

Strategic Management – The Competitive Edge

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Module No. # 04

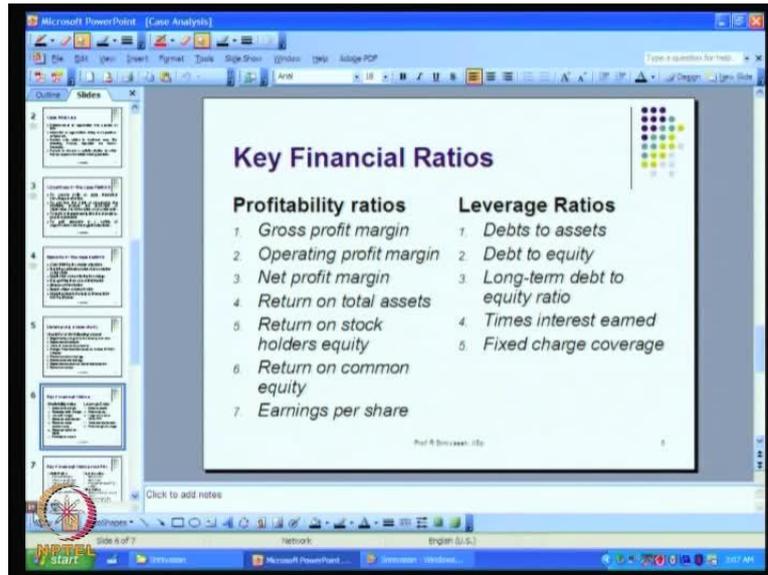
Lecture No. # 19

Case Analysis – 2 and SFAS Matrix

Welcome to this class on Case Analysis continued again. We looked at the different ratios in the last two classes; what are the ratios which we should consider for analyzing a case? We first went from how do we develop a case and how do we analyze a case; then, what are the objectives of the case method; then what are the benefits of the case method and how do we develop a case. Then, we looked at what are the ratios that we should consider when we are analyzing a case (Refer Slide Time: 00:48).

So, when we were doing that, we also considered what are the measures of financial performance; in the measures of financial performance, we looked at the measures of corporate performance; how it is calculated; then, we looked at what are the stake holder measures.

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We gave a sample score card for keeping score with stake holders; then, we looked at the summery of the key financial ratios; in particular, we looked at the profitability ratios. The profitability ratios can be listed as: gross profit margin, operating profit margin, net profit margin; then the return on total assets; then the return on stock holders equity; then the return on common equity; then the earnings per share.

We looked at the leverage ratios; we also looked at the liquidity ratio that is the current ratio, the quick ratio, the inventory to working capital. Then, we came to the leverage ratios. In the leverage ratios, we looked at: debt to assets, debt to equity, long term debt to equity ratio, then the times interest earned, then the fixed charge coverage.

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Key Financial Ratios (cont'd)

Activity Ratios

1. *Inventory turnover*
2. *Fixed assets turnover*
3. *Total assets turnover*
4. *Accounts receivable turnover*
5. *Average collection period*

Liquidity ratios

1. *Current ratio*
2. *Quick ratio*
3. *Inventory to net working capital*

Other Ratios

1. *Dividend yield on common stock*
2. *Price earnings ratio*
3. *Dividend payout ratio*
4. *Cash flow per share*

NPTEL logo is visible in the bottom left corner. The slide also features a decorative grid of colored dots in the top right and a small image of a man in the bottom right corner.

We also looked at activity ratios. Here, we looked at inventory turnover, fixed assets turnover, then the accounts receivable turnover, then the average collection period. Before we wind up on the ratios, what are the other ratios which may be of interest while analyzing the performance of a case, other than what we have already listed?

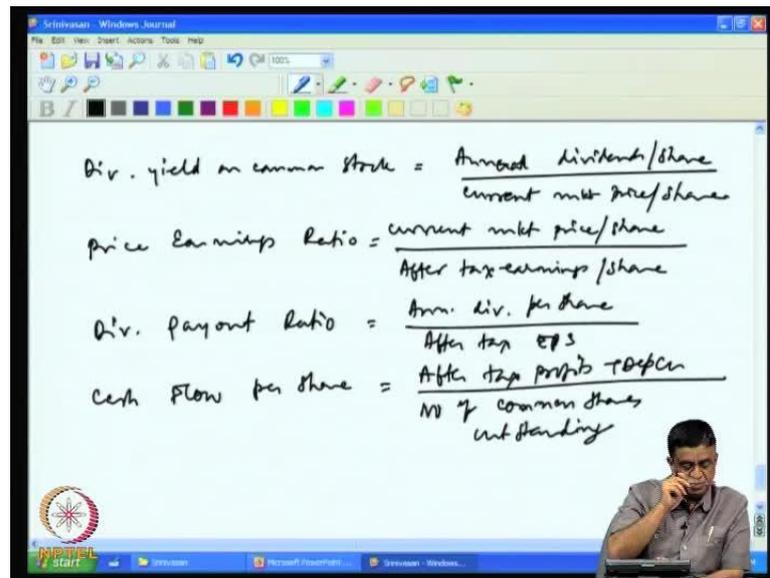
We have looked at all these ratios that is, we have looked at the profitability ratios; we have looked at the liquidity ratios; we have looked at the leverage ratios; we have looked at the activity ratios. Then, apart from this, are there other ratios which may be of interest while analyzing a case?

There are few more ratios which one could consider. We will consider three or four of them, which may be of interest while analyzing the performance of a case. So, the other ratios could be the dividend yield on common stock.

How do you calculate the dividend yield on common stock?

So, if you look at how to calculate the dividend yield on common stock, we can give the formula for this dividend yield on common stock.

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Dividend yield on common stock - the formula could be or the calculating method could be the annual dividends per share divided by the current market price per share. So, the dividend yield on common stock, the method of calculation is - annual dividend per share divided by the current market price per share

So, what does it give you?

It gives you a measure of the returns to the owners received in the form of dividends. So, how much does it pay for you to hold the stock of a company? Suppose you hold the stock of a company say like Infosys, how much does it pay? So, this is what I was trying to discuss in the previous classes.

Current price per share of Infosys is rupees 5. Let us say, the company declares 200 percent dividend, hypothetically. So, what is the price that you have paid for your price in the books of the company? Per share, it is 5. So, for every 5 rupees share, it is declaring an annual dividend, let us say of 10 rupees. So, if you held a 5 rupees share, you are getting 10 rupees as dividend.

Now, what is the price at which you have purchased the share? You might have purchased that share at 2500 rupees in the market. Then, what is the type of yield on common stock that you are getting? So, if you are really looking at that, so if you are going to get some 10 rupees divided by 2500 rupees - that will be the dividend yield on

common stock that you are going to have, which might be considerably less, but, this will give you an idea.

Suppose, there was a person who had purchased the 5 rupees share at 5 rupees only, hypothetical again, and he gets 10 rupees, then what does he make? He makes a neat profit of 100 percent over his share. Suppose he had 1000 such shares, let us say, he makes 1000 into 5 that is 5000 rupees. So, whatever money that he invested on the shares, he has got back already, in 1 year dividend. So, the next year dividends and other things is only profit accumulation. This is the way you have to look at the common stock.

Then, **what is meant** the other one which we are looking at is called the price earnings ratio. How do you calculate this price earnings ratio? It is calculated by the current market price per share, divided by the after tax earnings per share. So, suppose your share earnings cross a particular level, you may have to pay tax to the Government. So, after tax earnings per share, what does this give you? It tells you that faster growing or less risky firms tend to have higher price earnings ratios than slower or growing or more risky firms. This is a comment **which you whi[ch]-we this is something** which you should keep in mind. Suppose a firm is growing faster, the investment in such a firm carries less risk. So, I have given you a different example.

Why do you want to invest in a company? So, you can look at the type of risk that you are taking before making an investment in a company. So, faster growing or less risky firms tend to have higher price earnings ratios than do slower growing or more risk risky firms.

Then, the other one which we are interested is what is called the dividend payout ratio. This is calculated as annual dividends per share divided by after tax EPS, that is earnings per share. So, what does it tell you? It indicates the percentage of profit paid out as dividends; the company might not payout the full profit as dividends, might keep some portion of the profits. So, it tells how much of the profit is paid out by the company as dividend

Then, the other one which might be interested is what is called the cash flow per share. How do we calculate this?

