

Capgemini Increases Its Global Presence With Kanbay Deal

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Capgemini gains a badly needed boost in the U.S. market and financial services expertise with its agreement to acquire Kanbay. Successful integration of Kanbay will depend on cultural issues as much as operational issues.

NEWS ANALYSIS

Event

On 26 October 2006, Capgemini announced it would buy Kanbay International, an IT services provider that specializes in financial services, for \$1.25 billion. The deal is scheduled to close in 1Q07.

Analysis

The deal will give Capgemini:

- *More expertise in financial services:* Capgemini gains a credible presence in the U.S. retail banking, credit and investment markets, and will improve its standing in the U.S. insurance market. Capgemini's strategy seeks a strong presence across multiple service lines, focused on high-value engagements in line with its intention to maintain a premium global brand. This strategy is a reversal from the past few years, when Capgemini lacked investment, commitment and momentum in the U.S. financial services market.
- *A stronger presence in the U.S.:* Capgemini has had difficulty translating its European business model to the U.S. Kanbay offers a better route to U.S. business because of its systems integration and outsourcing work — two kinds of services that are popular in the U.S. The acquisition also may help Capgemini expand its business process outsourcing offerings.
- *An increased global presence:* The combined company would have about 12,000 employees in India. The acquisition of a significant number of skills in India is in keeping with Capgemini's Rightshore strategy. It enables Capgemini to build out a global model to support financial services clients. This may be less attractive to most U.S. companies, which focus on the domestic market, but it would very attractive to most European companies and U.S. companies with global ambitions.

Gartner surveys indicate that cost remains the biggest factor in offshore deals, and some financial-services clients tell us of dissatisfaction with offshore providers because of cultural "disconnects." Capgemini says it will address these issues by creating a seamless model that blends offshore and onshore resources and delivers an integrated service to clients.

Kanbay needed a bigger global player to take it to the next level. It was not so small, however, that it had trouble attracting good workers in India.

The success of the integration will rely as much on cultural differences as operational issues. Capgemini will be challenged to leverage the skills and geographic presence that Kanbay brings while integrating it effectively into the overall Capgemini portfolio. Capgemini must present a unified vision of its strategy to its customers, including the positioning of Sogeti, its subsidiary that provides application, infrastructure and consulting services.

RECOMMENDATIONS

Capgemini clients and prospects:

- Consider Capgemini for projects that require a blend of business and IT consulting and systems integration, with resources distributed across Western countries and India,

characterized by Western business sensibility and no sharp drop-off in domain skills being accessed in India.

- Capgemini indicates that integration with Kanbay will be straightforward, but recognize that — as with any acquisition — attrition and loss of client focus may occur. Capgemini insists that its focus will be strengthened, not lost.
- Evaluate Capgemini's domain expertise fit with your organization, keeping in mind that retail lending and credit are areas of established expertise, while the combined company will work to develop more of a presence in investments and insurance.
- Recognize that Capgemini probably is not the best option for well-defined application development projects, which pure-play providers usually can do more cheaply.

RECOMMENDED READING

- "Magic Quadrant for Offshore Application Services, 2006" — A large number and variety of application service providers are competing for customers, and new vendors constantly join the market. **By Partha Iyengar and others**
- "Vendor Rating Update: Capgemini" — Capgemini's recent changes in strategy and direction have started to reap results. **By Khalda Parveen and others**

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