INFOSYS TECHNOLOGIES LIMITED

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Retail

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Pravin Rao

My name is Pravin. I am a Senior Vice President and head the Retail CPG and Logistics Practice at Infosys. I have been with Infosys for 23 years. I am based out of Bangalore. For the next 20-25 minutes, I will talk about how we are doing in the retail vertical.

This is the standard safe harbor clause. Just like any other vertical, the last 12-18 months has been pretty challenging for the retail industry. Despite challenging times, we have done reasonably well. The last 12 months revenue as of September 2009 was about $609 million. This was roughly about 10% growth over the previous 12 months. Barring this last year we have been growing at a CAGR of about 38% over the last four to five years. About 78% of our revenues come from North America, about 19% from Europe and rest from Rest of the World. Whereas Europe's share is on the lower side, in terms of growth we are seeing much higher growth in Europe than in North America. We work with 9 of the top 10 retailers in North America. We work with 5 of the top 10 retailers globally. We work with 4 of the top 8 CPG companies in the world. So we have a very strong footprint in the Retail and CPG space.

Retail was one of the first verticals formed when Infosys started the vertical some time in 2001 and today it contributes about 14% of Infosys revenues and we offer a full suite of services right from business consulting to application development, maintenance and BPO. In the last year and a half, we have seen increasing share of revenues coming from consulting, from package implementations and transformational-led solution and some of those IP-led transformational solutions, I will talk about at the remaining presentation. We work with about 65 active clients today and these are fairly well distributed across the sub-segments both in retail and CPG. In the quarter two, we opened four accounts. We have had a fair share of positive mention in many of the journals. For instance, for our Shopping Trip 360 solution, Business Week actually portrayed it in an article about innovating leader and they called it Retailing 2.0. So likewise we have got good mention from many of the journals and we have also published lot of our articles and thought leadership in these industry journals. Importantly, in the Gartner's Hype Cycle for retail, Shopping Trip 360 figures and similarly in the Hype Cycle for CPG companies, our trade promotion solution actually figures in that. That is definitely remarkable achievement.

The last one I wanted to talk about was that with Sears Holding corporations, we have been rated the top supplier. This is the third year in a row we are getting this award and this award is not only restricted to IT suppliers but all their 30,000 odd vendor partners with whom they are working. Less than 1% of their 30,000 vendors get this award. So we have won this award three years in a row and we are very proud of it.

Retail has been impacted by the downturn just like any other industry and typically in any recessionary environment, retail gets maximum impacted and they are probably the last vertical to recover because their growth also really depends to a large extent on the discretionary spending. So retail also has its fair share of challenges in the last 12-18 months. The overall growth in the industry has been on the lower side but despite the low growth there are some trends which are clearly emerging. One is the shopper itself, the consumer itself, the consumer is now much more price conscious than in the past. The consumer looks at multiple channels before making buying decision. They are always on the active look out for promotions and with this more and more retailers are spending lot of time in their promotional activities, in their coupon activities. Some of the retailers like CVS and BOOTS have installed coupon dispenser in front of the store and when the consumer swipes the loyalty card, it actually throws out coupons. So there is whole set of initiatives around coupons strategy, where to publish your coupons and so on. As I will cover later in the slide, there is lot more activity around promotion effectiveness and so on.

While shopper is definitely looking for cheaper goods, she is also conscious about health wellness and also socially conscious about green initiative. So they are actually willing to pay a premium for some of these products which are on the health side or some of the products which have a very low carbon footprint. Some of the retailers have already started labeling, like Tesco has started laboring its carbon footprint in its product. Likewise, there is lot of focus on Digital Marketing and Mobile Commerce because as consumer start embracing these technologies, there is lot of focus on in store marketing as a medium where you can influence your shopper the most. Lastly social commerce is also becoming extremely relevant. More and more retailers and CPG companies are adopting these social channels. A recent Forrester survey said that about 68% of the retailers are investing in social media and channels and about 22% are likely to invest in the next 12 moths. In another survey, 3 of the 5 shoppers apparently said that they look at the social media before they can make any purchasing decisions. They are always on the lookout for cheap deals and so on. So the retailers also have started embracing this media. They have a presence in the media, they are listening to what consumer is saying in the media and shaping their marketing strategies. For instance, Wal-Mart on a daily basis is offering specific deals on Twitter or recently Starbucks actually announced free ice-cream for people who download their application on Facebook in to their profile. So retailers are doing a lot more incentivize or get consumers to engage them in the social media so that they can understand what consumers are looking at and how they can react to the consumer needs.