The cash flow per share is calculated by after tax profits plus depreciation divided by the number of common shares outstanding. So, cash flow for share is, the method of calculation is after tax profits plus the depreciation divided by the number of common shares outstanding. So, what does this tell you?

It gives you a measure of the discretionary funds over and above expenses, available to the firm. What does, in other words, this ratio gives you? This ratio tells you, how much money you can command through reserves. Some money you will flow it to the reserves; it is already there in the reserves; some money, you can raise in this present current year's performance flow back to reserves.

Now, when your reserves go up, what does it tell you? It gives you an idea of how much investment capacity the firm has got. So, this is how you evaluate a firm. So, many times, most of these firms, say like Infosys, you read statements in the press that, Infosys is buying out a firm paying full cash in the United States, which runs to quiet a considerable sum; many times millions of dollars. How does it make the payment? It is through the reserves that have been accumulated.

So, this type of ratios will give you an idea of how much money the company is able to muster through the reserves. That is the investment capacity of the firm through the reserves. So, this will give... Many times, it is always said that - keep your reserves position as good as possible. What do you mean by keeping the reserves position as good as possible? The company should be able to draw on the reserve, whenever it is required. So, you do not have to again, go only to financial institutions for lending purposes, then the repayment, and all that.

In fact, if you look at a company like Infosys, it keeps on priding by saying that - we have raised the money for our investments fully. So, we are not borrowing. Suppose it is an acquisition or any other type of investment, the company says, we have paid it from our own reserves; from our own accumulated funds. So, how is it possible? This is an indicator of the performance of the company over so many years.

Now, these are in short, the types of ratios that you should consider to analyze the performance of a company.

Now, how do you analyze a case?

This is the next, I gave you all these ratios, I gave you how you should calculate these ratios.

Now, what I am going to give you is an example taken from this book on Strategic Management; one of the cases and how it is analyzed by two of my students; so, two of my students and how they have analyzed this case.

So, I am going to present to you, how this case has been analyzed with respect to the questions that have been asked?

Now, the case that I am going to present to you is the case on Infosys only. So, if you really look at the Infosys case, this case is available to you as case study number 6 in the book on Strategic Management Infosys Technology Limited truly Global.

Now, at the end of this case, I have listed out some issues for discussion. What are the issues that have been listed out for discussion?

One is - comment on the appropriateness of the models used by Infosys for market delivery; are they likely to be valid in the next 5 years?

Second - what shift in technological businesses should Infosys be looking for? What changes in strategy would you advocate?

The third question - the major revenues of Infosys come from the USA; the slowdown of the American Economy has led to pressing of panic buttons; what marketing strategy would you prescribe for Infosys to come out unscathed?

The fourth question - should Infosys go in for branded products? If yes, what are the steps that you would suggest?

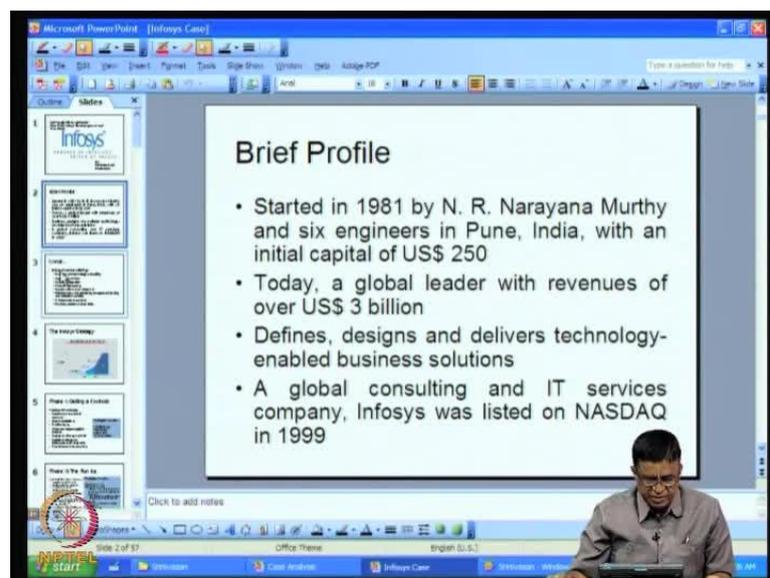
The fifth question - should Infosys aim for distinctive competence? If so, what steps would you suggest to achieve this goal?

So, in order to do the case analysis of a case like this Infosys or any other case, how would you go about this? This case gives you data, may be up to a certain point of time.

So, what you should try to do is, whether this case data can be updated? - This is the first thing you should try to look at. That is, whether through available sources, may be through the annual reports of the company, the listed reports of the company - all those types of things; whether through other different sources, whether you can update the data that is already given in the case. Similarly, updation of the information that is provided in the case; not only the data, but also updation of the information that is provided in a case.

That will give you a better platform to address the case issues. So, I will just give you **one** - the way, this case issues have been addressed by **one of the one particular** two students with respect to this case Infosys. So, if you really see what they have done? They have done the same thing; case study on this Infosys technology.

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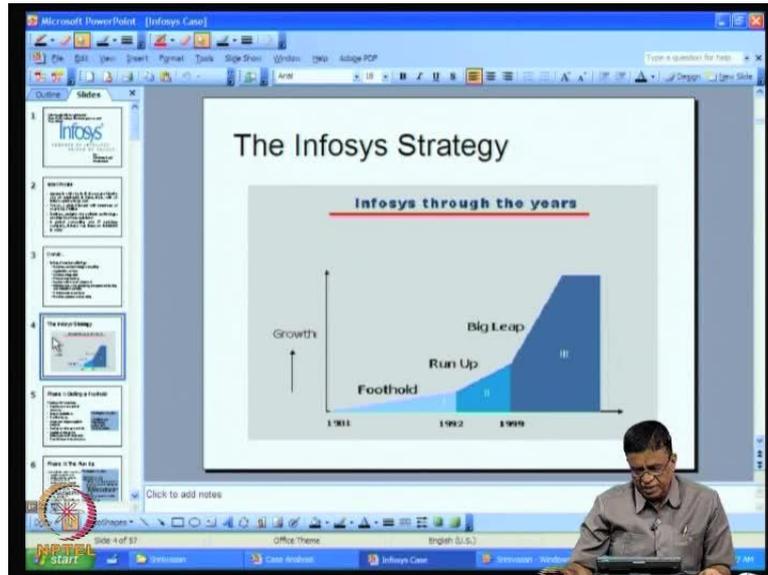


They have given a brief profile of this company Infosys, how it was started.

So, it was started in 1981 by Mr. Narayana Murthy and Six Engineers in Pune, with an initial capital of 250 US dollars. Today, a global leader with revenues of over US dollars 3 billion - this was in 2009. So, when this whole thing is analyzed, now company is even above 4 billion, as I understand. So (()) defines, designs and delivers technology enabled business solutions. At global consulting and IT Services Company, Infosys was listed on NASDAQ in 1999. This is the first Indian company to be listed in NASDAQ.

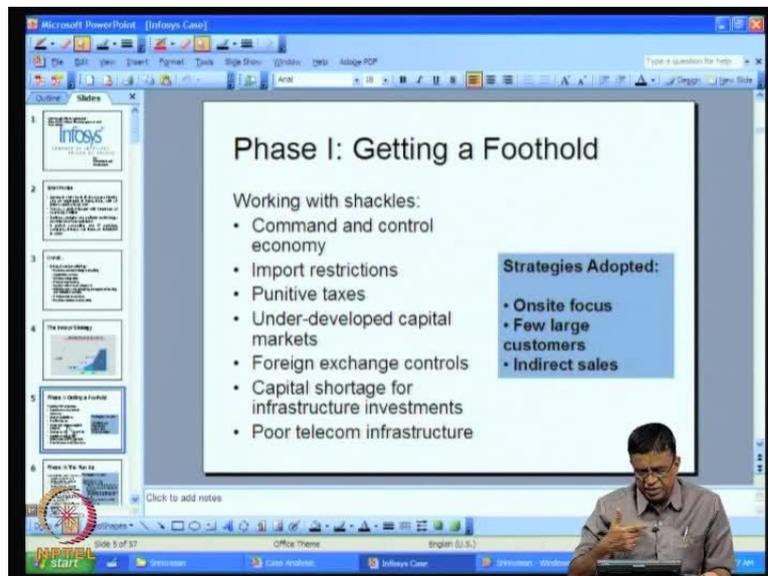
Now, what does the next slide give you?

