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Retail

CORPORATE PARTICIPANTS

UB Pravin
Senior Vice President – Retail, CPG & Logistics

ANALYSTS

Mitali Ghosh
BoFA-Merrill Lynch

Pravin Rao

My name is Pravin. I head the Retail, CPG and Logistics practice at Infosys. I have been with Infosys for 23 years. For the next 20-25 minutes, I will take you through what we are doing in this space. This is the standard safe harbour clause.

Like most of the other verticals, retail also has been impacted by the recession. It is one of the verticals which probably gets most impacted during recessionary times and typically it is a vertical which recovers in the end because to a large extent, a big chunk of retail growth is dependent on discretionary spent and people will start spending only when things are doing well once they have confidence about their jobs and so on. Despite the challenging times, as a unit we have done reasonably well.

In the last 12 months revenue as of September 30th was about $610 million. This is about 10% year-on-year growth compared with our numbers in September 2008. We work with multiple clients across various segments and in terms of geographic presence, about 78% of our revenue comes from North America. Roughly 19% comes from Europe though revenue from Europe is growing at a faster pace. We also work with 9 of the top 10 retailers in North America, 6 of the top 10 retailers globally. We also work with 4 of the top 8 CPG companies globally.

Retail was one of the first units to be formed when Infosys embarked on the verticalization. This was in 2001 and today we have a full suite of offerings right from consulting through packaging implementation, application development, maintenance and BPO. A significant percentage of our revenues come from consulting, package implementation as well as increasingly, we are also seeing higher traction of revenues from some of our transformation solutions that we have. I will talk about few of the solutions over the course of this presentation.

We opened about four clients in quarter two. We have also received several accolades in the recent past and in several publications. For instance, Business Week talked about our Shopping Trip 360 solution in an article about leaders in innovation and they actually called it Retailing 2.0. Similarly Forbes also talked about Shopping Trip 360 and how it can have a disruptive influence in the market. Likewise, we have also contributed our own articles in some of these magazines and publications talking about our point of view in the market and so on. Our Shopping Trip 360 solution also figured in the Gartner Hype Cycle for retailer our trade promotion management solution appeared in the Hype Cycle for CPG companies. One of the awards we have won recently was being recognized one of the top suppliers in Sears and Kmart. This is a third year in a row we are being recognized as a top supplier and this is across all their vendor partners and today they work with about 30,000 suppliers and partners, not only IT but other services as well and less than 1% of these suppliers get recognized and Infosys is one amongst them.

Both the retail and CPG companies have been impacted by the downturn. It has impacted the growth in the segments. At the same time we are also noticing some times in the last 6 to 12 months. One is of course the consumer himself/herself, the consumer is becoming very discerning. She/he is looking out for multiple channels, she/he is looking out for various opportunities, she/he is becoming extremely price-conscious and with the result today that retailers and CPG companies are focusing a lot on promotions and coupons. In fact, some of the retailers like CVS and BOOTS have installed coupon counters in front of the stores and when you swipe your loyalty card, it prints out coupons. Some of the clients are looking at coupon strategy in terms of how to distribute coupons and so on. So there is lot of focus on the value-conscious consumer and trying to understand the consumer etc. At the same time while consumer is extremely price-conscious, they are also willing to pay a little bit extra for any green initiative or for healthy alternatives. Some of the retailers are taking advantage of it. They much more healthy and nutritional offerings in the product mix. Some of the retailers like Tesco have started labeling their product with carbon footprints so that socially conscious retailers can gravitate towards buying this product. There is also a lot more investment in terms of trying to attract the shoppers in the store because store is a very powerful medium for engaging with the shopper at the time of purchase. There is lot more spend on Digital Marketing, Mobile Commerce and so on.

