

Infosys Technologies Limited

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Anantha Radhakrishnan - Session I

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You would see that I am the Vice President from Infosys BPO, so what am I doing here in the retail distribution CPG vertical, I am substituting for UB Praveen Rao, Praveen Rao is our senior Vice President who heads the practice. Unfortunately Praveen is not well and I worked closely with Praveen right from the inception of the practice. You know retail was the pioneering industry vertical when we moved to the vertical structure in 2003, so was part of the management team in retail for the last four years, just have taken on this new role in Infosys BPO and since Praveen was not well, I thought I will come and explain our strategy on retail. I, myself come with number of years of experience in the retail industry, I spent good number of years at Hindustan Lever before, now it is called Hindustan Unilever, before I moved into Infosys about seven years back, I mean at Infosys from 2000. That said the format today is I will initially walk you through what we see as trends in the market place and what are the strategies you see our customers are adopting, talk a little bit about where this industry vertical is in terms of its in the overall growth scheme of Infosys. I will talk about what are the solutions and services we offer here and then I will pass for the questions, so for about 15 minutes or so I will take you through the content and about 10 to 15 minutes in the end we could look at questions. The traditional safe harbor, all of you are aware of it, so I will move on. Retail strategy CPG and distribution practice was a pioneering vertical for us. We do about 10% of Infosys business out of this vertical. It is in line with our growth rates has been about 38% CAGR YOY over the last five years right from the beginning of the vertical in 2003. We ended 2007 with \$311 million of sales. This is across both US and the European geography. The good news is in retail we are well represented across all the segments within retail, whether it is you know the fashion, soft goods, general merchandise, apparel that is one segment or the consumer package goods and grocery which is our second large segment. Then speciality retailers, which are really folks who are focussed on a particular could be consumer electronics, could be greeting cards, who are focussed on one particular category and who are category pillars in that category. We have strongly represented there, food service whether its some of the brands which deliver breakfast and coffee and all that in the US and Europe, global brands and food distribution as well, distribution again is a big component in our chunk of revenues. Pretty strong growth when we started this practice in 2003 we were with about 20 active lines and today we have 60 active lines. So, our growth is come not only from new clients, our growth is come from existing clients, where we have started growing in newer area. We traditionally used to give them IT services, now we are going up the value chain giving them consulting services, package implementation services, development of large applications, transformation, helping them in their supply chain transformation. So significant jump in our range of services as well. We have about 5000 employees. In 2003 this practice had about less than 1000 employees, 1000 associates. In terms of clients our top three customers each give us more than \$20 million of revenue. We have a strong mixed bunch, which is about 15 customers where we do more than \$10 million of revenue. It is really good spread of customers, we acquired about 15 to 20 customers in the last 12 to 18 months and those customers obviously give us opportunity to consolidate and grow in the share of spend and existing customers where we have deep client relationships, trusted advisors, know the cheap transformation office, merchandising office, marketing office, and they are all involved in critical programs and they have involved us as their trusted partners in their journey. So there again we will see a lot of growth from those transformation as well. What do we see in the retail CPG industry, you know this pretty much reflects a lot of the flattening forces which Nandan talked about in the morning. This industry is very, very consumer centric. This is about one third of the GDP of the United States of America, fairly large established segment, continuous foot falls for the consumers, the eyeballs and the foot falls and the number of consumers you interact with is significant. Also got fairly large labour force, which operates in stores. Looking at some of the key trends, there is increased mergers and acquisition activity. This is a old saying it is important to provide economies of scope and scale. This is a low margin industry. The industry is high volume and low margin and it is very crucial to create the efficiency and the effectiveness in the supply chain through building economies of scope whether it is through centralized forecasting, centralized procurement, your ability to centralize push out cost and add value have always been a crucial component and mergers and acquisitions is increasing shift to emerging markets because that is really where the spending is, many of the markets in Europe and North America have either reached mid growth or early maturity and some of the newer markets whether it is India or China or Eastern Europe or Russia, these are all markets which are emerging from a organized retail standpoint. Significant changes in this channel, earlier there used to be big box

