Topic   :   Enterprise Solutions – Session 2

Speaker   :   Chandra Shekar Kakal

Good afternoon. I am Chandra Shekar Kakal, Global Head of Enterprise Solutions group at Infosys. I know that it is after lunch session, so I will keep my talking to the bare minimum and probably let us have some conversation that probably will be more interesting.

Incidentally, I started this Infosys Hyderabad campus 5 years ago with 8 people in Hitech City building and then we moved into this campus and after 5 years it gives me personally great pleasure to talk to all of you analysts in the very same campus which I saw coming up.

Whatever I talk here is under the Safe Harbor clause as you know.

I will just give a quick overview of what Enterprise Solutions group is all about at Infosys because when you say enterprise solution we will talk about enterprise applications, enterprise systems, packaged products, implementations and all of that. In some cases, it may be confused about all the enterprise applications irrespective of package or no package, but here what we talk about is basically packaged product related services starting from package evaluation to the last production support and maintenance involving packages. So that is the scope of Enterprise Solutions group at Infosys. Starting from package evaluations to package based reengineering to package implementation, upgrade, rollout, production support maintenance, add-on modules everything of that.

We were about 15.3% of Infosys and last 12 months we had about $265 millions revenue. We are operating out of eight different locations in the world majorly, five in India and three outside at development centers in Tokyo, Shanghai and Toronto. Of course we have our people consultants available in different part of the world as there are requirements.

We have about 40% of our effort happening onsite at any point in time and about 60% of the effort happening from offshore. In fact interestingly we were one of the first few to increase offshore in the ERP space so much and in the last 2 years we have brought down the onsite percentage from 60% to 40%, so that is the added value to the customer and that helps us.

For the last 3 years we have been able to grow at about 66% CAGR. Of course the base is now increasing. As you could see in the last several quarters we have grown continuously, and by now you are aware that at Infosys we are focused on industry specific verticals for the US market and geo-focused units for Asia Pacific and Europe, but this is a group which cuts across industry verticals and then cuts across geography.

If we look at the enterprise as a whole, there is a core enterprise and then there is an extended enterprise. When I say extended enterprise on supplier side and on the customer side. So there are packages which service the extended enterprise, the ERP space, supply chain space, CRM space and all of that. So our footprint covers the entire of the extended enterprise.

We also have realized that it is important to integrate the applications in an organization and we have a service around enterprise application integration again using packages. When the organizations have got this data based on the ERP system, they have to extract the data and use it for meaningful decision-making in the form of information. So today there are business intelligence packages being used, whether standalone packages or the extended modules of the existing ERP packages, so we provide services around that also.

I just wanted to give you a quick overview of what is happening in the market from different perspectives. What is happening in the market from the product vendors' perspective, what is happening from the customer perspective, and what is happening from the analysts' perspective.

If you look at some of the product vendor perspective, there is lot of merger, acquisition, consolidation, extension and all that is happening in the product vendor space. Today there is a lot of polarization happening around 2 or 3 big product vendors, like SAP, Oracle, Microsoft and all that. Microsoft especially in the mid-market and SAP and Oracle in the large enterprise space. Recently, you all know, Oracle acquired, PeopleSoft, of course before that PeopleSoft acquired JD Edwards and Oracle acquired PeopleSoft, and Oracle acquired Retek. SAP wanted to acquire Retek but Oracle overbid that and then acquired Retek. Oracle recently acquired I-flex. There are so many things happening, SAP acquired _____, So there are so many mergers, acquisitions and consolidations happening in the market place. So that is actually putting lot of pressure on the product vendors and the customers everywhere. Licensing revenue of the product vendors is going down and because of that they want to grow by doing all these consolidation and mergers and acquisitions and all that. They are also getting into hosting the applications themselves, so that they will be able to compensate for fall in license revenue by some other manner. They are also getting into the service, they are also focusing on mid markets. While MBS, Microsoft Business Solution, is very strong in a mid market place, today SAP and Oracle are also entering into the mid market space and they think that that is going to be their future growth. They are talking to us much more than before because they see that when they have to give value to the customer, if they collaborate with somebody like us from offshore who can provide better value at a lower cost, their license sale will be better and realization will be much better.

