Basab Pradhan

Ganapathi: Welcome back, Ladies and Gentlemen. And now, remind you have all been waiting for, we have Basab Pradhan, who is the new Senior Vice President in the charge of the worldwide sales, and he is going to talk to us about the state of the market. Basab is familiar to those of you who attended the analyst meet two years ago, a graduate of IIT Kanpur and a MBA from IIM Ahmedabad. Basab joined Infosys in 1994 and has held numerous sales positions around the United States. Before joining Infosys he was with the Unilever group of companies in India. Ladies and Gentlemen Basab Pradhan, Senior Vice President, in charge of worldwide sales.

Basab Pradhan: Thank you Guns. Some of you may have been here at the analyst meet a couple of years ago where I made a similar presentation where the topic was the same, and as I recall the next day, our share prices dropped by about 5%. So, I am hoping that you guys would be kinder to me this time and well let us see what happens. I will judge you based on how the stock does tomorrow.

Okay, this is what I hope to cover today. Just the broad summary of state of the markets, IT spend and demand and what is for IT services and what is happening to that. What we feel is the now mainstream acceptance of outsourcing and offshore services, and how we are positioned to capitalize on these opportunities. And also a little about potential risks.

The presentation I made in the last analyst's meet a couple of years back, I talked about how the market and the IT spend in the market was like in the dotcom boom times and what it was like post the bust. I have just summarized it here on this slide and added another stage which is what I feel what we are in today. Since it is still very early days, I have not put a name on it, but say if you were look at just to recap, in the dotcom days you had the frenzy of IT spending, which was driven by the economy doing very well and just because everyone wanted their businesses out on the internet as quickly as possible, people were throwing caution to the winds, ROI models went out of the window and we ended up with a situation where IT spend was growing double digits every year. Post the bust, we saw a different kind of a market. The economy, beginning with the US economy, weakened. We saw a few quarters of negative growth, revenues and earnings shrank for many industries. The focus shifted very quickly and we were really amazed that how quickly the focus shifted from spending, time-to-market, e-business to control. Control rationalizing IT and making sure that we got a return on investment. Also, because of the uncertainty in the market place, executives were wary of making large spending decisions on IT. If you don't know what you are going to do next quarter, you don't want to commit to a large multimillion-dollar investment. So, a lot of projects were on hold. So, this is the phase I am calling the freeze. Today the market is now shaping into something, which I have tried to characterize here. You are now looking at really e-business, you are looking at people are spending money on technology where they feel it will really add business value, they measure this business value through using ROI models and such like. On the cost side, the companies now want their IT to be resilient. They want it to scale up when demand for the IT services within the company is higher, but at the same time be able to scale down when that demand goes down. And most of the companies had built up this IT infrastructure, this cost structure in IT, which scaled up during the boom years, but was not able to scale down and there were sort of, this was like an albatross around their necks after the bust.

There is some data from Forrester here, which says that firms will spend 2.3% higher in 2002 than in 2001. We agree that what we see, at least in the US economy, seems to indicate that IT spend has bottomed out. So, this growth rate is not great, but it is better than having a negative or a flat IT spend. The growth will sort of differ across industry verticals. We think insurance and transportation will continue to show higher growth, utilities and high tech would not. But overall things are looking up, at least the beginnings of a more buoyant IT spend in the markets. But within that IT spend, we also see expect some shift from investment. You know the IT industry, the IT markets they have a digestion problem right now. They have actually invested so much on infrastructure and software licenses that they need to spend some time on actually implementing some of these. So, that is what the spend is going to shift towards, less of investing on software licenses more on implementing on what they have bought. We also expect CIOs to continue to defer big consulting projects. Again this is a trend we are seeing across. Something to do with the uncertainty in the economy and in their businesses; they do not want to commit large dollars, but also their taste for the larger big bang IT projects has gone away. They prefer to have smaller investments, show some business benefit and then commit more money to it. Good news is that 'C' level commitment to IT is on the rise, the executive sentiments towards the use of IT and belief in IT as a business enabler is going to go up, a part of it is because top management understands the IT and the value it brings better, and the other reason is frankly that you know they have in the past not had to look at that side of the house at all, but now it so big and so critical that they have to. And as they understand more about it, they understand the value it brings to their business. IT expenditure is also going to be centralized. That means tighter control and for us, I think it is good news, because to outsource and especially to run an offshore program, which is considered a major change for an IT organization. Centralized control is good. It is an enabler for companies like us.

