Session 2 by Pravin Rao

My name is Pravin. I had the retail and CPG practice at Infosys. I have been with Infosys for about 20 years. Most of this presentation will be primarily focused on North America given the 30 minute slot we have. It will not be able for me to do justice talking about the global market. So, I will be speaking mostly about the North American retail scenario.

As a vertical, our experience in retail actually dates back to our early founding days. Retail has been one of the verticals we have been focusing since early 80s when we started the firm. So, in that sense, we have great deal of expertise in retail. We primarily focus on large retailers and global brands, greater than $1 billion in sales. Today, we have about 45 plus clients across the various retail segments, be it grocery super markets, be it discount stores, be it department chains, drug markets, or even the consumer product companies. We contribute about 10% to Infosys revenues and repeat business is about 90%. In the last few quarters, a greater share of our business is coming from large transformation programs. So, we offer retailer services across the entire retail value chain, be it product development, procurement sourcing, or planning and forecasting, or in the areas of merchandising, or in the areas of store operations, warehouse logistics distribution. Apart from these areas, we also work with retailers on the corporate side in terms of HR, in terms of finance, in terms of business analytics etc. We also offer a suite of business solutions to the retailers. This is something ever since the retail vertical got formed in the late 2002. Our strategy has been to go to market with few identified business solutions and these solutions have been developed based on our experience with working with many of our clients. These solutions are based on industry or market needs. So, by solution, basically what we are doing is we are bringing in our deep domain expertise, we are bringing in our service delivery capabilities, we are bringing in the element of Global Delivery Model and in many instances, we are also leveraging our alliance partners to take to market something which is repeatable and to solve some of the common business problems or pain points that the industry is facing. Today, by implementing our solutions, clients are seeing very clearly business benefits and they are really acknowledging it. We are a whole suite of solutions and some of the solutions like the master data management or multi channel commerce are also transformational in nature and at least in the last two to three years, our focus on solutions have really paid us dividend. We are able to open new clients through solution routes. Even with existing clients, we are able to open new lines of businesses. We are able to strengthen our relationship with the client, not only on the IT side but also on the business side because these are business solutions, these are all solutions solving business problems. And these solutions are less prone to commoditization. So, in that sense it has given us tremendous benefit. Just to give you an example, I will take the master data management solution. So, today retailers have grown through acquisition and all and they have got variety of legacies which comes in place. Most of the retailers have and the product information or the SKU information is actually disbursed across various applications. So, today it is very difficult for a retailer to extract or maintain this heterogenous product information. There is no single version of truth. With the result, there is a lot of inefficiency in the system. So, retailers take about 35 to 40 days to even introduce a new product. There is tremendous amount of administrative cost involved in it and at the same time when they want to make a call on mark down or pricing or promotions, they do not have a very unique or a single version of truth about the item profitability. In most cases, they will have multiple conflicting information and it becomes a challenge for them to even come up with appropriate prices for promotions etc. So these are the myriad kind of problems that retailers are facing because there is no single item or a product information. We have a solution which helps in addressing the problem. In our solution, basically we start with a consulting engagement, try to understand the state, we help in streamlining their whole operations, we help in re-engineering their processes. We also help in implementing a uniform item data repository and finally we also implement workflow tools which help in automating the whole process and streamlining the whole thing. With the result, in terms of bringing new product interactions, retailers are able to do it 30% to 40% time quicker than what they were doing in the past and consequently the cost is also reduced. Now, they have much better information about item profitability, etc. and they are able to now come up with very good promotion and pricing strategies. That is one example of solution and it is one of our hot selling solutions today. We have about 8 to 10 implementations. Some of them we have completed, others we are still implementing. I just wanted to give you a sense of what we mean by solution there. And these solutions have all elements. I mean it starts with a process re-engineering, it starts with a consulting piece, machining piece, then there is a process engineering element and

then there is, in many of the cases, we implement some products. There is a package implementation piece and it is a whole set of Infosys services and domain expertise come to play in delivering the solutions.

