



# Analyst Meet

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## *Delivering Solutions Leveraging the Global Delivery Model*

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Today I will be talking to you about delivering solutions, leveraging global delivery model. By the looks of it, our business is doing phenomenally well. The global delivery model is the central, the most important paradigm shift thing that is happening to the IT services industry. Everyone's eyes are focussed on the global delivery model and analysts ask the global systems integrators questions about what their plan is about going offshore, going to India - that's the essential thing that is happening in our industry. Our clients expect that the global delivery model will be embedded in any services or solution that an IT solutions provider offers them. We Infosys, is at the center of this whole thing, because we are the best practitioner in this industry. We created the global delivery, we own it, and we are the best practitioners. Demand for offshore outsourcing is extremely strong, driven by the economy and what has happened in the IT services industry. So, by the looks of it we are in the thing of... I mean if I were a doctor and looking at this as a patient I would say there is absolutely nothing wrong, you know you are going to live a hundred years, but there is one dark lining in this silver cloud. And that is that the core of our business, which is offshore outsourcing, is facing the kind of margin pressures that we have not seen in the past, and the reason for this is that we have an increasing number of credible competitors in the market, people who have crossed say \$100 million or \$200 million in revenue. We have clients who are increasingly savvy about offshore outsourcing, they understand the model, they don't need somebody to guide them through this whole thing, and it is therefore getting difficult to differentiate offshore outsourcing between group service providers just based on that alone. So, basically for any service provider in the IT industry today that draws its customs from the global delivery model there is a need to innovate, to create new strategies to sustain profitable growth, and that is what I am going to talk about, our strategy on and how we are going to create and sustain profitable growth.

So, if you look at the past, our focus has been service expansion, service line expansion through which we wanted to create new services, expand the revenues that we get through new services, and stay ahead of the pack. And our mainstay was offshore outsourcing and that is what got us business. Offshore outsourcing is defined, everyone is trying to improve his organizations' performance for which they employ companies like ours, and we use our global delivery model, reduce cost, and improve performance. We have been actually very successful at the new service line expansion, if you look at how we have grown, this is the percentage of new services revenue to the total revenue of the company, in Q1FY-04 it is as high as 35%. We have done really well on this and earlier speakers have spoke about enterprise solutions and things that we were doing well on.

Going forward, our focus has to shift. Our focus is going to shift to business technology solution. We want to look at the business that we do with our clients and ask the question as to what do they want to from us. Let us not talk about our services Infosys as a service provider, our process maturity, let us talk about their business problem. Take out services, we then input solution and then present to our clients, that is what we think will drive greater profitability, it will deeper client relationship, increase the brand \_\_\_\_\_ and require us to focus and innovate. At the same time, offshore outsourcing which is our main stay, we want to look at offshore outsourcing and say how can we present offshore outsourcing not just as a bunch of services and application development and application maintenance but look at it as a solution to the problem that a CIO has. That will require us to bring new ideas, package it better, and present it better. We think that there is still some streamlining in offshore outsourcing that we can continue to keep our lead in that space.

So, what is the solution? The McKenzie definition is, an integrated offering of products and services which delivers greater value than the simple sum of its parts which can be customized for a client. In plain English what that means is I will give you some examples, one is, in retail there is a lead-time optimization solution that we have come up with, the whole consulting system integration, on going



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support, our lead-time optimization package for a client, for a retail client, comprises the solution. So, we are taking various services, putting them together and offering a solution which is served to the client as you can reduce your mark-downs. Mark downs is the biggest cost item for a retailer where you know he marks down the prices of goods that he cannot sell. So, we sell it saying you can reduce your mark downs by 25% if you introduce supply flexibility through lead time optimization. So, you are selling it as a business solution which is based upon technology. So, similarly you know strategic sourcing, looking at our offshore outsourcing, or business process outsourcing, business process management kind of a solution.

What are the differences between selling services and selling solutions? On the services model, we add application development, maintenance, reengineering, consulting, and BPO. So, we do have a full gamut of services, any kind of services that an IT services company might want to have, but the difference here is that we are going to pull these things together and present solutions to business problems.

IT effectiveness - One of the things that we saw two years back was three years after the bubble burst, CEOs started asking CIOs, so what is the value that I am getting out of all the money I am spending on IT? And CIOs immediately started looking for solutions that could address the problem of how effective is their IT spends. So, we come up with an IT effectiveness solution, shared services, ERP support, lead time optimization, these are solutions that address business problems. The sales of course differs drastically. On the services model we are saying this is who we are, this is what we do, what would you like to buy? On the solution side, we are saying I recognize that you have a business problem, let me understand your business problem and I would present the solution and you don't have to worry about how it is constituted through various services as long as you understand that the solution fits your business problem and solves your business problems. Clearly, the things that are really attractive about selling solutions is in the economics. The services model you sell at cost plus margins, right. You are competing with other people who have the same services. On the solution side, you sell at based on value. If I can bring down your mark downs by 25% that is worth X billion dollars to you, spending \$10 million with us is good return on investment. So, it is sold based on value. The other thing is on solutions, competitive intensity is lower that allows you to keep higher price points, because the solutions possible is so large that you are unlikely to find too many companies offering the same solution, but on the services side, everyone has to have application development, reengineering, package implementation, and so on.

The marketing approach on the services side is sales push. It is all about Infosys, it is about our process maturity, our infrastructure, that is all table-staged as they say, it must be there, it is assumed to be there. Some people might actually ask you questions before they engage you on these issues. But really what they want to talk about is the business problem, your industry expertise. So the discussion shifts to the business problem. The skilled required is also different. On the services model you need a technical competency project management, in the solutions model, you need these as well as domain and technical competency and program management.