Lastly, the consumer is everywhere. There is a lot of adoption of social media, sites like Twitter, Facebook etc. Consumer is speaking out about products and retailers and CPG companies are also being part of this social media trying to listen to what the consumer is saying, understand the consumer better and tailor their offerings. For instance, Wal-Mart.com on a daily basis gives specific discounts or deals, publishes specific deals in Twitter. Likewise recently Starbucks launched their campaign where it offered free ice-creams to people who would download their Facebook application. So more and more retailers are trying to engage with social media and trying to understand the consumer. One of the recent surveys from Forester said that about 68% of retailers are investing in social media and another 22% are expected to continue their investment in the next 12 months. Likewise another survey talked about 3 out of the 5 consumers is looking at the social media trying to look at the social media and looking out for discounts and attractive offers and so on. So more and more spending is happening in the social media context.

Some of these trends are creating a new set of opportunities for our clients. Customer centricity is a huge thing. Retailers and CPG companies are spending lot of investment in terms of understanding the consumer, interacting with the consumer and tailoring the offerings to the consumer. There is shift in IT spend. Earlier IT spend was mostly in the back-office systems like ERP systems, planning systems and so on. Now tremendous amount of focuses are on front-office system like sales and marketing functions. Likewise instead of focusing on transaction system, clients are investing a lot more in business intelligence and so on. These shifts are resulting in different kinds of spends from the retailers and CPG companies. There is lot more investment on sales and marketing functions. We ourselves have quite a bit of engagements around process consulting, around the marketing effectiveness, sales effectiveness, implementing MRM packages and so on. In the morning, we talked about new engagement models. Given that clients are forced to get more out of their IT spend from lesser spend, they are now much more receptive, much more open to look at newer pricing models, innovative models. There is lot more focus on operational efficiency. The kind of traction we have seen in terms of BPO adoption in this space in the last twelve months, is significantly higher than what we have seen in the last two three years. Today we have many more opportunities in the BPO space. It is not only about F&A and HR but it is also about core areas like MDM (Master Data Management) and trade promotions and so on. More and more companies are now looking at outsourcing their BPO operations. I talked lot about social media and also there is lot more investment in loyalty offerings and so on.

Given these trends, we have also been extremely proactive in trying to understand these trends and go-to market with some of our IP and thought leadership. We have a suite of applications and solutions which is trying to leverage some of the opportunities that we are seeing. The first one is our offering around Multi-Channel Commerce. Today almost everyone is investing a lot on online channels because shoppers have started looking at multiple channels. Online channel is not only looked at as an incremental source of revenue, but it is also important to build cross-channel capabilities between your online channel and your brick and mortar store because it is important for you to understand the consumer, how the consumer is interacting with the online thing and what is the interplay between your online and the brick and mortar store. So there is a lot of investments in terms of online commerce and it is also growing at a much faster pace, it is growing at about double-digit growth rate whereas in the traditional brick and mortar store, the sales growth is in the low single digit and there is a statistic which talks about in the next 5 years', 10% of the sales coming from online channel. So a lot of investment is going on in this space and even as we speak, we have got about 6 or 7 engagements helping our retail clients in terms of building their online channels and these are in varying stages of implementation.

The other area, which I touched upon briefly was on the social media. Both retailers and CPG companies are spending a lot in social media and we have invested in some IP. We have a platform called 'I-Engage' which is a platform which brings the best of content collaboration, commerce together. It offers lot of functionality like social analytics, blogs, communities and so on. It is a platform which allows the retailer or the CPG company to integrate their various social media offerings in one common platform and again we have had 2 instances of sale of this IP and we have 2 or 3 more projects in the pipeline.

