

Manufacturing



Infosys partners with Philips in the journey to transform their Shared Service Centers (SSCs)

Philips selected Infosys in 2007 amongst 9 global BPO vendors to acquire and operate their SSCs after an exhaustive due diligence and capability assessment process. Two years into operations, Infosys further realizes business value for Philips through the implementation of process automation projects, transaction-based pricing model, leveraging best-shore locations and reducing employee attrition rates. Today, Infosys has 1400 FTEs managing complicated Finance and Accounting (F&A) processes and parts of the Procurement business for Philips.

The Client

Philips is one of the world's largest providers of healthcare, lighting, and consumer lifestyle products and services. It has its manufacturing operations in 28 countries and sales operations in 150 countries. The company's revenue in the year 2008 amounted to EUR 26 billion. It employs 120,000 employees worldwide.

The Business Challenge

Philips had set up three SSCs in Poland, India, and Thailand during the years 2002 to 2007 to process its F&A and Procurement transactions in the most cost effective and efficient way. The centers served Philips' businesses globally representing about 400 reporting units, running on 16 different SAP instances.

During the span of 4 years, Philips had achieved significant cost reduction through labor arbitrage and had made good progress in terms of standardization and automation.

However, the SSCs faced a few significant challenges:

- Lack of expertise in technology to drive further process improvements and innovation projects
- Inadequate cost structure that could not adapt quickly to volume changes or macro-economic changes, such as cost of living or exchange rate fluctuations, etc.
- Lack of long-term career perspectives for the employees of the SSCs, who felt non-integrated with the core Philips organization
- Potential high-cost liability of restructuring
- Difficulty to provide value addition in service excellence

To address the above challenges and to realize business values, Philips decided to sell their SSCs and outsource their operations to a suitable BPO service provider. Infosys was selected to acquire and operate the three SSCs of Philips after an exhaustive due diligence and capability assessment process.

The objectives set for the partnership were clearly defined as follows:

- Optimize costs through continued cost reductions and transaction-based pricing
- Move more processes offshore to generate greater value
- Increase organizational agility through broader service delivery footprint
- Drive commoditization of processes through standardization and automation
- Improve service levels with stronger supporting functions and technology
- Increase employee engagement with broader and enhanced career opportunities

Infosys Solution

The relationship with Philips was unique to Infosys as it entailed taking over of 1,400 FTEs located in three countries. Moreover, unlike a first-generation offshore engagement, Philips had realized considerable benefits of labor arbitrage and centralization. As a result, Infosys had to focus on ensuring smooth transition of services and providing transformational initiatives to realize business value for Philips.

The following are some of the highlights of Infosys' solution:

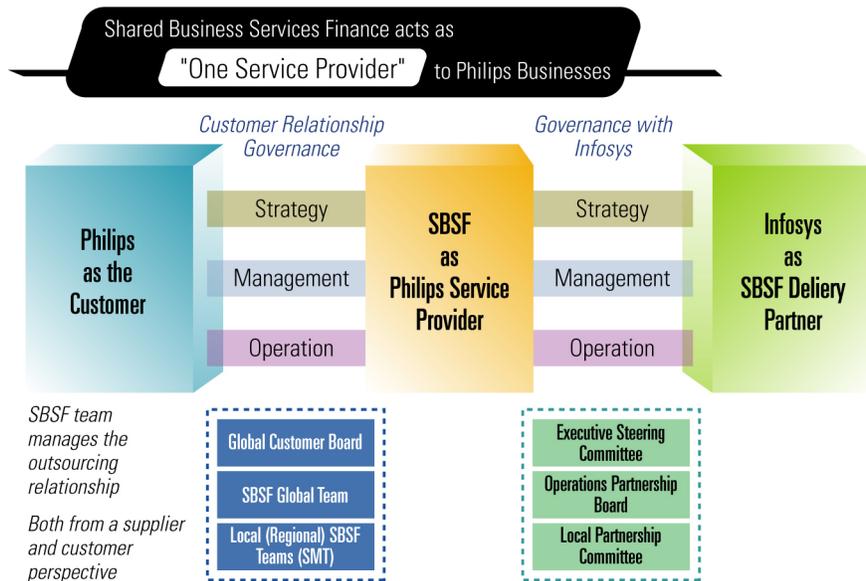
Effective integration of the SSCs

The integration of the SSCs with Infosys was an important step. Infosys and Philips jointly managed focused and targeted communication to the employees, and addressed their concerns related to the acquisition and also provided them with inputs to fine-tune the integration strategy.

For example, Infosys carried out branding exercises in Poland and Thailand, where it had little presence before. Infosys trained the employees of the SSCs on Infosys HR policies, provided access to various online HR tools, and organized forums to enable them with senior management interaction.

Robust governance framework

To fulfill the partnership's objectives, the governance model is structured at strategic, tactical, and operational levels with appropriate representation from both Philips and Infosys. It is supported by a strong set of Key Performance Indicators (KPIs) on both sides focusing on ongoing service delivery, transformational initiatives, and scope expansion opportunities. A unique governance structure was established by the Philips' retained shared services organization, called Shared Business Services Finance (SBSF). SBSF acts as a front-end to Philips and manages the outsourcing relationship with Infosys, as shown in the following figure:



Reporting framework

During the early stages for the partnership, Infosys and Philips identified the need of a strong reporting framework to measure and monitor performance. Infosys automated the reporting framework and deployed a service-level management dashboard for the Philips reporting units. The dashboard provides granular details on the service levels at each of the 400 different units served. The relationships between various units are also established in the dashboard. These relationships help in an effective roll-up to view the service levels across geographies, businesses, and global Philips-wide view.

Tools for effective delivery management

Given the complexity of delivering services through multiple centers located in different geographies, a number of Infosys workflow tools are being leveraged to enhance visibility and streamline the operations. For example, Infosys has deployed its proprietary tool, Operations Excellence Management System (OEMS), to bring in workflow-based management of the work items.

HR solution

The employees that were transferred from Philips now have broader career development opportunities as they are part of a leading BPO company. They have the option of working on different client projects and pursuing other opportunities within Infosys. Infosys offers positions through an internal job posting process in critical support functions, such as quality and training, service design and implementation, Center of Excellence (CoE), sales & marketing, client relationships and transformation.

Infosys people management strategies are focused on hiring, developing, and retaining the best people in the market. There are multiple schemes in place to value, reward, and recognize employees for achievements in quality, customer satisfaction, team contribution, and process improvement. Considering the attrition challenges and recruitment lead time in the BPO industry, Infosys has a strategy of advance recruitment that is optimized through an early warning indicator from operations.

Transformational projects

This is an integral part of Philips' decision to outsource and Infosys' value proposition. Philips had already gone down the transformation path of globalization, process improvement, and scope expansion before its decision to outsource. The partnership with Infosys was the means to take the operations to the next level of the transformational journey, as shown in Figure 1.

A joint innovation board was established to accelerate innovation and automation-based transformation. This board facilitates deep interaction between process owners of Philips and Infosys. It also incubates and sponsors innovation-based projects that are focused on value creation through improvements in efficiency, business functionality, and delivery models.



Infosys Transformation Drive:

- Automation:** One of the key objectives of Philips was to leverage supporting technology. Infosys created a detailed transformation roadmap for the Philips F&A and Procurement operations that leverages Infosys suite of F&A and Procurement tools. Infosys and Philips jointly monitor the progress of the transformation roadmap based on investment and change management priorities.
- Increased standardization across SSCs:** There is an ongoing initiative to further standardize processes across the three centers. It is a complex exercise given the scale and scope of the engagement, but is an important step towards fulfilling Philips' objective of commoditization of processes to enable automation and further transition of work to lower cost locations.
- Full leverage of scope:** There is a joint effort in place to ensure scope compliance (that means that all the business units and geographies are covered for a defined scope of work) and expansion to new services (for example, rule-based controlling, logistics claims handling, IFRS* convergence, and so on) so that economies of scope are fully leveraged.