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The next slide gives you Infosys through the years; how has it grown from 1981. It was trying to catch a foothold in the market, then the run up from 1992 to 1999. From 1999 onwards, this is the big leap that the company has taken in the software industry.

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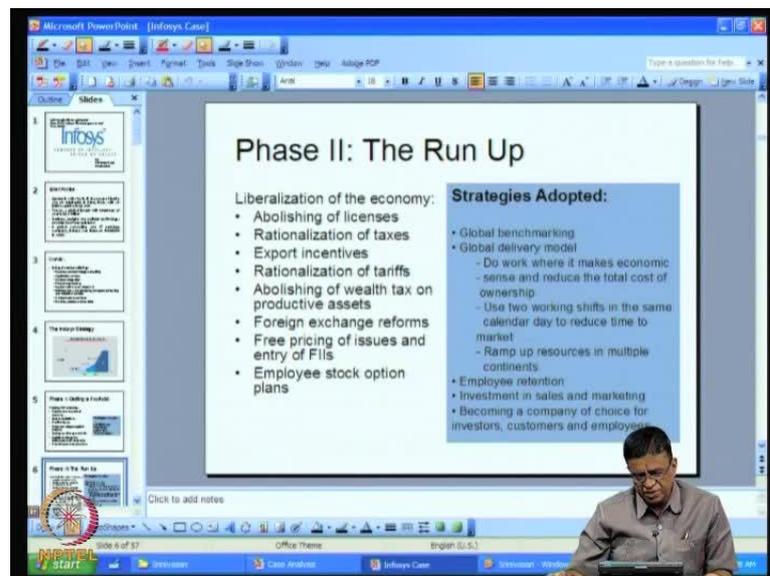


So, for getting a foothold, what are the type of strategies that was adopted by the company?

It was really working with shackles: command and control economy, import restrictions punitive taxes, under-developed capital markets, foreign exchange controls, then capital shortage for infrastructure investments, then the poor telecom infrastructure.

Then, what are the types of strategies the company adopted? It focused on side jobs few large customers' indirect sales. So, this is the way the company went about in this stage of foothold.

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What about the run up stage? So, the run up stage characterized the liberalization of the economy. So, what we saw during that time was: the abolition of licenses; rationalization of taxes; then the export incentives; then the rationalization of tariffs; then abolishing of wealth tax on productive tax assets; then foreign exchange reforms; then free pricing of issues and entry of foreign FIIS, foreign institutional investors; then the employee stock option plans.

Now, what did the company do in this stage?

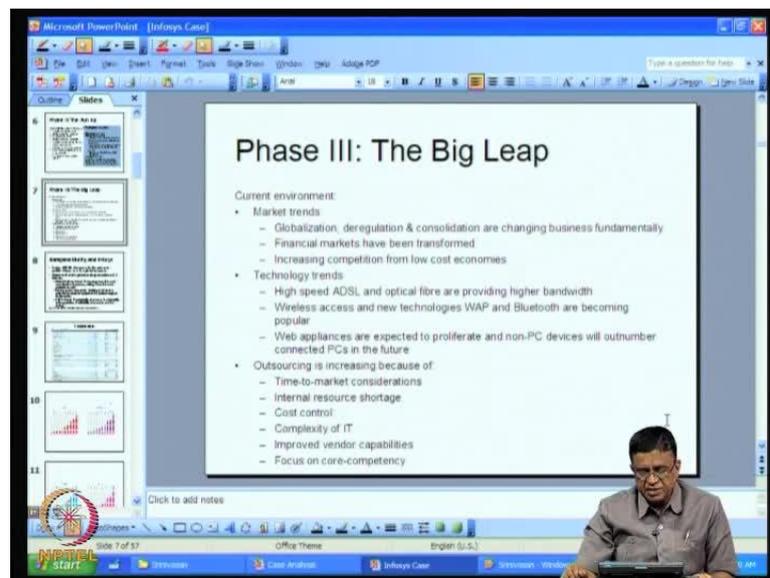
The company went in for global benchmarking, the global delivery model; the first time a company gave such a type of model. It is given in detail in the book also. What does it tell you? Do work where it makes economic sense and reduce the total cost of ownership. Then, use two working shifts in the same calendar day, to reduce time to market. What does it mean?

Suppose, between US and India there is this time difference - if it is night here, it will be day there; if it is day here it will be night there. So, for a US job, it might be advantageous to make use of this time shifts. So, some of the people who are working on this US projects will have to work in the night, to cater to the US clients. So, this is the type of strategy which the company adopted. Now, most of the companies have adopted this.

Then, ramp up resources in multiple continents, employee retention investment in sales and marketing, becoming a company of choice for investors and employees.

Now, the third stage, that is The Big Leap; this is the current environment.

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What does it tell you?

The market trends. What does it say? Points to globalization, deregulation and consolidation; these are changing business, fundamentally; then, financial markets have been transformed; then, there is increasing competition from low cost economies.

Then, what about the technology trends?

You have got the high speed ADSL and Optical Fibre; they are providing higher bandwidth; then wireless access and new technologies like WAP and Bluetooth are

becoming popular. Then web appliances are expected to proliferate and non PC devices will outnumber connected PCs in the future. This is the type of trend which is anticipated.

Then, what is the outsourcing trend? Why is it increasing?

It is increasing because of the time-to-market consideration; internal resource shortage; then the cost control; then the complexity of IT; then the improved vendor capabilities; then the focus on the core competency.

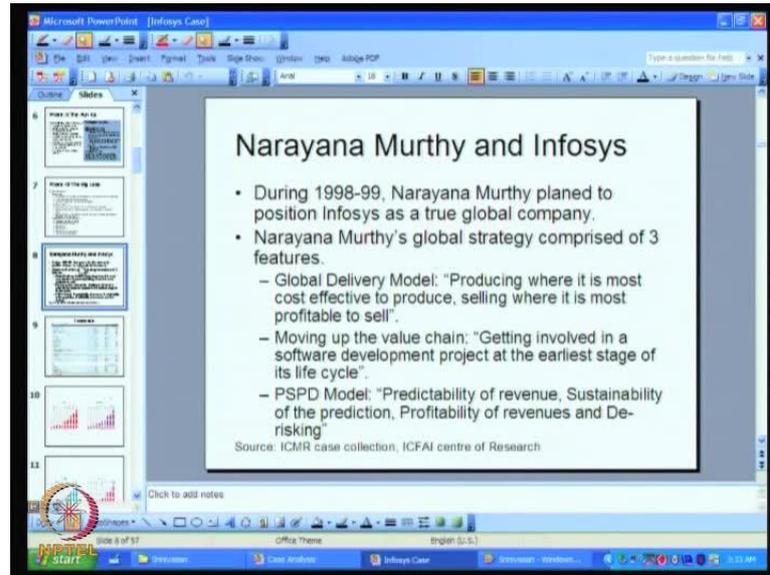
So, this is what I was trying to tell you in the earlier classes also. It is always advantageous for a firm to devote more attention to where its core competency lies. For example, take ITI. The core competency of ITI is in the production of telecommunication equipment; so, this core competency of ITI should convert it to competitive advantage in a market place, and if possible, to distinctive competitive advantage.

Further, what do you mean by distinctive competitive advantage?

It becomes difficult for the competitors to imitate this product which is put out by ITI. As long as it is not possible for the competitors, that will serve as a distinct competitive advantage, for distinct sustainable competitive advantage for the firm ITI, with respect to that particular product or product line; so, the same way with respect to any firm. This is the way. If you look at it, the Infosys has really looked at that and gone through the different phases.

Now, if you really see what did Mr. Murthy try to do in 1998 and 1999?

