Mr. Subhash Dhar – Head - Communications, Media & Entertainment

Good morning everyone. My name is Subhash Dhar and I head up the Communications, Media & Entertainment business unit at Infosys.   I am happy to be here. It is really my first time in New York City addressing the investor conference. Safe harbor statement and these are the numbers that we have had over the years for what we call the telecom vertical which includes all of those three communications, media and entertainment segment. It has been a pretty good growth segment for us over the years. I guess it is also a very old segment for Infosys. Only the tenor of that has changed over the years. End of last decade of the last century, we were mostly focused like most of the other offshore providers on the OEM segment, the equipment manufacturer segment which had most of the revenues for us back then. Starting this decade, we broke away from the pack. We created a specific unit called Communication Service Providers in the early part of this decade and since then the CSP business or the service providers business has become the dominant part of our telecom vertical and there were a few reasons for that as well. As we will go through the slides, I will cover those.

So, here are the spending drivers for the industry, which remain intact even in these times and the number one of that is the ongoing transformation of networks and systems which in short basically means the communication service providers are moving from the traditional telecom networks to more digital internet protocol networks and that kind of changes everything which sits on top of the network which is systems, products, even user behaviors and to a large extent even regulation. So, it is a fundamental transformation that these guys have been going through. It has been talked about for several, several years but it really took route only four or five years ago. There are some clients who have taken the acquisition route to get the transformation done in their companies and there are others who have actually taken a very ground up approach of changing their networks, systems and not really going for an acquisition to do that. So there are very different dynamics. You see from these two approaches in terms of the spends that these companies have in different parts of the businesses.

The second big area which is going to continue driving spend is really which I call the product space which sits on top of the network and the systems. This is the long tail of transformation which is going to have a lot more sustenance than the network and the systems which usually have of three to four to five years kind of cycle after which you have transformed your networks, you have built your systems and now, the long tail of products which starts.   So, some of those products that you are very familiar with are video on demand, IP television, social networking on the mobile platform and not as much on the web platform because your revenues are really driven in the mobile world in this segment.

The third one out there which in a way plays in tandem with new products is new consumer device and I do not need to explain that anymore than the fact that I am sure the whole hoopla around iPhone and that many other devices that are waiting to explode on to our hands and our homes and then of course the last one which is something we are seeing very, very closely sitting in that part of the world is the emergence of new economies where a whole new bunch of consumers and customers are getting into the fold and especially the wireless companies in the world are finding a lot of growth in those parts of the world.

Here's what is more relevant for offshoring and I think for more mature offshore players, will play out more than the lesser mature ones. So, the top point of this is the transformation programs demand talent. That is not easily attracted to this industry. This industry has been characterized as a very old traditional fuddy-duddy kind of an image, not exactly the place where the talent from Google is going to flee and start working but guess what, that is the talent that they need in order to deliver on the promise that that new technologies are throwing up.

The second one is the maturing wireless business. Now, this is interesting because for the past five years, we have seen most of the demand coming from the wire line business and traditionally that has been in the place of creating efficiencies because they have had a phenomenon of declining revenues for several years now in the core part of their business which is why. broadband did bail them out and continues to do that, but really the driver has been wireless which has kept them afloat especially the companies who have both those properties, wire line and wireless properties.

Interestingly, if you look at outside of the United States, Europe and even some parts of Asia I would say, more like Japan and Korea, the wireless business is maturing as well and is showing typically the same signs that the wire line business has been showing over the years and that is calling for more efficiencies and cost rationalization for them to single out those projects which we did for wireline now being the cusp of the wireless business, but at the same time depending on which geography you are talking about the growth drivers on the product side, broadband wireless continues to grow in this country and in this part of the world. Wireless continues to grow big time in Asia. Broadband continues to grow almost everywhere. So, that is the other big factor and especially the efficiency programs are driving more of offshoring opportunities.