So these trends have actually created a set of opportunities for our plans. There is a shift in the IT spending. Earlier lot of IT spending was on the back office, now there is a shift from back office like ERP and planning to front offices like Sales and Marketing. There is also a shift of spending from transactions to Business Intelligence because there is lot more effort on understanding the consumer. So consumer centricity is the new thing. A lot of effort is spent in understanding the consumer, interacting with the consumer and influencing the consumer. There is lot more effort in sales and operations planning. We have several process consulting engagements around sales and marketing effectiveness and around implementing of MRM packages - Marketing Resource Management packages. I think in the morning, there was lot of debate about new engagement models and in these current recessionary trends where clients are under pressure to do more with less, they are more receptive to some of the new engagement models. There is lot more focus on influencing the consumer at the moment of truth which is the retail store. So lot of effort and investments is going in that direction. In retail and CPG, in the last 12 months, the adoption of shared services models has been tremendous. I mean the kind of BPO opportunities that I have seen in the last 12 months is much more than I have seen in the last few years. So it is not only about core finance and HR but it is also about core functions like Master Data Management, trade promotions and so on. We are seeing lot more activity on the BPO side and shared services side. I talked about the social media earlier and again there is also lot more investment on loyalty. All these things are in terms of understanding the customer consumer, what the consumer tastes are. So in given situation, in the past retailers and CPG conveyors used to rely a lot on historical data but with the new way of consumer thinking most of the data, most of the gut-feel kind of thing is going out of the way. So there is a lot more investment in scientific tools to understand the consumer activity and reacting to it.

Infosys Retail in particular has noticed these trends. We have been very proactive and we have invested in few solutions to take advantage of some of these trends. The first one is on the Multi Channel Commerce side. These are solutions where we have invested in the last 2-3 years. As I said earlier, the consumer is looking at multiple channel for shopping and today the online sales is increasing at a much more rapid rate than what is happening in store. The online sale on a lower base is showing double-digit growth whereas on the store side, the growth is in the low single digit. There is also some survey which talks about in the next five years online sales to be at least 10% of the overall retail sales. So there is a lot of investment in online channel and it is not only about offering online as another channel, that is not sufficient. It is also about integrating your online channel back with your store because consumers today are looking at online channels and based on their experience they are going back to stores and they are cross impacting between the online channel and the store. So it is no longer sufficient to just look at online channel as an incremental revenue to our store. You need to provide a lot of integration between your online strategy and the stores' strategy and so a lot of investments are going on in those areas. Today even as we speak, we have got about 6 to 7 engagements with top retailers on their e-commerce strategies and the kind of opportunities vary from doing the visioning and the strategy through implementing. We have also stitched together lot of partnerships in this space. We have partnership with the technology providers, we have partnership with hosting partner so that we are able to provide end-to-end solution to our clients.

I talked about how social media is playing a very important role. So we have a platform called ‘I-Engage.’. This is a platform which brings the best of content, collaboration and commerce together. It is a platform which allows the retailer and the CPG companies to interact with various social media in one single place. This is a platform which we have invested in the last one year and we are offering in a managed service and SaaS model and we have had two wins outside retail and in the last 3-4 months we are in almost close to closing a deal with the retailer as well as a CPG company. So we see lots more opportunities for the ‘I-Engagement’ platform.