If you look at the market today, some of the trends we are seeing are, we are definitely seeing the size of our addressable space is increasing. Many of the clients are embarking on large business transformation programs and one of the significant reasons why we are seeing it is today the focus is shifting from product centricity to customer centricity. Earlier, retailers were just introducing products and expecting clients to buy. But today, customers are becoming very savvy and they are becoming very choosy. They have multiple choices. So retailers are focusing lot of their efforts and initiatives around understanding the consumers better. There are quite a bit of transformation programs in this space and couple of our solutions like master data management and multi channel commerce actually play in this space. That is one definite trend we are definitely seeing. We are also seeing early successes in our Consulting led GDM engagements. So even as we speak, we have nearly a dozen engagements which is consulting led which then translates into regular application development and then subsequent maintenance. So, we are definitely seeing lot of traction there. And today, the perception in the market in the retail thing is about Infosys is that we have the requisite domain knowledge and to couple our differentiator is more in terms of execution excellence and predictability. So, that is a winning combination for us and that is helping us in many of the transformational engagements. The other trend we are seeing is retailers have been pretty laggard in terms of adopting offshoring in the past, but today they have started embracing Global Delivery Model. In the last at least six to seven months, we have seen a number of large outsourcing opportunities and we have been invited to each and every one. Of course the sales cycles are long and many of them still have couple of months before they make a decision. But what I have seen in the last two-three quarters we have never seen in the last few years. So, to that extent we are seeing retailers embracing GDM in a big way. The other thing that is happening is lots of first generational contracts are coming to an end. And once they come for renewal, we will definitely see lot of GDM play in those contracts and that definitely be in our sweet spot. The other thing we are also witness is demand in some of our existing accounts is also increasing because they are launching lot of business initiatives and that definitely translates into increased business for us and that is actually reflected in the 90% plus repeat business that we talked about.

Retail is probably one of the largest vertical in North America. Last year, I think the total retail sales was about $ 4.5 trillion and it is really growing at about 4% to 5% on a year on year basis. However, the retail margin is extremely low. I mean it is extremely price sensitive market. So, in that sense, the amount of spend on IT in retail is extremely limited. I mean it is on the lower side. They spend less than 2% of their sales on IT and in fact while it is one of the largest verticals, if you look at the IT spend as a percentage of revenue, retail is probably one of the lowest when you compare across the industry. So, that is probably one of the challenges we are seeing in terms of the IT spend. However, if you look at the total spend, it is pretty large. I mean, there is about $60 billion in North America on retail and additional $33 billion in the wholesale side, and it is increasing at 3.6%. The other big thing is total spend on outsourcing is about $11 billion and one of the interesting trend and that is also reflected when I said that the whole outsourcing opportunities increasing is, while retail IT spend is growing at 3.5% to 4%, the offshoring and outsourcing is increasing by 8% and that is actually good news for us. So that is reflected in the increased amount of business that we are seeing in the last few quarters.

Some of the challenges retailers are facing in the market place. One is of course, I talked about in the past the demanding customers. Customers are becoming very price conscious, they have multiple choices. So, understanding the customer becomes a very high priority item for the retailers. The second thing is of course the diversity. There are two or three factors, one is the aging population is increasing in North America. So, that provides you a very distinct segment to cater to. Then there is another segment called Gen Y. These are people who were born between 1975 to 1994 or something and they constitute about 30% of the population. So, their priorities and preferences are different and that actually constitutes a very different segment. And the third thing is the ethnic population is increasing. It is predicted that by 2010, about 30% or one-third of America will be Latin or so, or the Hispanic or South American people. So, they have their own taste and other things. So that is a distinction. The whole demographic is stating that there is a wide variety of this and so retailers have to look at that. So that is a challenge for them. So, if you look at competition again there is increasing competition, there is lot of merger and acquisition happening, there is lot of consolidation happening. So that is one thing. Wal-Mart continues to be a threat. Their relentless focus on execution and play thin efficiency, really makes all the other retailers competing with Wal-Mart is definitely a key element of the retailer strategy. That is one area that they are really struggling. Of course, there is also a proliferation of channels. There are websites, they are multiple brands because of the various demographics, people are coming up with different size, big boxes and in cities they are coming up with smaller formats etc. So that is also increasing the complexity. And on the process side, one of the biggest concerns for retailers is the rising energy cost or fuel cost. It has two elements to it. One is because a large portion of retailers' cost goes in logistics or transportation because of the higher energy costs, they are taking a hit on the margins. The other thing that is happening is, because of high energy cost, there is a tendency for