So, we have talked a little about the IT spend and the trends in general. Let us look at outsourcing. Again some data from Forrester, which indicates that almost across industries, the willingness to outsource is higher and is expected to grow in the coming years. And there are some reasons and some drivers behind the drive to outsource. Nandan mentioned this briefly in his address as well. Companies want to focus on their core competency. Whatever brings them competitor advantage in their industry is what they want to spend their effort and money and time on. And the stuff that some other company can do better than them, they are willing to actually let the other company do it. If that other company can also reduce their cost for them on that, because they know how to do it better, all the better. Another driver is financial restructuring. Companies want to, you know I talked about resilient IT, companies want IT costs to scale up when demand for that is higher, but not get into a structure where you cannot scale down later. Outsourcing as a concept has matured over the years. And also accelerating ROI, time-to-market remains important, and doing everything in-house yourself is not the best way to get things done quickly.

Okay, so we looked at IT spend, outsourcing, what about offshore? On this, the news is good and almost everybody is unanimous that the trend towards the offshore is going to get stronger as we go ahead. Some data from Forrester indicates that average percent spent on offshore providers will increase from 12% to 28%, more than double in two years. That is a good indicator of the interest in the market place. The other interesting thing is how companies intend to use their offshore service providers. Till now it has been a lot of legacy support, application development, but companies are showing increasing interest in doing higher value work, strategy architecture definition, process re-engineering with their offshore service providers, and that is borne out by data that Forrester has collected on this. Moving go into my next slide, which is about our ability to provide business solutions. You have this data which shows the companies are more willing to do higher value stuff with their offshore service providers, and we have in the past been spending a lot of effort on building our capabilities to address the business solutions. If you look at our business and how we sell and deliver, broadly and conceptually you can divide it into two parts. One is, strategic sourcing, where you are solving the CIO's problem which relates to the IT organization's performance - value, productivity, quality, and most important today is cost. The other side is, business solutions, we sell and deliver business solution as well where the problem you are solving is the business executive's problem, and that problem pertains to could be you know, I need to increase inventory returns in my business, to reduce working capital and increase profitability. That is a business problem, which requires a solution, which is based on technology.

Business solutions been in the past have been sort of the home ground for the big 5 and some other players like IBM and EDS, and that is where we are looking really good. We think that our ability, our capability to provide business solutions based on all the organizational capability building that we have done in our business consulting division, domain consulting, SetLabs and so on, which puts us in a better position to address some of these opportunities. The price value proposition is great, while risk is an important factor in determining who your business solution providers is going to be, price value does not lose its importance. And for us, this is a higher margin business, so we are really eager to make this happen. We have made some good beginnings, and we intend to continue accelerating on that path. Here are two examples of business solutions that we have done recently. These are large end-to-end implementations, programs. One of them is Green Point Mortgage, which we have made a press release about, so you may be more familiar with. Another is a recent win, a one billion dollar manufacturing company. What we are going to do is actually an end-to-end across the company JD Edwards implementation. Total value is over $6 million in one year. So, it is a large sized, high margin, end-to-end project, and this is the stuff that we really like and hopefully going forward will be doing more of these.

On the strategic sourcing side, we continue to be well positioned. This has been our mainstay for many years, and we continue to be well positioned. We think, the trend in the market is, what we call, flight-to-scale, where clients are saying we want to do business with fewer vendors. And the vendors they pick tend to be the larger ones. And since we are one of the largest, financially stable, we tend to get picked often than other players. So this flight-to-scale works to our advantage. We continue to have a great price-to-value proposition and as offshore outsourcing becomes more strategic to our clients, they will desire more end-to-end capabilities in their offshore service providers. Again, something that plays to our strengths.

