

Infosys Technologies Limited

2007 ANALYST MEET

July 30, 2007, Monday, Bangalore

Anantha Radhakrishnan - Session II

Anantha Radhakrishnan

On behalf of U.V. Praveen Rao, who heads our retail practice, unfortunately he is not well. I used to be part of this practice till I took this new role in Infosys BPO to head our strategy platform group about three to four weeks back. So I have pretty much been part of the retail management team and practice so take you through the next 10 minutes or so have learnt from my morning experience that I need to be faster and I will take you through some slides then we can pause for the last 10 minutes for questions.

The traditional safe harbor.

Our practice retail CPG was among the pioneering practices we started it in 2003 and contributes about 10% of our revenues. When we started the practice, we had about 1000 people and about 20 customers and now we have 60 active customers. We had 1000 employees. We have about 5000 employees and in the last 18 to 20 months we have added on 18 to 20 customers. The good news in retailers we are represented across all segments whether it is apparels, soft goods, grocery, consumer package goods, distribution, food service, and speciality retail. In terms of trends in the industry as Nandan was mentioning from morning all the flattening forces operate in this industry as well mergers, acquisition, private equity fund participation, or buy out of retailers. Some of the examples are ToysR US, Kmart, Richmond's stepping in and clearly the consumer we are now having very, very different types of consumers you have transumers who believe in the here and now and they believe more in experiences rather than living for the future and owing things. You have prosumers who want to be part of the creation of the service of the product. They want to experience the product creation process of the service creation process. We have the millennial gen-Y very technology savvy and at the same time very socially conscious. So from a retailer standpoint they need to ensure the address all these trends. So diverse consumers based, one size fits all model, which used to be the traditional big box retailing model no longer works because you need to be one size fits all initially started off because we were able to deliver on everyday low price, which meant consumers were able to benefit from that but now people want everyday low price plus a differentiated value proposition. A quick additional point there, the food value chain also increasingly has a lot of regulation around it. Food retailing is about 1/3rd of the total retailing industry and we now see a whole bunch of laws governing the way the food supply change next to work whether it is country of origin, labeling, or bioterrorism, or tracking of the food supply chain. Clearly, what are the strategies most retailers are adopting, there are adopting three broad strategies one strategy all the initiators typically fall into three buckets, one is trying to become more and more consumer relevant. The second is trying to improve product and merchandizing excellence and the third is operational excellence. Operation excellence is the foundation stone on which most retailers built their empires but now increasingly there are moving up the pyramid in terms of trying to become more and more differentiated while retaining the economies of scope and scale. It is an high volume low margin business and so it is important to do the turns, if you don't do the turns in the industry you are not there because your margins are pretty much wafer thin, and the second part is really around doing more with less. Fundamentally, you need to have lesser number of skews, lesser shelf space, lesser space on the website and you should still be able to deliver more value in terms of turns and so putting some science behind what traditionally used to be art is the second bucket around product merchandizing excellence. Consumer relevance, increasingly there are different channel earlier we used to have the big box, we have warehouse clubs, you have convenience stores, you have the pure play, which is no box and you have catalog how do you bring the multi-channel experience together and be relevant to all these consumers, prosumers, and millennial is also one of the key channels. What we have done in the last four and half years in this industry vertical right from inspection is we have focused on business IT solution. Business IT solutions clearly here address all the three buckets of strategies, which our clients, have. Take the first one, I will just expand on one or two. The business in sites and demand increasingly consumers have a lot of information with him, retailers also have a lot of information, they used to functionally siloed in having many of these groups not speak with each other. Increasingly, there is need to bring all these data together whether it is eyeball data, syndicated information, house hold panel information, you own sales data, your merchandizing data, bring it together and deliver it as an actionable insight to the point of relevance. Earlier it used to be point of sale, then it became point of service, and now we are redefining it and saying it is point of relevance. Clearly, where it is relevant we need to deliver that

