

**Infosys Technologies Limited**  
**2005 ANALYST MEET**  
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**Topic : Enterprise Solutions – Session 1**

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Good afternoon. I am Chandra Shekar Kakal, Global Head of Enterprises Solutions group at Infosys. In the next 10-15 minutes, I will take you through what we are doing in the Enterprise Solutions group at Infosys.

Incidentally, I started this campus in Hyderabad five years ago with eight people and it has grown to about 4,000 people today, and it gives me great pleasure that I am addressing all of you analysts from the very campus which I saw coming up.

The second thing is before joining Infosys about six years ago, I was heading the product development of a ERP company. So I have seen both sides of ERP product development as well as system integration. So that gives me a very good perspective to talk about.

Whatever I am saying here is covered by Safe Harbor, as you are aware.

I just want to take you through what Enterprise Solutions group at Infosys is all about and baseline point. The reason being that when you talk about Enterprise Solutions, it may carry different meanings in different places. Some cover all the enterprise systems and enterprise applications under the Enterprise Solutions umbrella. At Infosys what we say about Enterprise Solutions is all the packaged product-related services as opposed to the custom developed business applications. So it could be any of the leading ERP packages or CRM packages or any of that and starting from package evaluation to the end game of production support and maintenance, the whole horizon is covered under Enterprise Solutions group.

For the last several quarters, we have been growing and our cumulative average growth rate for the last three years has been 66%. Last 12 months, we made about \$ 265 millions, about 3,600 people operating out of eight different centers all over the globe - about five centers in India and about three centers majorly outside in Toronto, Tokyo and in Shanghai. So we have started our operations from Shanghai also.

We contribute to Infosys in terms of revenue, about 15.3%.

If you look at the enterprise as a whole, there is a core enterprise and there is an extended enterprise on the supplier side and on the customer side. So, the core enterprise requires obviously their transaction processing system such as ERP and the extended enterprise on the supplier side requires supply chain management solutions, supplier relationship management solutions and all that. On the customer side if you look at, it requires customer relationship management solutions. So our footprint covers the entire extended enterprise value chain covering ERP and supply chain and CRM. In addition, we have also realized that it is important to integrate the different applications the organizations have and there are packages available today for integrating the applications as well. So we have an enterprise application integration service offering from Enterprise Solutions group using packaged products again.

We have also started a human capital management service offering because in the world the focus on human capital management and the related services has started going up.

In addition, when the organizations have all these data collected and accumulated through the ERP systems, CRM systems, supply chain management systems, obviously they have to use that data and analyze for making better business decisions. So business intelligence is one area where quite a few packages are available and the existing ERP packages vendors have also added the capability for doing the business intelligence and analysis. So, we have added that also as a service from Infosys.

I just want to take you through what is happening in the market from different perspectives. If you look at state of the market from the product vendor perspective, customer perspective, analyst perspective, that is what I want to do in the next few minutes. If you look at what is happening in the product vendors space, obviously, there are many many ERP packages, smaller and bigger, in the world, but what we see in the last few years is that there is a consolidation of the product vendors happening by way of mergers, acquisitions, consolidation and extending their own packages and things like that. Finally we see that mostly the SAP, Oracle, Microsoft there is a polarization happening around these packages while there are many more packages still available in the ERP space. There are niche players in the ERP space or CRM space supply chain space who are under pressure today. They either by way of the ERP big players like SAP or Oracle trying to eat them away or trying to acquire them, merge them or offering a similar services, similar capabilities in their own products suite or extended product suite. Licensing revenue of the product vendors is under pressure, so as a result of that they are also looking at other avenues for revenue growth. Product vendors have started doing the hosting themselves. For example, on-demand services by Oracle and SAP is also doing the similar thing, Siebel is going the on-demand way. Everybody is trying to host their own applications so that they can bundle their application licence, hosting, AMC and may be in some cases professional services also, so they are trying to bundle all of that. Most of these packaged product vendors, like SAP Oracle included, have started focusing on the mid-market now. So that is another development that is happening in the market place. Focus on partners with offshore system integrators like us is becoming order of the day. There are not many ERP implementations or upgrades or rollouts happening in the world without involving an offshore service provider like us. We know that the famous Oracle-PeopleSoft merger acquisition that took a long time and during that time customers were really confused and they were holding back their investment, they did not know what to do, but I think now the clouds are getting cleared. Oracle is on a acquisition spree and has acquired PeopleSoft and then now Retek and lately I-Flex also. There are similarly a lot of acquisition and mergers happening in the product space. That is from the product vendor perspective what is happening in the market place.