These are some of the recent wins for strategic offshore outsourcing. We just underwent an exercise with a large financial services firm, where the company wanted to rationalize the number of vendors that they had, not just offshore but also on-site. You know, some of these companies have hundreds of vendors in IT and managing them becomes a big pain and they also cannot do strategic initiatives, because there are so many vendors that they have manage this with. So, in that firm they had four vendors in invest, and we were one of those vendors, we are doing well there. Eastman Chemical Company and other company that selected us is strategic sourcing partner.

Okay, I wanted to spend some time on talking about the business development process itself, and the fact that we think business development is a team sport. From the outside, it might look that sales is done by individuals, superman, who just go and sprinkle some pixy dust and the deals come in. It is not like that. It is very much a team sport, and it is not just the sales organization, it is company thing. When we pursue a deal, we have people from sales in various roles and sales people from delivery, various roles in delivery coming together we form a team, that team has the mandate to go out and win. Everyone is incentivised to win that deal, and if the deal is larger and more significant, we will pull in specialized roles like enterprise architect, source and subject matter experts, domain experts to form the team. But at the end of the day, each member of that team plays a role in pulling in the deal. Once the deal is done and you form a relationship with the client, even the relationships are multilevel. The CIO relationship for instance in the company, there are many people in touch with them. We just don't have only a CIO relationship. We will have relationships with the VP below that, with the directors, the managers, and chief operating officers of companies. So, we believe in multilevel relationships at the client end as well as at our end. So, top management for instance in Infosys plays a major role in executive relationships with our clients. This is another trend that we are seeing and I thought it would be worth a mention here. We are increasingly now seeing deal sizes that are in excess of $10 million, very often $30 million or $40 million.

Just to make a distinction here, you already know that we have clients above $30 million value to us. But they comprise of many many projects, and you have grown into $30 million over a period of time. We still don't have too many double-digit million-dollar deals that we went single proposal, single letter of engagement or contract. But we are getting there. We are at least seeing a lot of these RFPs. There is interest in the market. Now, even within these mega deals, you have two kinds. One kind is the business solutions. The large business solution could be organization-wide supply chain, re-implementation of some package. The other kind is large outsourcing deals, which tend to be, what we call, 'total outsourcing' - where the people move along with the deals. We haven't done too many of either, but we are seeing a lot of them. It is something that we are trying to get our arms around. So you get a sense of what is important in decision-making on these kinds of deals. Risk is always a very important factor because of the potential impact to the client's company of failure on these projects, and so value cost, it does matter. Again, because it double-digit million dollars, the percentage saving on that can be millions of dollars. So, cost certainly matters. But risk is a very important consideration, and you can only reduce the perception of risk if you demonstrate capability in the pre-sale process. We have to demonstrate capability, experience, you have to have references, you have to have people who have done this before, and those kinds of things. The pre-sale process is more involved. It requires a higher caliber of people. Also, things like size matter. I mean, we have now more than half a billion dollars in revenue and we have a sizable Balance Sheet. You know, people feel confident dealing with us, but then some of competitors are larger than us, so we have to get there. So, what we are trying to do to address some of these opportunities, we are hiring experienced people to be in the front line of such deals. We are going to hire from the industry, people with a lot of experience in specific things, like supply chain, like outsourcing. These kinds of things - they make the clients feel more confident about engaging with us because we are addressing their issues, we are talking about how we have done this in the past with other companies. We are also not averse to striking alliances. You know if you can't get there ourselves, we will get help. We are very open to partnering with people who bring some specialized value to the deal.