The other important trend I talked about, it is universally acknowledged that the best way to influence the consumer is when he/she is in the process of shopping. So retail store provides a very good medium in influencing the shopping decision and today billions of dollars are spent in-store marketing but the big challenge is there is not much data or measurements on the effectiveness of this dollar spent. So this is where we recognized the opportunity about a couple of years back and our Shopping Trip 360 solution is a solution to address this opportunity. It is basically a unique in-store marketing platform which provides visibility about the shopper activity in the store and the merchandise activity in the store at a very high level of granularity. The retailer, the CPG company as well as the shopper can interact with each other in real-time using this technology. From a retailer perspective, retailer gets visibility to the shopper activity in the store, how much, what is the shopper cost, what is the dwelt time, how much time is spent in terms of various aisles and it also provides data on store level, shelf-level inventories and it alerts on out of stock and for a CPG company it also provides data about how effectively consumer is reacting to their products and what is the efficiency, promotional efficiency and so on. From the consumer perspective, given that using this solution you have an ability to have location and contact awareness, the retailers and the CPG brands can actually target the consumer for personalized ad. So if a consumer is walking through isle, you know which isle he is walking through and knowing this through demographics and earlier past shopping history, you can target the consumer with specific ads personalized to that particular shopper. In addition, if the shopper has a shopping list then if he uses his cell phone as a medium, our application will guide him through the store on where he can pick up the various ingredients that go into the shopping list. He can download recipes and shop and look for ingredients comprising the recipes. So to the consumer as well, there is lot of benefit in the solution. As I mentioned earlier, we have received very good results in many of the leading journals, like Business Week, it calls it Retailing 2.0. MIT Technology Lab actually said that this is a technology which could have a potential to disrupting this whole retail and CPG value chain. So as we speak today we have about six or seven implementations. We are implementing this with two or three retailers in India, about three retailers and CPG companies in UK and one CPG company in North America and so far we are very encouraged by what we are seeing on the ground.

The other area where we saw the client is investing a lot is in digital marketing because they are using a new digital medium and typically the way it happens, most of the clients advertising spending is moving from traditional media to digital media because CPG companies and clients are taking advantage of these new technologies. The way it typically happens is you want to do a campaign for a particular brand, you pick up a particular brand and you would decide that you want to launch a campaign in a particular geography, then you engage a creative agency in that particular area to design the campaign, then you engage the services of a software provider to design the website and then you also engage with a hosting provider to host the campaign, to host the application. That is how you will launch a campaign and as the campaign becomes global then the number of touch points also starts increasing. You will have to deal with more creative agencies, you will have to deal with more website hosting providers and so on and then when you look at multiple campaigns that you will all for multiple brands, typically today now most of the CPG companies are dealing with about 200-250 websites for doing all these campaigns and they are facing a huge challenge in terms of governance, in terms of using the digital effects and so on. We recognize this opportunity and we are building a platform which helps in collaborating. It is a collaborative platform which brings together the various stakeholders the creative agencies, the website hosting providers, the software, the brand marketing within the companies and it helps in launching the campaigns in a much more efficient manner with a lot of use of their existing retail asset. So with this platform you can today typically launch your campaign in less than a day whereas in the past it used to take weeks to run the campaign. We are today working on couple of engagements, one with a large CPG alcoholic major and other with a European sporting major.

