



Sandeep: Thank you, Steve and Paul. We have Basab Pradhan next. He'll talk about how our model is disruptive to the industry. He is the Vice President of Worldwide Sales for us. Basab?

Basab Pradhan: Thank you, Sandeep. I want to begin by thanking Nandan for covering my presentation almost in its entirety. So at this point, I will take questions. Anyway, I think, he articulated, of course, really, really well and far better than I can. But I think it will still be useful for us to go through this and understand with a little -- in a little more depth, why we believe our business model is so disruptive to the incumbents.

Before I begin, let me just talk about this whole disruptive business model a little. For those of you who have read his excellent books, Professor Clayton Christensen is really -- he's probably furthered the whole business -- disruptive business model theory the most. He's written two books, "Innovator's Dilemma" and "Innovator's Solutions," which are really excellent books. He was also -- he was a keynote speaker at Milan our annual event last year; and much of the conceptual framework for this are borrowed from him -- from his thinking.

He often talks about Dell as a disruptive business model in its industry, and Nandan talked about it as well; and it will be worth our while to actually just go a little deeper into that when -- because there are a lot of similarities. When Dell started out with its direct build-to-order business model, it started out in a certain segment of the market. It was more you know personal computers, and it was direct to home rather than large corporates -- the home and small businesses. After they, sort of, conquered that piece of the market, they started going into both large corporates as well as other product lines, servers, even consumer electronics now.

Now, in their business model, which was direct and built-to-order, they were competing against an intense business model, which was -- of which, the category leader was Compaq; and so they were competing against Compaq. Compaq was a great company. It led that category, but it had huge investments in its dealer network and its corporate status function -- both these actually made it successful.

So you're looking at -- and this is again coming back to what a disruptive business model is -- for Compaq to compete against Dell. The only way for them to successfully do that would have been to deconstruct themselves and build themselves again in the image of Dell.

And that's really what a disruptive business model is; you are between a rock and a hard place: "What is making you successful today is really driving you down." And this is not about Compaq's management, and this is exactly the way we see our incumbent competition. They're all very well managed companies, they have done excellent work in the market with clients, really well known for their work, but they are between a rock and a hard place; and that's what we will really talk about in my presentation.

So just to get some definitions out of the way. Outsourcing and consulting -- these are the two primary streams of our business. In my presentation, I'm going to largely refer to outsourcing as an application outsourcing, because it's just easier for me to deal with it. Infrastructure outsourcing, business process outsourcing -- the same kind of fundamental____(voice inaudible), I think, would apply to both.

So if you look at the application phase, application outsourcing, it targets around the business spend with a promise of improving cost performance parameters for the operation. Consulting-led application integration or application development -- we also call this our business solutions stream, but basically we use them interchangeably. This targets the change the business spend on major programs where business expertise is required or the organizational change -- degree of change is high. Now, between the two of these, there is obviously a lot of gray area, which is up for grabs. This is on small projects where the extent to change may be less or the business expertise required may from the outside company may not be too high.

OK. So let's first tackle the outsourcing market. This slide here -- it sort of depicts the structure of the outsourcing market on two dimensions, size of deal and size of market. Now, if you look at Gartner data, the size of the market is much higher at the large deal size. Even this from people who are familiar with the industry, it sounds intuitive to us.



Gartner actually says that 66% of the market is over \$1 billion deal size and only 4% of the market is below \$100-million deal size. I have a problem with that in the way they define the outsourcing market; I think it's too narrow. But by and large, the structure of the market in outsourcing is like that. It's back at the top.

Now, where do we exist in this market? We compete in the small deal size, and a large piece of our outsourcing revenue comes from managed projects that over time really become outsourcing arrangements.

A couple of clarifications here, first of all, small deal size does not mean small relationship with client, OK. This is important to understand. Our outsourcing model really is a brick by brick outsourcing model, all right. The incumbent outsourcing model, which is the box you see at the top is what we call an all-at-once model. So they will re-badge employees, take the whole thing all at once. Our outsourcing model isn't like that, its build on success, brick by brick, OK. But essentially you're solving the same business problem, which is, you have an IT organization, which does not perform as well as it should, they seek outside help. We provide that help to our brick by brick outsourcing model and the incumbents provide that, I guess, through their all-at-once model, OK.

All right. So, lets look at this market now. How is the structure of the market actually changing and what is happening to incumbents and to us? We believe that the structure of the market is driving the onsite incumbent outsourcers to vacate the middle, and there are some good reasons to why that's happening.

