

Infosys Technologies Limited

**2007 ANALYST MEET**

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### **Anantha Radhakrishnan - Session III**

#### **Anantha Radhakrishnan**

My name is Anantha Radhakrishnan, I am substituting for UB Praveen Rao, heads our retail practice and he is not well, he is down with the Bangalore viral and hence I have been given this call yesterday. I have been part of the retail practice right from its inception, I am not new to retail I understand our strategies and what we have done. Well about few weeks back I was in Infosys Technologies with Retail Business Unit as one of the management team member and a few weeks back, I have now moved to Infosys, BPO and head our strategies platform group there. So while the designation is here is the new one, I will be speaking about retail and what we have done over the last quarter at industrial vertical. The safe harbor all of you are familiar with it, so I will not take you through it. Specifically, the retail consumer package growth and distribution practice of Infosys, we were the earliest verticals, which got created in the year Jan 2003, this is the pilot verticalization effort. This is the first vertical, we contribute about 10% of Infosys revenues, our growth is being cumulative aggregated growth year-on-year of about 38% and we started this practice we had about 950 people. So, we have grown from about 20 active customers to about 60 active customers. Our employee base has grown up, we have now 5000 consultant or associates compared to 1000 when started this journey. Our growth has come traditionally by expanding our share spend in existing customers and at the same time creating the word of mouth and building the credibility with new customers, which has helped us. In the last 18 months we have added about 15-20 new customers. A quick update in the format I will spend about 10 minutes take you through some of the slides here and then I will open the floor question for the last 10. Specifically, what is happening in the industry segment number of the flattening forces of the globalization forces are working on this industry segment. Many of you know retail is all about volume low margin, it is about creating more turns, it is about utilizing a sweating you assets more, sweating whether it is trucks distribution vehicles, shelf space, it is about creating more and more rotations and turns on a low margin and that is all you make your return on investment. That is traditionally the bulk of a model there are people who are trying to differentiate increase their margin as well. But if you look at the global trends really mergers and acquisitions have increased consolidation. K Mart creating a large merger, Toys R US has been brought over by private equity fund who is running it now for the last two years are some examples. Significant shift in demography, today the top three markets in terms of retail attractiveness are clearly India, Eastern Europe, China, and Russia, and if you look back at Europe and the US most markets there are either while there is growth and you know retail for example of about 35% of the US GDP, still continues to be the number one employer of people in the US. The shift in demography is clearly means you need to move to emerging markets, significant shift in the channel formats earlier traditional formats. If you look at the grocery channels people used to go grocery shopping four times a month, now that is reduced to 2.4 times a month. So, clearly there is a dip in the channels which you are going to the new channels which now shopping either warehouse, in a convenient store, do it on the web all of it is prevailing. Increased focus on innovations, shopper marketing, and merchandizing clearly the whole package the levers which you have clearly are the merchandize which channel you want to put it and what price you want to put in, how do you present it to the customer, bringing all of this together is what creates your price image or the brand image for your supermarket sales. Bringing that all together. Food security, food retailing is about 30% off the total retail industry and increasingly there are a lot of laws to govern the way you bring in food stuff in to the US whether it is the bioterrorism act or whether it is a country of origin labeling clearly because whether it is meat or produce or any of these items they clearly have implication from our food security standpoint. Macro consumer trends clearly the consumer is no longer one single entity whom you can 80% of the consumers are similar you are now moving to a situation where you have millennial is clearly can spend high, they are then gen-Y customers who spend high, they are very clearly focused on societal responsibilities as well. They do not want to buy goods, if the goods are made through child labor for example. So clearly this is a new customer socially very, very aware and consciousness of the what the new world should look like. They are somebody called at a transumer, a transumer lives for the moment, he or she does not worry about owning and getting the power of ownership of things, they are today focused on here and now, life is to be lived high, it needs to be lived now, and we need to have a great experience just now, that is the kind of consumers they are, many of prosumers. Prosumers are people who do not want to buy stuff which has made for stock, they want to produce it themselves and you know go through the process of procreating or creating along with the manufacturer or retailer. So when you look at a retailer the retailer clearly needs to identify these trend segment and then target different value proposition for these segment