If you look at the analyst view, what the research analyst such as Gartner, Meta and Forrester are saying, Indian service providers have definitely become a credible alternative to the traditional global SIs. We were not there on the map may be many years ago, but today clearly like Nandan mentioned in the morning, if a CEO gets a proposition from the CIO that I am going to evaluate these four system integrators and if Infosys is not there, then they are being questioned. So obviously in the ERP implementation space, Indian service providers like Infosys have become credible alternative for the traditional global SIs. That is what the analysts also have reported.

In the last few years, I would say about last 18 months or so, we have developed our SAP capabilities so much that the analysts also have started making note of that. Infosys has been rated as a top choice for SAP-related work today. And the other comparison with the Indian other service provider is, analysts also have found out from talking to the customers is that Infosys is able to bring in better business value and industry- savvy to the implementation and the related services.

If you look at from the customer perspective, what are they spending on? If the licensing revenue of the product vendors is not going up, but we see more business coming in, in the ERP implementation rollout ways, what are they spending on? While it is true that the licensing revenue of the product vendors may not be going up so much, but there are procured licenses available with the organizations which are being used for rolling it out into multiple divisions, subsidiaries and then the countries, that is what is giving us the business. And when the package upgrade happens, they have to upgrade the packages and that is a business avenue for us. Incremental investment on their existing core ERP packages, people who have invested in say financials are today extending it into supply chain and then the CRM site. So that incremental investment in the organization is bring us business. And when they are paying the onsite service providers higher dollars for maintaining their critical systems, if there are better options available by using offshore service provider, they are looking at it. So there are companies visiting us whether they can reduce their total cost of maintenance by going to a service provider like us. With the existing ERP systems obviously customer are adding the CRM system, the advance planning and supply chain systems, the business intelligence system on top of it and all of that. So that is again giving us the revenue. One of the survey, of course says that, the marker size in this space is about \$70 billion or so in 2005, while we are in the range of like I said about \$265 million, so there is lot more room left for us to grow, especially with our additional capability now through Infosys Consulting as well as the Enterprise Solutions.

This is my favorite slide. If you look at what is happening in the ERP space, the ERP ecosystem is actually shifting offshore. I say the epicenter of the ERP ecosystem has started shifting offshore. The reason being that, if you look at the product development of say SAP and Oracle and things like that, the product development has started happening very much here in India. If you look at 6 km from this campus, there is a Oracle Development Center where the product development of Oracle ERP is happening. In Bangalore, in SAP Labs, SAP product development happens. So product development has shifted here. The implementation of the products, like SAP

and Oracle is happening more and more by the system integrators like us for operating out of India and then going global. Once we implement the system, who are the users? The users are again the BPO users like our own Progeon, which could be an extension of our campus or the next campus, where the systems we implement are being used. Once they use the system, they come out with the issues and defects and they log those defects for it to be fixed by service provider again like us who are doing the production support and maintenance. And when we do that, we actually accumulate all the experience and then plough it back to the product vendors. In fact, we give feedback of what the customers are saying, what the issues we are seeing in the product development to SAP and Oracle on a systematic manner. So, when they actually take that feedback and then introduce into the next version of the product or the patch, they actually give us a chance to have a peek into the next version. So, we do some testing and we then we get to know what is coming in the next version. So the whole cycle gets completed in may be 10-12 km radius. Of course, the market is elsewhere. The market exists in America and Europe and Asia Pacific, the customers are there but the ecosystem of the service provider has shifted really offshore. So that is what is the depiction in the picture here what I talked about.