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The image shows a screenshot of a Microsoft PowerPoint presentation. The main slide is titled "Narayana Murthy and Infosys" and contains the following text:

- During 1998-99, Narayana Murthy planned to position Infosys as a true global company.
- Narayana Murthy's global strategy comprised of 3 features.
 - Global Delivery Model: "Producing where it is most cost effective to produce, selling where it is most profitable to sell".
 - Moving up the value chain: "Getting involved in a software development project at the earliest stage of its life cycle".
 - PSPD Model: "Predictability of revenue, Sustainability of the prediction, Profitability of revenues and De-risking"

Source: ICMR case collection, ICFAI centre of Research

The slide is part of a presentation with 11 slides, and this is slide 8 of 11. The PowerPoint interface includes a menu bar, a toolbar, and a slide navigation pane on the left.

He planned to position Infosys as a true global company. He looked at three features of global strategy that is the global delivery model - producing, where it is most cost effective and selling where it is most profitable; then the second feature was to move up the value chain, that is - getting involved in a software development project, at the earliest stage of its life cycle; the company is now looking at the PSPD model, that is - the predictability of revenue, sustainability of the prediction, then the profitability of the revenues and de-risking.

This is a type which the company is operating right now.

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	2008	2009	in US dollar, except for share data
Indian GAAP - consolidated			
Revenue	20,289	23,946	28.0
Costs of revenue	9,133	8,712	24.7
Operating profit (EBITDA)	8,936	10,853	38.3
EBITDA less tax*	3,889	4,819	26.2
EBT (or EBIT less tax) - Share	107.83	18.24	23.9
EBT less Dividend	101.86	17.88	20.1
Financials continued			
Net income	13.58	13.23	71.4
Special dividend	-	20.00	-
Financials continued			
Capital expenditure	1,171	1,310	144.13
Good assets	6,634	5,861	132.0
Cash and cash equivalents	10,280	7,889	23.8
Net current assets	12,288	8,468	66.8
Total assets	17,893	13,490	33.0
Liabilities	-	-	-
Net worth	17,893	13,490	33.0
Cash and cash equivalents - total assets (%)	57.8	58.5	-
Return on capitalization	17.837	20.262	17.26
US GAAP - consolidated			
Revenue	21,249	24,267	32.0*
Costs of revenue	8,626	7,481	32.6
Operating profit (EBITDA)	7,263	11,208	37.8
EBT (or EBIT less tax) - Share	1,920	4,013	28.0
EBT less Dividend	1,849	3,813	26.1
EBT less Dividend	1,849	3,813	26.1
Financials continued			
Net income	1,081	4,238	152.00*
Good assets	4,994	4,713	14.0
Operating assets	1,294	1,238	19.0
Net current*	1,294	1,183	19.0
Marketplace per equity (share) - Share	2.25	2.84	19.0
Marketplace per equity (share) - Dividend	2.25	2.84	19.0

So, now, what is the type of financials? So, what have these students tried to do? They have looked at financials or the financial results of the company; that is, if you look at Infosys, it gives you according to the accounting practices followed in Indian Financial Ratios or the financial indicators which we discussed in great detail, till in the last few classes. It also gives you the accounting; the financials as per the Americans accounting standards also.

So, what this slide presents to you is looking at the financials from the Indian gap, that is the general accepted accounting practices, which is from the Indian site. So, this is (()) they give you also US dollar million. How much has the company made? So, what have these people done? They have gone up to 2009. This is what I just told you, whereas the data that is presented in the book goes up to 2006, sometimes a little beyond. What these two students have done is to take the data further; they have taken it further up to 2009.

Now, what does it do for them? It helps them to focus their answers better with respect to the issues. It gives them a more or less current picture of the organization, and that current picture of the organization helps them to answer the issues better. So, it is better for you also to update the data given in the cases, to the extent that it is possible; sometimes, it might have gone up to 2007. Find out whether you can go up to 2010? We are already in 2010, whether you can get this data in up to 2010 updated. All this will help you to answer the cases issues that are given in the case. Sometimes, the issues that

have been listed for discussion, some of them might not be relevant at the time this case was listed; that issue might have been there. Now, as the years have rolled by, the company might have overcome that issue, and that issue might have become irrelevant.

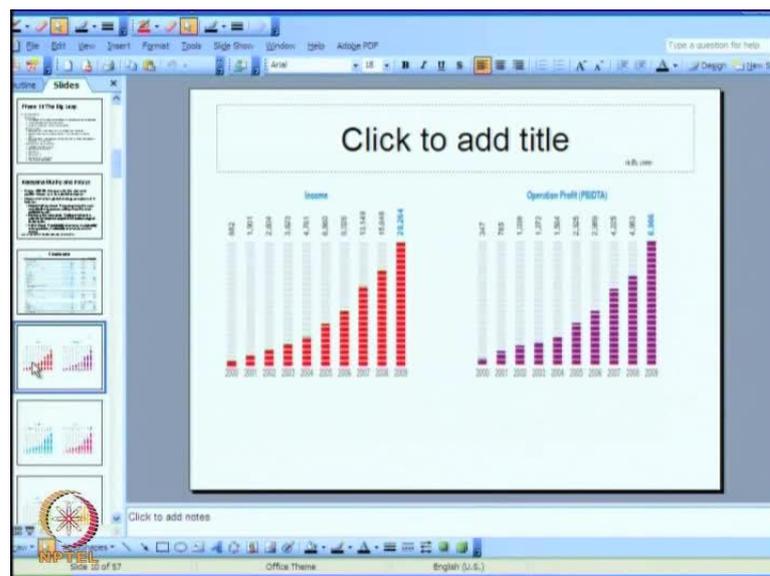
For example, let us say, a company. To be, to present you a factual picture, a company like Ace designers - it wanted to achieve a particular sales target by a particular year.

Now, one of the issues which was listed for discussion when a student was analyzing that particular case on ace designers; ace designers is a company which is into machine tools especially the CNC machine tools. So, it has got its markets both within the country and also abroad, especially in the United States, has got subsidiary firms also in the United States doing well. So, it wanted to achieve a certain target by a particular year. So, that used to be listed. That was the vision of Ace designers. That used to be listed as an issue for discussion for the students.

Will the company be able to achieve this vision? What is the position now?

That issue itself has become irrelevant because the company has out-stripped or achieved this target, much ahead. So, no need for looking at that particular issue right now. So, this is how the **cases also go** case issues also undergo lot of transformations.

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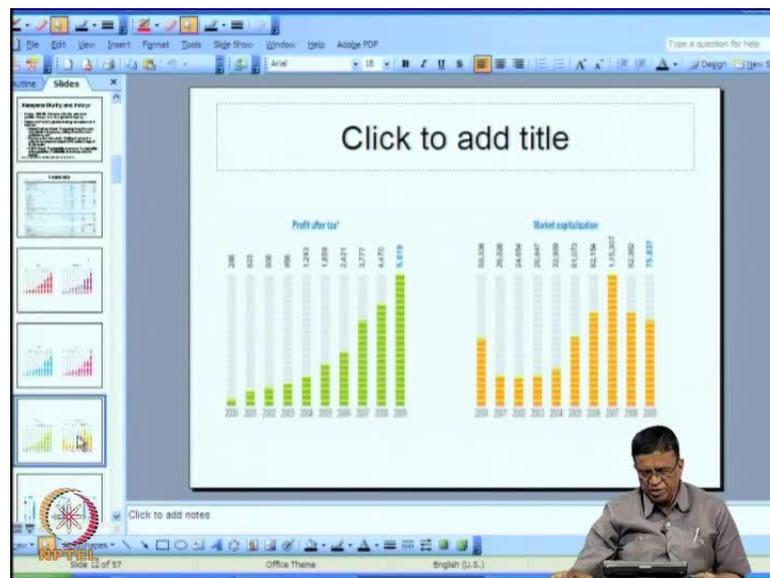


Now, if you really see this, the students have analyzed the income of Infosys going from 2000 to 2009. So, **then in rupees crores**, then the operational profit, profit before interest depreciation, and taxes - how has it gone? So, if you really see, there is an increasing trend which you are observing from 2000 to 2009.

Then what about the earnings per share?