in terms of the price. Clearly, the one size fits all does not work there is increase visibilities or granular data. Lot of retailers have invested in information which have been in functional silos and now the functional silos need to go away. Sales information can be seen by merchandizing, marketing, supply chain, customer service. We need to bring that power of the information together and push that information out of an actionable insight into areas, which matter. Earlier in retail we used to have a \_\_\_\_\_ then it became point of service, now we are redefining it as point of relevance. So wherever there is a point of relevance to the consumer you need to be able to deliver this information insight. What is the three key start keys which retailers are doing, most of their initiators fall under these three buckets, one they are trying to become more and more relevant to the shopper or the consumer. They want to be relevant so that they are picked up, their stores are picked up as part of the shopping habit, the stores are picked up as part of the share of spend, they want to increase the market basket size, the recency, frequency of visiting the store all of that. The second is really around merchandizing. In case of merchandizing the whole idea is to innovate, but innovate not to give too much choice, but give the right choice. So innovation in the type of merchandize you present, in the prices you present, and through multiple format whether it is multi channel commerce, you looking at catalogue, you are looking at the web, you are looking at the store, and across all three channels the same consumer footwall moves differently, they might go to the web and search for a product and buy the product finally in the shelf or buy it at the web and deliver it at the store you can have a gift registry in which you can register your friends and you can then come and pickup what they need to. So there are whole range of choices and clearly that whole excellence around merchandizing and the product and this is not going to go away in a hurry operational excellence. The whole retail margins initially organized pick box retailing model was built around economies open scale, which is your ability to have a supply chain which gets squeeze costs out, be extremely efficient, but along with that increasingly now there is a need for a responsive supply chain. We can no longer talking of a efficient supply chain, we are also talking of a responsive supply chain, which is demand driven supply chain. You do not go out and put product out which is not going to sell. If there is fashion trend change, you pretty quickly want your supply chain to be geared to address that change and not get stuck with the wrong start at the end of the season. What are we doing to address these strategies, which our customers are doing. We have a whole bunch of retail vertical was among the earliest which started focusing on our solution driven differentiation program. Clearly, we wanted to focus on business IT solutions, not that we will do away with our ADM services and the outsourcing cost. We wanted to be cost plus value and all of these business IT solutions which are out here I will give you an example, category analytic business insights on demand. Bringing eyeball data, consumer panel data, and syndicated data together in the information warehouse and delivering that information as of syndicated service to keep players at the point of the relevance for them to be able to make decisions is clearly the service. So there is a technology component to it, there is a business process component to it, there is a consulting component to it, and some cases there is a business process outsourcing component. It is pretty much you have the whole enchilada of our services, which together deliver that value and this value is to ensure you give a differentiating consumer experience to the young consumer of your customer, which in turn makes your customer succeed and in turn make them bet on you as a trusted advisor and this pervasive technologies, RFID, RFID is being much written about, went though the hype cycle. Now, people who are going ahead with pilots in the RFID space, clearly have a business taste justification for doing that pilot. Similarly, merchandize optimization, initially merchandizing used to be an art, it used to be a few buyers who know exactly what products needs to go in which store. Today, those buyers still do not have an handle on the transumer or consumer or prosumer, the millennial. It is very difficult for them to keep track of it, so you need some technology and scientific way of doing it to bring it all, we are not saying the human element will be completely lost, there will be a touch and feel element, but bringing all that information together wealth of information and helping the buyer make a better decision is what merchandize optimization is all about. Operational excellence, master data management again you need the basic information DNA in terms of what an apple means in region A versus an apple means in region B. Today because of mergers on acquisition, there is a case we will talk about it with a large food distributor. What about the flattening shifts, which Nandan spoke about, yes pretty much customer loyalty no longer is about customer service, it is about innovation. Especially for the transumer they want new experiences. They are not too worried about old customer service. Money from information, I think I spoke about, supply chain transformation your use of store execution excellence, important point I want to make here. Increasingly, lot of retail spend is coming out from the back office to the front office, I am saying front office is really in terms of the stores, where the consumer is interacting whether it is in the web, whether it is in a catalogue pages, or whether it is in your physical store, really a lot of spending is happening around them and that whole channel execution excellence is what we are talking about as a solution area to address. Just to clarify a solution typically will have, business process consulting will have an embedded technology layer, will have system integration services around it. It is not a product, it is sort of productized service, which is made based on a best of these tool, which is from alliance partner or in some cases we build the surround around the tool, which pretty much is RIP, which we can take increase. Some examples, example of an RFID solution, we have something called a magic mirror, it is software running in one of the fashion apparel retail. All of us grow when you try on new clothes, you have a mirror in the dressing room, in that dressing room we have given an RFID chip which can identify the garments which he or she is wearing and the whole mirror then starts interacting the same hey, this