What are our strengths as Enterprise Solutions service provider from Infosys? Fortunately, 90% plus of the projects we have delivered from Infosys have gone within schedule and within budget. There are many cases where in front of our own eyes big traditional global SIs have been asked to pack up their bags and go but fortunately we have not been. So 90% of the cases we have delivered within budget and within time. On the scalability side, if you look at in this very campus, we have established a scalable engine to train our consultants in SAP, Oracle and all of that. We have established an Enterprise Solutions University, which we are using for training our people in large numbers. I will talk about it in a while from now.

If you look at program and project management, our ability has definitely increased, especially with Infosys Consulting coming into picture. You heard Steve Pratt talking about it and providing that front ending capability, program management, large project management capability and business process analysis capability and all that. So with that our capability also has gone one level up.

**Global scale:** We are able to offer the global scale and global reach. Today, with India being the center, and we are doing the global rollout for various organizations across the globe. We are in a position to walk with the customer from side to side and holding them in their global rollout process. This is a unique strength we have. Customers have pointed it out saying that you have a unique strength of walking with a customer from side to side. We are not a global company with local pockets here and there in a disjointed manner. We are a global company with the same breadth running throughout. We are in a position to send consultants onsite for the initial analysis part; some of them come back here, so in a way the global rollout and the seamless global rollout is a way of life for us. Of course, we have the topnotch consultants in every one of our engagements when the customers give engagement feedback, they talk about our people and ability of our consultants in a much big way.

We have a capacity to train about 1,200 ERP consultants through our Enterprise Solutions University in the same campus we are operating within. Last year we passed about 1,000 consultants through Enterprise Solutions University.

So, we have been rolling out into multiple countries, so this is just an example of some of the countries we have operated in our global rollout. If I take one case study of the solution we are providing to the customer and the value we are adding, we have worked with a global automotive major in SAP engagement for providing a dealer management solution. What that solution does is that if you are the end user of a car and if you have ordered for a specific car, the dealer will be able to tell you exactly where and in what shape your car is getting built in the factory. They didn't have the capability to track and trace and then tell the end customer what is happening to the order they have placed. Today, \$39 billion worth of orders are getting tracked through this solution which we have provided to an automotive major. So that is the amount of visibility and the accuracy of the order which has been configured by the dealer and the traceability, the customer satisfaction, all that has increased with the solution which we have provided. Similarly there are other engagements, which we are doing on a global basis with the global majors.

What are the strategies and what are the challenges we have? The challenges we have of course, some of you talked about our challenges in the Infosys Consulting, similarly we also have some challenges, of course.

First and foremost, I would say that the industry knowledge and the domain consulting capability which is a challenge for us but we are overcoming that by way of adding Infosys Consulting capabilities. There are also, like I said, product vendors getting into the space of hosting and then offering the services also by themselves, so that is a challenge. Hiring experienced resources, onsite especially, is still a challenge, while we are trying to overcome that through Infosys Consulting.



The other important challenge is that what is that we have done in the past in the same industry similar job. You heard Steve talking about, in a fragment and flavor industry, whether we have done a similar job, may be not. But if you have to get an engagement in that particular industry as a first one, then there has to be a certain leap up price shown by the customer to award that kind of a job to us. In many cases, we are able to do that saying that we have done similar job and then, of course, we don't know this industry so well, but we will add the capability by bringing in the industry experienced consultants and with a mix of the package consultants and the industry consultants, we will be able to do that, and the customers have heard that and then believed us and then have gone ahead with us. Same thing happened with automotive major when we started out.

