

HCL Technologies Gains Entry into Transformational Consulting Business with AXON Acquisition

By Rajabahadur V. Arcot

HCL Technologies has acquired AXON, a UK-based SAP consulting company for about \$650 million. The acquisition will enable HCL to address the global SAP services market, which according to Vineet Nayar, CEO of HCL Technologies is close to \$20 billion annually. The new business entity, resulting from this acquisition, is positioned as HCL AXON with the existing AXON's senior executives continuing to hold the responsibility for global and geographical operations.

Axon shot into prominence in August this year when Infosys Technologies, another leading Service Provider headquartered in India, made a cash-offer to acquire the company. A month later, HCL outbid Infosys and went on to clinch the deal.

Cost pressures will derive greater offshoring of SAP related services. Industry sources say that with Indian Global Service Providers lacking necessary capabilities in providing business transformation services, especially to manufacturing companies, their annual revenues from SAP services were only around \$1.5 billion. ARC believes that despite negative sentiments prevailing presently about job losses due to the present financial crisis, the cost pressures would continue to spur off shoring of software and enterprise services including SAP related services.

HCL Technologies seeking to further expand its business in Europe, where AXON has a well established presence, has opted to pursue its goal through acquisition. This acquisition would also help HCL to expand its footprint in the manufacturing segment as well as government and utilities. From AXON's perspective, this deal would give them headroom to competitively bid. With the global economy under recessionary pressures, service providers having the ability to manage costs would emerge more successful in the near term and forge ahead when economic normalcy returns. This acquisition heralds HCL's new growth strategy - expand in Europe while



increasing market share in North America, grow SAP services, and strengthen consulting capabilities.

Explaining the rationale behind the acquisition, Vineet Nayar said that it is a part of the company's Blue Ocean strategy, which positions company employees first, followed by R&D, RIM, and now SAP services. He went to add that through this acquisition HCL would be creating incremental value to its clients. The deal rationale is simple: HCL and Axon have complementary capabilities. The verticals that Axon addresses are: Public sector, Utilities, CPG, Aerospace & Defense, Oil and Gas. HCL caters to Hi-tech, Retail, BFSI, Energy and Utilities, Media, Publishing and Entertainment. A merger means reinforcing strengths and entering new verticals, such as manufacturing and government, as well as grabbing a larger market share in other verticals, such as retail and utilities. Axon's skills are in SAP consulting, which complements HCL's capabilities in the areas of application development and management and infrastructure management.

Axon designs, implements and supports solutions that address complex business issues faced by large organizations who have selected SAP as their strategic enterprise platform. Axon specializes in implementation of SAP's enterprise software, and their clients span industry verticals from aerospace to pharmaceuticals. Axon has offices in UK, North America, Malaysia, and Australia. The Malaysian office will enhance HCL's global delivery capabilities. Axon gets about 55 percent of its revenue from the UK, with North America accounting for 34 percent of revenues, while the new HCL Axon entity will have about a nicely balanced split of revenues between Europe and North America.

HCL Technologies is a leading Global Technology and IT enterprise that comprises two companies listed in India - HCL Technologies & HCL Infosystems, and the combined annual revenues was \$5.2 billion. Founded in 1976, HCL is one of India's original IT garage startups. The HCL team comprises approximately 58,000 professionals, operating from 20 countries. HCL has global partnerships with several leading Fortune 1000 firms, including leading IT and Technology firms.

Rajabahadur V Arcot, ARC Advisory Group, commented, "The acquisition of Axon by HCL will help the latter to expand its business in Europe and strengthen its foothold in manufacturing. This is a win-win deal for all stakeholders. Axon with proven track record in business transformational

consulting space, and HCL with deep technological skills and global delivery centers, is in a position to offer unique value to customers interested in SAP services. With this acquisition, HCL has acquired the ability to offer transformational business consulting capabilities which presently is dominated by consulting giants, such as IBM, Accenture, and Capgemini."

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