Little about risks: Competitive pressure is a major challenge. The market has, as you all know, is not growing the way it was. So, you have the same number of competitors, they are just hungrier. So, you have a situation where your clients are expecting savings because their business requires them to cut cost in IT. There are competitors who are hungrier than they were. It does impact pricing and margins. At the lower end of the market where the differentiation is low, the pricing pressure is highest. So, at the lower end of the market, our clients, those people who expect this basic offshore services. They tend to treat it more as a commodity and obviously it has an impact on pricing. Luckily, not everyone is like that. There are people who do appreciate the value you bring to the table in terms of an end-to-end capability, and willing to pay you a little of premium for that, and that's what we are betting on. The other trend is that global competition is also going to move in this direction. You all know, several big 5 companies and IBM have setup shops in India. We know their direction; Nandan spoke about this a little. It will take a long time for a ship of this size to turn. We are more faster, more agile, smaller attack boat, so to speak compared to their ships. So, we will certainly have a lead for a while, but these companies are smart companies, they know how important this is for them, they are going to put in the global delivery model infrastructure, and we are going to increasingly see them compete head-to-head with us on strategic sourcing deals.

The geopolitical instability was an issue a few months back, as you all know, its no longer an active issue, but certainly we have to manage the long-term risk, something that will raise its head again and again. It is something we have to address with our clients. What we are trying to do here, we are saying, we will take a proactive communicator role in this, to make sure and this is exactly how we treat our business on the investor side, right. I mean, if you have something to disclose, you disclose it. Similarly, on the client side, we want to be completely transparent, open, and proactively communicate the steps we are taking to reduce risk to their business, the business they are doing with us. And also, we are looking at opportunities to invest in alternate development centers outside India. That is all I had. Now, I will be happy to take questions.

Annirudha Dange: Basab, I wanted to check, you have spoken about the business development process at Infosys. Could you elaborate on what is a similar process or what are the lacunae that you face compared to a Big 5 or some of the US companies?

Basab Pradhan: Well, the biggest difference, which is what I mentioned on the slide as well is - they have been doing this as a business for a long time. They have people who are experienced, who have been there done that on these large business solutions. Now, we have to build that into our front line. So, hiring is going to be one part of it. We are also going to increase the capability of our people in the company today, training wise, exposing them to what is important in these kind of deals. As we actually participate in these deals, pre-sale process, we learn a lot. So, we want to pool that knowledge and not lose it when we address a similar deal of that kind.

Amit Khurana: While one appreciates that the large corporations will take probably longer to turn around towards offshore in a major way and that could possibly impact their margins and impact our competitive scenario. Is there a sense that you are finding these plans are getting accelerated in terms of moving to India offshore or any other similar location, and also if you could give us a sense of, you know, these corporations, what is the inertia which is preventing them from taking such an initiative at a more aggressive level?

Basab Pradhan: This is more about those companies, so I will tell you what I know about it. I think size is a major issue. These companies are big - 60,000 to 70,000 people. Some of them are even larger. Now, when you try to change a company of that size in a basic fundamental way which impacts the structure, the model of your business, the way you sell, the way you deliver, it is not an easy task. Having said that, I am pretty sure that they are aggressive in seeking out such a model, and building up their capabilities. Some of these companies have a partner model or you know when they turn public, the partners are called something else, but eventually they are the same, work under the same business model, and changing that model to incorporate a global delivery model is not a trivial task. There are organizational things which really make it difficult to change, it is to you know sort of involved in an answer to go into at this point, but it is not easy for them. We also know that these companies haven't got into where they are by resisting change all the time. So, they are going to and they are smart people. They will change. I think we still have a window of opportunity where we can build the capability to beat them at their own game on business solutions, while they are struggling to put the global delivery model.

Male Participant: Last quarter, I found that, on an incremental basis on a year-on-year, growth and revenues, 70% of it was fixed price projects. This incremental position on your year-on-year growth quarter-on-quarter basis has been accelerating in terms of the fixed-price projects. Is this a number which is very important for Infosys? Because if you are a low-cost producer, as you say an efficient producer, then the whole market is moving from T&M to fixed price, Infosys is bound to benefit a lot. Would you like to share any thoughts on that?

Basab Pradhan: Actually the business solution example that I gave you, which was that $1 billion manufacturer, JD Edwards implementation. Its fixed fee. It allows us to increase our margins. But at the same time, I think on the T&M side, if our clients see value, they are willing to pay more, even on T&M. We don't have that much of an issue there. The trend may be there, but it is not germane to our general drive towards higher margin solution business.

