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Retail

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Pravin Rao

Good evening. My name is Pravin Rao. I head the Retail, CPG and Logistics Practice at Infosys. I am a Senior Vice President based out of Bangalore, been with Infosys since 1986. In the next 20 minutes, I will talk about Retail and what we are doing in this space. This is the usual safe harbor clause.

The last 12-18 months have seen pretty challenging. Like other industry verticals, retail also has been under tremendous pressure. Despite that, we have done reasonably well. In September we ended up with about \$610 million in revenue which is about 10% growth over the previous year, September 2008. About 78% of our revenues come from North America and about 18%-19% from Europe though the revenue from Europe is growing at a much higher pace. We 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. We have about 7,500 associates working in my group.

Retail was one of the first verticals to be formed when Infosys embarked on verticalization. This unit was started in 2001. In terms of our service offerings, we offer a full boutique of service offerings right from business consulting, package implementation through to BPO. Today, a higher percentage of our revenue is coming from business consulting and from package implementation. We are also seeing a lot of opportunities in IP, IP-led transformation solutions and I will give you a flavour of some of the solutions in this presentation. We have also won several accolades with many leading publications. Business Week in one of their articles about leaders in innovation, talked about our Shopping Trip 360 solution and how it is defining retailing 2.0. Likewise Forbes has indicated that this solution is very disruptive in the market place. We have also had good mentions in some of the other journals, at the same time we also contributed articles in some of the leading publications.

We opened 4 clients in Q2. In terms of some of the other accolades, in the Gartner Hype Cycle for Retail, Shopping Trip 360 solution figured and when you look at similarly for the Gartner Hype Cycle for CPG companies, our trade promotion solutions also figured in this Hype Cycle. We have also won several awards with our clients and Sears-Kmart is one of the places where we were recognized as one of the top suppliers for the third year in a row. This is an award given across suppliers, less than 1% of the 30,000 odd suppliers they have won this award and we have won it three years in a row.

Like other industry verticals, retailers and CPG companies have also been impacted by recession. They have been struggling for growth. At the same time while they have been struggling for growth, some of the key trends that have emerged in the last 6 to 12 months are highlighted here. One is there is a change in the behavior of the consumer, the consumer is extremely price-conscious, consumer shops are on various channels before making a purchasing decision and so this is resulting in lot of retailers and CPG companies investing a lot of their investment in the area of sales, marketing, promotions, coupons and so on. Even though the consumer is looking at value; they are also focusing on health and wellness. So any retailer or a CPG brand having products in this space can hope to make much better margins because clients are becoming more health-conscious. Likewise, retailers are focusing on the social consciousness, the green initiatives and some of the retailers like Tesco are today publishing the carbon footprint in their labels hoping that some of their consumers will start buying brands with low carbon footprint.

There is a lot of investment in the e-commerce space, in the online space, in the mobility space and there is a lot of investment in terms of targeting the consumer in the point of purchase which is the retail store. Lastly social commerce has also become extremely prevalent. In a recent survey by Forrester, about 68% of the retailers have indicated that they are investing in social media and about 22% are saying that they will invest in the next twelve months. Likewise in another survey, 3 out of 5 shoppers said that they will look at some of the social media before making a purchasing decision. So, many of the retailers are investing in social media. For instance, on a daily basis Wal-Mart is pushing very aggressive deals on their Twitter site trying to attract consumers. Similarly, recently Starbucks launched a campaign where they offered free ice cream to consumers who would download their application on Facebook. So, a lot of effort by retailers to understand what the consumers are saying, what the consumers are doing in social media and tailoring their offering to meet the consumer needs.