information, insight, or action and we have an analytic solution around it, which has technology component, the business process consulting component, and clearly a component to deliver this in an integrated with BPO wherever appropriate and deliver it to the client organization. On invasive technology is RFID we are bring three or four key technologies together whether it is wireless, whether it is voice over IP, or RFID, we are bringing all of these together and taking it to where all the action is really where the store execution excellence is. If we have an example of a magic mirror, the magic mirror is an example of an apparent retailer trying to do cross sale and up sale to the consumer in the back room where the, the dressing area we have a mirror, which actually has an RFID chip incorporated in it. Person carries a garment into that place. The garment is scanned, you know exactly what is the product and then the mirror comes out with not who is the fair of them of the all but it comes out with, which are the other product which go well here what are the different sizes, so it is an very interactive consumer experience and many times we have found ourselves as consumers in that dressing room with the wrong size of product. We also have an ability to interact with the sales associate whom you can pay or you can get a message out to using wireless handle which can bring that the right size of the garment of the product back to you into, into that room instead you having to walk all the way back. This is again being piloted. So number of such examples I just picking of one. Multi channel commerce again is huge area of interest, a lot of our consumer who are spending dollars with our trusted advisors in this journey in terms of creating similar experience for the customers. The flat world itself, flat world is an opportunities around innovation, which has building loyalty through innovation money from information. We have a huge solution practice around must data management, which creates the foundation stone for creating these actionable insight. You need to compare an apple with an apple and your ability to do it especially when you have a lot of mergers and acquisitions and create the information architecture such like breathing air for you to be able to take it to the next level. We have that solution, there are solutions around supplies chain transformation, store execution excellence, RFID merchandise optimization these are some of the examples of our business IT solutions, which have been very successful. Some examples of actual case work done obviously we have not named any customers here. Increasingly, shelf space is becoming a huge issue jumping to the merchandise excellence one since we already touched the little bit on the RFID one and the eyeball data and bringing actionable insights to the point of relevance. The product merchandizing excellence one there are increasingly sales space is becoming costlier you need to turn around per cubic feet the return on investment from the space standpoint is very, very important in this industry and getting measured. So a good balance of what are the programs you need for your critical ST views and how do you plan your store layout itself in a way, which will deliver you the maximum value in terms of the market basket, which your able share of market basket, which you get out of that consumer. An example of our master data management about here is a of large food distribution thousand in the US trying to get and handle on the grown through mergers and acquisition through acquiring a number of food distributors. They clearly do not have their information architecture in place to be able to understand the same customer data is in multiple version you do not get a single view of the same customer because you acquired from different company. What do you cross sell, what do you up sell, what is that account level profitability, how do you want to expand the relationship with that account none of that is known. So here is an example where this food distributor we are working with and defining the strategy defining what should be the data what should model helping them evaluate, which are the tools in the market place there, which tool will be the most applicable in their context the whole gamete of end to end consulting down to an implementation and support in system integration. Some examples of our leadership work in the space, AMR research, which has a very strong practice around retailer name does as a number two player in the CPG industry, specifically focused on sales and operations planning as an OP. They clearly believe that we are at the leading edge of pricing some of the pilots, which are going to make an huge difference with the industry. We have clients where traditionally we always run an IT service or what. In this case of CS holdings we are actually a partner in progress for this Kmart merger, which is the third largest retailer in the US. We have got two awards one is the IT services category and the other clearly is a client partner in terms of the relationship in driving their strategic thinking and helping them focus on how to do succeed in the market place. We are members with the national retailer federation increasingly as Shibu mentioned in the morning we have competency building of the three areas, which has we are working with the NRF and running the first program in retail to create certification around, the ring certification in the retail industry, which we are right now using only for Infosys to get our 5000 associates of to be. We published a number of players of peoples across the WHO of WHO of magazines in this industry. Nandan itself hide feature cover on him and magazines called forum, which is read by CPG-CEOs, consumer package goods CEOs published by the Grocery Manufacturer Association articulating what the flat world means for CPG industry and how Infosys could be a good partner there that is it and now open for questions.

Participant

Sir, I remembered two to three years back when Sainsbury contract was given there was Accenture which got also a large proportion of the contract. What is the situation there, I mean how are we..., I just want to understand some of client experience in terms of how are they doing their IT strategy in terms of allocating work to different vendors?