retailing and there used to be only that and in between there was no box retailing. It was pure play retailer who did not have a store, sourced everything from a third party and that was during the internet bubble era. Now, people have to come to what we call multichannel retailing. The ability to have catalog, physical stores, as well as your internet store, bringing it all together and ensuring that you give a seamless customer experience, or consumer experience across these 3. Product innovation, understanding the shopper is becoming more and more important and increasingly especially in food, this is again a fairly significance of the retail sector, about one third of the retail sector is food retailing and in food retailing especially there are new and new laws in terms of whether it is country of origin, labeling, or its is bioterrorism act because the food supply chain is pretty much distributed across the globe, like if you look at apparels it is but food also pretty much, we get a whole bunch of food from different countries, whether it is produce, meat. It is important to ensure that the food chain is pretty much water tight in terms of its protection compared to any kind of terrorism threats. Coming to the consumer, huge opportunity, really exciting times in retail because we have all kinds of new consumers, you have what we call the Gen-Y millennial. Millennial traditionally are folks while they like to shop they are very socially conscious in their shopping. They won't buy stuff, which is done by child labour anywhere in any other country or underdeveloped nations. They want to be very careful about the kinds of goods and services they consume. They want to be environmentally conscious. So, that is the Gen-Y millennial. You have a new bunch, which is called the transumer, a transumer is somebody who lives for the moment and he or she is just looking at living for today, they don't worry too much about ownership, possession, they are very focussed about experience, where in they want a great experience. They really want to enjoy life to the hills at the point, that is a transumer. Then there is a prosumer, a prosumer is someone who likes to co-create the product of the service, be involved in the developing the product, based on what someone else produced to stock, but are actually being involved in creating that product of service along with the retailer of the consumer package good manufacturer. They increase focus on experience, increasingly customers have a lot of information on their finger tips, pretty much before you set out to shop, but traditionally you used to go out to shop, you had to set out to shop with a shopping bag, pretty much before they get out with an intent to buy something, they pretty much are bombarded with enough information, they can surf, they can speak to friends, they can get expert opinions, they can get advise. So information deluge and the ability to not hide information from the customer, you cannot have disparities in the way you give information to the consumer. But again choice so much competition out there whether it is on the shelf, or whether it is on the web page, everyone wants to compete for the path. So increasingly we are seeing all of these trends. What does it mean from a retail customer standpoint, clearly one size won't fit all. You just can't say I will produce the cheapest with the highest economies of scope, you know T-shirt and sell that to everyone because everyone would buy that because it is cheap. The old trick of everyday low price which WalMart had sort of propagated in the market, WalMart themselves are under pressure to show that it has to be everyday low price plus. No one is wanting to pay a higher price, but having said that clearly if you are able to give them a differentiating experience, are we able to differentiate and give them what they want specific to their choice, this is what we call marrying the global with the local. Your ability to think global but actually act local and be able to deliver these services in a very differentiated way. Increased visibility is use of granular data, you when a consumer has so much information you need to also use the information, which you have collected. Traditionally retailers have been functionally **siloe**d, the sales department does not talk with the merchandising department, does not talk with the marketing department or even if they talk they are not able to bring all of these pieces of information together. So, again in the food chain we spoke a little bit about what we see as challenges. What are the retailers doing in terms of key strategies. They are really doing, if you look at all retailers pretty much you can look at them mapping their strategies in to 3 specific buckets. We have analyzed the various strategies of different retailers whether it is WalMart, whether it is Target, whether it is Food Line, the daloise group, _____, whole bunch of retailers and we pretty much see them marry their strategies into three buckets. The first bucket is really how do you become more and more relevant not only to the consumer, but also to the shopper. Each of these consumer segments shop very differently, their shopping habits, so increasingly now there is a differentiation between understanding the larger consumer and understanding the specific shopper buying habit. Does this shopper go for his or her top up shopping to a supermarket nearby, but does the bulk of the monthly shopping in a warehouse club. So clearly you need to come out with your merchandising strategies, pricing strategy to understand these new answers and tackle those. Again, how do you enhance the experience of shopping, you do not want to make the whole bunch of transumers who want a greater experience, they are not shopping because they want goods or services, they really want to enjoy the experience of shopping, how do you create that environment. If you are knot strong who has been in the business of customer service for a long while, suddenly you realize that customer service is important but you need something more than customer service, so you want to become a fashion authority along with being the strongest in customer service. Second bunch is really around product and merchandising excellence as you call it. Clearly, the merchandise and the prices and the way you put this merchandise out, you can't send the same merchandise to every store or every web site or once you understand the profile of the consumer who gets on to the internet and gets on to your site, you should be able to show him the bunch of products which he is most likely to buy or enjoy the experience of, you can't have a static bunch of products which are displayed for every consumer who gets there, whether it is the channel, whether it is the web channel or whether it is your store. Clearly, if you take an