The last of some of the IP investments that we are making is called 'iConnect'. Today in a recessionary environment most of the retailers and CPG are looking at developing and emerging markets for their growth. In these markets the growth is about on an average 6% whereas in the developed nations the growth is about 2%. So in terms of growth there is tremendous amount of opportunities. In addition, 80% of the population is in these developing markets and about 50% of GDP is also in this market. So it is a no brainer that most of the CPG companies and retailers have started focusing on these developing and emerging markets. However, these markets pose their own unique sets of challenges. These markets are characterized by lot of very small high frequency stores. There are 20 million stores globally. Even within a country due to demographics, there are multiple regions within a particular country, there is a lot of information exchanges using archive, paper based information exchanges, there are disparate systems and so on. So there was a need to develop a platform. We are actually developing a platform which helps the CPG companies engage with the trading partners called distributors in these markets in a seamless manner and in real time, so they are able to exchange data and information in real time. There is not only a technology solution, given the characteristic of this market but we have also bundled in a technical helpdesk as well as BPO services to improve the governance and quality of data that is being exchanged. We are offering this in a managed services manner. Typically if you want to use this platform in a particular country, there is a one-time fee and then on a monthly basis, you are charging based on the number of distributor or based on the type of reporting you make. Once again in terms of service level there are multiple service levels. Clients can implement the basic version with the rudimentary reports and they can ask for customized reports in which they need to pay a little bit more and then finally this platform can also be used for much more higher level of collaborations like replenishment, forecasting and so on. This is a platform which we have implemented with a large global CPG major and today we are also getting a lot of interesting enquiries from other CPG companies as well.

These were some of the examples of how Infosys and retail units in particular have used our capabilities, used our domain understanding to build IP and how we are taking advantages of the recessionary trends and to solve some of the problems that our customers are facing. At the same time, these are all innovative offerings and wide spaces in the market. As Shibu called, some of this is really blue sky thinking kind of things, we do not find any competing solutions in some of these areas.

So this is just an example of some of the accolades we are receiving for our solutions. CITOS is a large European supermarket. There was a press release after completion of implementing our online channel for them. In Georgia Pacific, we implemented a Supply Chain Visibility Solution. Again it is an licensing model, so we got good press. SAB Miller and Metro are examples of implementing our Shopping Trip 360 Solution. We implemented the trade promotions module in Alberto Culver. These are some of the accolades we have received in the recent past.

I end this presentation with a couple of case studies. This first one is about the Digital Marketing platform which I talked about earlier. This is something which we are implementing for a global premium drinks major. They have a presence in 180 markets. Earlier they used to have about 250 sites. They were dealing with 80 plus creative agencies and equal number of technology partners. I talked about earlier about some of the challenges they were facing and right now we are actually their partners for this Digital Marketing area. We are designing and implementing a product Digital Marketing platform for them which helps in collaborating between the various stakeholders, which helps in launching the campaigns in a much more efficient manner and we are also doing the hosting piece of it with our partner ecosystem. So we do the end-to-end program management of the whole thing and take responsibility for launching the campaigns as well. This is a solution again which has been well-received and we are doing well in this area.

The other case study is again a very transformation solution for a global CPG major. This is a very strategic initiative for them and it transforms the way in which the decisions are made in the company and the Digital supporting platform that we are implementing is used by 40,000 employees right from senior management to business leaders and other middle-level management in the company and they use this platform for taking all decisions in the company. So in the past, as is common with most of the other companies, they had lot of excel-based reporting, excel-based templates, in each business units they used to do things in their own way. Their quality of data were suspect and they had a lot of challenges when they had to roll up the data and quality and integrity was a huge issue but with this platform, we have come up with very standardized way of pulling out reports, hosting data, pulling data together and presenting the reports and this is something again which has been fairly well received and we have been working on this for the last 12 months and we have implemented the first version of this platform.

So with this I end my presentation and I think we probably will have about 8 to 10 minutes for any questions.

Puranik

______ Last two years they have not been great IT spending. Is there are any change in their attitude to IT investing and if there is any specific new areas they are investing?

Pravin Rao

Yes, there is actually no change in their spending patterns. In fact in the last one year, there has been severe pressure on cutting the IT cost and like other industry vertical as well, they have all had their share of IT cost cuts. But what is happening is there is a shift in spending. I talked about it earlier. Earlier a lot of spending was on the ERP systems and the back-office systems like planning and other things. Now there is shift. They are spending a lot more on the sales and marketing so that they can understand how consumers are reacting to their products. So that is one area and again they are spending less on transactions and spending more on business intelligence solutions and so on. They are under pressure to do more with less, so in that case they are embracing offshore in a much more aggressive way than in the past. They are looking at BPO. In the past historically, we have struggled with BPO both in retail and CPG but in the last one year we have had several wins in the BPO space and it is not only typical F&A or HR but it is also in core areas like store promotions and master data management and so on. So there is a shift in spending. There is no increased spending as such, but they have becoming more creative in terms of how to leverage and get more out of whatever IT budget.

