Infosys Technologies Limited

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Session 3 by Pravin Rao

Pravin

My name is Pravin. I Head the Retail and CPG practice at Infosys. I have been with Infosys for 20 years. Most of my presentation will focus on retail in North America and probably not be covering about Europe and Asia Pacific.

Our experience in retail dates back to our early founding in the 80s. We have been working with retail clients since early 80s. In terms of verticalization, this is one of the first group to be verticalized sometime in November 2002. So we have about 3 years of experience in this vertical play. We worked with about 45 plus clients across various segments, grocery, super market, pharmaceutical, drug retailer, specialty retailer, department stores, discount retailers and consumer product companies.

We have been contributing to roughly about 10% of Infosys business and our repeat business is about 90% plus and of late we are seeing an increasing share of revenues coming from transformational programs. So our experience actually spans across the value chain of retail. We worked with retailers in the areas of product development, sourcing, procurement. We have worked with them in planning and forecasting, we have worked with them in the areas of merchandizing, stores operations, logistic distribution, warehousing. Apart from these core retail areas, we also work in corporate systems like HR, finance and in some technology areas like business analytics, data warehousing etc. So our experience actually spans across the value chain and over the course of presentation, I will give you some idea about some of these engagements that we are doing in this space.

We offer our clients a suite of solutions. These solutions have been developed based on our experience in working with some of the clients and they are also developed based on the industry or the market demand. We adopted this solution strategy basically going to market with solutions since the vertical got formed and in the last 3 years, we have seen good success in this strategy. So this is something we continue to focus on. By solution what I mean is, brining together the deep domain knowledge that we have, combining it with our service expertise, service delivery capabilities, at times partnering with some of the ISP vendors, some of our alliance partners, brining in the GDM element to it and offering it to the client and these solutions are really repeatable because they address a common problem or industry pain point that the client is facing. As I said earlier, it has paid us good dividends, it has helped us open doors, even with existing clients it has helped us get into newer business areas, it has helped us in building relationship with some of our clients particularly on the business side and many of this solutions are transformational in nature and in that sense they have the over sight of sea level at the board level. So we are able to get visibility even in at the board level and more importantly it acts as a differentiator and also it is less prone to commoditization. So this strategy has worked well for us. We have about 8 to 10 solutions in varying stages of the solution development life cycle. Some of them are doing extremely well, and couple of them are large transformational things which are doing fairly well, our Master Data Management solution and multi channel commerce.

I will just step on briefly about what we are doing in Master Data Management or our MDM solution. Today retailers have a heterogenous set of applications. Most of them are legacy applications because retailer have either a custom developed application over 15 to 20 years back or they are grown through acquisition. So the product information or the item information is actually dispersed across various applications. There is no single repository of finding information. So the ability to manage and maintain item data is becoming extremely complex and very challenging for the retailers. Today they take anywhere from 35 to 40 days to set up an item and lot of times they are not able to even do good pricing or promotion because they don't have a single source of information for item level profitability. So net-net it causes a lot of issues. It increases their administrative cost, it results in lost sales and results in also issues in supply chain efficiencies. So our solution actually tries to solve all these problems. So we start off by trying to streamline the whole item management process within the client organization. There is a visioning phase and there is a business process reengineering phase. Then we help in implementing common item data repository across the organization, across the enterprise and then finally in the last stage, we also help in implementing work flow capability so that all item related decisions are taken in a seamless manner with the result the time to introduce product or administrative cost get cut down by 30 to 40%. They are able to get a single

version of truth on the product across the enterprise and they are able to come up with much better strategies on pricing promotion etc. So this is something which has worked extremely well and we have about 8 to 10 implementations in this particular solution.

