

T-Systems Teams Up With Cognizant to Improve Competitiveness

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T-Systems and Cognizant have announced a global sales and delivery agreement. The deal will improve T-Systems' offshore capabilities and gives both companies access to each other's customer bases.

Event

On 5 March 2008, T-Systems and Cognizant announced an agreement for a joint global sales and delivery approach for system integration (SI) services. Both parties see this deal as a way to increase market share and reduce costs. The companies will establish a customer-specific joint sales and delivery model in selected markets. Cognizant will be the preferred supplier of offshore resources for T-Systems, and 1,150 software developers in India will transfer from T-Systems to Cognizant.

Analysis

The companies will leverage their customer bases and aim to exploit cross-selling opportunities. The agreement is intended to be more than just an exchange of lead management to close deals. Both parties have established a governance structure in the form of an operating committee to ensure a common go-to-market approach for international customers.

In addition to gaining a new client for its offshore services, Cognizant is included in the delivery chain for named T-Systems customers, so it can sell application development and maintenance (ADM) services to them. This announcement makes Cognizant's ambitious goal to grow its global IT services revenue by 38% in 2008 sound reasonable.

T-Systems will improve its offshore capabilities by having Cognizant as its preferred offshore partner for SI. It hopes to leverage Cognizant's strength in the financial sector. And Cognizant's market presence in the U.S. and India should help T-Systems improve its international coverage of its customer base. This deal wasn't intended to improve T-Systems' capabilities as a network operator, which remains an area for improvement. It is also unlikely to have any impact on T-Systems' IT consulting business. But this partnership will be used to stop erosion of T-Systems' share of the German IT services market, where its revenue fell 10% in 2007.

Cognizant's comprehensive Indian offshore capability may help T-Systems make its SI business more price competitive, which should help it achieve its target for earnings (before interest and tax) improvement of 1 billion euros by 2010. The danger is that large customers may choose not to increase their spending with T-Systems, and there could even be a short-term drop in revenue.

Recommendations

- **Customers of T-Systems for SI and ADM work:** Look to take advantage of the lower costs this deal should bring. But monitor workforce restructuring and examine T-Systems' project management skills closely, as its global delivery model is yet to be proven.
- **Customers of T-Systems looking to enhance global Internet Protocol infrastructure networks:** Continue to use best-in-class players for your needs.
- **Customers of T-Systems looking for a single-vendor approach for IT and communications needs:** Add T-Systems to your vendor selection shortlists.

RECOMMENDED READING

"Vendor Rating Update: Deutsche Telekom" — Deutsche Telekom's enterprise unit, T-Systems, is a good bet for firms that want a single provider of IT and communication services, but its converged fixed-and-mobile solutions are limited. By Lisa Unden and Martin Gutberlet

"Magic Quadrant for European Offshore Application Services, 2007" — The 2007 Magic Quadrant for Offshore Applications Services in Europe positions companies involved in globally delivered application service initiatives and presents the current provider landscape. By Ian Marriott and others

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