Male Participant: It is not an important number, which is being trifled?

Basab Pradhan: No, it is an important number, but either ways we will benefit. Our solution business is going to be entirely fixed fee. It is going to be T&M, and our client's willingness to pay higher rates is still there even it is T&M.

Male Participant: Thanks.

Sujit Sahgal: It is a question follow on to what Anirudh just asked. Basically, when you are pitching for these large multimillion-dollar long-term deals and competing with the big 5, obviously you have to convince the customers' board that you can deliver without having a track record on this area. So how are you really addressing that the last mile of the decision-making cycle and do you feel the need to tie-up or do alliances to get through the door?

Basab Pradhan: Well, you kind of gave part of the answer away. Alliances are a part of that, but also, I think our execution capability is something we are very proud of. So, during the pre-sale process, we will easily come across as a partner that they can trust will meet their promises on that project. Now, there is a last mile on convincing them on our capability of, sort of understanding their business problem and translating it into process changes and so on. We have been successful at building that same capability within the company. We are hiring the right people from some of the same companies that are competing against us and when we make a claim that we can actually do it and we have these kinds of people who are part of the pursuit team, it does all come together in a credible fashion. So, I like our chances for winning this kind of business in the future.

Mahesh Vaze: Have you come across some deals where Infosys is not large enough to back that contract, and if yes, is there a possibility of some sort of consortium bidding with some other offshore Indian providers?

Basab Pradhan: I don't know about offshore Indian. We like to do alliances, which are complementary. That means, our partner brings something to the table that we can't at that point credibly claim to have. And in some of these deals, we are looking at alliances. To give you an example, there is currently an opportunity worth about $30 million with a large financial services company that we are looking to partner with a very specialized architecture firm that specializes in financial services, so we are willing to do that, kind of stuff, no questions.

Rahul Dhruv: Actually, we went through this global delivery model thing, and the fact that Indian companies basically are looking at it as their way into the global market. The same way, if you look at the Big 5, they are actually not really that worried because they feel that they have got the relationship, and really very very strong and intense relationships going back to the accounting days. So, what you really think is would be required for the Indian companies to really get past that hurdle. I mean, effectively going past the first hurdle, which is becoming end-to-end provider of services over a period of time, but more important is relationships. Where do you really see this, or let me put this way, what further investment will you have to make to really take it to the next level in the marketing arena?

Basab Pradhan: So, your question is around the relationships hurdle? Yes, that is certainly a challenge. First of all, relationships are built upon trust and value. For instance, our relationships with some of our clients, long-standing clients, are so strong that it will be difficult to break into those accounts, or if they try to, try really hard, they will get some peripheral stuff, and that is the case with many accounts. Similarly, the Big 5, these kinds of companies, their relationships with their clients may be strong, but they have to be predicated upon value. This is a business relationship right, as long as they are bringing value, they will succeed in doing repeat business with those relationships. But, eventually, we will erode away a way that because if our value proposition is better, we will build upon that and we will do a few other things. We are hiring from the right places, you know, as we hire people who are senior, who have a lot of experience, they also come with their own contacts. We are investing in our sales organization, people who are, we are trying to hire people who have networks in local markets. So these are some of the things that we have to do of course to actually build up our relationship. But, again, once you start having success, you start building champions who will refer you to other clients. If you have a satisfied client, the power of that as a reference, is far greater than an existing relationship that you may have had because you went to with somebody to college or something of that sort.

Rahul Dhruv: I had one more follow on question actually. What would be the good ratio that you think would be of sales and marketing to back office or the overall employee strength, in your view to really compete with these guys. You have currently around 140 or 150 people in marketing and plus some sales people. What do you really feel that ratio will go over the next one or two years?

Basab Pradhan: First of all, the numbers are not really comparable because, as I said earlier, business development is a team sport for us. Since you are not just looking at the sales organization, but there are a lot of other people in delivery, account management, who play roles which are client facing and business development. So, that makes it sort of hard to compare. Our business models are also different - 70% of our company is here those companies are there. So, I don't think you can do a comparison on a like-to-like basis of percentage of sales or anything of that sort. But, I think we are doing all right. We also plan to continue to hire and grow as the company grows to add to our front line.