Some of the things that we are seeing in the market place today, the size of the overall pie is definitely increasing, big chunk of it comes from business transformation programs. Lots of our plans are embarking on lot of newer business initiatives. We get invited to even prospective clients about participating in some of these transformational programs. One of the things that is happening in the retail space is that consumer is getting the stronghold or getting the upper hand. So retailers have to now change their focus from product centric strategies to consumer centric strategies. They need to understand their consumer better and cater to the consumer. So there are a lot of initiatives around this understanding the consumer, lot of transformation initiatives and couple of our solutions like Master Data Management, multi channel commerce have a play in this space. The other thing we are also seeing is our consulting led GDM based approach to transformation is also gaining ground. We are actually now succeeding in winning competing with some of the global SI and winning many of these consulting led engagements. We are seeing good traction in that in the last year and a half. The overall perception that we see in the market place in this space is that Infosys as a company which has credible domain capability and this is coupled with your execution excellence and predictability makes it a very compelling value proposition.

The other thing we are seeing is retailers were one of the laggards in terms of adopting outsourcing or a Global Delivery Model, but in the last year we are seeing that changing. Retailers have started embracing GDM in a big way. So we are seeing a lot of opportunities in the last 2-3 quarters, lot of deals around large scale outsourcing. Many of them are still in, because these are all long sale cycle thing, so that is one of the increasing trend we are seeing and we are being invited for many of these programs.

The third aspect we are seeing is just like anybody else our clients are also embarking on lot of business initiatives. So that means more business for us. The overall share that we are seeing in the last 2 to 3 quarters have increased tremendously.

So retail in North America was last year about $4.5 trillion or something. Arguably it is one of the largest industry in North America. However, it is a low margin industry. Margins are extremely tight and are very low. Consequently the spend on IT is on the lower side. Retailers today spend less than 2% of their sales on IT and when you compare across the verticals and when you look at the total IT spend across verticals, retail share is less than 5% or about 5 to 6% retail and wholesale put together. In that sense it is still a laggard when compared with rest of the industries in terms of IT spend. That is because of the high pressure on margins with this retailer space. So the total spend on IT in the retail space in North America is about $ 60 billion and on the wholesale side it is about $ 33 billion, and it is growing at a CAGR of about 3.6% and the total market for outsourcing is about $11 billion and while the overall retail IT spending is growing at 3-3.5%, the outsourcing thing is growing at 8%, and which is actually a very positive thing for us and that is one of the reasons why we are seeing more and more of outsourcing opportunities in the pipeline.

Some of the challenges business retailers are facing. One is of course their biggest concern today is about the rising fuel cost or high energy cost. It impacts retailers in two ways. One is the a big chunk of their revenue is in logistics and transportation, bringing goods into their stores and transporting it to their warehouses to the stores. So that is a big chunk of revenue, and with the higher fuel cost, their cost is increasing and it is having an impact on the margin. The second thing is because of the increased energy prices, amount of disposable income with the consumer is also shrinking. So in the sense they are spending less and it is affecting the top line. So in that sense for retailer this is a double whammy. They are taking an impact on the margins and at the same time their top line is also under pressure because of the energy thing. That is one area they are pretty much concerned about.

The other thing that is happening is which I touched upon earlier, the consumers have become demanding, they have choices, they have multiple format and multiple channels and they really shop around and now there is lot of information available for them to see which is the best option to go for. So definitely the focus is shifting to the consumers and retailers are doing lot of things to understand the changing consumer needs. Even within the consumers the demographic is changing, the aging population in US is increasing. So that offers a very distinct segment for retailers to cater to. Then there is what is called GenY population which is people who are born from 1975 – 1994. They have their own distinct tastes and all, and they constitute about 30 to 35% of US population. So that is another distinct segment which retailers have to cater to. The third thing which is increasingly happening is the ethnic population, which his also increasing tremendously in US, and it is estimated by 2010 about 1/3rd of the US population will be Latinos or Spanish speaking people. So they definitely have their own tastes, own preferences and all, and they offer their own distinct thing. So retailers have now cater to different constituencies, come up with different formats which are unique to each segments. That is one of the complexities that they are

facing. Again in terms of competition again it is a very competitive environment and Wal-mart continues to be on the top of their mind. Wal-mart continuous to focus on supply chain efficiencies and relentless execution abilities and so any strategy which retailers adopt has to counter Wal-mart. So it is definitely one of the things and we are also seeing lot of mergers and acquisitions happening in this space, as well as people try to survive and move ahead.