That is from the product vendor perspective. If you look at the analyst what they are saying, the research analyst I am talking about, like Gartner, Meta, Forrester and all that, they have rated very clearly the offshore service provider like Infosys have a credible alternative to the traditional global SIs. See there were global System Integrators earlier like IBM, Accenture, and Deloitte and Bearing Point and all that. Today we have become a credible alternative to the traditional global SIs, and our SAP practice in the last few years has been growing very fast, very rapidly and analysts are rating our SAP practice as one of the top rated one.

Today, there are no major ERP implementations or global rollouts happening without involving an offshore component in it. In fact even if IBM or Accenture want to do it completely onsite, it is not possible and the customers are not really agreeing for that. So that way the Global Delivery Model of Infosys has been extended very well for the package implementation space also.

If you look at from the customer perspective, what are they spending money on? So we all know that licensing revenue of the product vendors may not be growing in the same proportion as it used be earlier, but there are cases where customers have bought their licenses and then kept in the shelves, which they are now using for rolling it out into multiple countries, multiple divisions, multiple geographies and all that. So that is one way the revenue is coming for the system integrators like us. Customers, large customers especially, in the world are globalizing their own business to get a standardized view of their global business processes and ERP becomes one very good tool for having that global view of their own business processes and standardize their business processes across the world. Of course, they have to do the upgrades when the product vendor upgrades it into the next version and brings in new functionalities or new technology element. So there are incremental investments happening by the customer. If they have implemented financials say, they are now extending into human resources, order management, supplier, purchasing, on the supply side into advanced planning and scheduling, on the customer side into customer relationship management. On top of it they are adding business intelligence packages to extract the data and use the data for better decision making and all of that. So when there is an incremental investment happening in the organization that actually gives us avenue for more revenue for the System Integrators like us. Of course there are systems getting incorporated towards the customer side, CRM system and supply relationship management, supply chain systems for all that.

If you look at some of the surveys on the is SI revenue in the ERP, CRM and supply chain space in the order of about $70 billion or so. So while I talked about the services revenue, which we made, $ 265 m in the last 12 months, there is lot more room for us to grow by eating away into the pie which was being given to the traditional global SIs like Accenture and IBM, that is one way. And the additional investment is happening in this space.

This is an interesting thing. This is my favorite slide. If you look at what is happening in the ERP ecosystem space, the epicenter of the ERP ecosystem is shifting offshore. There are a lot of things happening at offshore with the epicenter. Take one by one. If you look at the product development, SAP and Oracle - the leading ERP package providers, have their product development happening out of India; 6 kms from here there is an Oracle development shop where the product development happens. In Bangalore SAP Labs, that is SAP product

development. So the product development happens there. The implementation of the products like SAP and Oracle is implemented by service providers like us who are in India here. Once we implement the package, who are the user? With the BPO happening in a large scale, the actual users are sitting in the next building and then using the applications which we have configured. When they encounter a defect or an issue they actually log it into a system and which comes into the next building here, may be us who are doing the production support and maintenance. When we come across this issues we collate all that and then actually give a feedback to the product development vendors like SAP and Oracle, they incorporate it into the next version and they give us a chance to have a peek into the product even before it is released. So we actually get to see the product even before it goes out into the market and the whole cycle continues and we do the upgrade of the next version. If we look at the whole ERP ecosystem, it is revolving around offshore now and that is very good for us, that is very good for our business because it increases the supply of the consultants in the market, it increases our awareness, it increases our ability to get to know the product even before it is released. Today we are in a position to put our consultants along with SAP and Oracle, along with their own consultants even before the product gets released, so we have an advantage in that manner.

Of course the customers are still there, wherever they are, like the end customers probably are in the US and Europe and Asia Pacific, where they are doing the product management. So that is the depiction of how it is shifting offshore.

What are the strengths we have as Infosys? Predictability is our greatest strength because we have delivered in the past, the ERP implementations with 90% within schedule within budget. In the ERP implementation space it is a very good number because half the implementations done in the world space by the traditional global SIs which are being done. There are statistics available which say that half the implementations failed. Fortunately, we have been able to deliver within budget within schedule in 90% of the time, and that is the history, that is execution excellence of Infosys which has been built in into the ERP implementations also.