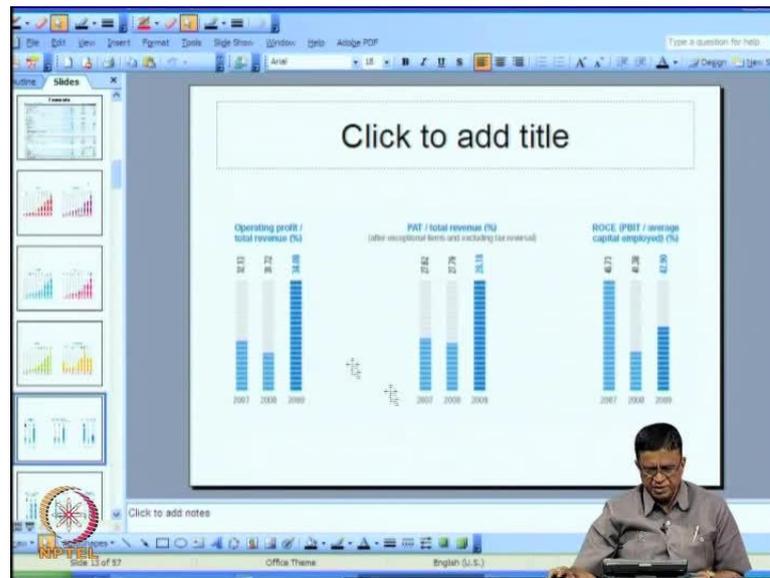
A very increasing trend which is going up. So, if you see from 2000 to 2009, it is more than 100 percent increase in earnings per share. What about the book value per share? That is, the books of the company again it has recorded a healthy increase; it has gone up by 310 percent. That means **what was what do you** it has gone up. If you really see, the basic earnings per share - it was 5.41 in 2000; in 2009, it is 101.65, whereas in 2000 the book value per share was 15.75. In 2009, this 5 rupee share book value is listed at 310.90. So, this is the way the company itself is listing.

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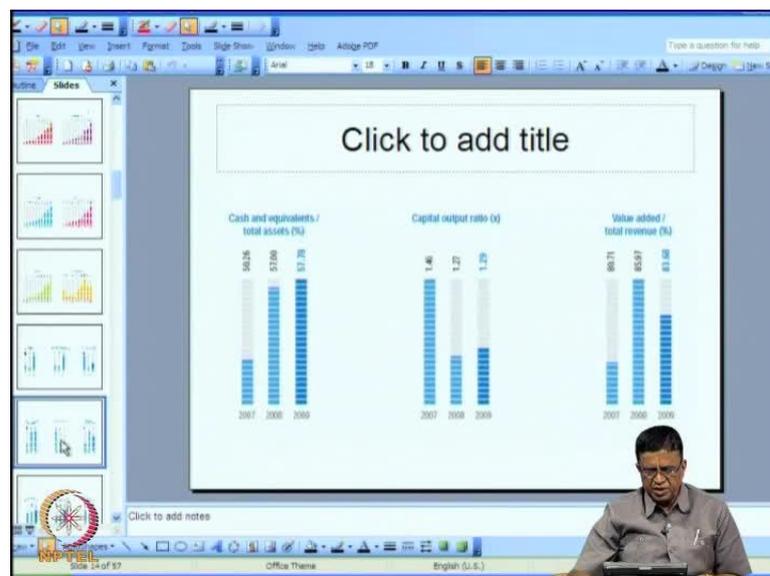
So, what is the profit for after tax? Again it has gone up. You see a very high increasing trend. Similarly, if you look at market capitalization, you see some things, some changes taking place.

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So, it has from 2008 and 2009. That is the period when the 10 rupees share was split into 5 rupees and you got more number of shares put into this. Then, the operating profit or the total revenue has again gone up; then, the profit after tax to total revenue; then the return on capital employed - how has it gone up? This is reflected on this.

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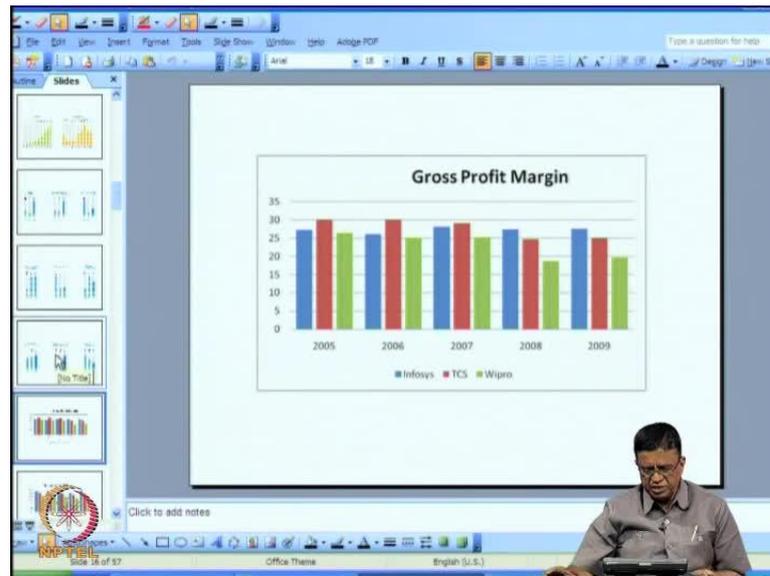


Then, this slide gives you the cash and equivalents to total assets. Then the capital output, total output ratio; then the value added per total revenue in percentage; then what is the basics earnings per share, is already given to you; in 2001, it earned 101.65.

What is the dividend per share? It is 23.50 for a 5 rupee share in 2009; that means more than 400 percent or nearing 500 percent. What is the price per earning, at the end of the year?

So, in 2009, it was around 13.02 (()) you see the dip from 2007 to 2008 to 2009.

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Now, the 2000 gross profit margin - how was it really? Here is a slide which compares Infosys, TCS and Wipro. How have they really performed?

So, this is what is expected of you also. When you are looking at an industry, say this is a software industry, these are three majors of the Indian software industry. How have they performed? If you look at Infosys in 2009 performed better compare to TCS and Wipro. Similarly, in 2008 also better. If you look at 2007, TCS has performed slightly better; in 2006, again TCS has performed better; in 2005 also TCS has performed better.

So, what does it indicate you? From 2008, the performance of Infosys compared to the other 2 majors that is TCS and Wipro, it is recording a higher gross profit compared to them. So, this is the way, one analyzes.

Similarly, operating profit. If you really see operating profit of Infosys is always higher compared to TCS and Wipro, whether it was 2005, 2006, 2007, 2008 or 2009.

Now, what does it mean? Whereas, in some of the years in gross profit whereas in 2005, 2006 and 2007, the gross profit of TCS and Wipro was a little higher compared to Infosys, but when it came to the operating profit margin, again Infosys has gone ahead of the other two majors.

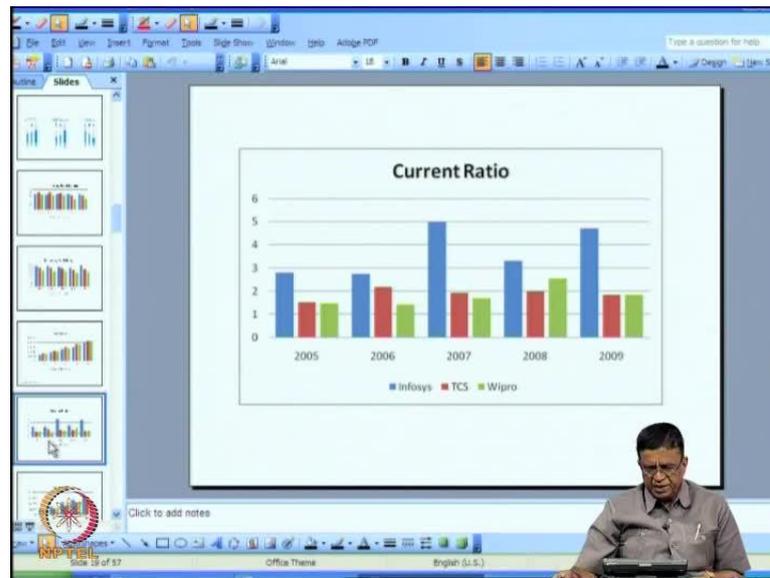
So, if you come to the next one that is the net sales, how does it compare?

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If you really look at it in 2009, look at the net sales; TCS always recording higher net sales.