Anantha Radhakrishnan

I typically would not want to comment on the specific client relationship. Having said that, in this context you would have also heard about the fall out between Sainsbury and Accenture and Retek, which is one of the packages they are implementing. Clearly, we expanded our share of valet there, that is all I would like to say and the proof of the pudding is the people find the value, which we have given to them in terms of the add development work we do there and the strategizing work. We continue to expand the relationship with us.

Participant

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Anantha Radhakrishnan

Well I cannot get into specifics. Sorry.

Participant

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Anantha Radhakrishnan

But yeah we do enjoy a very good partnership with _____. Through the thick and thin we have been there with them and they have seen the value, so they continue to growth their business with us.

Participant

In retail segment the margins are _____ is it because of it some profile mix that these are high or...

Anantha Radhakrishnan

Pretty much from our services stand point in the 30% of our business comes from traditional maintenance services, 30% comes from application development, the balance 40% comes from package implementation and consulting services. Typically most of what we have been doing in the retail industry the top 40% is really trying to deliver business value and when you start delivering business values those services come at a higher revenue productivity whether it is consulting whether it is package implementation those do and we are also interacting now to chief merchandizing officers, and chief supply chain officers, rather than purely the CIO and to that extent we are able to influence the overall mix and the pricing better. Pretty much our pricing is stable and going forward we will wherever we have contracts, which come up for renewal we have clauses in that, which will help us to increase prices. We do not see customer resisting that because there are getting the value. Overall we are pretty much in line with the overall group I do not feel, I did not say if you have some analysis to indicate that. Yes, we do have a good mix especially in terms of our package implementation and consulting services and since if you have seen most of our business IT solutions these are focused on delivering business value and making that retailer or that customer succeed in the market. So pretty much you are doing higher end work in terms of consulting the wiring the business process, putting a tool together to bring it and support. So to that extent the customer sees more value.

Participant

I want to understand this thing. If you look at the growth of retail segment within Infosys the last two years of growth somewhat like 50% per year, whereas if you look at the CIJ has 38% does it basically mean like once we have got this critical mass going forward also and the growth will continue to remain very high or is it like the growth of the last two years is on the back of one or two big clients, which you might have added and therefore suddenly the growth looks very high.

Anantha Radhakrishnan

Growth has been very balanced across the portfolio existing customers have allowed us to do work in newer areas. If we traditionally were on only in the IT side of the house we are now being able to move to the business state of house in existing customer from long term relationship we have. We have also had a whole bunch of new customers. When you believe especially among the India-based players or you believe we believe we are the largest presence if you define retail the way it defines the tradition sense of the world. So we get the benefits of credibility this business as you know runs a lot about clients speaking highly about you, the word of mouth is important, it is a close community retail and when you do good work the work spreads and there are more CIO and CMO and merchandizing officers who are willing to take a bet on you in this journey.

Participant

Is it true like unlike financial services where each of the bank or financial institution will be working the very large number of vendors in case of retailers specifically limited to work very few vendors and therefore, we few are able to penetrating into any of the vendors the probability of scaling of that account is India.

Anantha Radhakrishnan

Well yes or no on the sense. Finally we need to the value if it do not deliver value. See, retail it is very low margin business. The percentage of IT, as the percentage of the revenue is less than 1%, 1 to 1.1 in some segments more but on an average of, of the retail industry is about 1% and when you have that kind of spend levels, you are very conscious about the ROI you get on the money you spend while you cannot afford to have too many players, simply because it does not sustain the interest of all these players, having said that for the money you spend there are very, very demanding in terms of the business value they get and to that extend you need to prove that you have delivered that value only then you get an opportunity to sustain something. So it is not as you penetrate once and then the rest of life you are comfortable.

Participant

In terms of numbers like if, if I was to look at your top five clients as a percentage of revenues in retailing, that will definitely be much high compared to the companies average, in terms of percentages.

Anantha Radhakrishnan

In some sense yes because we have added a whole bunch of new customers in the last 18-20 months, as I have told you we have added 20 customers. So that clearly sets us up well for growth. Sometimes you start off with transformational project in either multi-channel in the market data, RFID or you might start off with the pilot in RFID. So once you deliver the value for that engagement the opportunity is there for you to grow. So these 18 to 20 customers which we have acquired over the last 20 months, clearly are setting us up well for growth in the coming years.