The other area where I again talked about briefly earlier is there is lot of investment in the in-store marketing area. Arguably, the place where you can influence the shopper is the moment of truth which is in the retail store. Your ability to influence the shopper, influence the consumer in terms of buying your product is extremely high if you are able to target the consumer in the shop. This is leading to lot of investment in in-store marketing activity but the challenges is that it is very difficult to measure the effectiveness even though billions of dollars is being spent on this marketing. It has been a challenge in measuring the effectiveness of this marketing intervention. So our Shopping Trip 360 Solution is a solution to address one of these challenges. Basically it is a platform which is very unique in nature and it gives very high level of granular information or visibility to the shopper activity and the merchandize activity in the store. It allows interactions between the CPG brands, the retailer as well as the consumer in real time within the store. From a retailer perspective, it gives information about the shopper traffic, where is the shopper concentrating, how is he interacting with the brands, it gives information about the store level, shelf-level availability and gives alerts for out of stock. For the CPG brand, it is not only talks about how consumer is interacting with the brand, how long he/she is standing in front of the brand which is called the 'dwell time', but it is also giving in size for data into the promotional efficiency. For the shopper themselves, it is possible now that no you know about the shopper and you are aware of where the shopper is and you have the location and context awareness, you can target the consumer with specific ads. For instances, if the shopper is walking through an aisle of cereals, then you can target the shopper with specific ads from the cereal related ads. So it is basically a win-win for all the entities involved in this and again we have had about 6 to 7 pilot implementations in the last six months, about two or three retailers in India, couple of retailers in UK, one CPG company in UK and one CPG company in North America. We are extremely excited about the reception to this solution and we believe that this will be something which is very unique which we have not seen in the market.

The other area where CPG companies in particular are actually taking advantage of the new technologies, the digital media and so on and lot of the advertising is spend which is billions of dollars is now going from the traditional media to digital media. The way it happens is typically you want to launch a campaign, you look at a brand and you decide on in this particular geography you want to launch a campaign, then you engage a creative agency in designing the campaign, then you engage a web services provider to host the website and then probably a hosting partner to host the website and then you launch the campaign and then as the campaign becomes global, then you start engaging more and more players, you start engaging more creative agencies, you build more websites, you start engaging more and more hosting partners. With the result, most of the large CPG companies have ended up with some 200 to 250 microsites for all these campaigns and they have to interact with multiple agencies and it is a very inefficient way of launching a campaign because there is hardly any reuse of their digital assets. We recognized this opportunity and again they are building a platform which is a collaborative platform which brings together the various parties involved in the campaign which helps in basically launching the campaign in a very efficient manner, allowing you to reuse some of digital assets that have already been created. With this platform you can launch a campaign in less than a day or two whereas in the past it is used to weeks to launch a campaign. We are implementing this platform in couple of clients right now and this is a leading global brewery brand and other is a European based leading sportswear brand.

Likewise, in the recession most of the companies are looking at developing and emerging market for the next way of growth. On an average these markets are growing at about 6% to 7%, whereas the western markets are growing only at 2%. If you look at demographics, about 80% of the population is in the emerging market and about 50% of the GDP is in these markets. So definitively for retailers hit by recession and CPG companies, this is an attractive market to go after. However these markets have their own challenges. These are very fragmental markets characterized by millions of smaller high frequencies stores. There are about 20 million stores globally and the model is you do distribution through our trading partners. Most often the information exchange is very rudimentary, paper based; there are wide ranges of systems, variety of systems, disparate systems and so on. There was definitely a need for better collaboration and exchange of information between the retailer and between the CPG company and the distributor in these markets and this is where we are investing. We are building a platform called iConnect which helps in effective collaboration and information exchange between the CPG company and the distributor. This again offered in a managed services model and we also have varying level of services. It varies from basic level of service with basic information and data exchange and rudimentary report, to a customer asking for some specific customized report to the other extreme of doing your collaboration in terms of planning, forecasting replenishment and so on. The pricing model is, we have a base fee for each region of operation and then for every distributor, we charge a monthly fee and if any of the distributor wants advanced report, then we charge additionally for the advanced reports. That is the engagement model. We are implementing the solution with one of the large global CPG brands and we are seeing lot more traction with many of the other CPG clients with whom we are talking about the solution.