Then, there are several new technologies and business models which we are seeing more in the emerging part of the world. In a way, this is one interesting industry where the East is almost teaching the West and we have trained our learning lenses away from the West in this industry to also include the East which is giving us a lot of those models which are only being talked about here but they are actually being practiced. I just met a company two weeks ago in India and they just gave out new licenses and new spectrums and the CEO called us and said I want to build this company, we just got a license, we got the spectrum, and the rest is what you guys are going to do for us and I asked him where do you want to go, I mean how are you going to compete with these guys who have pan-India networks, across Asia and sometimes even partners from the West, how are you going to even compete with these guys. He said I am going to ride over them. I am going to compete with them. I am not here to build networks, I am here to build may be some systems and not own them, I am here to own the customers. Now, this is the kind of talk we hear from Google and not from a phone company but this is what the new generation phone companies are talking about. So, it is interesting how I think what we have always felt that thanks to regulation, there has been a huge opening up of the segment starting from United States percolating to different parts of the world. While there has been a huge opening up of the competitive landscape, the tools that the phone companies have in their hand to compete have been pretty traditional. They still work on regulations, even if they get de-regulated, they still work on networks. They are very network centric and they believe that a lot of the value comes from them. It is hard for them to not focus on it. As much as they keep spending more and more on networks, they are basically building the net level of commoditization which might hit them in the few years and then there are companies which are more web centric companies like the Googles and the Yahoos of the world who continue to ride on the infrastructure which these guys build. So, it is important how some of these companies that I have given example of or just now talked how they are thinking it is important for some of the phone companies to start thinking in that direction but they do not really have to stop at building the networks and think more in terms of what products they are going to put on the network.

So, what it takes to be the leader in this industry and these are some of the points which I just talked about. They have to move from customer centric view rather than being a network centric. Now, this has been off repeated by all the industry pundits but it is easier said than done given that you have billions of dollar invested in networks and billions of dollars committed to upgrading that network in order to go through that transformation. It leaves very little room to do something else on top of it and more often than not, it is somebody else who ends up doing that thing at the top. So, that is the big challenge for this industry which kind of gets into the second point of how they have taken idea and this is really a service idea to a launch that's a huge, huge hole for them, the development cycles what it takes, the talent that it takes to build some of these very rapid products which may not have a shelf life like the old products had, I mean look at the old products, long distance service, it has been there for 100 years. You do not get to build such products anymore which are going to last the next 100 years. You would be lucky if they last the next 100 months. I mean, we all know about VoIP being such a big deal in 2002-2003-2004 timeframe, and everybody wanted to build a VoIP network and VoIP service but VoIP is now embedded in almost everything that every voice call that we do anyways. It is going to be built in corporate networks. It is not a product anymore. It is something which has gone inside the next generation of product. So, that is what I am talking about. When these guys build new products, what they need is a rapid development, go to market, skim the market and move on by the time the competition gets in. That is not what they have been used to. They have been used to building long lasting solid products what they call the dial tone quality and be there for a long time but that is not the game anymore. So, that is the other attribute of what it takes to be a leader. Focus on applications, not connectivity, is going to be the point at the top and not losing the economic advantage to the web firms. This obviously everyone knows the whole debate around net neutrality which has been so loud in this country and similar debates are going on in other countries on who gets to ride on this free ride or near free ride on these new fiber networks.

So, what has been the Infosys strategy, two-pronged really. Number one, we are transformation partner for our operators, network, studios and believe me, I did not talk as much about the network and studios, but the story is not very different there as well as technology is changing the game for them as much as it is changing for operators. These guys have large stakes in transformation landscapes in their industry. They need partners with large-scale execution capabilities. They cannot make small changes in their programs. So, that kind of drives them to players like us and they often have to do more with less which kind of plays very well with the off-shoring story. What I did mention there was this whole availability of talent issue which I touched upon in the second slide of something that they do not get which is something which players like us can bring into this industry.

The second major strategy for us is investing in solutions with a future view of industry. It is amazing how what we take for granted in financial services and hospitality industries and retail, everytime I walk in or the first time I walk into a store and buy a CD, I am likely to get a loyalty card. Even they might even not know that I will never get there the next time but here we are buying from this phone company multiple times a day when we make a phone call or we send a text out and we do not even have a thank you. So, look at how this industry has kind of worked on the customer service side. There is plenty to be caught up even if we compare with other services industries, that is something which is amazingly clear but there are very few solutions out there which are available for our clients in this space. So, this is one of the areas, social networking for mobile. Social networking is always free on the web. It is really only monetized by advertising, but on a mobile you do not need advertisements to monetize this because either texting or voice or video by themselves are not free. So, there is a very good monetization program except that they do not have the platforms build which somebody like Google or Facebook has built quite easily.

Customer value management, I talked about how to take care of the best customers. Most companies in the world do not have a program. So, these are some of the things that they will have to focus and they are focusing on going forward as they complete their transformation programs and get ready for the real game. So some of the companies that we have been working with are at top and we have pretty good coverage across North America, Europe, and Rest of the World where approximately in terms of revenue 40%-40%-20% spread in this segment across the world, 40% North America, 40% Europe and 20% Rest of the World.