garments comes in these shapes, these colors, these prices. You almost have the information display out there on the mirror. Mirror does not say who is the fairest of them or who is the handsome of from them all, but it clearly tells you what are the other accessories which go well with this. So you almost have, many you are left wondering will this go with some other combination and you do not have the expert advice right there, this can help you do that by using technology very powerfully and using the information warehouse which you have created. Bringing that information at the point of relevance, this is the pilot which is going, very successful, early results very exciting. Let me look at the product merchandizing, there micro and macro space planning, increasingly the amount of spacing which you give you a product in shelf and the way you plan your store layout to maximize the return per cubic feet is becoming very important and there is technologies which enables this mix of figuring out which merchandize, which price, how much shelf spacing, can give you that combination. Here is an example of master data management, one of the largest food service distributors in the US, one of the top 2, they have been growing through acquisitions and they did not have an information architecture and player for them to get a single view of their customer. The service food service food account and the same food service account has five different companies or group companies within the food distributor power house scrolling on that food service company and selling them different products, so there is a huge opportunity to rationalize, cross sell, up sell, before which you need to know that when you say customer X is buying this you clearly know what you or she is buying and there is a uniform standard way of defining customer X across all your group companies. Putting that it may sound very simplistic it is like breathing air, but if you do not have this in place all that actionable insight which you are creating would have no meaning. Some of the examples of thought leadership, we have been working very closely with our Infosys consulting and our solution thought leaders and creating this positioning. AMR research very reputed industries research in retail and CBG has rated us the number two partner across the globe including global big 4 on our ability to provide value in the sales and operations planning space that is there quote. They are talking about some very interesting pilots we are doing in terms of power of information unleashing the power of information, Infosys Technologies received a couple of partner awards for progress, it is not only in IT services in the case of SEARS we are working with them so closely that we got a client partner award for helping them in their business strategy and delivery of that to differentiate in the market place. Sainsbury we were the 2006 IT supplier of the year. Some of the papers had written us off on our partnership with Sainsbury a while back, and another big four player had gone there. Clearly we have stood the distance, we have increased our space share of spend at Sainsbury and have won awards as well, it just goes to show the value we are delivering through our services. Now done, it is time for questions, now there are about five to six minutes. If you have any specific questions then I will be happy to take.

### Participant

\_\_\_\_\_ at this point of time for this vertical?

### Anantha Radhakrishnan

About 30% of our revenues come from maintenance and 30% from application development, the balance 40% is either solution consulting or implementation services based on a package which we choose out of that solution area.

### Participant

Out of fortune 1000 companies, how many you believe have come to India and test the offshore model and how do you see the potential going ahead.

### Anantha Radhakrishnan

See retail traditionally the propensity to out source has been somewhat lesser, because they believe the industry is unique and you know whether it is merchandizing, whether it is pricing, is all to be done by touch and feel. If you look at our growth in the last 20 months, we have added 20 clients and to add 20 clients they need to come here to understand the concept and the other way which we are doing it is we are being part of some of these industry form, whether it is National Retail Federation or grocery manufacturer for example Nandan wrote out the front page feature about Nandan flattening world and how CPG industries affected by it. All of this help us in getting more food malls in to the campus, but getting food malls into the campus is not necessarily the only way we are

converting. Clearly if our client CIO is small community. Client CIO or a retail CIO, or a chief marketing officer calls up someone else and talks about his or her experience of work which we delivered it clearly brings us more comforts.

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### Participant

And you take a case study, there was 2-4% of the sales which is being spent on IT by a client what is the market which you address.

### Anantha Radhakrishnan

Well in retail traditionally, if you look at the whole of retail, IT spend is about 1% of a total, 3-4 is valid in the case of fashion apparels. Typically, we address good 70-80% of this spend pretty much for them. If you had asked me this question, four to five years back that have been much less, but clearly all of the external spend which they put out there except buying software which is about 25 to 30% of the spend and hardware between software and hardware they spend about 25 to 35% of their total spend. The rest of it pretty much something which we compete for.

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### Participant

Thanks very much.

### Anantha Radhakrishnan

Yeah

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### Participant

Question on to you talking about demographic shift to the emerging markets in India and China. So are you guys also following that shift, focusing on India as a market or especially in retailer.