So far we have seen how Infosys and Retail as a group have been able to understand some of these trends and see how we can take advantage of some of these trends from go-to market offerings and this slide talks about some of the press we have been receiving for some of the solutions. In Georgia-Pacific, we implemented a supply chain visibility solution. There is press about it. In Alberto Culver, we implemented our trade promotion solution. With Waitrose which is a leading UK Grocery supermarket, we implemented online system for them. SAB Miller and Metro stories here are about Shopping Trip 360 Solution. I already talked about our winning the award at Sears Holding Corporation. In the last year and year-and-a-half, we have focused a lot in understanding the market and going to market with some of the solutions and we are seeing good leverage of the same.

I will end my presentation with couple of case studies. This case study is about the Digital Marketing platform which I talked about earlier. This is for a premium drinks brand. It has presence in 180 countries. They already have about 250 sites for their campaign. There are about 2 million plus users and there are about 80 creative agencies with which the CPG brand is interacting with. As I said earlier, there were lot of inefficiencies, too many sites and the lead time to launch a campaign was very long. There was lack of reviews of existing retail assets and so on. So they engaged us to be their Digital Marketing platform. We were involved in designing the digital platform for them. They are now involved in implementing it and we will start operating the platform as well. It is not only about building the platform but also hosting the platform and program managing the campaigns and again there is something with we have found. Our experience here has helped us taking the solution to many of other CPG brands because there is lot of investment in advertising and particularly there is a shift to digital media and these kinds of things which we are seeing with this particular CPG brand resonates with many other clients and we are taking forward this package to many of other clients.

The last case study was about a decision-support solution that we implemented for a global CPG major. This is a very strategic initiative and it is transformational in the sense how reporting is used for taking decisions. We built decision support system which is used by 40,000 users right from senior management to business users to middle level managers. So everyone uses this system. In the absence of the system, people were using excel-based system, there were lot of different formats. Each business group had their own applications. There were lot of challenges in terms of data integrity and particularly when you have to roll up this data at a corporate level, at a global level, there were a lot of challenges. This system which has been implemented in an open environment and open source and solutions-oriental architecture framework construct, provides a common repository for all the information and it is like a portal which is a single source of information and is used by entire management and about 40,000 users are taking decisions. This is a 3-5 year implementation and we have rolled out the first release of this DSS platform and it will continue for the next couple of years. With this I just want to end my presentation and just give you a flavor of what is happening in the market where are the retailers and CPG investing and where is our investment going in and how we are trying to leverage some of the investments our clients are making. I am open for any questions.

Unknown Speaker

As you said that more and more retailers are moving towards social networking websites and things like that, how an IT service provider is helpful in terms of your clients to moving towards social networking website. Which is the area that you can really service them as such to bring in dollars?

Pravin Rao

First thing is how you integrate your social media with your regular transaction systems. So that is one area where I-Engage platform that we have today, it provides a single platform for integrating the retailer website with various social media be it Facebook or Youtube or whatever. That is one area. This platform also helps them in launching their own blogs, communities and creating their blogs, communities and so on. Then the third area is, you can look at analytics because consumers are talking about products in the social media. You have various technologies like ____ so on. We are able to derive insights from it and give insights to the store and retailers and CPG companies. That is another area where we are trying to…

Unknown Speaker

The information would reside with the social networking website. Would we be able to extract this information from them?

Pravin Rao

One is the company's retailers themselves have presence in the social media. Like a Walmart.com has a presence in Twitter or a Starbucks has a presence in the Facebook. So you are able to extract information from that. The other area which is not exactly social media in a true sense but we also have a solution which actually looks at the competitor's websites and tells the retailers for this particular category, these are the various products your competitor is offering. For instance, if you are a Bestbuy, then if you can say that for your camera and the price range is $200-$250, these are the kind of five or six other categories or products that your competitors is offering or for a specific product this is the kind of price points your competitors are selling and so on. Today, there is lot of information available in the media and there are technologies which enables you to look at data and data is not available in a structured manner. So you need to do your own structured data based on what we are already doing.

Unknown Speaker

Another question that I had, as you said that green is the theme as of now. How do we benefit from the green?