If we look at the scalability, it is very difficult when the ERP market is growing to get quality consultants, experienced consultants to work for us. So what we did was we did set up, what we call as, an Enterprise Solutions University, to train consultants, to get people from the industry, people with management education background, put them into 3-1/2 to 4 months of intensive training on the methodologies and then on the packages, and then bring them out as consultants, put them offshore first, and then they will be available to go onsite. So we have been able to do that to get quality consultants generated. So this is a big step because nobody has really thought of this kind of generating the consultants in a quality manner in a large scale. We have passed about 1,000 consultants in the last year and we have the capacity here in Hyderabad. This is actually the Enterprise Solutions University building. These are supposed to be the classrooms of SAP and Oracle where you are sitting now. So we have developed that infrastructure and capability to train the consultants.

We have also developed capability now in doing large program and project management which was not there earlier because we are collaborating with Infosys Consulting. Some of you have heard Steven Pratt in the morning, so we collaborated with them and bring in that part of the capability now.

So we have a global scale and we have a global reach. Customers have told us that we are a truly global company because we have the base and a hub here and then we are in a position to provide our consultants and then walk with them from country to country and division to division in implementing and rolling out their ERP systems. This is a unique strength because we are not a global company with local pockets in different countries, not knowing what is happening in other parts of world. We are a global company running the thread from one place to another place seamlessly. That is an advantage which customers have found and told us. And of course the consultants we have through all this, the unique hiring process we have and then the ability to bring in bright industry experience and then the management graduate and then put them through the Enterprise Solutions University and all that. We have topnotch consultants and then customers have acknowledged that.

We have been doing the global rollout of the ERP. This is a representation of some of the countries where we have done the global rollout and some of the significant engagements which we are doing are like this. I will take 1 or 2 of these and elaborate a little bit.

We are working with a oil and gas company which Steve also mentioned in the morning, in the US where we are actually streamlining their processes in the inventory side and then the accounts receivables side and all that.

We are doing sales force automation for a logistics company. The blue print of that covers 220 countries in the world which means that there is no other company left, the blue print is supposed to cover all the countries either by their own sales force or by franchises. We are already through with about 50 countries and then it is an ongoing

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project. It will take another 2 years may be before they finalize the whole thing, and this is for sales force automation and standardizing their sales force processes throughout the world by which they expect really good business benefit of increased revenue by 1% on a huge base.

We are doing a HR rollout for an automotive company in the North America.

So there are several good engagements which we are doing currently, some are with Infosys Consulting some by ourselves.

What are the challenges and what are the strategies we have? Of course one of the big challenges we face is that compared to the traditional global SIs who are in the market for a long time what is our industry experience, what is the domain knowledge, how much you have all of that. So that is the one question that comes up. Today with Infosys Consulting ability we are able to bring in lot of data, which was not there earlier. We also collaborate with our own industry specific business unit and we have Domain Consulting Group and all that, we bring in the industry knowledge to a large extent now.

Aggressive pricing by competition to gain customer base, that is one challenge we face. Especially our own Indian brothers when they go in for and then cut the cost saying offshore is cheap. That is where we actually face competition some time and that is a challenge.

Hiring experienced resources is a challenge but through Infosys Consulting we are able to really attract good quality talents today.

The last one, that is very very important which Steve also mentioned in the morning. What is our past experience in the same industry, same kind of work, whether you have done same similar SAP implementation for the same industry? We might not have done. Of course we were nonexistent 6 years ago but we have a handicap there and we tell the customer that we have the ability, we have the people who have done the job. As Infosys we might not have done it but we have hired people who have done the similar work. And we bring in industry experience consultants, we bring in people with package knowledge and then with a combination of all these will be able to deliver and some customers definitely buy that argument and then with a leap up price they hand over the assignment to us and we have done it well.

So the strategy we are adapting today is to overcome some of these challenges. Collaboration with Infosys Consulting in the last 12 months has started paying off very well. We collaborate with our own industry business units for domain knowledge and Enterprise Solutions University, which others have not done in the large scale like this, we have done it very well.