consumers to spend less. So, that impacts the retailers on the top line. So, it is a double whammy in that sense. They are definitely today worried about the rising energy costs and of course because of this globalization and all, there is tons of competition in terms of products. I mean some of the retailers have now embarked on coming up with their own private labels to compete with the branded product because for them margin on this private labels is much higher. At the same time because of the global nature, now we have suppliers all over the world. You also have manufacturing companies from Asia and others also flooding the U.S. market with a lot of products and all. So with the result, the whole environment is becoming much more complex and that is one of the reasons, earlier retailers were extremely laggard in the adoption of IT. But today they are increasingly realizing that IT has now moved from being a tactical to a strategic thing because it is important for them to manage all these complexities, they need to invest in IT and that is what we are seeing in the last few months.

As I said to meet the challenges, some of the things that retailers are focusing. One is of course to understand the consumer better. So they are investing a lot in business analytics, getting insights into consumer and using that information, improving the marketing, improving the merchandising and trying to come up with store-specific assortments, cater to that specific demographics. The other thing that is happening is there are multiple channels available. Today, retailers are buying through stores, they are buying through online, they are buying through catalogues and the web-reach has really increased tremendously. So while retail is growing at about 4% to 4.5% the online channel is growing at 20%. So, most of the retailers are trying to scramble around and try to beef up their e-commerce capabilities and this is an area where we have our solution, multi channel commerce which again is finding a tremendous traction in the market because almost all retailers are caught on the back foot and now they are really struggling to implement e-commerce platforms. Being a low margin business, they will always continue to focus on supply chain efficiency and particularly with higher energy cost, they are trying to come up with newer transportation and logistics re-engineering trying to squeeze all the value that they can get from this logistics cost. I talked about how they are now looking at technology as much more strategic and investing more and more in technologies to meet the business demand.

This again I covered in the lot. So most of their investment is around customer eccentric technologies, like point of sale system, pricing, order management, lots of investment around multi channeling. There is lot of investment in the stores side also. One of the thing is labor again is a big chunk of retailers. We have a lot of workforce in the stores and labor is a big chunk of their costs. They are investing in technologies like labor scheduling etc., in the stores area to automate and reduce and improve the employee productivity. All this translates to a lot of business initiatives with the retailers. There is tremendous amount of pressure on the retail IT organization because business wants lot of initiatives. They are launching lot of initiatives and today they do not have the capacity to address it. So, that is good news for us because now they are coming to us, approaching us and asking us to help them in doing some of these business initiatives.

So finally given the market situation and given the demand, we are we believe uniquely poised to take advantage of this emerging market needs. We are focusing a lot on building competencies. We have invested a lot in recruiting people with domain expertise in our group. We continue to do that. We have people in our groups, technical experts, who have lot of experience in retail specific packages and products. We continue to leverage on them and we continue to recruit more and more of those people. In addition for the existing people, we have launched several certification programs. At the lowest level for the people who have just joined the retail group, we have what we call level 1 certification. So here we teach people about the basics of retailing and at the end of it we administer a test and give a certification and last month we entered into a contract with National Retailers Federation which is the largest industry body in U.S., focusing on retail. So, they will now start providing content and they will deliver the course and our people will take those courses and they will take certification administered by NRF. There is something which NRF has designed uniquely for Infosys and we will be launching it this month. So, that will replace the current internal course. Similarly, for middle level people, last year we tied up with IIM Ahmedabad. Again, we exclusively jointly came up with a course which is customized to Infosys. It is a three-day course which is offered by IMA professors. We have had 12 offerings in the last one year, about 40 to 45 people each have taken in the last 12 months. So we have about 500 to 600 to people certified in this. Apart from that our people in consulting also go through several domain certifications. So this is one area where we are focusing a lot because it is not only important for us to bring people with expertise from outside but also scale up our own expertise in this particular area. Secondly, we are seeing lot of business transformation programs, lot of complex projects out there and that also calls for superior technology skill. So, we are again investing a lot in upgrading the technology skills of our people. Again just like on the domain side, we have launched certification programs on the technology and on the quality engineering aspects and a lot of people are certified. This is a program we launched about 6 to 8 months back and it is an ongoing program. So again, we are focusing a lot on enhancing our capabilities. Within retail space we have also built center of excellences around point of sale, around CPG, etc. so that we can build some expertise in this area and start leveraging them.