So, what are the strategies we are following today to overcome these challenges? One is of course to collaborate with Infosys Consulting. So we are working very seamlessly with Infosys Consulting and we have that ratio of what should be the downstream in a package implementation, what would be the upstream which will be handled by Infosys Consulting. We are collaborating with our own Independent Business Units for getting the industry knowledge. We have this Enterprise Solutions University for scalability purpose. Of course, our alliance traction with the product vendors with SAP and Oracle has gone up many fold in the last 18-24 months I would say. Today, SAP and Oracle and other product vendors are taking us very seriously and there are serious engagements happening at the ground level. Their sales people are talking to our sales people and there is joint go-to-market happening in the market place and it is all over the globe. We are talking to them in America, Europe, Asia-Pacific, Japan, Australia, and China everywhere and we are developing solutions of course. Horizontal solutions like package upgrade solutions, package migration solutions or integration competency solutions and all that and vertical solutions with our own industry-specific business units in the area of pharma, in the area of retail and all that. So with that we should be able to go to the market in a much better manner.

We are investing heavily in building capability, especially in the new areas. If you look at SAP, they have transformed themselves into a company with a newer platform, Netweaver platform, where many more new elements have been brought in, architecture has been made open and there are new modules all of that. So if you are able to invest in that, then it brings us in the same level playing field with that of Accenture or the IBMs who have built up their capabilities for several years now. So it brings in a level-playing field on this particularly new technology and new platform. So we are investing heavily in training our people in the newer technology and newer platforms. So that is how we are trying to take the market and overcome some of the challenges we are facing. That is what I have in a structured presentation manner. I will be open to take any questions.

## Question and Answer session

### Anantha

Anantha from Morgan Stanley. To what extent are sales of license fees a leading indicator for your business?

### Kakal

Actually I would say that that is a good leading indicator, but it is not enough. Like I explained that while the license sale may not be going up by the product vendors, there are still businesses available especially for us for two-three reasons:

- Customers have bought the licenses and kept in the shelves which they have not used and today they are using it or rolling it out.
- They have to upgrade which does not provide licensing revenue for the product vendors because it is already part of the AMC and they have to provide the upgrades.
- They are doing the global rollout and instance consolidations and things like that. Today, large global organization because of the technology improvement, bandwidth availability and various things and because of the fact that they want to have business processes standardized across the globe, they are doing lot of this instance consolidation and all that, that does not increase the licensing fee of the product vendor, but still it gives us lot of revenue.

So, if the licensing revenue goes up by the product vendors, obviously that is a leading indicator of the service provider's revenue, but it is not a enough and sufficient indicator.

I will give some examples, when we talk to our customers of how can they extract value out of the investment they have already made in the product, for example, they have bought huge number of licenses in SAP and when we

involve the product vendors and say that let's together try to extract maximum value out of the ERP investment they have made, say for this particular customer, product vendor is not very keen because it does not add any licensing revenue for them. But the customer is very keen to extract value and then make use of all the features available in the product in which they have invested. So that actually is an indicator that while the product license revenue may not go up there is still lot of revenue available for the service providers.

Second reason for us is that we are in a position to carve out and then take away that the money that was spent on traditional global SIs like IBMs and Accentures, so we are eating into their pie.

### **Anantha**

To the limited extent that it is a leading indicator, what is the time lag usually when it affects your business?

### **Kakal**

Yeah, I would say that, see earlier there was a direct correlation between the product licensing fee and the service provider fee in the ratio of may be 1:2 or 1:1.5, all that happened. Today, if there are licensing fee going up then obviously in the next six months that gets converted into the implementation. Today, customers are not actually procuring licenses and keeping it on the shelves. Today, they also have become very smart. They are not really keeping that and then putting it in the shelves. It is an immediate indicator for revenue.