Some of these trends have created a new set of opportunities for the retailers and CPG brands but the main thing is customer-centricity. A lot of effort is being invested in terms of understanding the consumer and interacting with the consumer. There is a shift in the IT spend. Earlier lot of spend used to go in back-office applications like ERP systems and now the same spend is being shifted towards the front-office spends like sales and marketing and so on. There is lot of investments in sales, marketing. We have several engagements where we are doing process consulting on the sales effectiveness, marketing effectiveness and we are also helping clients implementing many of the marketing resource management platforms. In the morning, we talked about emergence of new engagement models and given that clients are forced to cut their IT spending, they are trying to get more out of whatever little IT spend they have and they are much more receptive when we go and talk to them about some of the newer pricing models. There is lot more focus on operational efficiency and the adoption of BPO has significantly increased in the last twelve months. Prior to that the traction on the BPO space was very limited in the retail and CPG space, but in the last twelve months we have seen lot of opportunities, BPO opportunities, these are not only in the traditional HR and F&A but it is also in core areas like Master Data Management, trade promotions and so on. I already talked about importance of social media and retailers and CPG companies playing in that space.

As a group, we have also tried to understand the strengths and we have invested in coming up with solutions and platforms to take advantage of some of these trends. Some of these we have recognized in the last 6 to 12 months and some of them even before that. Many of the solutions or platforms that I am talking about is result of investment we have done in this vertical in terms of understanding what is happening in this space and working with our clients in terms of developing or conceptualizing this platform. The first area where we are focusing a lot is on multi-channel commerce. As I said earlier, consumers are now shopping across channels, they are looking at

online, comparing the prices and then going to the brick and mortar store to make the purchases. At the same time the online sales is also increasing at a much more exponential pace than the brick and mortar stores and there are some statistics which says that in the next 3 to 5 years, 10% of the retail spend will be through online channels. Lots of retailers have started spending money on beefing up their online channels and also trying to integrate their online channels with the brick and mortar store. It is important for them to understand how customer is behaving in the online channel and its impact on the brick and mortar store. There is a lot of investment going on in these areas and we have also invested in this space in terms of building our own IP and platforms in the last 1 to 2 years. We have also stuck together lot of partnerships with technology players, hosting providers, so that we are able to offer end-to-end solution to our clients. Even as we speak, in the last 12-18 months we have executed more than a dozen e-commerce engagements and even as we speak today we are working with 7 large retailers in e-commerce strategy. Likewise, we also have a platform called 'I-Engage' which is basically a platform which gives you the best in terms of content, collaboration and commerce. Basically it allows the retailer or the CPG company to integrate the various social media with which they are interacting at a single point. It allows the retailer or the CPG to launch their own community, launch their own blogs, integrate with Facebook and so on and this platform also gives insights on social analytics, consumer behavior and so on. We have had couple of clients engaged on this platform and we have few other clients in the pipeline.

The other area where we are seeing lot of traction is that more and more clients are investing a lot in in-store marketing activities. The best way to attract a consumer or influence a consumer is in the retail store when he/she is making a purchase and lot of investment is going on in-store marketing and trying to target the consumer in the retail store. While billions of dollars is spent in in-store marketing, there are not too many measurements to measure the effectiveness of this spent. This is an area where we have come up with Shopping Trip 360 solution to address some of these pain points. It is basically a platform which is very unique in in-store marketing space. It provides visibility of shopper activity in the store, of merchandize activity in the store in a very highly granular manner. To the retailer it gives data on the shopper path, how much is spent in which isles, it gives data about availability of products on the shelf and gives alerts on 'out of stock'. To the CPG brand, it gives data about how much time shoppers spend in terms of looking at your product, what is the promotional effectiveness, what kind of cross-selling happened when consumer was walking through your isles and to the consumer himself/herself now that through the solution you are aware of where the consumer is and who the consumer is, you can target specific ads to the consumer. For instance, if the consumer is walking through a shopping isle made of cereals, then you can target promotions for a particular cereal brand when consumer is walking through that isle. Basically it allows engagement of a retailer, CPG as well as the consumer in real-time fashion. We have again implemented this. We are piloting this solution with about 6 or 7 retailers and CPG companies. There are 2 or 3 retailers in India. There are about 2 retailers in UK and 1 CPG company in Europe, and 1 CPG company in North America and so far the results of this have been pretty encouraging.