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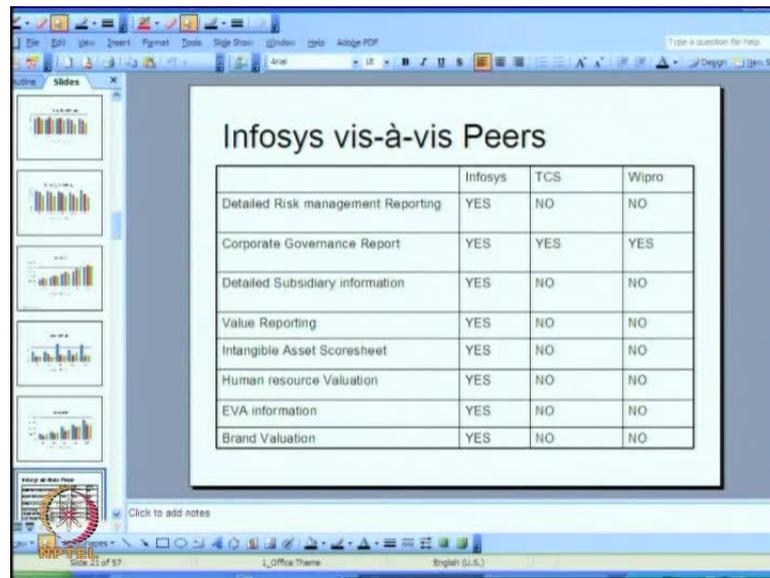


When you look at the current ratios with respect to Infosys, Infosys is always higher compared to the other two firms. What does it mean? Current assets by current liabilities; so, its assets are much higher than the liabilities; so, it can pay off at any point of time. That is what I told you. The more money that you have to pay off your debts or to make investments, that is, the reserve positions always helps a company to have a very strong hold in a market. So, this is one of the reasons, why the share movement of Infosys in a stock market like BSE, again provides indicator.

So, whenever the stock BSE index goes up, you also find that, one of the gainers of this index or one of the companies which have moved the BSE also to go up by its steady performance, happen to be Infosys. So, whenever its results are announced, you find that there has invariably been an increase in the BSE index showing that it is reflecting positively on the stock market; so, this is the way it is.

Now, the next one which is brought out is the Infosys vis-a-vis the peers.

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The screenshot shows a PowerPoint slide titled "Infosys vis-à-vis Peers" comparing Infosys, TCS, and Wipro on various reporting metrics. The slide is displayed in a presentation window with a sidebar showing other slides. The table below is the data presented on the slide.

	Infosys	TCS	Wipro
Detailed Risk management Reporting	YES	NO	NO
Corporate Governance Report	YES	YES	YES
Detailed Subsidiary information	YES	NO	NO
Value Reporting	YES	NO	NO
Intangible Asset Scoresheet	YES	NO	NO
Human resource Valuation	YES	NO	NO
EVA information	YES	NO	NO
Brand Valuation	YES	NO	NO

It again tells you about detailed risk management. Reporting Infosys, if you see, tells what is the risk that is involved with respect to the different investments? So, TCS does not give you full details. Similarly, Wipro does not give you full details. Corporate governance report - all the companies give you; then the detailed subsidiary information - Infosys provides full information, TCS does not Wipro, does not. The value reporting - how much value the company made per employee or whatever, that is also reported by Infosys, but TCS and Wipro - no. The intangible asset score sheets, again reported by Infosys; not by TCS and Wipro.

Similarly, the human resource valuation, the economic value added information and the brand valuation, all these are reported by Infosys.

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Human Resource Valuation

- Infosys uses the Lev & Schwartz model to value its human resources.
- Calculate PV of the future earnings of the employees.

	2008	2009
Employees (in '000)		
Software professionals	97,340	89,013
Support	7,501	8,174
Total	1,04,841	97,187
Value of human resources		
Software professionals	95,800	92,331
Support	6,533	6,400
Total	102,333	98,731
Total income	21,693	18,662
Total employee cost	11,401	9,879
Value added	39,873	14,920
Net profits excluding exceptional items	5,988	4,050
Return		
Value of human resources per employee	0.97	1.00
Total income / human resources value (times)	0.21	0.17
Employee cost / human resources value (%)	11.7	11.5
Value added / human resources value (times)	0.37	0.15
Return on human resources value (%)	4.7	5.9

So, there is a human resource valuation model which Infosys uses. It is always coming under this corporate social governance or the corporate social responsibility; always uses the Lev and Schwartz model to value human resources. What does it help? It helps the company; it calculates the present value of the future earnings of the employees.

Just to give an idea what is the return on human resource value in percentage, in 2008 it was 4.7; in 2009 it was 5.9. That means to say, every figure, everything is reported in rupees crores. So, this is the percentage which you are really getting.

So, if you see, there has been a study increase in the return on human resources value also.

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The screenshot shows a PowerPoint presentation slide titled "Brand Valuation". The slide content is as follows:

- Methodology for valuing the brand is as follows.
 - Determine the brand profits by eliminating the non brand profits.
 - Restate historical profits at present day values.
 - Provide for remuneration of capital to be used for purpose other than promotion of brand.
 - Adjust for taxes.
 - Determine brand strength or brand earnings multiple.

The slide is displayed in a software window with a menu bar (File, Edit, View, Insert, Format, Tools, Slide Show, Window, Help, Adobe PDF) and a toolbar. A slide navigation pane is visible on the left, and the status bar at the bottom indicates "Office Theme" and "English (U.S.)".

A brand valuation model is again methodology for valuing the brand. So, what does Infosys do? It determines the brand profits by eliminating non brand profits; restate historical profits at present day values; then provide for remuneration of capital to be used for purpose other than promotion of brand; adjust for taxes; determine the brand strength.

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The screenshot shows a PowerPoint presentation slide titled "EVA". The slide content is as follows:

- EVA is the surplus generated after meeting an equitable charge towards providers of capital.
- Gives a direct reference to investors for excess returns they can expect.
- Can be used to calculate the enterprise value too.

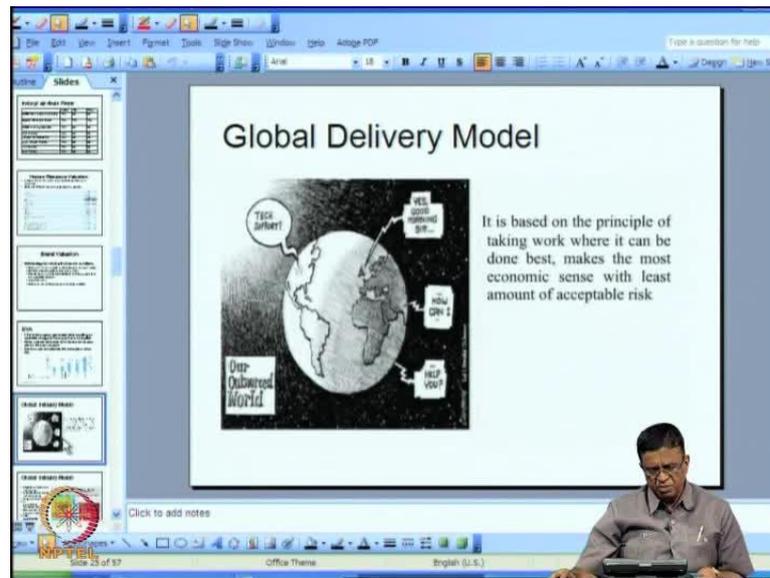
Below the text is a combined bar and line chart. The x-axis represents years from 2005 to 2009. The left y-axis represents EVA in Rs. crores (0 to 3,000), and the right y-axis represents WACC as a % of avg capital employed (0% to 50%).

Year	EVA in Rs. crores	WACC as a % of avg capital employed
2005	1,132	42.6
2006	1,540	45.1
2007	2,122	42.2
2008	2,286	37.2
2009	3,563	37.4

The slide is displayed in a software window with a menu bar (File, Edit, View, Insert, Format, Tools, Slide Show, Window, Help, Adobe PDF) and a toolbar. A slide navigation pane is visible on the left, and the status bar at the bottom indicates "Office Theme" and "English (U.S.)". A person is visible in the bottom right corner of the frame, looking at a laptop.