Transformation is promoted and incentivized through a gain-sharing mechanism for innovative projects and the recent implementation of transaction-based pricing.

Business Value Realized

Infosys has accomplished a number of objectives that were set forth at the time of acquisition. The initiatives are still in progress to ensure continued improvements and further realization of benefits for Philips.

* International Financial Reporting Standards (IFRS)

Transaction-based pricing

The transaction-based pricing approach is a true testimony of the partnership adopted by Philips and Infosys. While Infosys provided an overall framework for transaction price at the time of contract, both the teams worked together in 2008 to implement a time-bound transaction-based pricing mechanism in January 2009. This has unleashed an increase in productivity and transformational initiatives. Philips benefits from the variable cost model, especially in times of decreased volumes as in the current global recession environment. On the other hand, Infosys is highly incentivized to be innovative in its delivery model.

Further leverage of best shore locations

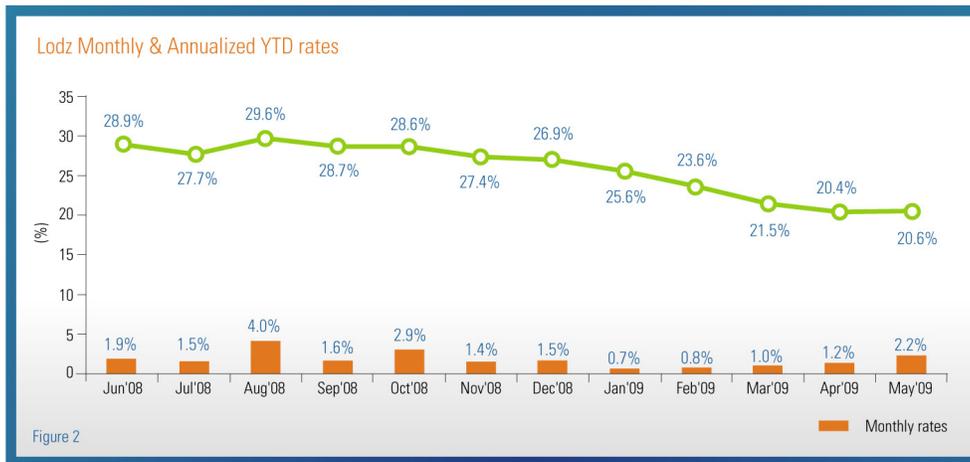
Infosys has moved more activities from regional centers in Poland and Thailand to global hubs in India and China to save additional costs for Philips and further harmonize processes. Infosys has currently opened a new center in Bello Horizonte (Brazil), to support the Philips business in Brazil. Infosys continues to focus on such initiatives and has an aggressive transition plan in place for 2009. Language neutralization techniques are being leveraged to reduce language dependency in processes so that the most cost-effective delivery location can be leveraged.

Increased organizational agility

Infosys has provided stronger ability to integrate new acquisitions or aid divestments. Transaction-based pricing provides the flexibility to Philips to change volumes as per requirement. Given the strong Infosys delivery capabilities, more back-up options are available for easier ramp-up or ramp-down and extension to new services. The most optimal delivery location is leveraged based on cost, skill set, and other service-related considerations. There is a business continuity plan in place leveraging new locations in India and China as back-ups.

