
COGNIZANT MAKES THE BIGGEST INDIAN BET YET BEFORE OPEN ENROLLMENT STARTS

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The Details

The second enrollment period in the US healthcare industry, post the implementation of President Obama's Affordable Care Act (ACA) will soon be open and IT/BPO service providers are making their strategic bets on the market for their services as new requirements and realities take shape. The latest and most significant example of major strategic bets being made was the announcement that Cognizant is purchasing healthcare software and solutions provider Trizetto for a healthy \$2.7 Billion – the largest acquisition ever made by an Indian IT/BPO services major, by some considerable margin.

HfS believes the shockwaves of this acquisition will have a major bearing on the evolution of services to both US healthcare providers and payers in the years to come, with Cognizant's rivals having little choice but to investigate large-scale investments of their own, if they are to remain serious about being competitive in this sector. Moreover the dynamic of services giants becoming genuine software solutions firms is now in full swing – especially with the former SAP's innovation leader, Vishal Sikka (see [link](#)), recently taking the reins at Infosys.

To this end, including Trizetto's software platforms (~60% of estimated \$720 Million TTM Revenue) to Cognizant's client relationships and focused sales capability in healthcare will make for a strong combination in the market. Trizetto had been cited in the past for having a strategic weaknesses in its approach to sales and account management (in fact, it once tried to hire salespeople who were incentivized not to lose business) and Cognizant with its client focuses sales and account management capability should be a strong counter weight especially when combined with the strong IT services and proven healthcare BPO capabilities in Cognizant as well.

HfS' experience with healthcare organizations has clearly demonstrated that the Trizetto solution product is mature for med-sized companies. It is proven.

Moreover, for companies that need to get onto the exchanges, or need to be ICD-10 HIPAA compliant, it provides a clear path for them to follow. Most insurers run different software for different products (large group, small group, individual). Consequently, they have lots of systems, hence having them standardize on Trizetto is a major opportunity for Cognizant.

In many respects, the core services of the BPO service providers to both Health Payers and Health Providers have been relatively stagnant for much of the last decade with most service providers delivering arbitrage based savings that were often build around a client's applications and a client's processes with some limited transformational or business platform based services to go with that. As a result, it had become increasingly difficult to ascertain where the differentiators are between the vast numbers of BPO service providers who deliver to clients in this market. In recent years some BPO service providers extended their offerings to include new capabilities such as care/medical management (the subject of a future HfS Blueprint) but it generally seemed like most service providers were holding back to see if and how ACA was going to be implemented and whether a broader trend towards the consumerization of health insurance was going to develop.

It would appear that days of holding back are and IT/BPO service providers like Cognizant seem willing to undertake both inorganic acquisitions (e.g. Trizetto but also EXL acquiring Blue Slate for additional consulting skills in healthcare) and organic investment in new capabilities (e.g. robotic process automation) to change up their offerings to the market. Cognizant in particular seems to want to step up and provide a broader Business Process as a Service (BPaaS) offering to both healthcare payers and providers to shake up the market further. Cognizant recently won a major IT+BPO deal at US payer HealthNet and now will own a proven business platform that can be used to take on all competitive service providers.

Why This Matters

This is a huge move for Cognizant, coming in at the top of our list of India delivery based IT/BPO acquisitions since 2000 (see Exhibit 1).

Exhibit 1: Major Indian Based IT/BPO Acquisitions

Acquirer	Acquisition	Value (\$ M)	Year
Cognizant	Trizetto	2700	2014
IGate	Patni	1220	2011
HCL	Axon	658	2008
Serco	Intelenet	653	2011
Wipro	Infocrossing	600	2007
Tech Mahindra	Satyam	580	2009
Genpact	Headstrong	550	2011
TCS	E-Serve	505	2008
Infosys	Lodestone	350	2012
Sutherland Global Services	Apollo Health Street	200	2013
Transworks	Minacs	125	2006
TCS	Alti	98	2013
Wipro	Spectramind	93	2002
EXL	OPI	91	2011
TCS	Unisys Insurance	NA	2010

Source: HfS Research 2014

However as large as the market opportunity in healthcare is and as large as this acquisition may be in comparison to others in this market. We have seen in the past acquisitions must do more than add capability or increase economies of scale; they must provide client relationships that can be grown, and new capabilities that can be extended. Cognizant seems to understand this as last year's much, much smaller acquisition of Medcall, has shown already what new capability can do to expand a market. Buying Medcall allowed Cognizant to engage the care management units of payer operations. Since care and utilization management drives medical loss ratios, it allowed Cognizant to open discussions to address the 80% of payers' costs that are medically related instead of the administratively focused 20%. We expect the Trizetto deal to allow Cognizant to address fundamental process and IT needs of both payers and providers to an extent they have never been able to do and which other service providers have in some cases previously tried to do through partnerships with Trizetto themselves. This is a move which can really shake up this market in the coming enrollment period and beyond.

What to Watch

We think the next 12 months are going to see a great deal of change not only in the landscape of US health insurance as the lessons from the first year of the ACA are brought to bear but also as the market continues to move towards an overall model of consumerization. As a result, we expect to see the market for IT/BPO services supporting all sides of the US healthcare market to continue to change with still under-developed areas such as care/medical management increasing in importance along with the new processes and technologies to support direct to consumer plans in ways that haven't been present before. We also expect to see other healthcare solutions providers such as Emdeon get included in the strategic market reviews by major IT/BPO service providers that are looking for their own solutions to the challenges posed by rising healthcare costs, an ageing population and the commercial and regulatory impacts of the implementation of ACA.

