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Subhash Dhar

Safe harbor. Consumer, technology and regulation are 3 very big drivers that are going to drive this industry. Technology and regulation are not a surprise. However, consumers are getting increasingly more powered in defining what the future will look like in terms of technology and now smart phones and that happens when you see a lot of companies coming into the play and can do this and that. Not everybody is sustainable but they do prove a model and then they are up for grab by three or four companies. But really in this whole mêlée what does it take to really win for at least the phone companies or the ones who are incumbent, even cable companies and so on, they have to change the views from being network-centric to a customer-centric company. They have to be more application-oriented as opposed to connectivity-oriented. They need to have rapid idea-to-launch cycles because introduction of the product is very important as opposed to the classic model of introducing a product which kind of goes on with a very long shelf life. Bottom line - what is going to save them is not losing the economic advantage to the web phone and over the top company because they stand to get disinter mediated as has happened in the past. When the internet access thing came first in the 1990, it allowed companies to rollover phone Company like _____ and so on and took away all the value while riding over the phone companies. You could be dialed up for a whole day and still pay $20 a month to the phone company but you could pay 40 bucks to AOL for a subscription plus everything else that you buy on it. So phone companies really got a bad deal there. I think they are already under a second round of commoditization. As they build new networks, there are over the top companies who are really extracting the value of that network and not the phone companies, that's something to watch out for. If they can do the first three things which is easy to say, but very difficult to execute given their legacy. That is the holy grail, they have to do that.

How is industry spend structure? Clearly the biggest is communication which is the biggest part of the CME vertical. In terms of spend, Media and Entertainment's IT spend is mostly imbedded in the business solution rather than a separate information technology or a CIO budget and the overall budget is not that big anyway compared to communications. High concentration of spend - there are few players who are very large spenders. It has some other ramifications and capital spent on network seems to be the single largest driver for all the information technology spending as well, downstream applications or anything else. When there is no network spending happening, there is very little IT spend also happening and you we seen that in the last 12 to 15 months, in fact longer since they started conserving capital a long time ago.

These are what I see as the four major drivers of spend for large incumbent network companies - transformation of the networks and systems from old to new, that continues. Some of it has been stopped because of capital inadequacy and conservation but I think that is the one which needs to start if we want to see increased spending. Some of it is starting in some clients but it is not a secular trend yet. The next generation services like television, video IPTV, going over the phone lines or whatever the large fiber cables that have been built and consumer-oriented applications are the area where they spend a lot more, evolution and proliferation of consumer devices is driving a lot of spend. iPhone has proven that it can clog the network very quickly for AT&T which is very good news for AT&T because that is what they want. I mean, phone companies are best known for creating networks and filling it up. So they have been extremely pleased, while they have actually written down on most of the cost.

Participant

Subhash Dhar

That's what I say. You are letting the web companies take the advantage of the network, of the new over the top companies. But what's worse than a company which doesn't let them take advantage is the one which does nothing and does not take advantage. So at least AT&T is getting what it was looking for, which is traffic but not the value.

Subhash Dhar

Emerging economies is a huge opportunity for many of these companies especially the wireless ones, for whom emerging economy is still a faster growing piece of their business than mature company and they will continue to spend both in the economy and also towards the economy in terms of product and services which they can build for such markets which can be used in other parts of the world as well.

For offshoring, transformation program will continue and whenever they are restart or pick up, that would always be an area where offshore will have a role to play even if it is for the efficiency reasons. Wireless companies have become more mature and they are looking at offshore in order to bring more efficiency to their businesses because that's the first attraction for most companies to the offshore model – efficiency. They look at the innovative part later. Third for the companies who are a little bit more aware of what the emerging economies are because they are participating in a big way in these economies, they are looking forward to creative solution to innovative solutions from us as well. To that extent, the offshore players have an advantage if they can live up to that expectation, it is not again a secular trend but there are a few companies who have a significant expectation in that areas.

How it is looking for Infosys? You know these figures, they are public - 15.5% of Infosys revenues and in this telecom includes Communications, Media and Entertainment and also the OEM business. Last 3 years we have had a reasonably okay CAGR, I think we were doing slightly better compared to three years before that. So there has been some slowdown in the last 12-18 months. As I said, there is a very large concentration of spend and that is indicative in that 4 out of 10 top clients of Infosys are from Telecom. There are few telecom clients by the way. Rhere are fewer clients who are very large spenders. We have one more interesting thing about telecom which is that more than half of revenues comes from the US which is pretty unique from a industry perspective for Infosys. As you saw in Kris's slide, our goal is to become 40-40-20. I think we are very close to that number here in telecom already. Within telecom communication service provider is the dominant segment as opposed to the Media and Entertainment and OEM.