So, what are the advantages that a solutions driven business model offers? #1, value based pricing, I spoke about that on the last slide. Deeper client relationships. Solutions offer you the opportunity to build relationships on the business side as well. You know as long as you are talking about application development and reengineering services, your business client does not really understand that well enough, you would be dealing with the IT organization only. But as soon as you get into solutions, you start dealing with both the IT side and the business side. It is less prone to commoditization as I spoke about earlier, the competitive intensity tends to be less, you don't have too many service providers who offer the same solution simply because there are too many of them. Repeatability increases productivity. It is a key thing that we want to reap the benefits of. We want to create repeatability by putting in reusable components of the solution and using them again and again, and combine that with value-based pricing, it has very good implications on margins.

Now having said all this, the key thing that clients are looking from us is to introduce the GDM elements into solutions. Business technology solutions are not new, the global system integrators



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have offered them in the past, but really the innovations that we are driving in all this is to embed the global delivery model in a business technology solution, and that is where we will take the battle to them, and this is what our clients are also seeking.

And the last but not the least - employee professional development. This offers career options for our employees and a richer learning experience as well. We do realize that moving from a service-only model to a solutions-model requires changes. This is not a simple thing, otherwise everyone would have done it. We recognize that it requires changes to our sales and marketing efforts, we need to be team selling more, we need to pull together teams from across delivery and consulting and sales and have a team selling approach because no one knows enough all the pieces of a solution, we need to be hiring and training our people to be able to take on specialist sales functions. On the marketing side we need more of a trusted partner positioning, and we need our messages have to be targeted to particular industry. We can't have an offshore outsourcing kind of messages that goes across, it has to be more rightful shot in the retail industry, in the high-tech industry a different kind of message; in the financial services industry a different kind of a message. Organizationally, we have already made some beginnings to move towards more of a vertical structure. We are also encouraging cross functional collaboration, we have been pretty good at it so far, we think we need to be better at this and we are putting things in place that will make that happen. Human resources, recruitment is going to be key, training is going to be key, and cross-staffing management, and also similarly we have implications on the processes and systems side. We have already put in a lot of these elements that are necessary to make a successful solutions model.

Servicing I have already spoken to you about. We have a strong alliances program in place. To actually take solutions to market you need to have alliances because companies don't want to build customer application for everything they want to use official packages. So, what we want to do is partner with an ISP or a software product company and go to market together. So, for that we need a close relationship and alliance with that. So, to manage those alliances we put in alliances program in place here. We already have a team in place to take care of the alliances also. We have an end-to-end service portfolio right from consulting to application maintenance and even infrastructure management. Knowledge management systems is really a key for making solution successful, especially now that we are stepping deeper and deeper into the domain side of things. As you know we have won the MAKE Award on knowledge management. So we are recognized for industry leading knowledge management systems already and this is going to be put to good use.

So this is just the list of solutions. Some of them that have been put in place. We have some early wins, but there is a lot of distance that we need to cover, means this is journey that we are at the very beginning. Also, there is a lot of distance to be covered, but there are some early encouraging signs. With Microsoft we have a XP deployment solution. We have had a win at a very large US Bank, identity management at a large auto manufacturer, and similarly we have several early wins in various solution areas which are very encouraging.

Okay, this is my favorite slide, this is where I stop talking about Infosys only and look at what is happening in the rest of the industry because after all every one has access to the same ideas, how well are they going to execute, who is positioned better to execute. If you represent the IT industry on two axis - business solutions focus and the extent of global delivery model in that service delivery, the big global system integrators are on that corner, the left hand top corner because they have largely a business solution focus with almost no global delivery model in place. Most of the Indian industry is somewhere here; they have done well on the global delivery model but pretty much no business solution focus. We are somewhere in the middle there, we have began our business solution focus and we are certainly best practitioners on the GDM side. The imperative for those guys is to move here. That top right hand corner is the holy place of this industry. That is the territory that people are going to scramble for. The imperative for the final four and IBM is to move here by creating GDM capabilities. Our imperative is to inject a solution focus to our services model. Now what we have done you know in the morning several speakers Kris, Mohan, Nandan, they talked about how we are strengthening our offshore outsourcing, our global delivery model, the whole organization to whether the weather from all the global system integrator coming into India. So, we are strengthening 'the



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fort' so to speak around us on our territory, but at the same time we are going to 'take the battle into the enemy's territory also' so to speak, because we are going to go and offer the business solutions that the global system integrators have offered in the past but with the innovation of embedding a global delivery model in it which just makes it unbeatable. So, really this is the slide which describes in one chart what our strategy is.

We think we are well positioned to succeed because we have a premium brand positioning. Some of the things we have done like Wharton Infosys Business Transformation Award positions us very very well for our strategy. We have business consulting expertise, we have an organization in place which has been perhaps one of the most successful in the Indian IT service industry. We have end-to-end service capabilities, award winning knowledge management, best in class employee, development practices, and you know several other things that we spoke about, which positions us really well to take advantage of this. We think all Infosys stakeholders benefit from the strategy. You will be interested in how shareholders benefit from faster growth, higher profitability, and this is sustained profitability, it is not that something that happens in the next year and then we lose it, this is a long journey. And we think this can trigger sustained profitable growth. Our clients benefit because they have then taken to the ..... by most of the global system integrators who charge very high rates for business solutions. And by embedding the global delivery model there, they are going to benefit from us. Employees' career development. And partners, they are software development companies have partnered with us, they have formed alliances with us. They will benefit from us because together we will take their solution to market in a way that it doesn't cost our common customers a very high price for implementing that solution. Thank you and we will take the questions later.