinki to Nokia Oyj, the world's biggest mobile phone maker.

"Our people can work in any part of the world," Jayaraman says. "It all depends on what the client wants."

After years of cut-rate computer coding and running call centers that fill catalog orders, India's biggest software services companies -- Infosys Technologies Ltd., Tata Consultancy Services Ltd. and Wipro -- want more. Wipro Chairman Azim Premji, 59, calls his company "a global lab on hire" that can build the guts of a cell phone, design a semiconductor or run a client's computer system for as little as one-fifth of the price a U.S. company would charge.

For two years, Jayaraman has kept Wipro workers in Tampere, Finland, in sync with 100 programmers in Hyderabad, India, 6,500 kilometers away. He says he has learned to like the potatoes and fish of the local cuisine, though he misses the spices of his native Bangalore. On this day, his team is designing software for Nokia that lets phone companies manage cellular networks from one location.

Collision Going On

As debate about outsourcing plays out in U.S. state legislatures and the U.S. Congress and on the presidential campaign trail, Wipro and Infosys have already moved on. They're pursuing lucrative computer services and technology consulting contracts outside India that were once the exclusive domain of Accenture Ltd., Electronic Data Systems Corp. and International Business Machines Corp.

"There's a collision of sorts going on," says Craig Franklin, 43, executive vice president for global technology development at McLean, Virginia-based BearingPoint Inc., formerly KPMG Consulting Inc. "The Indian companies are trying to move upstream."

Premji is betting that as Wipro increases its 5,000 engineers who are scattered from Australia to Canada and adds to the 190 consultants it gained with two U.S. acquisitions, the low-cost strategy that worked for programming and call centers will grab new consulting customers -- and keep them for decades.

'The India Model'

"The economic compulsions are so enormous that you cannot ignore the India model," says Premji, seated in a conference room at Wipro headquarters in Bangalore, a sprawling city of 4.5 million people in southern India, where workers pour onto Silicon Valley-style campuses via pot-hole-laden roads jammed with buses, motor scooters and the occasional cow. Premji, India's richest individual, with an 84 percent stake in Wipro valued at \$7 billion, drives a 1996 Ford Escort.

Premji's approach is winning investors. Wipro's American depositary receipts, which were listed on the New York Stock Exchange in 2000, more than doubled to \$17 in the 12 months ended on Friday. Each Wipro ADR represents one ordinary share. The ADRs of Infosys, Wipro's neighbor in Bangalore and India's No. 2 software exporter, rose 82 percent to \$49.36 during that time. In August, Mumbai-based Tata Consultancy, India's No. 1 software exporter, raised 54.2 billion rupees (\$1.17 billion) from its initial public offering, the biggest by a non-government-owned Indian company. Investors sought more than 7.7 times the 63.8 million shares being offered.

Finding a Niche

Shares of Hamilton, Bermuda-based Accenture, formerly known as Andersen Consulting, increased 24 percent to \$26.05 in the 12 months ended on Friday. Plano, Texas-based Electronic Data Systems, the world's No. 2 computer-services company, behind IBM, lost 22 percent to \$17.72.

Armonk, New York-based IBM doesn't comment on rivals, says IBM spokesman James Sciales. Accenture declined to make executives available for this story. "We consider Indian companies a niche competitor," Accenture spokeswoman Roxanne Taylor says.

Premji has always found his niche. He took Western India Vegetable Products Ltd., the business his father started as a cooking oil maker in 1945, and built a technology company with \$1.35 billion in annual sales that has survived the nation's upheavals.

First Computers

In 1977, when the government of Prime Minister Morarji Desai forced foreign corporations out of India to strengthen the nation's companies, Premji, who studied electrical engineering at Stanford University in Palo Alto, California, saw that the absence of companies such as IBM would create a market for Indian vendors of computers and software.

Premji hired engineers and built his first minicomputer in 1982. A year later, he released Wipro 456, a spreadsheet program similar to Lotus 123, a top seller in the U.S. at the time. He followed with Wipro's first personal computer in 1986.

When the government of Prime Minister P.V. Narasimha Rao opened the Indian economy in 1991, Premji changed again. Wipro's

software was no longer protected by 325 percent duties, so he put his battalion of programmers to work for the corporations that were streaming back in.

Half a decade later, when companies panicked that the year 2000 date change would crash computers, Wipro rewrote millions of lines of code for companies such as Weyerhaeuser Co., the world's biggest lumber producer. Dozens of the Y2K clients remain Wipro customers.