The recent clients testimonials - the reason I bring this up here is very important in these times where seems like price is the only considerations. These are some very recent client testimonials that have come to us from clients in terms of e-mails and even sometimes face to face. I have not met everyone in the recent times, but I think almost all of them, I think if you look at 7 of our top 10 clients that I have met in the last one and a half month, they all say that when it comes to quality, we have no complaints from Infosys, you guys are top. If there are any issues that we have, it is around our commercial flexibility which is not a surprise and we know that. So it is okay to have that kind of complaint and we can handle that but the fact is that our clients are all saying that we know that you are higher priced than your competitors and by the way, we also know why, because your quality is the top. The only challenge is we are not able to afford you in some programs and to me what it means is whenever they can afford us, they will go with us. We are seeing that shift within client's mind. While they are squeezing one end of the business for cost, they are spending quite liberally on another because that’s what will keep over the top companies away. As long as we can play in both these buckets, we will be safe. That’s the strategy, one thing is of course to hold the price line as much as possible on the commoditized part of the business and to hold the solution leadership on the evolving part of the business. Because that has to explode for them, otherwise they will just keep losing money with over the top companies. This is very refreshing and very comfortable for us.

I will put out strategy and market positioning into two broad categories. One is the large transformation projects that these guys are going through, they have very large stakes in making these happen, these are irreversible transformation al programs. They can be slow, they can take longer time, but they have no choice but to complete the program and they need partners with large scale execution capabilities. They also need to commercial flexibility which means if we are not commercially flexible, we cannot participate in all the programs. As long as that is okay with us, we can live with it but for the programs that we believe are very important for us, we will have to show flexibility which we have, but not enough I think. We are showing more flexibility as we go forward, at least for the programs where we believe we don’t want to lose our position. The second part is the solutions and the future view of the industry. These are large bets for our client and we have to demonstrate not just our capability, but a working breathing solution in those areas where our client should plug in immediately with us and go in that competitive platform or program or service which they desperately need to fight over the top companies. In my view, if we can straddle these two worlds, we are already there in the first one, we know we can tune it a little bit. In the second one, we have a lot of capabilities but we are not really present as big as we would like it to be. If we can straddle this carefully, I think we will make it.

Challenges – I talked about legacy investments holding back because many of these have lot of legacies lying there, they don’t want to create dual cost structures, something has to give for something to come in. For us, we have to open new accounts because there are very few large spenders and it has become very important for us. Every new account that we add, has a huge amount of flexibility in the revenue model. Those new account will come on the back of new country penetration because there are only so many accounts that you can open in any given country in this industry and that’s a reason we have a 40-40-20 going in this industry for us because there are very few and large spenders in every country. The other challenge is how we transition between these two categories of business, one is more getting increasingly commoditized and the other is becoming more valuable for the client. Can we look at some of the compression and sacrifices that we make on one while we increase our business on the other? Ideally we would love to balance it very closely, but that’s something which is always a challenge. Sometimes you end up giving before you get something in return. That has a risk in the model.

Overall business outlook - I think is demand is strong, intact and latent at this point in time. We think we are really tracking is the third point which is network spend, wherever there is a network spend happening or re-happening or re-starting, those are places where we have to be or we will be seeing increasing higher opportunities for downstream IT and process spend. Revenues will continue to be lumpy because of our smaller client base, especially the small client base of large spending clients, that lumpiness I guess will happen to live with. Those are the slides I wanted to spend time on. I will now open it up to some question.

Participant

As we go from voice-driven network to data-driven, data being the biggest part of ARPU, do you think that will be a structural challenge to your customers and if so especially, how are you going to play and help them solve their problem, if there is something that you can do to alleviate that challenge.