HfS is also changing in how we cover the US healthcare market for BPO services later this year. We will soon be announcing a new analyst hire who will be devoting a great deal of their time and effort to covering this market and the service providers who serve these clients. We will be excited to share the details of this announcement as soon as we can and are looking to conduct a Blueprint on care/medical management towards the end of 2014 as well before looking at other areas of the healthcare BPO market in 2015.

About the Authors

Charles Sutherland



Charles Sutherland is the Executive Vice President of Research for [HfS Research](#). In this role, he is responsible for the customized project work that [HfS Research](#) undertakes for our clients. He also has his own research agenda for HfS, which covers Finance & Accounting BPO, Procurement, Supply Chain and specific vertical process offerings. He is especially interested in the application of the SMAC (Social, Mobility, Analytics and Cloud) stack technologies and robotic automation to change the BPO market place and believes that a fundamental revolution in the way that BPO is solutioned and delivered is drawing near.

Charles is a twenty-year veteran of the high technology services marketplace with a global background having lived and worked across Europe, Asia and North America during that time. Prior to joining HfS Research, Charles was the Chief Strategy Officer for Dallas based BPO Service Provider SourceHOV. Previously he was the Managing Director of Growth & Strategy for Accenture's multi-billion dollar global BPO Growth Platform after getting his first operational experience in BPO delivery with Accenture more than a decade ago.

Charles has an MBA from INSEAD in Fontainebleau, France and an Honors BA in Economics and Political Science from the University of Toronto.

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Phil Fersht



Phil Fersht is Founder and CEO of leading global analyst authority, HfS Research. He is an acclaimed author, analyst and visionary in Global Business Services, the Digital Transformation of enterprise operations and talent development strategies.

Fersht founded HfS Research in early 2010 and has overseen the growth and development of the organization to become the leading analyst authority and knowledge community for global business services. He is also author and creator of the most widely-read blog in the global services industry, entitled “[Horses for Sources](#)” and now entering its eighth year with over a million visits per year across the globe. He was named “Analyst of the Year 2011” by the [Institute of Industry Analyst Relations \(IIAR\)](#), winning the premier analyst award for a second successive year - the most coveted global award for industry analysts in technology and services industry.

Over the past 18 years, Fersht has lived and worked extensively in Europe, North America and Asia, where he has advised on hundreds of operations strategy, outsourcing, and global business services engagements. At HfS, he directs and contributes to the firm’s research, advisory and global knowledge community, which today totals over 150,000 professionals and is served by a global analyst team across North America, Europe and Asia/Pacific.

During his career, Phil Fersht has worked at Gartner Inc. (AMR Research), directing the firm’s BPO and IT Services practices and served as market leader for Deloitte Consulting’s BPO Advisory Services, where he led numerous outsourcing and offshoring advisory engagements with Fortune 500 enterprises. He also worked for outsourcing consultancy Everest Group, where established the company’s BPO research practice. Phil began his career at IT analyst IDC where worked in the firm’s European, US and Asia/Pacific operations.

Under his leadership at HfS, HfS Research was named first in rising influence among leading analyst firms, according to the 2013 Analyst Value Survey, and second out of the 44 leading industry analyst firms in the 2013 Analyst Value Index. In 2012, the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, awarded HfS research analyst industry’s Most Innovative Analyst Firm in 2012.

Fersht contributes regularly to media such as Wall St Journal, Business Week, Economist, The Times of India and CIO Magazine and is a regular keynote speaker at major industry events, such as NASSCOM, Sourcing Interests Group and the HfS Blueprint Sessions.

Fersht received a Bachelor of Science, with Honors, in European Business & Technology from Coventry University, United Kingdom and a Diplôme Universitaire de Technologie in Business & Technology from the University of Grenoble, France. He also has a diploma from the Market Research Society in the United Kingdom.

About HfS Research

HfS Research serves the research, governance, and services strategy needs of business operations and IT leaders across finance, supply chain, human resources, marketing, and core industry functions. The firm provides insightful and meaningful analyst coverage of best business practices and innovations that impact successful business outcomes, such as the Digital Transformation of operations, cloud-based business platforms, services talent development strategies, process automation and outsourcing, mobility, analytics, and social collaboration. HfS applies its acclaimed Blueprint Methodology to evaluate the performance of service and technology in terms of innovating and executing against those business outcomes.

HfS educates and facilitates discussions among the world's largest knowledge community of enterprise services professionals, currently comprised of 150,000 subscribers and members. HfS Research facilitates the **HfS Sourcing Executive Council**, an acclaimed elite group of sourcing practitioners from leading organizations that meets bi-annually to discuss the future direction of the global services industry and the future enterprise operations framework. HfS provides Sourcing Executive Council members with the HfS Governance Academy and Certification Program to help its clients improve the governance of their global business services and vendor relationships.

In 2010 and 2011, HfS Research's founder and CEO, Phil Fersht, was named "Analyst of the Year" by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, and achieved the distinction of being voted the research analyst industry's Most Innovative Analyst Firm in 2012.

In 2013, HfS was named first in increasing influence among leading analyst firms according to the 2013 Analyst Value Survey and second out of the 44 leading industry analyst firms in the 2013 Analyst Value Index.

Now in its seventh year of publication, HfS Research's acclaimed blog "**Horses for Sources**" is widely recognized as the most widely-read and revered destination for unfettered collective insight, research, and open debate about sourcing industry issues and developments. Horses for Sources now receives over a million web visits a year.

To learn more about HfS Research, please email research@HfSResearch.com.