More Work for Wipro

"We plan to put more work, not less, with Wipro," says Susan Mersereau, 57, Weyerhaeuser's chief information officer. Now, Mersereau has hired Wipro to figure out whether the Federal Way, Washington-based company could spend less to run its mainframes -- or whether it should farm out the work instead. Premji's foray into consulting may prove his biggest challenge. Consulting encompasses everything from advising customers on software to corporate overhauls that can take years. In 1996, the U.S. Department of Defense hired BearingPoint to aid in the closing of Kelly Air Force Base in San Antonio, Texas. BearingPoint helped the U.S. Air Force keep track of 30,000 items that were required to comply with base-closure regulations. The base shut down in 2001.

Consultants command higher salaries than programmers. U.S. consultants with seven years of experience make an average of \$94,000 a year compared with \$80,600 a year for a programmer who has five to eight years on the job, according to Needham, Massachusetts-based Salary.com, which gathers pay information. A programmer with less than three years of experience makes an average of \$49,300.

'Consulting Model'

"Consulting is a different model," says James Sims, chief executive officer of Boston-based technology consulting firm Gen3 Partners Inc., which counts household products maker Procter & Gamble Co. and pet food producer Ralston Purina Co. as clients. "Indian companies are going to spend a lot of money to go after markets that are being served."

Last year, worldwide revenue from information technology consulting barely budged to \$43.08 billion from \$43.03 billion in 2002, according to Gartner Inc., a market research firm based in Stamford, Connecticut. That means more companies are fighting over a stagnant pool of money.

Franklin says BearingPoint has the advantage of a track record that dates back almost a century. The company began working for the U.S. government as Marwick Mitchell at the Brooklyn Navy Yard in 1911. The U.S. Navy remains a client. "What keeps us from getting concerned is that the consulting business is relationship based," Franklin says.

Lack of Polish

Subhash Valanju, 62, chief information officer at Milwaukee-

based Johnson Controls Inc., the world's second-largest maker of car interiors, says he's skeptical that Wipro or Infosys will take business from IBM or Accenture in consulting.

"Indians may know the technology and have the functional knowledge," says Valanju, who hired Infosys to replace software from Novell Inc. earlier this year. "But they may fall short on the style and polish required for consulting."

What Indian companies may lack in polish, they're trying to gain through acquisitions. Wipro has bought seven companies since 2000, according to data compiled by Bloomberg. In April 2003, it paid \$18.7 million for 90-person NerveWire Inc. in Newton, Massachusetts, to add consulting to the work it does for banks. At New York-based JPMorgan Chase & Co., Wipro is developing software that managers use to calculate the risk of a financial decision, according to a June news release. JPMorgan spokesman Adam Castellani declined to comment.

Infosys Acquisition

This past April, Infosys spent \$20 million to start a consulting firm in Fremont, California, 36 miles southeast of San Francisco. Infosys Consulting Inc. is luring executives from U.S. competitors. Among them is Ming Tsai, 43, whom IBM featured in a newspaper ad last year touting its consulting unit.

With workers like Jayaraman overseas and 25,000 employees back in India, Wipro enjoys cost advantages that Western competitors can't match, Premji says.

An engineering graduate of an Indian college earns about \$6,000 annually, one-tenth the salary of a U.S. graduate. Premji predicts India's supply of engineers will keep a lid on pay. He estimates the country will produce 280,000 four-year engineering degree holders and more than 250,000 three-year diploma holders this year compared with 60,000 U.S. engineering graduates.

Charge Less, Make More

Jess Scheer, executive editor at Peterborough, New Hampshire-based Kennedy Information Inc., which reports on the consulting and computer services industries, estimates Indian firms charge an average of \$30 an hour for programming in India and global rivals ask \$150 for similar work. "The Indian companies are able to charge less but make more," Scheer says.

Wipro's operating margin -- the share of sales after subtracting contract fulfillment and selling, general and administrative costs -- was 22 percent in the year ended on March 31, almost double the 11.6 percent for Accenture in the year ended on Aug. 31, 2003.

As a group, India's computer-services companies are growing seven times faster than U.S. firms. Their revenue jumped a combined 29 percent last year compared with a 4 percent gain for U.S. firms, according to Gartner.

'No Comparison'

At Wipro, annual net income growth has averaged 68 percent

and sales have increased an average of 26 percent during the past five years. Wipro's profit in the first quarter ended on June 30 soared 73 percent to 3.57 billion rupees from 2.06 billion rupees a year earlier. Sales climbed 48 percent to 17.7 billion rupees.

“Competitively speaking, there's no comparison,” says Armon Bar-Tur, who manages the \$578 million Morgan Stanley Information Fund in New York. “We are seeing Indian companies offer growth rates of 20 percent to 30 percent and U.S. companies basically zero to 10 percent.”

U.S. companies are fighting back with their own India model: adding more workers there. In April, IBM bought Daksh EServices Pvt., which handles customer service calls for Sprint Corp. and e-mail queries for Amazon.com Inc. Daksh, based in Gurgaon, near New Delhi, gives IBM 6,000 employees in India on top of the 9,000 already there.