Our alliance traction with the products vendors has really started growing now. In the last 18-24 months they have taken us very seriously and today we are in serious talking happening with SAP, Oracle, PeopleSoft, Siebel everyone of them. And not only the talking at the high level, at the ground level, the sales people from their company and our sales people are going together jointly to the market and giving the combined value proposition to the customer saying that your total cost of ownership will go down if you go with a company like Infosys. The advantage for product vendor like SAP is that if the customer spends less money on implementation, he will have really the money left for buying additional modules, additional licenses from the product vendors. They have realized that today we are talking to them in serious terms.

The other important thing is that the products themselves are morphing today. The earlier ERP packages are now really becoming much more open, the open architecture, and then they are adding more technology elements. SAP for example has come out with a NetWeaver platform and all these actually leaves other competition also with no real experience on those technologies and products. So when we invest to train our people in those technologies, then that makes the competition on the same platform as ours, so we have an advantage. So we have actually started investing much more heavily into training our people. Today for example, we have 300 plus of our consultants certified in NetWeaver technologies of SAP and nobody else in the world has got that kind of a number, and SAP actually acknowledges and tells the customer that if you want to really use the latest technology product and latest suite, then go to Infosys. In Asia Pacific we have been regarded and awarded as the best top that Netweaver platform partners and all that.

Of course we are coming out with solutions because there is a limit to which we can go on doing the services alone. So we have horizontal solutions like package upgrade, package migration, or integration competency solutions and all that. And we are bringing out the vertical solutions with our own industry specific business units in

the area of pharma or retail and automotive and aerospace and all that. So we are bringing out more and more solutions so that we will be able to offer proactively to the customer what their business problems are.

So these are some of the strategies we are putting together so that we will be able to hold on to our margins or at least maintain that despite the cost increases that is happening in the world. So otherwise it is a big challenge to maintain the growth and then the margin in a very effective manner. That is all I have as a structured presentation. We can have some interaction.

Question and Answer session

Participant

Based on market commentary one thing that seems to come across is that Infosys is actually more closely aligned with SAP and its enterprise practices really more of an SAP shop relative to say Oracle. Would you agree with that and then following through on that could you actually share some numbers on the total number of consultants that you have and how does that breakdown?

Kakal

It is good to hear that because our SAP practice has grown in the last 18 months so fast and so vast and it is really making a lot of market news and the analysts have started noticing. But actually speaking our Oracle practice is bigger than SAP practice. And it has grown over a period of time but today SAP is growing much faster, very very fast compared to Oracle also. Out of the 4,000 people we have, about 1,200 are in Oracle and about 1,000 are in SAP and it is growing of course.

Participant

Could you tell the total again?

Kakal

About 4000 people.

Participant

And you have got of this 4,000 only 1,000 is in SAP.

Kakal

Yeah about 1,000 plus in SAP and then it is growing practice, every quarter we are adding hundreds of people in to SAP.

Participant

But strategically speaking, going forward, do you see yourselves aligning more closely with SAP as you go forward. I mean that also seems to come through from management statements in the past.

Kakal

Finally our interest is the customer. So if the customers are using more and more SAP because of the benefits they see in SAP than our practice in SAP will grow. See that is risk aversion strategy we have which is very good because we have not weathered ourselves to one package making ourselves vulnerable. So we have invested in Oracle, we have invested in SAP, we have invested in PeopleSoft. Today it is saying dividends because when Oracle and PeopleSoft got merged we have consultants in both. So if you have to really migrate from PeopleSoft to Oracle it is done very easily. So we have actually invested in multiple faculty.

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Participant

One final question in this respect. As the industry consolidates in the packages side and as SAP and Oracle basically stand up to do battles with just each other, are they going to force the services companies to choose and is that something that you see happening?

Kakal

See this is an industry interestingly that multiple marriages are allowed. So there are System Integrators who work with SAP, who work with Oracle both. So product vendors have realized that it is not easy to force one to work with them alone. These things have become things of the past really. They have to really depend on their system integrators, service providers like us and then go hand in hand because the customer force them to work with us. In fact today if Oracle decides, for example, that we do not work with Infosys, customers do not allow that. And customer says why Infosys is not there. I mean that forces, it is all market dynamics and is good for us.