The last point is on the product because of the globalization, we have much more supplier than ever before, which you can leverage better, at the same time the markets are also accessible to lot more players across the board. So we find a proliferation of SPOs and other thing. So with the net effect, the whole environment, whole systems are becoming much more complicated. One of the impacts that is having is that earlier IT was viewed by retailers as probably more tactical. The retailers were really probably slow in adapting to technologies, but today they have started seeing IT as much more strategic because they need IT to help them in managing all these complexities. So one of the strategic shifts we have seen in the recent past is their increasing reliance on IT and recognition that IT has a role to play in meeting some of their business challenges.

So the way they are responding, again I touched upon the some of these points earlier. One of the things they are focusing a lot is on understanding the consumer better. So they are investing a lot in point of sale, in business analytics and all those systems which gives them much more insight about the consumer. So with these insights they are looking at improving their marketing, improving their merchandizing, coming up with stores specific assortments etc. and also offering much more convenience to the consumer so that they can attract the consumers better.

The other area they are focusing a lot is and today there are proliferation of channels. The reach of internet has become very pervasive. While retail itself is growing at about 4 to 4.5%, the online sales is growing at about 20%. So people have started scrambling around and focusing on building revamping their e-commerce platforms and all and so the retailers have realized that it is important to leverage web as an alternate channel and also to leverage IT to bring seamless experience between the various channels. So that is another area where people are focusing and our multi channels commerce has very hot traction because even as we speak we are working with about 4 or 5 retailers helping them implement this e-commerce platform from grounds up. Then being a low margins business, they continue to focus on improving their operational efficiencies. So there is lot of efforts in that and one of the areas they are focusing is on labor, because again labor is a significant chunk of retailer spent. So any improvement in labor productivity will result in tremendous cost savings. So they are investing in lot of tools on the stores side to improve labor productivity, automate many of activities and improve labor productivity. So overall there, we see lot more investment in technology and lot more technology being brought to the store site to help retailers improve productivity, contain cost, and drive revenues.

I talked about the areas they are focusing on the IT side and with the net result what is happening is there is a increasing pressure on IT organization in retail to cater to all these new business initiatives and today they are having challenges because they don't have capacity to meet all this thing, and that actually is a positive thing for the service providers like us because that is one of the reasons why we are seeing increasing share of increase in the outsourcing spend.

So overall our strategy to take advantage of this market place, we have a multi-faceted strategy. One is we know that there is enough market. We have built good brand, we have had few good wins which we can show case to the clients to win more business. So we have to continue to invest in capability building. We have invested a lot in the past in terms of recruiting people with domain expertise and these are people with the industry, from the industry our people have worked in consulting firms with specific focus on this areas. We have also invested in recruiting people who have lot of experience in retail specific package. So this is something we have done in the past and we will continue to do that. The other thing we are doing is also enabling the competency or re-skilling some of the people that we have today. We have launched a series of domain competency enablement initiatives. We are doing two things. One is at the entry level, we are teaching people the basics of retailing and last couple of months back we also entered into an agreements with National Retailers Federation, which is industry body focusing on retail in North America. So it is one of its kind where we have partnered with them, they will come up with course meeting our needs, which our people will take and get certified. Similarly for experienced people last year, we tied up with IIM Ahmedabad, we offer a 3 day course on retail, it is delivered by IIM professors. At the end of it they administer a test and for people passing, they give certificate. So in the last 1 year we have got about 500 people passing through the certification. Likewise more and more complex engagements we are getting, and we need to focus on technology capability upgradation as well. So we have launched the technology certification program across the organization. Lots of people are taking this process, enhancing their technical competencies, as well as soft skills, because that is also critical, because more and more you get into some of this consulting

engagements you need to have the ability to get requirements, articulate your point of view, negotiate with clients, and all, so we have investing a lot on building this capability.