### **Participant**

The consolidation in the vendor space, as you mentioned like it is having some impact and all. To what extent does that impact actually, like say going forward if the licenses are not going to be very strong, then vendors will be getting more and more into the services area, which in turn will actually be impacting you. So what is the extent of the competition from the vendor as of now and where do you see the things actually going out?

### **Kakal**

I will tell you, see when the consolidation happens, take for example, Oracle taking over PeopleSoft, it requires somebody with a good capability of both PeopleSoft and Oracle to understand and then help them migrate from PeopleSoft to Oracle and all that. It affected us during the time when that suspense was there. Customers who had invested in PeopleSoft and then were actually wanting to upgrade, they did not know whether to upgrade or to wait, it actually affected us. We could see that the business is not happening in the PeopleSoft space. But once that got cleared, customers have started really moving up and then upgrading their ERP packages, may be in the PeopleSoft to PeopleSoft itself. That also provides us an opportunity to migrate the customers from may be PeopleSoft to SAP, PeopleSoft to Oracle, or any of those things. So we have the capability in both the packages, we have the understanding of the customer that provides us actually a business opportunity more than anything else. Once the cloud gets cleared, the clarity is there.

### **Participant**

No, say like if right now is the transition phase, we actually say like two years from now, we actually see three very large package vendors. So in all probability the package vendors are actually going to build in some sort of clauses or something in terms of getting more out of the services business and they can also enter into some sort of arrangements with the service providers like you, like Infosys. Where do you see these things actually panning out once the consolidation is over?

### **Kakal**

What we are seeing is that while they are definitely entering into the hosting market, actually the implementation upgrade rollouts and everything, they are actually partnering with us and with the kind of compatibility we have built up in providing the global services from India at a low cost manner, actually they are partnering with us and then we are talking to the product vendors, while you could do the hosting whether we will be able to do the implementation services. May be three years from now, things may change and we may have to pull new levers, but as of now, we don't see that.

**Participant**

Because all these vendors as such are having huge offshore presence now, so right now it might be just on the product development side, but what has stopped them from getting into the implementation themselves and just doing the entire thing themselves only.

**Kakal**

While an enterprise today has got more than one package right, so it really requires an understanding of not only the package which is provided by the product vendor, say SAP or Oracle, they should be in a position to talk to 300 different legacy systems and applications and integrate that and maintain that and all that, so that is not going to be very easy for one product vendor to take on the entire enterprise and then do that, whereas we have the capability to do that, I think that places us ahead of them.

**Participant**

Can you give us some sense of how the linkage with Infosys Consulting is panning out in terms of the share of revenue that they are currently counting and over and above that how is this operating model changing in terms of relationship with Infosys Consulting, the way ES as been working, how that has got effect because of IC?

**Kakal**

That is a good question, and then that has been a very good experience for us in the last one year. We have started really bidding together with Infosys Consulting and like the model which Steve said, 1:1:3, that kind of a model, where there will be Infosys Consulting people providing the value of business process and then put large program management and all that, we have our consultants providing the product/package knowledge and we have the offshoring ability and then execute the complete thing. So we have started seeing that happening, one of the example was that the oil major, which Steve mentioned, we have just finished the defined phase of it or the initial phase of it, blue printing phase of it, and then getting into the executing phase now. As we speak, we have actually already got an order from a software product company where we are working together. As we speak, we are bidding for one of the auto and aerospace industry together with Infosys Consulting and with our downstream implementation capabilities. So this is actually going very well. One of the challenges we had was that upfront, the domain knowledge and then the consulting capability, which was lacking with the Enterprise Solution, which has been brought in by Infosys Consulting in a very complementary manner. So the model is that when we get a lead, we actually \_\_\_ in the beginning itself whether it requires business process, re-engineering or business process management or any of the large program management capability and consulting capability, then we work together with Infosys Consulting. If it just requires package capability, then we handle it at Enterprise Solutions group directly. So we do the \_\_\_ in the beginning where we want Infosys Consulting to get involved and where we don't want and then we can continue as usual.

Thank you very much.