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We have had good successes in our solutions led program which we launched about couple of years back. So, we will continue to invest in solutions, there will be dedicated technical and consulting groups focusing on solutions, understanding the market, coming up with newer solutions and enhancing our existing solutions as well. So, that is a strategy which has worked well for us and we will continue to do that.

The other thing is we are seeing lot of business transformation programs and lot of strategic outsourcing engagements. So, again this calls for bringing together the best of Infosys. So, we are working closely with Infosys Consulting and all our Enterprise Capability Units, particularly the Enterprise Solutions group, the testing services, and the Infrastructure Management Services. So together we are able to form joint pursuit teams and to pursue some of these large deals because more and more we are able to show our end to end capabilities, the chances of winning some of these large deals will go rapidly up. That is something which we have started focusing on and we will continue to focus there. Retail again is full of packages and so we have strategic alliances with Oracle and SAP because they are the dominant players in this industry, but apart from this core ERP which SAP and Oracle provide, there are lot of niche products there and so we have lot of alliances, both tactical and strategic and teaming arrangements. So, some of our solutions are built around these products and there we have strategic alliances. For some of the other niche products, we have expertise. Therefore, we have teaming arrangements with the ISPs which helps us in getting training on these technologies, being aware of the road map of this particular product. At the same time, these alliance partners also take us to their clients because they have not invested heavily in professional services group. They do not have the ability to implement some of these products. So, we work closely with them. They take us to some of their clients and we help in implementing their products. So that has worked well for us and we will continue to focus there. We also have industry membership with lot of leading industry associations like NRF, DMA, etc. So we attend conferences. We are part of some of their panel committees etc. We sponsor some of the events, we have speaking opportunities in many of the industry forums etc. So that again helps us in bringing visibility and also networking with lot of client expertise. Apart from that we continue to also have lot of meetings with industry analysts, because they meet with lot of clients and they understand what is happening in the market place. We bounce off our ideas and point of views. We have also formed a networking group within our clients, say about six clients who are strategic. We have found what is called Leaders of Change Forum. So, every six months we meet. We had one day meeting with these clients. We bounced off our strategies. We talk to them about what they are seeing in the market, where they are investing. Then, we share our experiences mutually. Get feedback from them on our strategy so that we can fine tune our strategy. So, these are some of the investments that we are doing because today we are seeing tremendous traction in the market place. We are seeing clients very receptive to our presence. We are being invited to the table. We are finding successes in competing against some of the firms like Accenture, IBM etc. and we are winning many of those deals. So we believe that we are on the right track. So we have to focus more and more on building our capabilities so that we can bring it to bear and help in executing some of the deals successfully.

So, I will end my presentation with a couple of case studies which just gives you a glimpse of some of the kind of works we are doing. With one of the major grocery retailer, they had a lot of issues with their supply chain, their inventory cost was very high. Their inventory turns were very low and there were also lot of inefficiencies both in the stores and the warehouse side. So, they wanted our help in terms of solving this particular problem. So, we actually started off with the supply chain visioning engagement with them. During the course of this engagement we interacted with senior executives from the client organization and came up with a supply chain vision. Then we identified what are the products or applications that they need to implement to realize the supply chain vision. So, we are involved in selecting and identifying the package, doing the package selection and today as we speak we are involved in implementing some of these packages and this is a 3-year program. We are in the year 2 of that program and today we are seeing some of the benefits. The clients have already seen some of the benefits of this particular engagement.

The other one is for a $3.5 billion specialty retailer in home furnishing. This retailer operates in multiple brands and several channels across different brands and again they had lot of legacy systems, unique to each of the brand and they were not able to take advantage of some of the newer trends that is happening in the market place. So, they decided to implement Retek across their channels and across the brands. They chose Infosys to help them in program management. So, we are helping in program managing the whole implementation. We are also involved in integrating Retek with some of their legacy application as well as providing QA support. This is again a 3-year thing we have implemented in space. Some of the functionality we have implemented across all the five brands and this will go on for another year or so. So, these were two representative case studies of some of the things that we have been doing in the last year or so. So, that actually brings to an end the formal part of my presentation and I am open for questions. Thank you very much.