The other thing we have continued to do is, we have continued to look at the markets and continue to interact with industry analyst, clients and understand what the pain points are, try to see what we are doing with some of our clients and see if it is repeatable, can we package it into a solution and go to market. So as I said earlier this has paid us dividends in the past. So we will continue to invest coming up with go to market solutions and to solve some of the problems.

The third thing is we are increasingly getting more and more into consulting led pursuits for both business transformation and strategic outsourcing. We are leveraging our both Infosys Consulting as well as our enterprise capability on it, right from testing services to infrastructure management to enterprise solutions to target to go after some of these large deals.

The last thing is retail is again a space where there are lot of products. The two main product vendors are Oracle and SAP. We have a strategic alliance with them. Apart from that many of our solutions are run on some of these ISPs like Yantra or Yellow Cell. So we have partnerships with them as well. Then retailers also use lot of niche, they have a best of breed approach. So they use lot of these niche ISPs for say in the areas of sales planning, or price optimization or allocation and assortment planning etc. So we again have agreement with some of them and that gives you the advantage because most of these niche vendors don't have any professional services or ability to implement in a big way, so they partner with us, and we go to market together and they bring us on whenever they sell their products, we help in implementing it. So that is one area again we are focusing. We continue to also interact very frequently with industry analysts to understand what is happening in the market place and we also have what we call 'Leaders of Change' forum with some of our strategic clients. We have six clients which are working with us and every 6 months we meet with them, share our strategies, understand what is their own perspective of what is happening in the industry and we exchange views and that helps in fine tuning our strategy as to go to market, they are really in a sense our advisors, advising us and guiding us on how to get into this market. So these are some of the things we are doing to take advantage of the changing market place. We are seeing success in the last couple of years and as long as we do all this things together we are confident we will continue to succeed.

So I will close my presentation with couple of case studies that we have done recently. This one is for a large grocery retailer. Basically they had lot of issues around inventory. The cost of inventory was very high, inventory turns were very low and they were also losing customers. So we were engaged in trying to address and mitigate and solve this problem. We started off with a supply chain visioning engagement, it was a consulting engagement where we interacted with all the senior executives and the client organization, we came up with a supply chain vision and a blue print and then we identified what are the applications that will help in enabling this vision and we were involved then package selection and today as we speak we are involved in implementing some of these packages. So this is a 3-year road map and we are probably in the second year of this road map. Again the early results have been very encouraging. Clients are seeing increasing inventory turns and decreasing inventory cost. So that's definitely very encouraging and we are actually proceeding with continuing with that particular plan.

The other example I had was for a $3.5 billion department store, specialty retailer focusing in home servicing. Again this retailer has multiple brands and with each of the brands they sell through multiple channels like catalog, internet and all, but because of the multiplicity of brands and channels, some of their existing legacy systems were not able to cope up with the increasing and changing business needs and increasing complexity. So they chose to implement Retek suite of products. We were awarded the project to program manage the whole thing. We are involved in program management, implementation across the pipeline, across channels. We are involved in implementing it, developing interfaces and as well as providing quality assurance support. So this again a 3-year thing and we are again in the second year of this program.

These are two example of some of the large transformation programs and large engagements that we are doing in the last year or so. So this brings to an end formal part of my presentation, and I am open for any questions. Thank you.

Pravin

And may be if you can use the mike.

Participant

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Pravin

We have 3,000 plus people in this group.

Participant

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Pravin

Yeah they are in about five DCs

Participant

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Pravin

I will answer the last one first. Retail, when we launched this verticalization only three years back, we started off as a pilot and retail was probably the first unit that got formed. The rest of the units got verticalized only about couple of years back. So we had one year head start, we had one year extra to build our capabilities because end of the day we need to understand the industry better to come up with some of the solutions. So that is probably one of the reasons why we are seeing may be earlier success than some of our competitors.