Participant

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Kakal

Actually that is an interesting observation. No doubt the global majors are ramping up their resources in India, but if you look at the business model, the Global Delivery Model what we have is a seamless one which goes from onsite to offshore to onsite and all that like this. It is not that onsite does something, throws the ball into offshore, offshore does something and then gives it back to onsite. If that is the kind of model which lot of these global majors are really adapting today. We have taken 18 years, 21 years to perfect this Global Delivery Model and today it has become a part of our DNA. Today if I ask my Project Manager to execute a project completely onsite he cannot do it, because there has to be an element of global delivery and there has to be an element offshore in delivering the project. That has not been perfected by the other major service providers. In fact customers tell us they have seen that difference. They have seen the difference with other service providers and ask us while your global delivery happens smooth seamlessly, why there is problem in the other global majors who are also claiming that they do offshore. Of course their offshore content today is limited to the technical interface building or customization part of it and probably it is 5%-10% of that. Not more than that. But we have perfected that and then we are today doing about 60% of the effort at offshore and 40% onsite, so it takes time.

Any one last question, somebody. Thank you very much. Thank you for the questions.

Participant

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Kakal

I would not be able to comment about the Satyam's numbers.

Participant

It is the same mode and they are including more items ….

Kakal

Yeah may be, I mean that is probably all of you to thrash out what they include. That is why I want to make it very clear that enterprise solution, package implementation means this. You ask me in the middle of the night, I will say the same thing.

Participant

What is the minimum size of SAP practice. I mean the amount wise.

Kakal

Actually, I see that is the interesting thing, because we may enter small, just with only a $ 300 K, but you see the potential and we keep growing. So that may not be a very good indication what we started. But a good global rollout which we are doing over a period of may be 3 years, we may expand to may be $30-40 million. For example, an automotive major, which I talked about, a major SAP system we are doing and for a year we get about $20 million to $30 million from them easily. So whether you classify this as one program or lot of small projects that depends on how they award the project to us, how they contract with us.

Participant

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Kakal

Yeah there is lot of business available in the outside. Actually we are growing in the auto and aerospace, we are growing in the oil and gas, we are growing in retail, we are growing in pharma, we are seeing lot of business now. You know there are lot of opportunities

Participant

But what is your strength _____.

Kakal

We have definitely good strength in auto and aero, automotive, hi-tech manufacturing, retail and today we are building capability in pharma to a large extent.

Participant

And where _____ or you are even moving to Asia Pacific.

Kakal

Asia Pacific with Japan has been our large customer for a long time and we have couple of large customers and today we have picked up business in Hong Kong, China and all that. See our dependence on US is less than the rest of Infosys dependence. Rest of Infosys does about 70% from US whereas we do only about 60%, about 20% from Europe and then rest from Asia Pacific.

Participant

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Kakal

Yeah we have couple of large customers from Japan, I mean historically we had some large customers from Japan so that is why it is growing. And then in Australia we are growing because we have a large customer in Australia so because of that.

Participant

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Kakal

See about 60% of the revenue comes from US. Region wise actually Europe is growing little faster than US, and Asia Pacific is also growing.

Participant

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Kakal

Global vendors are definitely becoming ….

Participant

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Kakal

Of course they have to because if they have to compete with us they have to bring down their prices.

Participant

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Kakal

Global majors are not really undercutting. They are under pressure I would say, it is the larger Indian vendors. Especially when it is in the production support maintenance space and all that especially when the requirement is for people.

Participant

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Kakal

I guess not because we have about 60% happening already and may be couple of points here and there it goes swinging this way or that way, but beyond that we may not be able to. See our rest of Infosys from the ADM space itself is about 30% onsite and 70% offshore. If you are able to do 40% onsite, 60% offshore in the ERP space, it is very good, so it may stabilize there with 2 points here and there depending upon the mix.

Participant

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Kakal

Yeah but see our attrition within Infosys has been less than or equal to Infosys average only, not more, it is in single digit still. And last quarter it was about 10.2 or something.

Participant

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Kakal

No we also thought so, I mean lot of people told us that you will not be able to retain them, this will become a training ground. But see the difference is that the challenge we are able to offer to the prospective candidates and the people here is much higher. And when they join somebody like a global major who has a offshore office then they will be confined to the back office kind of a thing. That is what we are able to offer.

Alright thanks. Thank you very much.