Trideep Bhattacharya: This is basically rephrasing one of the questions asked. I know you have intentions of alliances. So based on current capabilities, what is the largest size of the contract that you are confident of handling or you can go and pursue the client saying that, we along with our existing alliances can definitely handle this size of the contract, that is like, 30, 60, or 100, just to quantify?

Basab Pradhan: That is very hard to say just on number of millions of dollars because it depends on what is the engagement - is it outsourcing, is it implementing a package, what kind of package, what skills are required; scale is not so much of a problem, it is finding the people with the right skills to do that project.

Trideep Bhattacharya: Here I am talking about an end-to-end solutions contract, which might involve not only package implementation but also maintenance, new application development, whole host of applications, across multi locations?

Basab Pradhan: Now, that is still too broad and typically maintenance would not be in the same proposal. So, it is a kind of hard to answer that question really. May be, we can have a chat about it later.

Male Participant: Basically, just wanted to understand, there have been some clients who have been giving work offshore for say over four or five years' time. They have been doing off-shoring for quite some time and there is a new breed of these new clients who are now looking at offshore. As a marketing head, do you see a substantial difference in the way they deal with Indian software companies, something like a Citibank or a GE, as compared to somebody who is new who is looking say a GreenPoint mortgage who is looking at off-shoring for the first time. And is there is a substantial difference in the margins that one can make. Maybe GE is not the best example because you have not working and some of your old clients, Goldman Sachs or somebody?

Basab Pradhan: Well, let me answer that question in a different way. GreenPoint Mortgage is a very different company compared to GE, just based on size. GE has a lot of heft. So, when go out seeking for service provider in anything - it could be phone network services or something of that sort or airlines. They will negotiate hard and they will get the deal because they know they are putting a lot of things on the table. So, size itself is a big difference. Now, if you look at the other differences and that perhaps applies largely to GE. When you are an early adopter, you seek some advantage for the risk you take. So, this probably is going to happen on the BPO side also. When somebody was out there and put some stake on the ground and says I am going do this and nobody else has thought of it, they are obviously going to expect some kind. So that may be the only significant difference because there are any number of large companies today who display the same, exhibit the same characteristics in their buying processes as GE or Citibank.

Male Participant: The point which I just wanted to understand was like following a market skimming strategy like getting new clients who are looking at offshore for the first time and there is a novelty factor attached to it. Might make sense for some time and can maintain high margins for some point in time, but if we look at some of the clients who actually went through the offshore model over a 4 or 5 year period, and who have matured into giving large works offshore, the margins they have contracted substantially. So, I am saying like this marketing skimming strategy can work for some time, but over a 2 or 3 year period, it will definitely the follow the path which some of these mature players have taken.

Basab Pradhan: When GE did this, this was novelty, right?

Male Participant: No, novelty for a client who is looking at offshore for the first time. So, offshore will be a novelty for that particular client; but once they understand the whole process, they understand the cost structure, the probability of them also going the same way. GE might be slightly more exaggerated case, may be, but understanding that this is the cost structure which is involved. So a company like Infosys with a strong marketing arm and understanding that there is a need to cut costs, can do very well by skimming across clients, and getting new clients to do some small portion of the work offshore and then ramping up, so for some period of time you can maintain margins. But when each of these clients actually maturing, then maintaining margins, won't that be very very difficult?

Basab Pradhan: Okay, I know we are short in time. So I will just quickly answer this question. So, I think what you mean is that over the life cycle of an account, once that company starts understanding offshore better, why would they continue to pay you a high margin, that is assuming that you started on a high margin basis with them. But, I will tell you the exit barrier for a company that has a relationship with any IT services provider especially the kind of work we do are very high. So, for them to actually play truant and say I have now learnt this business and I am going to go and do it with the least cost provider, is not as simple as you might think. The exit barriers are fairly high.

Male Participant: Thank you.

Basab Pradhan: Thank you.