First of all, onsite outsourcing has little cost leverage, I mean, if you just think about it, the all-at-once re-badge employees kind of outsourcing, what are you essentially doing, right. If I am a company and I have 1000 employees in my IT organization, and I just re-badge those employees to another outsource company. That outsourcing company has to add its own margin and give me some cost savings; where is that going to come from? I mean, it doesn't sound like there's a whole lot of cost leverage, I mean, what are they actually doing? So the only place where you can get efficiency from is, they have promised that they can do the same work with fewer people.

So, sometimes I wonder if there is a business out there, at all for this, but you know, clearly there is. So the need to show cost savings actually drives margins down quite a bit, OK. So there - and from public data, you can also make out their margins are far lower than ours on outsourcing.

Point number two, outsourcing is a high involvement purchase for a CIO, OK. And there is a lot of due diligence that is done. So this becomes a fairly high investment sale for an outsourcing company.

So again, low margin, high investment in sale, you're automatically driven towards the large deals to make it work financially. The sales teams are high cost, specialized and commission based. You know, the sales teams are - you know, they will have somebody who is responsible for the client interface, for putting the solution together, for the HR piece, for the legal piece, for the finance piece, I mean, these are large teams, these are long pursuit 6 months to 18 months -- that is the kind of duration of this -- the pursuit. This is a high- cost business.

On the other hand, transitioned offshore outsourcing, if they were to compete with us on the offshore outsourcing piece, that is tough for them, both organizationally -- and we went through some of those reasons in the morning about why its difficult for them to compete on the offshore outsourcing speed pace, and frankly, client's creditability wise, you know, clients don't really believe that they can pull it off.

So we don't actually loose a lot of deals to them where we compete. We, on the other hand, we have good margins in the space we competes in and we have the ability to make the smaller deals profitable. So what's happening now is that we have control over the small deal market, OK. We also have a fairly large stream of revenue in outsourcing, coming from the managed projects that are getting converted into outsourcing arrangements. We are now going up the deal size stack, OK.



And we are actually competing against them and it's really hard for them to compete against us. They don't have the offshore model. They have a high cost sales force and a high cost sales model that adjustment is proving to be just too much for them. So they are gradually vacating the middle ground to us. So that's what's happening. This is, again, you know, very similar to, if you think back to Dell. Dell started with the desktop market, then they went into servers, networking gear, so it's one product line at a time. So that's what's happening, we're going up the stack and we're completing and winning.

Now the other interesting thing that's happening on the outsourcing side is that the structure of the market is changing, OK. So there -- the side of top inverted pyramid structure that you have today is actually changing, because it's leveling-out and there are a few good reasons why that's happening.

First of all, all at once, deals are going out of favor. They are just too few success stories out there and when you think to it logically CIOs don't really see how work, you know, revaluing whole bunch of employees, how much savings are going to get out of that. There is some other good reasons: IT is better understood today. Today you have business executives, CEOs who understand IT much better. They don't feel the need anymore to say that, you know, I don't know what goes on there in that data center and I think it's best if we hand it over to someone else, so, you know, we can manage it through the invoices they give us rather than deal with this on our own.

Today business executives understand that IT is competitive advantage in most companies. CIOs also are much more business savvy and they understand how to align the cost -- the spent in IT with business value. So the need to actually go and say, you know, let's take the whole thing and give it out to somebody is going away. This does not mean the need for outsourcing is going away. So the need to do it all at once and the whole fixable that's going away.

So there is some expectation that modularity will come into sourcing of IT, similar to manufacturing. So as things get better understood, the feeling is that, people will say, let's look at the this module of my IT spend and see how to optimize this and does outsourcing fit the module better instead of treating all of IT as one homogeneous thing. So the structure of market is changing because of that it's of leveling out.

We are already strong in the small deal size and we are getting stronger in the middle the top of it is anyway contracting. So things are going our way. It's really going to be hard for the onsite incumbents to compete. So our market strategy has been -- one is, that we are going to push a point of view, called, modular sourcing, OK. So this -- I spoke to this earlier, we think that IT as it becomes more better understood, is going to become more like manufacturing.

So if you look at the way cars are put together today. You don't have a General Motors or a Ford building every single piece themselves. They essentially design it and they ally with partners who can build the subassemblies for them, the braking systems and the seating system and sometimes they'll do it themselves. You know ____ (voice inaudible) very often they will design and manufacture it themselves. That's the kind of thinking that is coming into IT now, which is you've got to look at IT in a modular fashion right. So, there are some pieces that will be optimized differently, some pieces that should be sourced differently.

