Infosys at the Crossroads

Can the IT giant re-invent itself to regain market share, sales, and investor confidence?

Once upon a time, in a country named India, six young men armed with US$250, garage space, and lofty dreams, resigned from their full-time jobs at Patni Computer Systems to create their own vision of the IT world… and Infosys was born.

The infant software company grew into a fantastically successful global giant after just ten years, and kept on growing for two more decades after that, right up to today – offering business consulting, engineering, information technology, and outsourcing services. It garnered loyal investors through two IPOs and steadfast customers, happy to join the company's steady gait towards the far-off finish line. They were such a tight-knit, contented and happy crowd they didn't notice when in the last two years, competitors in the race began overtaking them.

But others did.

The day of reckoning for Infosys came on April 21, 2013, 31 years after its founding and 20 years after its international IPO. Annual earnings missed analysts' forecasts, while guidance for the current business year was well below industry projections: 6-10 percent vs 12-14 percent for the IT industry as a whole. Infosys attributed the poor numbers to "global uncertainties and volatility" and said they'd give no more financial guidance to the market. It was too much for shareholders who bailed out in droves sending the stock crashing 29 percent in one day.

"Murthy Magic?"

Infosys reported earnings July 12, 2013 for the first quarter, ending June 30, beating analysts' expectations and re-confirming revenue growth targets set in March. The stock soared as much as 15 perecent on the news.

Revenues were up 3.7 percent year-on-year, with a net profit of US$397-milllion and 66 new customers. Growth targets remained 6-10 percent, in line with company predictions but below the industry average of 12-14 percent; still, analysts had predicted worse.

The company said it was refocusing on its core business - IT outsourcing contracts - and away from proprietary software, where it could not compete with rivals such as Tata Group and lost 16 percent of its value last year in the battle.

"The worst is over," analysts said. "But how quickly can they recover from here?" They will be watching founder N.R. Narayana Murthy - back at the Infosys helm after an aborted two-year retirement - to work his magic.

Loss of the Benchmark

Infosys was no longer an IT benchmark. Despite its 95+ percent return-business, loyal customers were declared a "liability"; the company, according to financial experts, wasn't attracting enough NEW clients. Sales were lagging, market share was eroding. The company's steady, conservative once-reassuring corporate culture was now "old-fashioned". Infosys had a competitiveness problem: it was losing its edge.

The wise men (otherwise known as the board of directors) reckoned there was only one man who knew the company well-enough, had the respect of enough people, and had the sheer guts to make changes fast: one of the Infosys founders, retired CEO and chairman N. R. Narayana Murthy.

By June 1, 2013, he was back in the driver's seat of Infosys asking the board and market analysts to give him three years to design and complete an overhaul for Infosys before passing judgment.

The first thing he did was to give Infosys employees – all 156,000+ of them in 30 countries – a raise. Costly for an international, publicly-traded Indian company with declining revenues and slumping rupee currency, but less costly than losing the good people you DON'T want to lose.

One of those people is Rajesh Krishnamurthy, Infosys Vice President, Global Head of Consulting and Systems Integration, a US$750/800 million business unit based in Paris where – despite the current gnashing of teeth over the low-growth expectations for Europe as a whole - he is out to increase the European share of the Infosys business.

"Forty percent would be healthy," Krishnamurthy told INSEAD Knowledge in an exclusive interview on the sidelines of the INSEAD Global Business Leaders Conference in Paris at the end of June. "Europe was an area where we lagged in terms of making investments. We should have made more there upfront."

The Infosys purchase of Swiss-based Lodestone Management Consultants for US$350 million in October of 2012 was part of that European catch-up plan. Krishnamurthy says Infosys is now looking to balance its revenue sources at 40-40-20: 40 percent from the U.S., 40 percent from Europe and 20 percent from Asia-Pacific.

Balanced Revenue Streams

They have some selling to do. The U.S. currently accounts for more than 60 percent of revenues - a bit tricky with currency exchange fluctuations and contentious U.S. immigration legislation that will severely limit the number of Indian Infosys employees who can be sent to the U.S. to physically work in companies as part of Infosys' outsourcing business. "You'll be seeing a disproportionate amount of investments we're going to continue to be making in Europe and the rest of the world," affirms Krishnamurthy.

This is being done from Paris. "Being based in Paris is actually a blessing in disguise," he says referring to the popular theory that France is not a good place in which to base your international franchise. "It gives me a very central location – I have roughly about 10,000 people who work in my practice. I have clients from Australia all the way to Seattle. Paris has good time zone coverage. It's one hop to India, where I travel very often, one hop to the U.S., where I have half my business and it's a great choice from a personal perspective."

With all that travel Krishnamurthy has developed a strong sense of what his customers want. "A client today typically needs three things: they want partners who can help them run more efficiently; they want help in transforming themselves in order to compete in an increasingly global workspace; and they want innovation – new ideas to help them become faster, better, more competitive?"

Addressing these demands takes more than a financial flirtation or you end up selling new services to "mature" clients. Krishnamurthy says analyst criticisms of too much repeat business should be taken as a compliment. "It gives you an index of the kind of confidence the customers have in your ability to deliver, and their satisfaction and willingness to do business with you," he says. "In the past two years we've added more clients than in the five years prior to that," he adds.

Changing with the Times

He points out that in the last 10-12 years, Infosys' move into new businesses - enterprise, package applications, consulting, systems integration – attracted fresh clients. At the same time business with existing clients has also increased. Our relationships with our clients are growing and we're growing our market share with those clients."

Krishnamurthy himself has been with Infosys for 20 years. When he joined, the company had 150 employees, and Krishnamurthy worked out of a kitchen in a house in Bangalore He had access to a computer only from midnight to 6am because Infosys was running in shifts and the younger employees took the "graveyard" shift.

"Size has changed today," he laughs, but more importantly the world in which we're operating has changed. The last few years of the economic downturn has made it stark because the need for innovation has never been stronger. I think only companies which are going to constantly invest in creating new services and in creating new ideas and have the ability to turn those new ideas into something concrete and take them to the market are really going to survive in the long run."

Will Infosys be one of them?

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