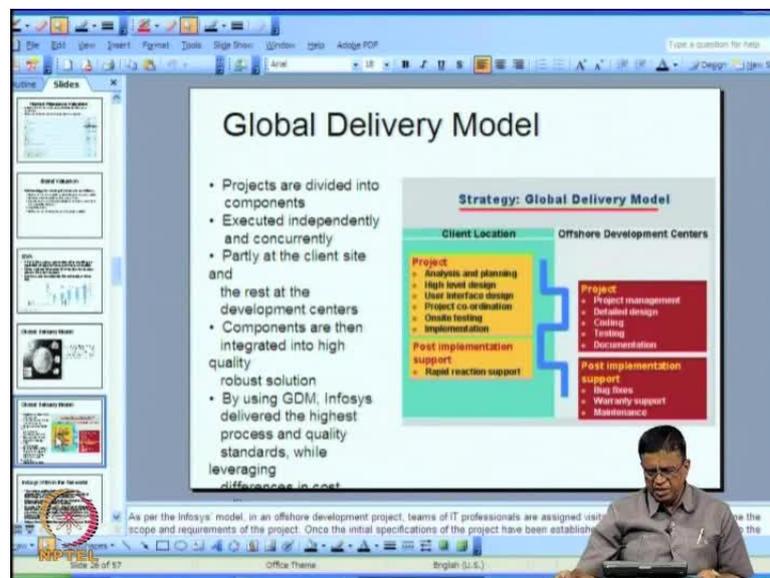
Then, the Economic Value Added again given to you in this method. Then, the global delivery model; what does it tell you?

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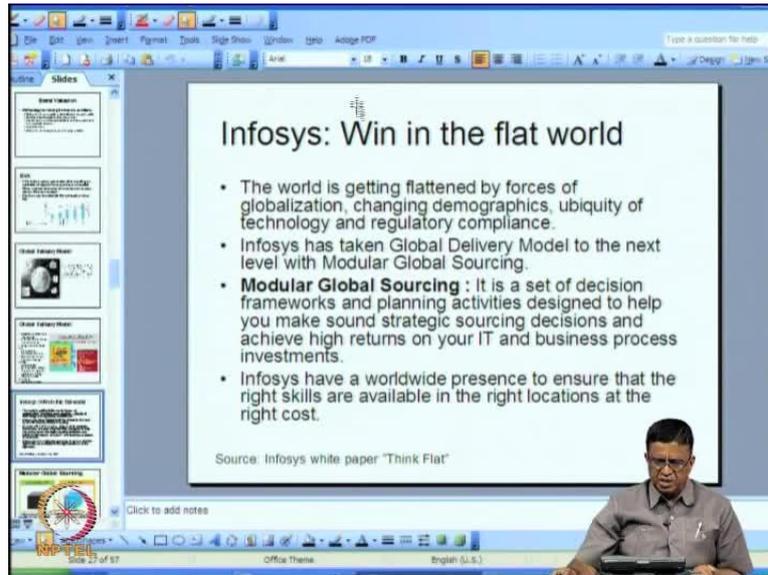


So, this is what I just mentioned to you. The book also gives you the strategy of this global delivery model; how it is done, client location, offshore development centers, what does the company do?

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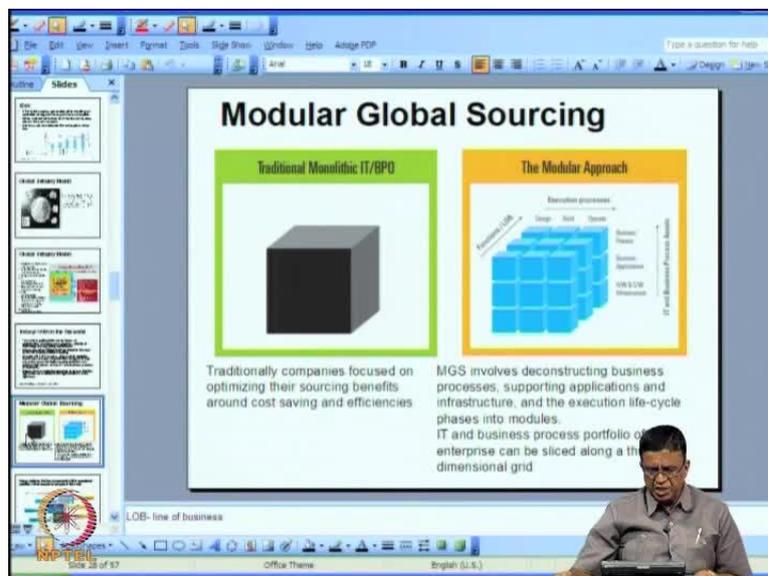


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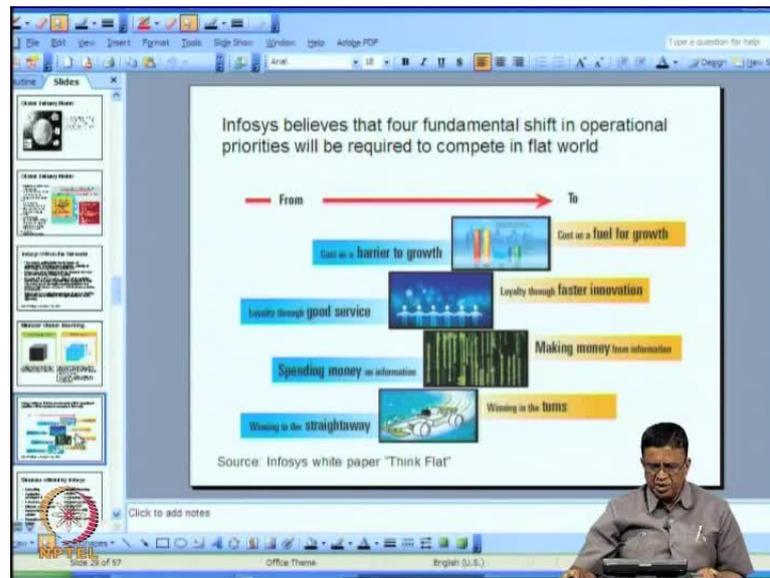
What does the company really do? If you really see, the white paper of Infosys tells how Infosys wants to win in the flat world. So, it gives you this Modular Global Sourcing. What is it? It is a set of decision frame works and planning activities, designed to help you make sound strategic sourcing decisions and achieve high returns on your IT and Business process investments.

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Then some indicators on modular global outsourcing with respect to traditional monolithic IT.

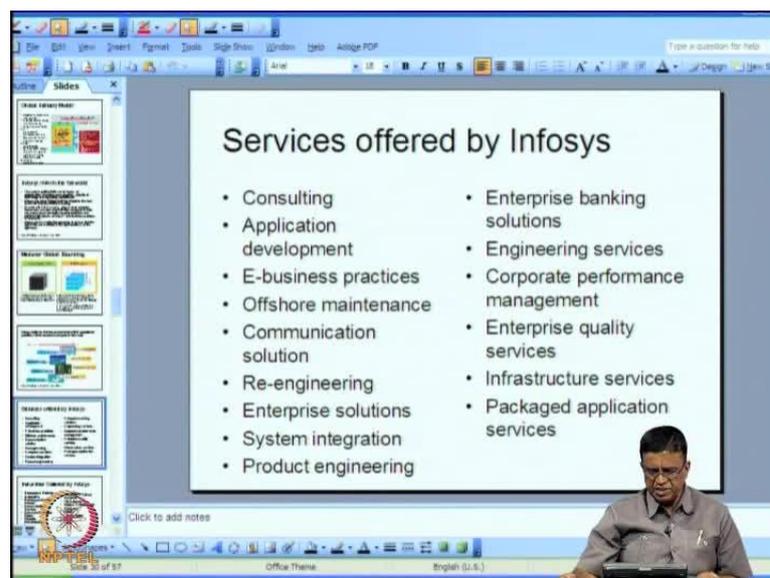
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Then, the modular approach is given by this slide. Then, what is the fundamental shift required in a flat world, if you are really seeing cost as a fuel for growth; loyalty to faster innovation; then making money from information; then winning in the turns.