So, we're pushing modular global sourcing as a point of view and we've also created a unit called Strategic Global Sourcing, which overlays the IBU sales force. IBUs are our integrated business units, which is the way we go to market today and they provide the large deal experience in SGS to the company because we know that as we start competing in the larger deal size there will be issues like employee re-badges and things where we need expertise on the HR side and also more complex financial deals.

Basab Pradhan:

OK. So, Steve and Paul covered the consulting market and what we're doing in Infosys Consulting, I'm just going to quickly go over this. The size of the market is fairly large, \$108 billion or so. It is also flat at the top, in the past driven largely by huge ERP implementations but even now large programs for operational, transformation continue to exist our bid, companies perhaps manage it differently, they break it out so that they can get proof of concepts ROI in place before they move on to the next module of that program



but certainly the need for a large transformational change is still there. Our penetration is largely in the small, small projects, small consulting opportunities so far.

We fully intend to be -- to take our disruptive model into consulting as well and so again from desktop to server, from outsourcing -- from small outsourcing to large outsourcing, from small consulting to large transformational change consulting. We intend to take our disruptive model to all service clients. The reason why we will be disruptive to the incumbents in consulting.

Offshore, typically, is a cost center in a different organization and you've seen -- you've already heard Nandan talk about the many reasons why organizationally it is so difficult for the incumbent consultants to actually compete with us because of organizational reasons. So, I'm not going to go into that a whole lot.

The partner sales model is a high cost model, you have you know you have the smart partner, network partner concept right now that they have believed in for many years, but you know, do we have too many of them you know, I don't know. It's something that they certainly spend a whole lot of money on that. Is that something that they will be able to -- I'm sorry, sustain because that you need fairly high rates to sustain that kind of a cost of sales.

So, both on delivery and sales, we have reasons why the incumbent consultants will find it very difficult to compete. Our market strategy here is; number one, use application outsourcing to compete in the small consulting project market. OK. It's -- it is not -- this does not mean that we will deliver it differently or that we will use different resources or that we will necessarily have a different quality value point here.

All we're saying is by moving it under an existing MSA outsourcing arrangement, we significantly reduce the cost of sales and the cost of sales is a big driver in professional services today. Number two, and the most important thing we're doing is building a world-class consulting organization in Infosys consulting.

So we are going to attack the high end of the market with Infosys Consulting combined that with the things we have on the technology delivery side, and that's how we think we will compete and win. We've already gone through several questions on integration and so on. Our focus is on making the integrated model work by hiring people who buy in to the global delivery model as the future of this industry.

And this is really the last slide there. Combining consulting with outsourcing, this is another major market strategy of ours, which is -- just to explain this, this is what BPO looks like today. This is what application outsourcing looks like, right, outsourcing the operations of IT applications today. This is what consulting and application integration looks like.

We think there's a significant market opportunity for combining consulting and outsourcing in what I call "build and operate solutions". So you go to a company, you say we know how to run a best practice, you know, go to high-tech company and say we know how to run a best practice a management function for you and we've already done it in some of the places and this is how it is done. These are the -- this is the application platform on which it will rest and we'll do the whole thing.

We'll build that for you; we will support the application; we will also do the business process. So the value point that you can reach by this kind of build operate solution is far better, and we think there's significant opportunity there.

OK. So, we have a few imperatives in sales, which is the plug for my function here; I had sales function here. We know that we are competing against -- we've done well in the past, right. We've competed in the offshore outsourcing market and done really well for ourselves.

For, well, now we're competing against companies incumbents who have, like someone said, ___ (voice inaudible) sales machines, right. I mean they have invested and built it up over time. So they might have problems with that sales machine, maybe it's too expensive today to maintain but still we're going up against them head-to-head in many deals. So we have to do a lot of things on our side to make this thing work.



We reorganized in November in order to get our folks -- our sales force into vertical business units where they could identify with their clients and their clients' industry more closely. We have -- we are spending a lot of quality time on talent management within sales organization. We just finished around the role definitions; we've created a tiered structure in sales, which allows senior roles to form peering relationships with the CXOs and we're doing stuff like defining competencies for these roles.

We're going to do in the future our recruitment, hiring, development, training everything around this competency framework. We have significantly strengthened our performance management to align it to business results, so lot of basic block and tackle stuff going on in sales today. We're also investing in unified sales process across the company as we grow in size, several different functions, there's the need for us to have a unified sales across the company. So that's what we have been doing. I will take some questions if we have some time to.