Accenture has 7,000 workers in Delhi, Mumbai, Bangalore and Hyderabad and plans to boost that to 10,000 by year-end, Vernon Ellis, Accenture's international chairman, said in a November 2003 interview with Bloomberg News. El Segundo, California-based Computer Sciences Corp., the third-largest U.S. computer services company, plans to have 3,500 people in India by March 31.

Premji's Hold

One thing that may curb investor enthusiasm for Wipro is Premji's grip on the company. His 84 percent stake is almost quadruple the 22 percent share that five Infosys founders, including Chairman N.R. Narayana Murthy, 58, and CEO Nandan Nilekani, 49, hold in that company. “Foreign investors can't have as much of an appetite for Wipro stock compared with Infosys because availability is low,” says Jaideep Goswami, an analyst at HDFC Securities Ltd. in Mumbai.

Premji says he may loosen his control. “We see the need to have more dilution of ownership, which we will move toward gradually,” he says. “We are looking at the possibility of a secondary issue through ADRs.” He declined to elaborate.

Like many of the turning points in Wipro's six-decade history, Premji's path to riches began with a crisis. In 1945, his father, Mohamed Hasham Premji, had to abandon the family rice trading business when the government took control of exporting and importing the crop. He turned to selling cooking oil. In 1947, he set up a mill to extract oil from peanuts and opened a hydrogenated cooking oil plant.

‘More Determined’

Hasham Premji died in 1966, when Azim was a 21-year-old student at Stanford. Cutting his studies short, the younger Premji returned to face his first shareholder meeting as head of the company. He recalls that one investor, Karren Wadia, advised him to step down and let professional managers take over. Premji says the incident had the opposite effect. “It just made me more determined,” says Premji, who completed his bachelor's degree in electrical engineering in 1999.

Azim Premji began expanding Wipro's businesses. He set up

Wipro Fluid Power in 1975 to make hydraulic cylinders for dump trucks. He added soaps in 1985 and lighting in 1992. Wipro's consumer goods and lighting division contributed 6 percent of revenue in the first quarter ended on June 30 compared with 74 percent for software services.

When India closed its borders to foreign companies, Premji drew on his electrical engineering background, moving into computers, software and printers.

Execute to Perfection

He says he admires Michael Dell, 39, who began his own PC business in a dorm room at the University of Texas at Austin in 1984, two years before Wipro built its first personal computer. Dell Inc., now the world's biggest PC maker, cut costs by selling directly to consumers and businesses and holding few parts in inventory.

"Dell executes to perfection," says Premji, who says he knows Michael Dell well. Today, Dell is Wipro's largest customer for its call centers.

Premji demanded perfection too, recalls Som Mittal, 52, who worked at Wipro from 1989 to 1994. Mittal says Premji interviewed him for seven hours before giving him the job of heading Wipro's printer division.

Another time Mittal received a letter from Premji with a pen that didn't write. Mittal's staff had given out the defective ballpoint at a press conference.

"The message to me was: Don't put Wipro's name on something that doesn't work," says Mittal, who is now managing director at Digital GlobalSoft Ltd., a Bangalore software company owned by Hewlett-Packard Co.

Training Fanatic

Premji is just as fanatical about training workers like Jayaraman for global assignments. Wipro has 70 full-time teachers.

One online tutorial advises that Americans can appear rude because they're sticklers for time: "Time is of utmost importance to most Americans. It is something to be on, kept, filled, saved, used, spent, wasted, lost, gained, planned, given, even killed. Their lives seem controlled by little machines they wear on their wrists."

A 10-month course trains people to complete level three of the Japanese Language Proficiency Test, enabling them to understand 1,400 words and hold simple conversations. It also teaches origami, the art of paper folding; how to use chopsticks; and the rules of sumo wrestling.

Premji spends a few days every quarter in France, Germany, the U.S. and Japan to meet with customers, whom he declines to disclose. "He virtually handles Europe and is taking responsibility for developing that market," says Ashok Soota, 61, chairman of Bangalore-based MindTree Consulting Pvt., who worked for Premji from 1984 to 1999.

Ripe for Wipro

Europe is ripe for Wipro, Premji says. The region accounts for 26 percent of Wipro's software sales. In contrast, the U.S. and Canada contribute 69 percent. "Global compulsions of competitiveness are forcing countries such as Germany and France to evaluate India," Premji says.

Wipro's headquarters reflects Premji's Western designs. The 12-kilometer trip from central Bangalore takes 35 minutes, the last 2.5 kilometers on a bumpy two-lane road. On the campus, the crush of the journey gives way to landscaped lawns and still pools of water.