In terms of revenues, both solutions and alliances put together because some of the solutions also have an alliance component, they are build on top of alliance, last year about 18-19% of our revenue came from solution alliances and this was from 10-12% the previous year. So we are seeing an upward this one and in terms of number of solutions, we have about suite of 8-10 solutions. Some of the big ones which they are seeing lot of traction is Master Data Managements solution. We have about 8-10 implementations. Then the multi channel commerce, we have got about 5-6 implementation. Then we have a solution around what is called lead time optimization. Then we have solution around supplier collaborations and we have a solution around RFID. RFID is something which is one area where we have built a lot of IP but so far we have not been able to leverage as much as we want because the adoption also had not been as high as we had expected, but we have still strong faith in that technology because at some point in time it is going to have a very disruptive effect on the industry. So that is one area we will continue to invest and there is the IP is something which we feel could lend us into some kind of value based pricing because in most of the other solutions our IP is more around building reusable artifacts. It is helping and providing a differentiation, may be higher price points and may be feed the market, whereas in the case of RFID we believe our IP will help us in may be in licensing revenue or a non-value based thing. So these are some of the solutions that we have been focusing on.

Participant

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Pravin

Yeah, I mean I don't have the exact numbers but organization level year-on-year, we are seeing increase in share of revenue from solutions and whether it will be 20% or not is a difficult guess to make and also some of the industries are complex like, when we went through his thing, there are three different verticals in a RU kind of scenario. So your level of expertise also in each of the verticals and we also had the advantage that we have been working, as I said this is one of the areas, apart from financial services, retail is one of the areas, where Infosys has had its presence even in the early 80s and early 90s and all. So in that sense that was probably lot more easier for us to strengthen this vertical.

Participant

_____. Is it a problem to get large offshore based outsourcing contract in this area?

Pravin

Absolutely not. If you read it, we are seeing more and more of these things. To answer your question, Wal-Mart is probably the only large retailer we know who is not outsourcing. Every one is outsourcing. And in terms of captive, there are only two retailer we know who are setting up captives, TESCO has set up a captive thing, Target is setting up but we work with both TESCO and Target. Actually it has had a reverse effect because of setting up captives and all, it has actually increased in retailers themselves being much more open to outsourcing and they have seen our share also tremendously increase and based on the experience we are seeing both the TESCO as well Target, they are probably more successful in scaling up on the BPO. On the IT side they are still struggling and in fact we are working closely with them and helping them, train some of their people in terms of retail and other areas. We are trying to work in a collaborative model but the sense we get at least from Target, because it is one of our client, that they will work in this coexistence model, they don't have very ambitious plan for this own captive and they have seen TESCO who have had a struggle with even scaling on the IT side and today I think I believe from what I understand from even our financial services and other players there we are seeing captives, the early days of them ramping up, I mean they have now reached a stage where they are also finding a challenge to ramp up. So in effect we are seeing increasing share. So in that sense, at this stage at least we are not seeing captive as a threat, it actually helps us in increasing the overall share of our IT thing.

Male participant

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Pravin

Their view is they believe IT is very strategic to them and it has to be in-house, that is one thing, The second thing is they have predominantly built custom applications, a lot of them on legacy thing and they have been people working 15-20 years in Wal-Mart alone. So they believe that it is very difficult for them to get that kind of expertise from this one, but any way watch this space because I think things will change shortly with respect to Wal-Mart. In next 6-9 months you will see something, some difference, because what we understand is they are also having now scale problems because for them to do a lot of things, I mean because of their scale to do anything they need 700-1000 people and they have now reached a stage where even their aging IT of course is having this one and they have no option but to start looking out. So it is a matter of time before they start looking out but they are probably the only ones who have not really outsourced.

Okay, if there are no more questions, thank you very much.