Unidentified Speaker: We'll take some quick question. If you have some generic question we can wait for the Q&A time maybe just in the interest of getting back on time. Basab will be available for the last part also.

_____(voice inaudible)

Joe Vafi: Hi. Joe Vafi, Jefferies & Company. Can you talk a little about deal size? I think we're all familiar with the fact that larger IT deals that usually have a large infrastructure component to them, clearly that's not necessarily Infosys' focus and how do you deal with that and how is the customer looking at deals if deal size that's going to come towards you does get larger, are you excluding infrastructure from these deals or how are you working or thinking about the infrastructure side?

Unidentified Speaker: OK. Yes, integrated outsourcing, which is what we call this including -- which includes infrastructure and application is the trend for that is coming down. So actually this is again part of the whole modularization of IT. There was a time when you had to give them both out together otherwise you couldn't separate the service levels. That's going away as things get better understood. Infrastructure can be outsourced separately and people are taking advantage of it. I think if you look at the data, application outsourcing is a standalone deal.

The volume of that is significantly going up. So we're betting on that happening. We also are building now our infrastructure management service offering. We hope to -- it's still no where near our maturity on application outsourcing, but we have had some success again at the smaller deal size. So we're hoping that as time goes by, we'll be able to take on the integrated outsourcing views as well. One more?

David Togut: Thanks. David Togut, Morgan Stanley. Perhaps Hema would address this in her presentation, but if you could perhaps, talk about the recruiting aspect of putting together advisors and doers. In particular, it seems to me that the cultural challenge could be pretty significant, especially if you're trying to recruit someone who might go, let's say, to McKenzie on a consulting side, so how do you get the buy end on the cultural side? You know, for some who might otherwise go to and lead standalone consulting firm, perhaps more independent and so forth.

Basab Pradhan: Steve, would you like to take that? Because much of the recruiting we're doing for, say, if we're competing against the McKenzie as a potential recruiting opportunity that happened in Infosys Consulting and I'll address the sales piece of it.

Steve: First of all I think that roughly the _____(voice inaudible)-- there are two reasons people get in to consulting. One is they're going to -- there are certain people to get in that they're going to rub elbows with the titans of the industry and, you know, _____(voice inaudible) cocktail parties _____(voice inaudible) . And I think that's for me, they will go to the traditional blueblood firms regardless. They are in it for the branding, that's one. But there are others -- there is a very large set of consultants who just love solving business problems

Right.



And really, to say that, our job as management consultants is to create the most value we can for clients. What are all the different ways that we can help this company run better and to really really enjoy that. And so those are the people that we're recruiting and better.

So it's -- I think it is a much bigger dose of humility and work and focus on actually helping clients than on the other side and I think one of the things that we're doing is to hiring, we have a very diverse set of background for hiring people. Because I think one of the problems in the traditional firms is that they are homogenous, right.

So there is the management consulting firms who hire people and almost exclusively out of happening business schools and everybody is from that mould, right and there are the systems integrators, who generally will hire people out of undergrads send them to the boot camps and you get that perspective and I think that the problem is that the identity of the people becomes around that, as opposed to around solving problems for clients.

And so we're trying to create a much more diverse workforce within the consulting arm and saying because of that the respect for others, the respect for the team is essential for working well with Infosys Consulting.

So, I think -- I mean so far that message is resonated. I think there are a lot of people who are disaffected by, management consulting and sort of lost it's way and is really fallen behind on where business has gone, I mean if you think of -- if knowledge business and that sort of miss the whole global telecommunication thing, and it -- and the management consulting largely also missed the entire merger of business and IT.

Right.

So I think that we're trying to fix that and I think that resonates and recruiting as we've -- you know, that's not our job.

OK.

Basab Pradhan: Thanks. I will also just answer that question for recruiting in sales. We are looking for people who not just have a consulting background, but also a good familiarity _____(voice inaudible) with outsourcing and because that is today the bulk of our business and not just outsourcing, they should be familiar enough with global services outsourcing and that's what we're looking for and this is an exciting company to be in.

Exciting for good reasons and there are some reasons which make -- which are sort of self-selecting and we are -- we work in 24 x 7, always on, you know, some people simply don't fit into that kind of a culture. And they don't apply. So that's one way that we figure out the people who come to us, they all believe in the Global Delivery Model, they believe in our business model and so that's it's kind of self selecting in that way.

Unidentified Speaker: I think let's end the Q&A here.

Because in the interest of time, we'll come back to your questions in Q&A session, if you just hold on. Thanks, Basab.

Unidentified Speaker: OK.