Twenty kilometers away, Wipro's main development site is bustling. Some 7,200 employees work in eight glass-and-concrete buildings. After hours, they mill around the gym and grab a sandwich or Chinese takeout at five food courts and a cafe. A bookstore features The "Da Vinci Code" by Dan Brown and thrillers from John Grisham and Jeffrey Archer at 20 percent discounts. Shoppers can buy Lee and Wrangler jeans and bank at Citigroup Inc. ATMs.

Bounty and Frugality

On some evenings, Wipro's two rock bands -- No Klue and Trad Scabrous -- perform at the campus amphitheater. Trad Scabrous, which means traditionally rough, favors 1970s rock from Led Zeppelin. No Klue plays a mix of Western pop and Hindi music. Amid the bounty, Premji's frugality shows through: Every conference room reminds employees to switch off lights. This year, when Wipro took in more than \$1 billion in sales for the first time, Premji didn't mark the milestone.

When Infosys hit the \$1 billion mark, it gave employees an average bonus of \$1,000, costing the company \$23 million, and a party. "I must have gotten 200 questions from employees on the topic," says Vivek Paul, 46, Wipro's vice chairman. "I had the same answer to give them: This is the way we are."

Infosys's upward mobility is on display at its campus. Golf carts chauffeur visitors around the site, which has a gym, an aerobics and yoga center, a swimming pool and an artificial pond with fish and paddle boats.

\$250 Venture

Chairman Murthy and six colleagues founded the computer services company in 1981 with \$250 they'd borrowed from their wives. In 1999, Infosys became the first Indian company to sell shares on the Nasdaq stock market. That year, sales were \$121 million. In March 2004, Infosys reported annual sales of \$1.06 billion and a profit of \$270.3 million.

CEO Nilekani is implementing his own twist on the India model: hiring executives from U.S. rivals to run the new consulting unit.

Infosys Consulting CEO Stephen Pratt, 42, spent a total of 20 years at Booz Allen Hamilton Inc. in McLean, Virginia, and Deloitte Consulting, part of Deloitte Touche Tohmatsu, the

world's No. 2 accounting firm.

At Infosys, Pratt recruited Paul Cole, 46, former head of global operations at Cap Gemini SA, Europe's biggest computer services company. Raj Joshi, 47, former CEO of Deloitte's overseas facilities, and Romil Bahl, 36, vice president for consulting at Electronic Data Systems, also joined. All are managing directors.

Industry Buzz

Pratt says the defections from the best-known consulting firms are creating a buzz. Since April 8, when Infosys Consulting opened its doors, 1,200 unsolicited job applications have poured in. Tsai, the former IBM consultant, says the lure of a startup hooked him.

“The challenge at IBM is that it's a very well-established company,” says Tsai, who is a managing director. “It's so big that finding opportunities for growth are a little difficult.”

Pratt says that when he was at his old jobs, he realized the future of consulting was tied to low-cost computer services done overseas. At Deloitte, about 300 consultants flew to the client, stayed in hotels, spent time on the project and then flew home.

'Archaic Way of Working'

“It seemed a really archaic way of working,” he says. “In this era of high-speed global communications, most of the work should be sent to the workers instead of sending the workers to the work. You get higher quality, much lower cost and happier clients and consultants.”

Robeco Group fund manager Michiel Plakman, who helps oversee \$4 billion in Rotterdam, sees drawbacks for investors as Infosys and Wipro compete in consulting. He says profit margins will shrink because the companies will pay the higher salaries consulting requires.

“Indian companies are expensive, and they probably face margin compression,” he says. Robeco Group owns Infosys shares in its Emerging Markets and Pacific funds. On Friday, Infosys ADRs were trading at 36 times future earnings compared with 21 times for Accenture.

Snehal Vashi, an analyst at Henssler Financial Group, says Indian companies face too many hurdles to succeed in consulting the way they have in outsourcing. “I'm skeptical,” says Vashi, whose firm manages \$1.1 billion in Marietta, Georgia. He says Indian companies with their low-cost services are like cars from Hyundai Motor Co. and Accenture is like a Mercedes-Benz luxury car.

Driving Vision

Premji says Japanese cars faced similar skepticism in the 1970s. Now, Japan's Toyota Motor Corp. is the world's second-largest carmaker and is gaining market share in the U.S. Ford Motor Co. and General Motors Corp. are resorting to rebates to sell some models.

“Our vision is to be among the top 10 information technology services companies globally,” Premji says. “This is what drives us every moment.”

Premji will have to show investors that the strategy that's taken Wipro from vegetable oil to computers and software will succeed as he moves beyond India's borders in what may be his biggest leap yet.

--With reporting by Ville Heiskanen in Helsinki. Editors: Roche, Wier.

Story illustration: For a slideshow of Wipro-related graphs and data, see {WPRO IN <Equity> CNP08737980102 <GO>}. Hit the Space bar to pause, and the <Go> key to continue. To compare various performance data with rivals, see {WPRO IN <Equity> RV <GO>}.

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