Pravin Rao

Today most people are trying to capture the carbon credits. When you are looking at a product, how much of carbon was spent in producing it and so on. There is a need for computing that thing. That is one area where from a technology perspective area or building carbon calculators and all and we are trying to do that. Second, there is lot of scope for logistics optimization because if we are able to optimize the logistics, there is significant chunk of revenues of both retailers and CPGs that go in logistics because there is lot of transportation of goods. If you are able to design algorithms, models, etc., which help them to optimize the logistics, then it results in savings and contributes to initiatives. So from a technology service provider perspective, we are looking at how we can use technology to provide these insights and help them become more efficient. At this stage, these are some of the things I can think of.

Unknown Speaker

Thank you and all the best.

Mitali Ghosh

You highlighted as we have been seen was good growth in recent times, so just if you could detail from your perspective, could you give us a sense in terms of how IT budgets have moved at retailers. Have they actually gone up and also in terms of the market share that you are getting, is that more from outsourcing or are you seeing any market share from some of the global vendors?

Pravin Rao

In terms of budgets, retailers like any other verticals have also had 5%-10% cut in their budgets. There continues to be lot of pressure on the IT spending, there is lot of pressure to reduce their capital spending, reduce their operational expenses. That trend is likely continue to the next year as well. We are not seeing any change in that trend. Like everyone else, they are under pressure. The only change we are seeing is shifting in the spending because earlier there was lot of spending on the back office systems like ERP, planning systems and so on. Now there is a marked shift from spending on the back-office systems to front-office systems so that is why you are seeing increase investments in sales, marketing functions and so on. Similarly, lot more retailers are moving away from investing in transaction systems to new areas like business intelligence and so on. So there is a shift in IT spending but in terms of the actual spend, there are cuts and at least from whatever we are seeing so far, we do not anticipate any significant change in the coming year as well. In terms of our own growth areas, obviously the retailers and CPG are now leveraging offshoring in much more advanced way than they have ever done in the past. In the past, historically when compared with some of the other verticals, they were not exploiting business process outsourcing in a big way but in the last 12 months we are seeing lot more BPO opportunities and today it is in their core areas like trade promotions or master data management. It is not only about the traditional HR, F&A and things like that. That is the other shift in terms of trying to leverage offshoring in a big way. We are definitely seeing growth in terms of vendor consolidation, in terms of more offshoring, in terms of newer services like BPO, infrastructure and so on and some of the newer IP, even though in terms of absolute revenues, some of these IP based work that I talked about, in terms of revenues, it is on the smaller side but the clients are willing to invest in those things and pay you for those kinds of offerings. That is where we are seeing some traction. From our own perspective, the other data points which I wanted to share is when you look at Global 1000 corporations which are typically $6 billion plus corporations, today in terms of our own prospect for retail, CPG and logistics, we still have about 90-95 clients globally with whom we do not have a relationship. So in terms of opportunities that is another big area of opportunity for us. About 30-40% of them are in the Continent where it is a big challenge to penetrate and perhaps in some of the other clients they are already working with some of our competitors but still nevertheless 80-90 clients is definitely a big prospect list for you to go after and they will continue to be your source of revenue growth in the years to come.

Mitali Ghosh

In terms of which competitors are probably losing out or who are the key competitors who come across some of the global vendors and Indian vendors?

Pravin Rao

Globally, we typically come across Accenture a lot. In the CPG space, in addition to Accenture we do come across Capgemini in some instances, Deloitte in some areas, but in retail it is predominantly Accenture and to some extent IBM. Amongst the Indian service providers it is Cognizant, Wipro, TCS, predominantly these three. Right now based on our own investments and thought leadership in this space, when clients are looking at business transformation engagements etc, inevitably when clients shortlist two vendors, it will be typically one of the global SIs and Infosys. We are heads apart compared with our Indian competitors in terms of business transformation opportunities but in terms of large outsourcing deals and all, we have got presence of all the Indian competitors.