Subhash Dhar

See consumers don't drive data, they drive voice. What drives data is application. Consumers will never pay more and more & drive more and more SMSes than voice call. That will never happen because that is not human nature. Human nature is to talk more than send messages. Overall volumes might go up but consumers are not going to pay more and more, they are paying less and less even for voice now. It is the application which will drive the data significantly in an order of magnitude higher than it is today. Now the applications have to become next generation. Right now there are applications like sms which don't drive a lot of data traffic and it is pretty big, but it is nowhere compared to what it should be. Whereas if you have, some value-added service like you have cricket scores and they drive a little more data than SMS does per capita user, but then you go to other large applications which could drive significant amount of data, then the data traffic will go up. The other thing is the network itself is becoming converged; it doesn't distinguish between voice, video and data. Everything is data as far as they are concerned. It could be something like _____ video, so everything is getting converted into a byte and then getting transferred. So technically speaking, everything is data. But really the big drive of data will come from applications. iPhone has proven that in AT&T case and many other networks. So applications and the devices are the key, those are the so-called digital interfaces for consumers to work in the digital environment. The more sophisticated is the device and the application, the more sophisticated is the use of the network by the consumers and it will drive a lot of usage. There is plenty to be done in that area and the sky is the limit in that. Network you can only optimize to a certain level, then we got to wait to recover the cost and then maybe the next generation thing will happen. You can't just be implementing next generation network as the phone companies have been doing because they have understood that to be their business. It was their business when the network has to be upgraded every 20 years. Then it was okay but now they have to do it every 3 years because of the new technologies which emerge & make it the next generation like 2G, 3G, 4G, on the wireless side, then you have ____ and all kinds of alphabets are coming up. If you keep investing and upgrading your networks all the time, you would be just running out of capital and there is not enough capital going around the world to make you fund all, notwithstanding the fact that you have to spend so much getting licenses etc. So they have to exploit their network which they have built and they have to find either a strategy of finding a partner which will help them exploit it, which is Apple in case of AT&T, or do it themselves, or do it with a partner who doesn't take away most of the value in the network, one of those choices they have to go with. It will fundamentally change their business. I agree with that and they agree with that and that is the part which is very scary. It changes all aspect of their business, how the revenue part works, how the hiring and employee engagement model work, how their consumers relationship model works. Some of the Indian companies and the emerging economy companies, have actually shown the way of what that model is going to look like, although they have not completely transformed the network operator but look at some of the Indian companies. They are more of marketing companies than anything else. They have outsourced their network, they have outsourced their infrastructure, IT and so on and they focus on marketing & that is the way it is. They are more about consumers and not about the network. But yes, Indian market has a different problem because voice itself has a huge value because people didn't even had a landline until this thing came. It will take a whole generation for the users to get fed up of volume of voice. But in the West, its already a huge commodity. It been there for the last 10 years, it's a commodity and there the investments are also bigger in network and those companies find it very difficult that legacy investments, how do you protect them, maintain those networks, while invest in new services and products when you don't even understand the new solutions and products. So they end up taking the decision that "I don't get it, let me get Apple or Google to come & do this for me." In that process, they lose the brand association with the consumer. So they are stuck between a rock and hard place. What we are saying is, if we could go in with whatever it takes to say that here is a white-label model for you to do what you would do with Apple and Google, I'm not going to put my brand name on it, it's your brand name but Google like software at work. How does that sound to you? They like it, but I have to prove it. So that's where our solution investment goes in of how do we create those solutions which are next generational applications driving consumer applications? How do we create a partnership which becomes more credible, like what the Google and Apple ecosystem looks like because individually Infosys may not be able to pull it off. Hence go together in some niche areas, not head-on against Apple and Google, but there will be a whole other business called enterprises business example. Can we do that because we have a big credential in the enterprise? Can we do what Apple does for consumers, can we do that for enterprise? And so on and there are many such wide spaces available for us to offer an alternate model to the service providers of how to capture the future value chain of the consumers and the enterprise customer dollar. I think that is very interesting to them and they are willing to know not nickel & dime zone, those are not commoditized, they are not discussing price there. I have an example in one client where they are doing both these things. At one part of the account, we are constantly nicking & dimming on the price, on the other part of the account nobody even asks about the prices. Same account but different buyers. So now it's clear, why they are squeezing you because they have to pay for that. Hopefully both of that happen to us because one gives us the volume and revenue and some predictability and the other gives us the value. If we don't go there and if we are at only one of these places, it will be very risky.

Participant

So I understand the iPhone, obviously there is an apps store which is very proprietary but the Android operating system is much more open. Google doesn't even really have big branding initiative. You do know its Google because we watch the space, so why not leverage that vs starting from scratch, is that what I read you?

Subhash Dhar

Absolutely. I am not saying we will pick something and bet only on that because we also have to look at their strategy. But actually open system is the first place where we are beginning to align

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Question

And where are you in terms of executing on this?

Subhash Dhar

We are going to announce very soon, a mobile applications platform for service providers and they can rent it and we will create a white-labeled platform for them. We should be announcing it very soon. We are negotiating with 1 or 2 clients who will become our first users of that platform. That could happen in the next two to three months. We have reached that point because we have been investing in these kinds of tools for a long time now, even before the downtrend started. But those were just good ideas back then, there was no compelling demand, as there is today.

Participant

What is there in the platform?

Subhash Dhar

Well, if you are a mobile operator and you want to create something like Apple aps store for your subscriber. It will appear as if you build it yourself completely ground up, the presentation there will be completely yours. At the back-end we will be running it.

Participant

It has been primarily devise-based, like either the Blackberry, App Store or the Android or the Apple. So that space isn't it already owned by the device manufacturer?

Subhash Dhar

Other than Apple, nobody owns anything. Only one device manufacturer which has been hugely successful Test of the guys will go through the operator.

Participant

Can you give example of some other white space that you talked about just now?