### Anantha Radhakrishnan

Well we are not proactively chasing customers in India, but if there are some of our existing customer, the specialty these retailer you know with the FDI rules wants to setup shop in India, so we have an India entry strategy, the work being done through Infosys Consulting and our solution consulting and how that retailer needs to come into the segment and how will they do the entry strategy, which formats, will it be a franchise model defining the business model, defining the store formats in which they should be defining what assortments needs to get done and how should their supply chain be to address this. All of it is pretty much part of it, but specifically with India based retailers are we giving a service, on and off they do come to our campus to learn about some other best practices which are going on. The Indian market players I have spent a good 10 years in levers before I joined the Infosys in 2000, has its own new answers and inefficiencies either in terms of a excise structure or the real-estate laws and various bunches, you cannot lift the European model or an US model and straight away slum dunk it in the Indian context. You need to make those new answers. We have given a lot of advice more around consulting on how these models need to change to adapt with the Indian market.

### Participant

Nevertheless, the IT spend in the Indian as a market retail is quite substantial and would increase given your success in US and Europe, why would you not want to replicate it here?

### Anantha Radhakrishnan

We are not ruling it out, but we still feel there is a lot in this journey if we can accomplish in Europe and US.

**Participant**

And that your 70% addressable market you have already addressed it. You just said that about 70% of the addressable market you have already started.

**Anantha Radhakrishnan**

Yeah 70% of the potential market, I did not say we are occupying 70% of the spend on each of the retailer. I said that is the potential market we can target. So there is a huge upside believe me we are fairly small.

**Participant**

You think those markets are mature, do you still see our growth in US.

**Anantha Radhakrishnan**

Yeah many of them will automatically come here to India. We will come on them because we are trusted advisor for them and they know that we are growing their operations in India and China for them. It is pretty much we would be the natural partner of choice, name any of the big retailers we can think of. There is not been a single retailer who has not come to the campus spoken, whomever is having India aspirations, speak with us and get our inputs definitely. So we pretty much are in the game, we are not chasing this proactively as the target.

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**Participant**

Yeah when you talk of entry strategy into India and such things would it mean that you are very much focusing on the business strategy or business consulting for them as well apart from the technology consulting.

**Anantha Radhakrishnan**

Absolutely yes.

**Participant**

And you do the similar things for them for their entry into any other markets as well or it is more specific to their entry into India at least.

**Anantha Radhakrishnan**

See specifically when it comes to India I think we have an advantage in terms of a capability of people we have here who have the experience of having worked in this markets in line function. So the entry strategy worked specific to India, but we do a lot of strategy work, for example we do multi-channel work or we do the master data management services, we do RFID piloting and strategies which areas to do, it is significant chunk of what we do on the top end of our services these are on strategy consulting along with business process re-engineering and change management ending with implementation services at the end of which we get into our traditional maintenance model. So it is pretty much we are trying to straddle that whole value chain service.

**Participant**

And in terms of the potential customers across the globe do you see the retailing pattern similar in all developed markets and similar things for the developing markets as well or it is just country specific very different.

**Anantha Radhakrishnan**

Well very, very different. As I was telling you even, I will give you an example Food Line which is large super market sale 1400 stores a spread over central levers across 13 states, they are now creating four different formats address their current customer base, they creating a bloom sore which focuses on convenience, they are creating an Harvey Store which focuses on product variety and assortment. They are doing a bottom dollar store, which is a one dollar store and they are rejuvenating their own Food Line store. So I do not think there is one model which

will fit all even within contiguous geography and that reflects in most of our, so I cannot say all of developed retailing is in one format and you know the developing emerging economy is the format has to change.

**Participant**

What I am trying to understand is that in that case as we see this industry very diversified you know what sort of domain capabilities you need to built to really address this very vast market.

**Anantha Radhakrishnan**

Well I think we are building the domain capabilities in this four to five areas where we really think there is significant plain, bringing the information into the areas where point of relevance you know RFID. Looking at pervasive technologies like wireless, voice, and RFID together to enhance customer experience, multi channel strategy to adopt, so we have made these beds, these beds are well thought web, based on the size of the market and where the spend is going, so pretty much some of the areas where we are spending are the areas where our customers are spending as well.

**Participant**

Thank you.

**Anantha Radhakrishnan**

Thanks.