Some of the recent client testimonials and second one is the one which I really like. "Agility and process are generally thought of as antonyms, and Infosys brings them together", and this is amazing. One of our clients which is actually trying to build things very rapidly, they are even using extreme programing and those kinds of concepts. Obviously, they did not have the talent for something like that but it is needed that because the development cycles are 90 days. I mean, you got from taking from a concept to launch, it is like a 90 days cycle. They hope to make money for 18 months on that product and in their business plans, they kind of completely make it zero at the end of 18 months. I mean, imagine a business plan like that and the kind of partnerships you need there. We actually are able to do a lot of our scalable process deployment on seemingly maverick work which is extreme programing platform and that is something which they really like about. How can we take extreme programming and those kinds of concepts and create a large scale capability. So, that is the one which I particularly like of what they are looking for in the future.

The challenges, Ashok talked about a few of those and we are expecting from us as well. Longer decision cycles, much longer than they were before. The decisions are taken at a much higher level than they used to be for the same size of project. There is a whole lack of best-of-breed ISV market out there. The platforms and products which are just not available for the kind of challenges this industry is facing for the future. There are a lot of legacy investments I talked about, the whole network investments that these guys have which hold back their capabilities into investing in the future but overall the demand is strong as we see across the world but they come from a few large spenders and that is the nature of this industry. There is not too many clients, but they are very large clients. I think we have about three of our top ten clients come from this industry. Deal sizes are mid to large, they do induce lumpiness in our revenues, in our quarterly revenues, because they come in big and they are transformation kind of projects, you will see a blink in a quarter or two on some of those large deals and really the speed of client decisions at this point is really what is coming, was really driving most at the speed at which we are growing, especially this fiscal year. So, that is the theme which is not very different from what you heard in the previous presentation. Thank you very much, and we can open for some questions here.

Julio Quinteros

Good morning, Julio Quinteros from Goldman Sachs. Can you talk a little bit about British Telecom, specifically in terms of where their projects are, and what run-rate you guys really think you can stabilize that business?

Subhash Dhar

Well, we won't be able to comment specifically on what we do for the clients because of the confidentiality, but I think Bala talked about our largest client and I think I will describe BT as one of those who decided to do their transformation themselves and not through the acquisition route. So they ended doing a lot of changes over the last 5 years. We have seen, we have ridden the wave with them in terms of all the changes they went through. Most of the transformation on networks and systems are done and in a way, it is not surprising to see that part of the spend kind of tapering off as we approach sunsets in many of the projects and that is not just for us I guess, for the entire program, but we have always had a very cautious strategy of moving ourselves under the trajectory of spend and we have very well positioned today, not just in BT but in many of the other clients who are in that position of having built out their networks and built out their systems. We are now very well positioned on the product long-tail spend and that you will see as a sustainable revenues for us going forward.

Tim Bechter

This is Tim Bechter from Waddell & Reed. I am very curious on your Customer Value Management concept. Where you see that being, I guess, most near term initiative, is it more the developed markets or is it the developing markets. It seems to me that in the developed markets where reaching saturation or at it, that kind of think is really make a difference and yet mostly operators don't seem to be embracing it yet.

Subhash Dhar

Customer Value Management is about spotting your best customers, treating them differently, retaining them and even co-creating future products with them. This has not been done in any part of the world in any significant way at all in this industry. Why is it important now. Our own estimates say about the leading service providers in the Western World, about 10% to 20% of their customers give them more than 100% of their profits. The problem is they don't know which 10% to 20% and while they struggle to find that out, the upstart with the regulations have now allowed anybody to become their competitors. All they need to do is to take that 10% away to completely kill the company and taking away 1% or 2% can happen even accidentally, so that is what these guys are facing. They have not engaged with their 10% customers. I mean something which banking did, the infamous teller fee, right long time ago. That is a negative way of approaching your not-so-good client and telling we are going to charge a teller fee and you know, otherwise you go to the ATM. Instead of say taking a negative approach, we are proposing in the Customer Value Management framework a positive approach to your high-value clients and high value is not high revenue, it is high profit client. It is not easy to calculate profits or profitability of customers. Most companies don't have a single view on their customers as well, so there is a plenty of consulting and systems work that needs to be done in order to get even a single view of the customer and then go on to create a Customer Value Management program around it. I mean, my first instinct was exactly what you have said and it will probably start in the developing market, as they start building this new thing and the concept to Customer Value Management would sell there but I have been extremely surprised even in the United States, this idea has been lapped up not just by our clients but also by the industry value chain, saying hey we need to align around this. This is the future. The churn is only going to go up as the regulations keep opening up. People have more choices. All you need to do is to keep your 20% of your customers to sustain your profits, anything above that is a gravy. That is a pretty good strategy for an industry which has such skewed dynamics of profitability and the rest of the 80% to 90% end up being non-profitable customers because of lot of the regulatory mandate as well. So they continued to be surprised.