Participant

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Pravin

If you look at both solutions and alliances, about 18% to 20% of our revenue comes from solutions and thus pure solution which is pure play solution without any alliance would probably be under 10% or so. We are probably one of the first verticals which got formed about 3 years back and we embarked on this thing. So, in that sense, we are probably the leading indicators as far as rest of the company is concerned. We have seen the share from 8% year before to about close to 20% last year. So that is the kind of revenues we are seeing from both combined solutions and alliances together because lot of solutions also have an alliance component, because we build solutions around some of these ISVs.

Participant

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Pravin

We are in early days. In a couple of solutions, we have particularly in the area of RFID, I mean there are two things. One is in the case of RFID we have IP which we believe we can leverage and we can either license this doubt or try to get into a model which is not resource-dependent pricing but value-driven pricing. So, we are doing a couple of pilots with some of our clients on the RFID space. Whereas in the other spaces, right now what we are seeing is the IP that we have built is not in terms of licensing, but they really act as a differentiator. We are able to command higher price points, we are able to win engagements because of the IP we are able to implement it faster, may be cheaper and better kind of things. So far, in most of the other areas, what we have built is reusable components which help in doing things much faster and better and acting as a differentiator when compared with the competitors. Whereas in the case of RFID and may be in one of the other solutions, we are taking a slightly different track. It is early days, but the results are encouraging, but probably it is little bit early for me talk or share any of the things, but it is encouraging, I can say that.

Participant

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Pravin

Right now, as a percentage it is very small because the adoption of RFID is not as much as the people have talked about it but it is a technology which will be disruptive in nature at some point in time. So, people are continuously evolving usage of RFID and many of the people have started using it but most of these are pilot implementations. I am trying to really figure out the whole technology. There were some technology tools also which have been worked out, but it is probably may be 18 months to 24 months for it to really become pretty good. But it is an area where at least we are very confident that it will have a very key role to play in the emerging technology scenario. We have been investing in the RFID for the last 18 months or so and we will continue to invest. We find this application not only in retail but across business. Unfortunately, most of the applications we are finding is in auto aero or pharma space and less in retail. Because, in the retail thing, there are only two or three large retailers which are really focusing on and the CPG companies where we thought most of the application would happen. So far, they have chosen, what is called plug and ship approach. Basically, they are just putting the tag and they are viewing it as cost of doing business and they are thus shipping it there to comply with the mandate. They are not really looking at leveraging the power of RFID internally in re-engineering their system and take advantage of it. But it is a matter of time before they will start saying, why should we just ship and send it across. They know that we have this information available. Can we start looking at extracting that information and using it gainfully within their own internal organization. The practice that we have today supports rest of the verticals in Infosys and most of the traction we are seeing is outside of retail right now

Participant

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Pravin

Both our margins and revenue productivity of retail are probably on the higher side when compared with rest of the company and other verticals. On an yearly basis also we are definitely seeing an increase.

Questioner

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Pravin

We have about 3,000 plus people in retail.

Participant

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Pravin

We are working, when I talked about 45 plus clients, I would say about 8 to 10 clients are in EMEA or Asia Pacific and right now our focus has been primarily on North America. But EMEA group is focusing on, we have a separate group called EMEA which is focusing on retailers in Europe. So there we are working with about 5 or 6 large clients. In the last year or so we have added about 3 or 4 clients. I would say that number will definitely go up. But if you look at the kind of retailers that we are focusing, because retail is a very large industry with lot of small players, we are focusing primarily on retailers with more than $1 billion. Given that spend on IT is less, we want to focus only on large retailers. So, most of the large retailers are still in North American market. In that sense, most of the market is really North America at this stage.

Participant

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Pravin

It is probably common. With global players we run across Accenture and IBM. They are probably the two primary competitors we have. And amongst the Indian competitors, TCS and Wipro or to some extent Cognizant but we hardly see any other companies there. Most of the deals if it is a competitive thing, it is primarily these players.

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