Subhash Dhar

Yeah, television as an interactive media for transactions, commerce and so on. If you look at penetration of television in the world, it rivals the phone, almost. Computers are way, way behind. Clearly, that has opened for innovation. If you look at platform that we built for Airtel which has not been exploited to its fullest I must say, because of some of satellite issues but that has given the capability to demonstrate to a lot of operators of how they can start taking control of the investments they are making in IPTV and so on, to come up great content, great interactions, interactivity, putting through a transaction. The concept of ordering a Pizza on Airtel Digital TV is phenomenal, if it can work. They advertised it but I think satellite has been an issue there & it does not work as well as we would like it to. But the concept is ready, it's ready to be given to anyone who wants to take it. We have shown it to a lot of our global clients, they want to take, they may not want to order a Pizza but something else, maybe insurance renewals and so on. Imagine, every screen that you see in front of you is potentially networkable and there is a family of application which is just made from that screen including the car screen that you have. GPS works best there, not on your TV or on your phone. It works best on your car, car insurance should work on it. Right? Why should I get something in the mail & pay online or call somebody and send a cheque? Press something in the car & it should pay. It's an ecosystem solution. You get a car manufacturer, a network service provider who offers this service and complete the ecosystem. Just like you complete the ecosystem is in Pizza Hut & Airtel, complete the ecosystem, the loop has to be closed with these kinds of applications and I think that is one of the areas, not the only area, but one of the area where we see our future. System integrators need to become ecosystem integrators.

Participant

Talking of TV, very unlike with service providers in telephone, they are asset-intensive, like Comcast has taken over the content provider NBC. So there the trend is completely opposite of what you are talking.

Subhash Dhar

No, they have taken NBC because they want content because content and application are king.

Participant

What I mean to say is that the asset intensive business is much more powerful business than the content business.

Subhash Dhar

They have more capital. Instead of rolling out a new network, they put it in NBC. These are big guys. If AT&T wants to acquire any company in the world almost, they can acquire. They can acquire any company even in India. With a $ 130 billion in revenue, you can do quite a bit. But they will do it when they see the right value and believe that it's top of their priority and so on. Doesn't matter who acquires but the fact is Comcast sees NBC to drive future value for itself than its network because network connectivity itself is not driving anything for Comcast other than video legacy business & free telephony which they will go and deal with AT&T buyers. ____________ , not building new and new networks, but you will be forced to build newer and newer networks faster than ever before because technology moves fast and consumers are demonstrating unprecedented understanding of what they can use the technology for. How many people used to use computers until the Internet happened and how many people after Web have been added after Facebook happened? It's tremendous, it's almost as many people in terms of exponential growth have happened after Facebook as has happened from the SNTP and those kind of words when www came in. And of course I am not even talking about the phone which has created a whole comfort level for people. People who don't get anything can type '#' and get different services going. The comfort of the consumers which means readiness of the consumer & readiness of technology, are both ahead of corporate plans and ability.

Participant

Only capital is the constraint?

Subhash Dhar

Capital is really a constraint, it doesn't grow. We believe capital will follow where the opportunities are.

Participant

What has been happening like in Europe, we have been hearing spate of suicides & all the big telecom majors, they have put on hold restructuring plans etc.

Subhash Dhar

You are talking about job losses?

Participant

Job losses yes and how it is affecting and you also mentioned the commercially inflexible and is that something you can change in the context?

Subhash Dhar

Job losses is a real issue. Commercial inflexibility is the easiest thing to change. First of all, it doesn't erode your brand. It creates a strong brand (commercial inflexibility), all said and done. It may erode some of your volume which you can switch back, it is easy to turn it back when the volume is coming. As long as you maintain great relationship with clients, top quality and be apologetic about your inflexibility, that's very important. We have maintained that. See there are many responses to a historic downturn. I think we had a very good response to the downturn in the sense that it couldn't have a better response to the downtrend rather than being opportunistic about it and sacrifice a lot of your brand attributes like pricing, margins. When the downtrend comes, rules change and those rules can never be changed again for a long, long time to come. We didn't go and buy volume. Yes, you can say that we may have sacrificed a few quarters in the process. But if we can recover after this, I think these quarters will _____. They were good investements. Now the job loss, they are real issues. Protectionism is bound to happen with or without the labor kind of government and therefore it is even more important to move away from effort-based offerings. Actually in US, the real data says that the real net job loss in Information Technology is 0. Exactly 0, that's what the NASSCOM got the whole thing done. But if you are not replacing people & it's not a people proposition, you can fight it much better. Guys can say that we have a digital TV platform and I am taking that, what's your problem? If you say, that 20 people are coming in and replacing 20 people, you will have these issues. I think in many ways we have to go up the value chain and for us to replace 20 people there, we will have to be a lot cheaper because those guys are getting cheaper. So this game is not going to be a win-win game for too long.