Puranik

We used more solution and platform approach to meeting their requirement?

Pravin Rao

Yes. When they are looking at the ERP and other things on the back-office side, we will use our services anyway but on some of the newer areas of investment, our way of differentiating is through our IP and that is resonating well. Because of our IP, we are able to proactively go to them and give them become a comfort feeling that we understand what is happening and it is not a challenge unique to them, it is facing other CPG companies as well and this is how we are working and we are doing the best practices in the industry in our platform. That is our approach in terms of capturing most of their spending in this space.

Unknown Speaker

And are the deal sizes getting better? The average deal size.

Pravin Rao

it is too early to say. As I said, there is a shift in the kind of work we are doing but it is too early to say. A typical ERP implementation would have been large deals whereas these platform things are probably little bit more on the risk and reward kind of framework. So you have to invest a lot upfront and you get your money back in terms of business outcomes or if your platform is able to meet your intended objective but to that extent, it is early days to really compare that. Whereas in a traditional ERP, it was a T&M or Fixed Price and a was a multi-year implementation. So deal sites were fairly large.

Unknown Speaker

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Pravin Rao

See for the traditional services, like everyone else, we are also doing. For instance, if you are selling testing services or testing Center for Excellence, our pricing models are most on test cases. For a test case, you pay so much or if you are in infrastructure management services, pricing model is on number of devices you maintain or in maintenance, it is more on number of ticket-based pricing kind of thing. So like everyone else in the other verticals in the organization, we are also trying that route with some mixed success but more importantly what is unique to this vertical is number of IP-based offerings we have and here in each of these things pricing model varies. For instance, the last one I talked about iConnect which is where CPG companies are focusing on the emerging markets. Here the pricing model is based on per markets. So you pay basically per market and then for every distributor you pay a monthly fee. The more distributors you have, then your monthly fee obviously multiplies and also for the basic thing you get standard set of reports but if you want to get customized report then you start per report. So that is the model. For a Shopping Trip 360, it is a per store-based solution. Typically we do all the investment in terms of investing in the sensor network and other things. On a monthly basis, for the in-store piece you would give me $1,000 per store per a month and then I will give you this in site and later on one of the evolution of this in terms of what I talked about advertisement, targeting companies more with advertisement. In those cases if a retailer today charges $0.50 for a consumer, then it is possible that we can tell the retailer that we want to get 30% of it or 50% of it. Today, we have not had success in the mobile marketing space, but that is the direction we are going. So many of this IP based thing actually lend itself to some of this and today in all most of the IP based things, I can say we are making money. We are not losing anything because we are able to recoup our investment but then the margins are not high because these are early days but with scale, we believe that this has the potential of non-linear improvement in the market.

Unknown Speaker

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Pravin Rao

Okay the question was what percentage of revenue would be IP based? Today, I would say it is less than probably 3%-5%. As I said, most of these are offerings which we have started in the last 12 months or so. It will take a while for it to be something significant. To be realistic, it will take at least a couple of years for it to really have an impact but nevertheless, given the potential of what we are trying to do, that is what really excites us and motivates us to continue re-investing in this area.

Unknown Speaker

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Pravin Rao

I think this is being webcast, I am not sure. Can you use the mike?

Unknown Speaker

Is there an outer cap that you have, say not more than 20% of the revenue under this?

Pravin Rao

I think in morning you saw that Infosys aspiration is about 30% to 33% coming from new engagement model, including IPs and other things but it will take a while to reach there. Today even at the company level, it is less than 5% to 10%.