Unknown Speaker

You mentioned areas where we are seeing growth, probably BPO and things like that but what is really driving these spends to these areas. You also mentioned online and things like that. So is it that people are actually taking a call that brick and mortar needs to be reduced, you need to go more e-commerce or what is driving the move from back-office to front- office. What is really driving these moves because off late I think you have seen growth in retail across most vendors, what is that?

Pravin Rao

I think the consumer behavior has changed dramatically because of the recession. All your historical models of forecasting, planning are all gone out. Earlier people used to pride themselves in saying retailing is like an art and not a science and there used to be people with 20-30 years experience who could predict. Now all that is gone. The new shopper is different, the new consumer is different. There is lot more effort in terms of understanding the consumer behavior, interacting with the consumer and trying to convert the consumer. Most of the spending if you look at it, be it business intelligence, be it sales and marketing, be it the promotions and so on, everything is targeted towards the consumer because all the three or four solutions I talked about, are also in that direction only. How are you targeting the consumer, how are you personalizing, are you being very specific to what the consumer needs, how are you trying to understand the consumer better. That is one area of spending. The other area about BPO and outsourcing is more about your IT budget is shrinking and you want to get more out of whatever limited budgets you have. One way is to see how best you can optimize and get the cost benefits and other things. That is what is also triggering the next wave of outsourcing in a big way.

Unknown Speaker

Does it mean that although absolute budgets are decreasing, the offshore pie is actually increasing?

Pravin Rao

Offshore pie is increasing and since there is a shift in spending, spending in some of the traditional areas is reducing and it is spending in newer areas and these are all new technologies and all. So obviously clients are more open in working with partners in some of these newer areas.

Unknown Speaker

Yes, currently you are seeing lot of growth in your retail verticals, 10% this quarter. I believe lot of it is driven by capital investments happening in this space. My question is regarding how much of this is sustainable beyond FY 2010 given that once investment mode is over, beyond FY 2010 and getting into FY 2011 or perhaps beyond, how much is it sustainable, this high growth rate, I do not think it is sustainable, can you throw some light?

Pravin Rao

It is not 10% quarter growth, it is 10% year-on-year when compared with LTM September 08. Sequentially also, we are 6 or 7% but year-on-year it was about 10%. As I said earlier, the budget is not increasing. The budgets cut has been there last year and in the present year they will probably operate with the same level of the budgets. To that extent with a given budget their priorities are changing, they are probably spending less on some of the other areas which they would have invested in the past and re-focussing their efforts. That thing will continue because some of these things when you talk about social media or when you talk about green or something, these are really early stages. Some of these will take 3 to 5 years to mature and so on. I talked about iConnect which is about focusing on developing and emerging nations. That is a given thing, today most of the western countries are not growing, most of the consumers are in the developing and emerging markets. I do not see any reason why retailers or CPG companies will stop investing in international markets. That is a new area for growth for them. 80% of the population is in these markets. They will go after those markets, technology change is irreversible. Now more and more focus on digital and how you interact with consumers and so on. Whatever spending that is happening now will continue. The areas in which they are investing, many of them are really in the early stages and it will evolve as we go along. So I do not anticipate any change in that direction or anything. The only thing is in terms of absolute budget, it has not changed in the past. There have been 5-10% cuts and in FY 2010 it will remain at the same level or people may still cut down further. Some of us are seeing growth because of shifting priorities, we are able to take advantage or leverage or whatever. It is anyone's guess that whether it is sustainable but as we continue to build thought leadership and capabilities in these areas, we will continue to be relevant to our customers and we believe at least we will continue to get fair share of clients spending in this area.

Unknown Speaker

You should be able to maintain this level in FY 2011?

Pravin Rao

It is difficult to predict. It depends on client's priorities, how aggressively they want to implement but we will continue our investment in these areas because we know that this is where they will continue to spend whether it is 10%, 5% and all, at this stage we do not have visibility. We will probably get better visibilities in January or February when the budget gets frozen. Today when we talk to our clients also, I do not think anyone has an idea about where they will be spending the money in the next 12 months.

Unknown Speaker

Thank you.