Reduced attrition

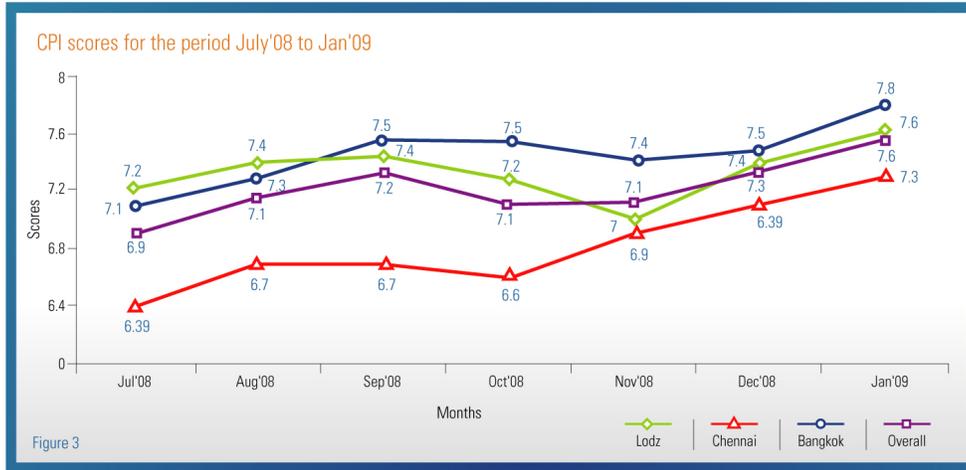
As indicated in the numbers of our Lodz center below (Figure 2), attrition has reduced significantly during 2008-2009. Although the current economic environment is most likely to be responsible for the reduction in attrition, in the last 9 months, we do see our staff being clearly engaged and motivated by the new possibilities offered to them in various new activities including solutions design, CoE, marketing presentations, setting up of new customer's engagements, etc.



Improved customer satisfaction

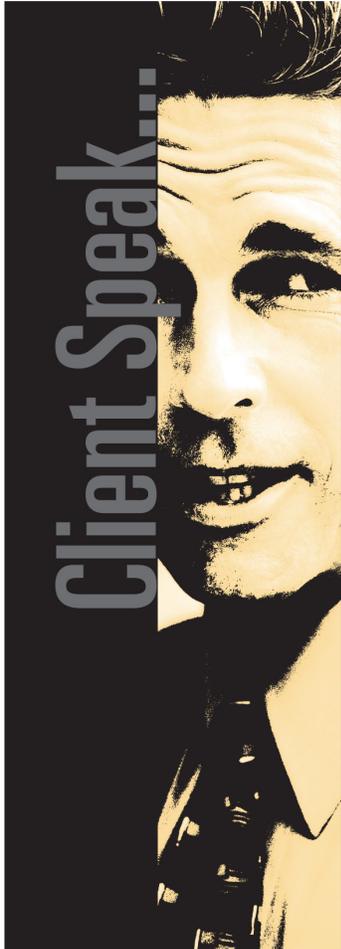
Customer satisfaction is measured on monthly and annual basis to assess the overall satisfaction and capture more specific feedback on operations, people, technology and other such parameters. Governance calls are used to address the findings and track them for closure.

This strong focus on customer satisfaction has resulted in a consistent improvement in customer satisfaction levels, as shown in Figure 3.



There is also a quarterly partnership health check to measure the health of the partnership at strategic, operational and tactical levels. Both Philips and Infosys provide their ranking to assess the health of the partnership.

For more information, contact bpo_marketing@infosys.com



Client Speak...

Rens Blankers, SVP, Global Shared Business Services, Philips

"We are happy to see in Infosys a partner who understands our key strategic goals and is focused on supporting the Philips Management Agenda. In this first year of collaboration we have seen our key objectives with Infosys for this year achieved and the relationship developing on very solid grounds in terms of operational performance, focus on transformation, governance and trust"

Gerard Ruijendaal, EVP, Chief Strategy Officer and Group Controller

"Infosys clearly demonstrated a willingness to invest in people with a strong HR process, better solution quality, ability to leverage end-to-end process improvements and a robust risk mitigation and transition plan. Their leadership capabilities were clearly evident in all interactions and proposal submissions, with a strong focus on the customer"

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For more information, contact infosysbpo@infosys.com

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