example of a supermarket chain Food Line. Food line traditionally had stores which were 35,000 Sq.ft. stores spread across the central of the US, had 1300 stores, now they have created four different brands, one called Bloom which focuses on the convenient shopper, someone who wants to get in and go out. There is a brand called Bottom Dollar, which focuses on less than \$1 purchases clearly. They have their traditional food line which they still believe is everyday low cost and they are creating a fourth brand called Harvey's, which focuses a lot about fresh and the product variety and assortment. So, they want to mix up these bunch of channels in a way which is making them more and more relevant to that consumer. Operational excellence will not go away for a long while. You want to do all the first two stuff becoming more relevant to your consumer, becoming more relevant scientific in the way you price, in the way you merchandise. Operational excellence is the old one, when I am saying the old one, there is still huge opportunities to keep your cost low, keep your supply chain very responsive and very nimble footed and also have an informational architecture which can support you in making right decisions.

What have we done, we have looked at these three core strategies which our customers are adopting, and we have built out consciously a whole bunch of solutions and services which are not the traditional ADM, you know with just the cost leverage built into it. This is to deliver business value. This is to deliver what we call as relevance to our customers, helping them in their transformational journey and if you look at category analytics business inside some demand. We are really pushing this concept of getting information out there to the point of relevance. Earlier in retail we used to have point of sale, then it changed to point of service, now we are saying its moving to the next level which is point of relevance. Point of relevance is wherever it is relevant for the customer to get that information you need to get that information our there. What we are doing here is we are bringing together complex set of data, you have eyeball data which you get when you visually walk the store or you visually see the patterns in which a shopping cart moves within your store. Using the eyeball data, using what we call syndicated data, using consumer panel data bringing all of that information together, concept of an old information warehouse but really on top of the warehouse how do you mask this complexity of information, push it down as an actionable insight, through an handle or through what ever mechanism of technology to the point of relevance where the consumer needs it most or where your associate needs it most to differentiate to the consumer. RFID, pervasive technologies traditionally wireless was the technology used in isolation. Now it is RFID, wireless, voice over IP, all of these coming together your ability to deliver information to the point of relevance has increased many, many folds. Multichannel commerce which is how do you ensure the customer who shops in your store, looks at your catalog, goes to your web store and buys, how do you understand this consumer in the same way and give a seamless experience, new product introduction, merchandise optimization. Traditionally merchandising has been very, very buyer centric. It is almost like an art, but now increasingly we are not saying the art component will go away, I do not think we believe in that view, but increasingly you can give a lot of scientific options to the buyer to make the choice. There will be still be an human component into decision making, but your ability to scientifically use data historic and trend data and not only build the price image for that store because the merchandise you put, and the price you price it, and the amount of shelf space you give it, all three together influence the impact you have on the consumer. Operational excellence, master data management it might seem very rudimentary, it is almost like breathing air, but with increasing number of the breadth and depth of acquisitions and consolidations which are happening you suddenly find yourself as a retailer with antiquated information data structure. You do not have the basics to even the understand your south region and your east region together and you want to compare some analysis and see trends you are comparing apples and onions, not even apples and oranges, you are comparing two very different things because the nomenclature the data governance, the stewardship of all of this was done very, very differently and so what is an apple here is an onion there and hence you can not even do the logical comparison to use information to deliver value. Supply chain transformation increasingly supply chains are going to be measured not by just a cost of it but really the responsiveness of it. You need to be a demand driven supply chain, which fundamentally every _____ should be able to turn on its head to move forward. As Nandan again mentioned there are four flatteners for the flat world. All of these flatteners are pretty much relevant to the retail industry. We have a whole bunch of services and solutions, which match to these flatteners whether it is cost efficiency, which is invariably improved store execution excellence. A lot of action in most of the global retailers happened at the back end. And now increasingly we are seeing all the action is shifting to the front end. Front end is really where the action is, where the point of relevance is. Again in terms of winning in returns, you need to be nimble, you get an opportunity for a brief while lets say around Christmas and you need to merchandise right, you need to price right. You cannot take a markdown well after the season is over because you will be stuck with the inventory and this whole business is about high turns low margin and unless you get your pricing and the merchandising right fairly early in the game. These are some of our case studies. The RFID now is becoming more and more core technology in terms of getting adopted. I have been told that I just have a minute or two to wrap up, so sorry I think we are cramped back to back. So, if you have questions at this point it would be useful for me to take it both off line as well as.

Anantha Radhakrishnan

Yeah. I am available over lunch also. I apologize.