The other areas where we have seen CPG companies and retailers spend a lot of money is in terms of marketing spend leveraging the latest technology. They are shifting their marketing spend from the traditional media to digital media because that is where most of the consumers are engaging in the digital world. Typically the way it happens is when you want to launch a campaign you look at a particular brand for which you want to launch a campaign in a specific geography, then you go on and engage a creative agency to design the ad, design the campaign, then you engage a software provider to design the website, then you will probably engage a hosting provider to host your website and then launch the campaign. When the campaign becomes global, then your touch points increases, number of stakeholders involved in the campaign increases. With the result today many of the CPG companies have 200-250 of those sites and they work with hundreds of creative agencies. They have got several hosting partners doing the hosting and

there is very little leverage of the digital assets. We recognized this as an opportunity and we have started building a platform which helps in bringing together all the various stakeholders involved in the campaign and administering these campaigns in a much more holistic manner reusing some of the digital effects. This platform will provide the ability for CPG brand to launch a campaign in less than a day whereas in the past it used to take about several weeks to really put together a campaign. This is an area where we are investing and in this area we are already working with couple of CPG brands, one European sports retailer and the other one a global beverage brand.

Lastly, the recession hit developed world is looking at developing markets and emerging markets for growth. These D&E (Developing & Emerging) markets as it is called, is growing at an average rate of about 6%-7% whereas in the developed economies, the growth is about 2%-2.5%. In addition, about 80% of populations are in the new and developing and emerging nations and 50% of the GDP is in this market. There is tremendous amount of opportunities and lot of retailers and CPG companies have started targeting this market but these markets have their own unique characteristics. It is characterized by lot of smaller stores, high frequency stores. There are about 20 million smaller stores in this market. You distribute through your trading partner, the level of technology capability is very limited, lot of information is still explained through paper, there are multiple formats and so on. There was a need for a system to help in effective collaboration between CPG brand and the distributor, so we are building a platform called 'iConnect' which is a collaborative platform which brings together the retailer and CPG brand and the distributor and it also helps in data and information-sharing in a very seamless and a real-time manner. We are also offering this in a managed services mode. Basically the pricing model is that we typically charge them a fixed fee for a particular country and then we charge a monthly fee for every distributor for a basic set of information exchanged and reports. If the distributor or the CPG company wants much more advanced reports, then we charge additional money. The service levels also varies from a basic reporting to advanced reporting at the other extreme, you can have collaboration between the CPG brand and the distributor in terms of replenishment, forecasting, planning and so on. We are piloting this with a large CPG global brand. We have already started implementing this in a couple of markets and we are also taking this solution to some of our other CPG clients.

Basically we have been extremely proactive in understanding what is happening in the market, where the spend is shifting and we have tried to orient our investment in this area. We have come up with solutions and platforms addressing these needs. We are seeing significant traction in these offerings and this slide highlights some of the accolades for some of the things we are doing. In Georgia-Pacific we implemented a supply chain visibility solution and there was press about it. Waitrose is a leading grocery supermarket in UK and we recently completed implementing e-commerce application and we got good press there. We are doing some trade promotion management solution in Alberto Culver. The SAB Miller and Metro press release is about our Shopping Trip 360 Solution.

I will end my presentation with a brief look at a couple of case studies. The first case study is about the Digital Marketing platform that we are providing to a premium drinks major. This is something which I talked about in my earlier slide as well. As I said earlier, this CPG brand operates and has its presence in 180 countries. They have about 250 plus micro sites managing all their campaigns. There also work with about 80 plus creative agencies. As I talked earlier, there are lot of inefficiencies in how they are managing this whole campaign and marketing. We have been selected as a partner to design, implement and operate the platform. We are building a collaborative platform which helps in collaboration between all the various stakeholders involved be it brand marketers, be it digital creative agents, be it the web hosting provider. We are also program managing the launch of campaign and as I said earlier, the speed with which the

campaigns can be launched has increased significantly by virtue of the platform that we are building. This is again something that we are implementing and on the basis of this experience we are also building our platform which I talked about earlier.