Participant

Infosys had a retailing products, which long time back it was in subsidiary a where you sold up the stack, are you still related with that product or what, what is happening to that.

Anantha Radhakrishnan

If you are talking about Yantra, which used to be a distribution system, which we had developed I think we sold off the stake we had Yantra. Right now we do not have any stack in Yantra part of Sterling Commerce Group.

Participant

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Anantha Radhakrishnan

Yantra is one of the top three players in the supply chain execution space and we do have an supply chain management practice where we implement Yantra as one of the packages. So it pretty much have consultants who know the package both from a functionality and technology standpoint, but there are other packages out there too, which we are built up with our competency around. Retail itself is to see has lot of best of breed packages and traditionally it is not believed betting big on ERP, because whether it is SAP or the oracles of the world, they have not hired a very strong present across multiple areas in retail. They have in pockets and we need to built a skill sets in each of best of breed tools, you cannot rely just on one.

Participant

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Anantha Radhakrishnan

Well it is pretty much in line with Infosys we have T&M work, we have fixed price work. In lot of this business IT work, which we do is traditionally fixed price because you, you are taking out large transformation program and trying to deliver it on time on budget within a given period time. You take on some risks working with the customer in this transformation product. So doing T&M, does not really measure in that sense. It is pretty fixed price and T&M. There are some early pilots where we are looking at subscription models for pricing, especially around RFID piloting, or it is too early for me to comment on but we are definitely looking at moving the envelope in some specific knish areas where we seen some of these models worked data then our traditional FT based pricing models.

Participant

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Anantha Radhakrishnan

Well in some form you have a service and you pay for that service on a monthly basis. Pay per use basis. Because you are not touching a little bit about new role in platforms group, where the focus is lot more around manage services and changing the way we price away from FT based pricing, many of you would have attended Amitabh session, so you know what I am talking and I now work with Amitabh in the new group.

Participant

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Anantha Radhakrishnan

See when a new technology comes in all of you know the hype cycle. There is a huge hype. Today the good part that RFID is there are customers out there, it is something which you embrace across the board. You want to use it in the areas where there is business value and there was this WalMart factor where everybody felt if you do not use RFIDs and then you will lose out big time to WalMart, I think that scare is off now. So people are hard nose are thinking about it like a proper return investment, net present values more ROI and looking at specific pockets where they want to make a bet, there are retailers who are making bets with RFID to enhance the experience. There are retailers who are making bets in the supply chain to help them improve their visibility and increase their turns especially for high value products. Right now, we are engaged in about 8 to 10 such pilots. It is still it is not a wholesale embracing the technology. It is pilot in a limited way to prove value and then roll out that is still the model in which most work is getting done. The other thing people who also releasing the technology itself needs to work in conjunction with other technology especially with wireless because it is about enhancing the customer experience, it just cannot be one technology. You need to ride on the existing investments you have made on wireless technology, handheld, smart cards, and with technology captures more data from the points of relevance and if you can integrate well with wireless technology you can propagate to wear the actions. Pretty much I would call it cautious but wherever people are realizing the value there are willing to make bets in that areas more point where there is business value.

Participant
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I don't want to comment specifically on a customer, but increasingly retailers are realizing, thanks to globalization including the largest retailers, whoever that in this world for them to attract the best talent and deliver value, they need to work where the talent is. A lot of talent is in the Asia-Pacific region, in terms of IT talents. So, there have traditionally been working with this may be Indian who are in the US but now there are looking at more partnership as well.

Participant
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Not that I am aware of.

Participant
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I cannot speculate, no comments, but some of the European retailers as you know have captives, it is a mixed fact, many of them not being so successful. Captive also the same pressure in terms of talent attrition and retaining them and captive becomes more a captive in true sense of in a back office and you don't have a very well defined career path, so people don't stay for too long. So it has been a fairly mixed bag in terms of Captive experience. Last couple of minutes, if there are any more questions I will be happy to answer them.

Thank you very much, I appreciate your time today afternoon.