Sandeep Muthangi

A lot has been discussed about insourcing of these retail vendors still being big and outsourcing of them could be big business in the next couple of years. Do you agree with that view that most of the incremental growth or incremental revenues to retail could still come from the in-sourcing to outsourcing or back-end systems?

Pravin Rao

Definitely yes, retailers have been late adopters of outsourcing and there are a lot of areas where they have not looked at outsourcing but in the next few years we will continue to see them outsource. While we talk about all these new exciting models, significant chunk of our revenues will also come from incremental revenues from existing clients. To give you a data points, if you look at Global 1000 corporations, these are corporations with $6 billion in revenues, we still have about close to 90-95 clients across the world who are not a client of Infosys. These are prospects, who are not a client of Infosys. So in terms of opportunities, it is huge. Some of them are probably already working with some of our competitors but many of them have probably never leveraged outsourcing and about 30-40% of them are in the continent where historically most of us have really struggled to penetrate into the continent but these will also be additional levers for growth in the coming year.

Sandeep Muthangi

Also on those lines in the next say one to three years, do you expect most of your growth come from new clients because the large number are not your clients right now or do you expect most of those from the existing clients?

Pravin Rao

It will be a mix. Typically, our data shows that it takes about 18-24 months to really grow a client once we open a client. On the year on basis still 90%-95% of our revenues will continue to come from existing clients but to answer it in a different way, if I look at clients with whom we have opened in the last three to five years, I would agree that significant percentage of revenues will come from that. But on a year-on-year basis it will be a small fraction because it will take a while to scale. If you compare it with a banking or capital market, typically there is 1000 people outsourcing. That does not typically happen in a retail world.

Unknown Speaker

In these new models which you are talking of, where you expect the growth to be pretty quick going forward, I am just trying to understand in terms of a competition, your competition is companies like IBM, Accenture which have experience in these areas and I am just trying to how do you position yourself when you are trying to compete with them. Also just talking of the last few wins you had in these models recently as put it in your last two slides, who was your competitor and whose share of wallet have you eaten?

Pravin Rao

That is a good question. Actually, none of the competitors have an offering in this space in this space in a true sense. If you look at Shopping Trip 360, it is pretty unique. There are lot niche companies addressing parts of our solutions but no one is really addressing the end-to-end vision. IBM has come up with their own approaches but it has not really taken off. Based on whatever we have heard from industry analysts, we believe that this is pretty unique. If you take Digital Marketing, to some extent other companies like Accenture have started implementing or investing in these platforms. In fact one win which we had on the Digital Marketing, the case study which I told, it was competing with Accenture. They were the legacy player there. So in some of the areas competitors have started investing but in other areas like the iConnect, we have not seen any competition. We have talked with a lot of large CPG clients and they find there is no other competing platform. On the iConnect, on the social side, lot more companies are continuing to invest. So we are also one of the players there. So to a large extent there are no established players in the market, in some areas we are definitely unique and in many places we have won these engagement competing with the global Sis like Accenture in these areas. It clearly shows that they do not have any product asset in this space and they are also continuing to invest. Our advantage we believe is in some areas bringing something which is unique, which has not really been thought about by other players.

Unknown Speaker

As you build a platform or things like this you have IP rights for that or you sell the IP right to the client or supposing you have a similar deal with another clients using a similar platform, so can you transition that platform?

Pravin Rao

All the IPR is with us. Clients are aware of it and they get the benefit because they are not investing in the hardware and other things and we are offering it to them in a managed services model and being the earlier adopters, they get the benefit of very attractive prices. From our side, it is always important for us to create this IP in the context of a client because there is no other way to get validation for what you are thinking. That is been our approach. Whenever we have an idea, we talk to some of our strategic clients, socialize the idea with them, try to tell them we want to get the IP, we want to retain the IP and we also tell them the benefits they get by being early adopters and in all the cases the IP rests with us. That is the best thing about that.

Pravin Rao

Okay, thanks a lot.