The second case study is about decision support solution which we are deploying for a large global CPG player. This is a transformational in some sense because this transforms the way the decision is taken in the company. Today, about 40,000 people are expected to use this platform right from the senior executives to the middle managers and the business unit heads. Almost all decision will be taken based on data residing in this decision support system. This is a 3 to 5 year journey. In the past, people used to have data in excels, they used to make decisions based on excel-based systems and there are multiple versions of this. Each region and each business unit head had its own system. There were a lot of issues about quality of data, integrity of data and when you are to roll-up this data to take decisions at the highest level, there were lots of challenges. This decision-support system that we are building helps in coming away with a common source of data and common insight into the data which helps in taking decision in a much more holistic and integrated way. This is something we are in the process of implementation, we are in the second year of running and it is a 3 to 5 year journey.

So with this I just want to end my presentation. Just to say, we have done reasonably well in this sector. We have tried to take advantage of some of the change in spending in this area. We have been extremely proactive in understanding it and coming up with solutions and that has resulted in a fairly decent growth for us in the last year or so.

I am open for any questions.

Unknown Speaker

When you look at Q2, you had a pretty significant sequential jump in revenues. Does it mean that the retail space is ready to spend again and should we extrapolate this to mean that this strength will continue?

Pravin Rao

Q2 has always been historically, a quarter where we have had always maximum growth. To that extent the same trend has reflected in this Q2. When you look at retailer or CPG companies, there continues to be tremendous pressure on IT spending and last year, like most of the other verticals, they had 5%-10% cut in their spending. What has really happened is there is a shift in the spending as I talked earlier. Earlier they were spending a lot more on their back-offices systems like forecasting, planning and ERP and so on. Now they are focusing their spend in newer area in terms of front-office solutions likes sales, marketing and other areas. That is one revenue stream which many of us are getting an advantage of because these are newer areas, newer technologies and we have the capability to help them implement in these areas. Second, there is a lot of focus in understanding the consumer, there is always demand for business intelligence and any solution that give insight to the client. That is another area where there is some amount of investment happening and again we are able to take advantage of the investment. These are the areas where clients will continue to spend. In terms of absolute spend, I do not expect any change in the client IT spend in terms of absolute number. It will continue to be muted and they will continue to be under pressure but given that they are spending in newer areas and some of these things will continue and have relevance in the coming years, I do anticipate some traction going forward as well but it's anyone guess whether it will continue to be this aggressive because historically again Q3 and Q4 have been less aggressive quarters for us because of holiday season and retailers do

not want to implement anything during the holiday season and so on. It is difficult to extrapolate it and it may not make sense but in the long-term I think we will continue to see tractions because these are newer areas and we are building capabilities in different areas.

Unknown Speaker

Sir, couple of questions. Your interaction with your customers, what is the mood going into the Christmas season?

Pravin Rao

I think in the run up to the Christmas, it was fairly optimistic in the sense that most clients felt the recession is behind them and things have bottomed out. If at all anything, things will improve, but having said that, I have seen mixed results from the Thanksgiving Day but by and large, I think it has not met the expectation. People were expecting much higher sales during the Thanksgiving, what they call 'Black Friday' or a 'Cyber Monday'. They saw more footfall but in terms of average spending it has come down. To that extent I think in some sense there has been a little bit of a setback and clients are little bit apprehensive going into the Christmas season. That to a large extent will decide how much pressure there will be in the coming year. If Christmas sales is good, then I think there will be tremendous relief otherwise they will continue to be under pressure next year.

Unknown Speaker

Any details you can provide of the Wal-Mart deal that came in the press?

Pravin Rao

No, you cannot comment on any specific thing but whatever has come in the press is not true. I mean I can just say that but I do not want to comment anything further on that.

Okay, if there are no more questions thanks. I enjoyed the interaction. Hope you had a good day so far. I am sure you must be looking forward to this last session and heading out. Enjoy the rest of your day. Thank you.