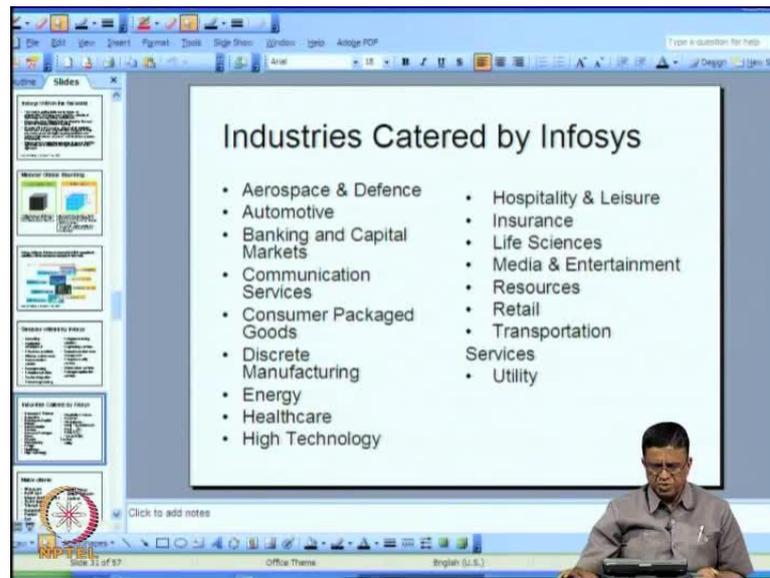
So, what are the services offered by Infosys?

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These are the services starting from consulting down to package application services.

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Then what are the industries that are catered to by Infosys goes from Aerospace down to the utility services.

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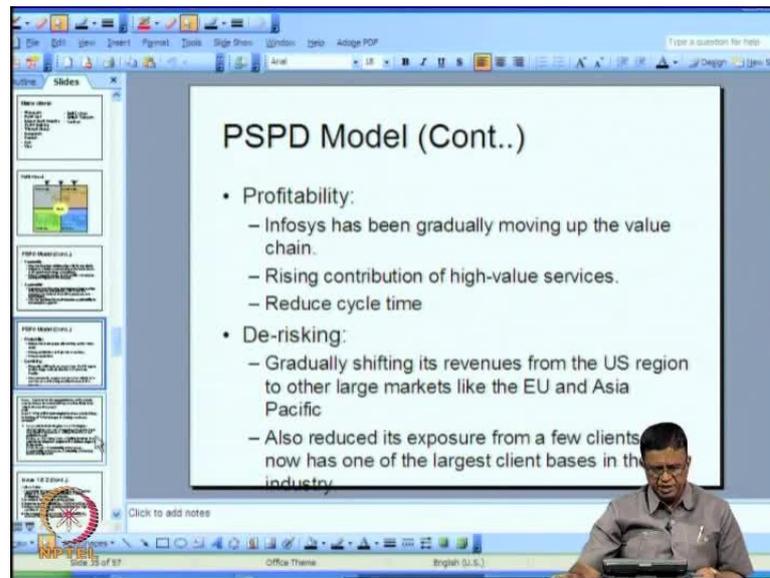
Then, what are the major clients? Given here, all fortune 500 companies; name it whether it is the Reebok or the Verizon or the Bell Canada or the British Telecom.

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Then, the PSPD model given to you in the book is also listed again, in the particular in this slide.

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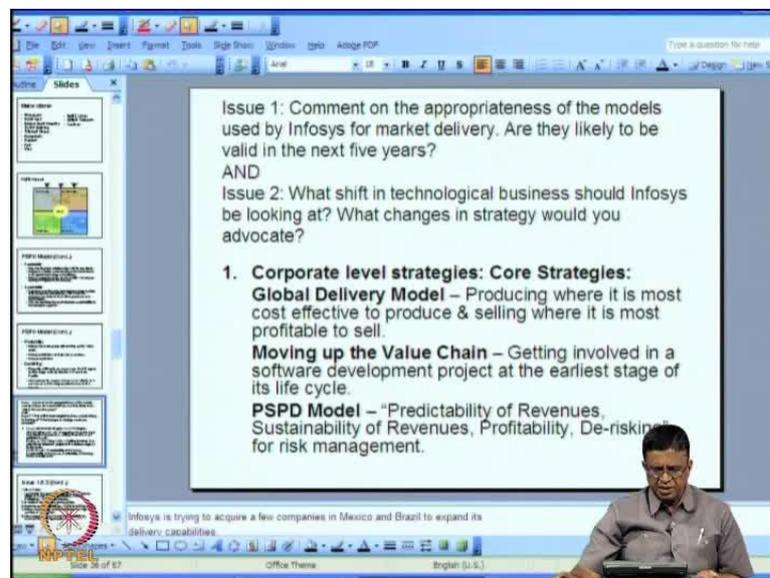
The screenshot shows a presentation slide titled "PSPD Model (Cont..)" with the following content:

- Profitability:
 - Infosys has been gradually moving up the value chain.
 - Rising contribution of high-value services.
 - Reduce cycle time
- De-risking:
 - Gradually shifting its revenues from the US region to other large markets like the EU and Asia Pacific
 - Also reduced its exposure from a few clients and now has one of the largest client bases in the industry.

The slide is part of a presentation in Adobe PDF viewer, with a speaker visible in the bottom right corner.

So, the PSPD model tells how does the company go about with respect to quality, people and transparency, then comes with the predictability, sustainability, profitability, de-risking.

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The screenshot shows a presentation slide with the following content:

Issue 1: Comment on the appropriateness of the models used by Infosys for market delivery. Are they likely to be valid in the next five years?

AND

Issue 2: What shift in technological business should Infosys be looking at? What changes in strategy would you advocate?

1. Corporate level strategies: Core Strategies:

- Global Delivery Model** – Producing where it is most cost effective to produce & selling where it is most profitable to sell.
- Moving up the Value Chain** – Getting involved in a software development project at the earliest stage of its life cycle.
- PSPD Model** – “Predictability of Revenues, Sustainability of Revenues, Profitability, De-risking” for risk management.

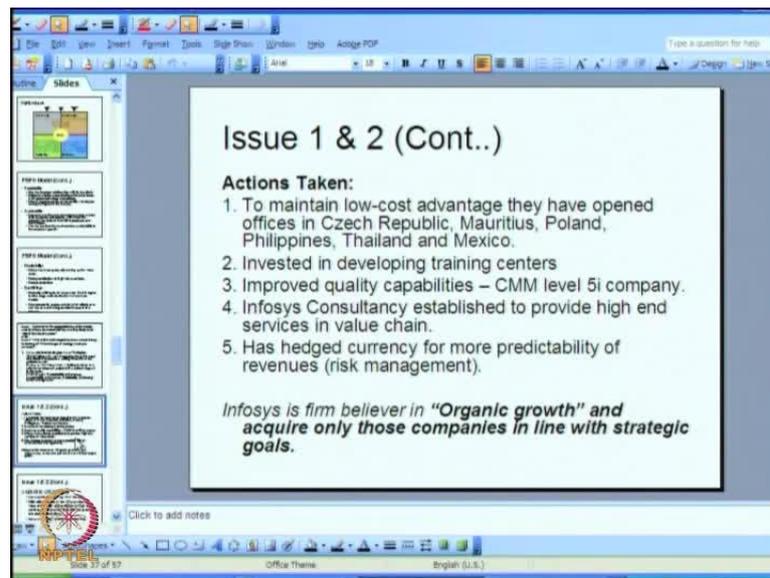
Infosys is trying to acquire a few companies in Mexico and Brazil to expand its delivery capabilities.

The slide is part of a presentation in Adobe PDF viewer, with a speaker visible in the bottom right corner.

Then, the questions which are asked in the case with respect to the appropriateness of the models.

So if you really see, after making all this, you answer the questions. So, this is the way you should really address the issues. So you have got full information and with this full information at your command you are in a better position to answer the issues that are listed in the case.

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So, two issues are taken up concurrently; that is first issues and the second issues, appropriateness of the models, and shift in technological business. So, what is the type of **this thing** which they come out with?

So, they say, the company in order to maintain low cost advantage has opened offices in Czech Republic, Mauritius, Poland, Philippines, Thailand, and Mexico; invested in developing training centers; improved quality capabilities; then consultancy established to provide high end services in value chain; then has hedged currency for more predictability of revenues of risk management.

So, in other words, the company is really taking care to see that, it is not outwitted in this market place; then looks at the generic strategies - the next slide.

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Issue 1 & 2 (Cont.)

2. GENERIC STRATEGIES:

- Low cost Global delivery 24/7 Model.
- Little differentiation in low-end services of value chain; high differentiation in high end services of value chain like software products and package solutions.
- Focus on quality, customer relationship management, timely-delivery.

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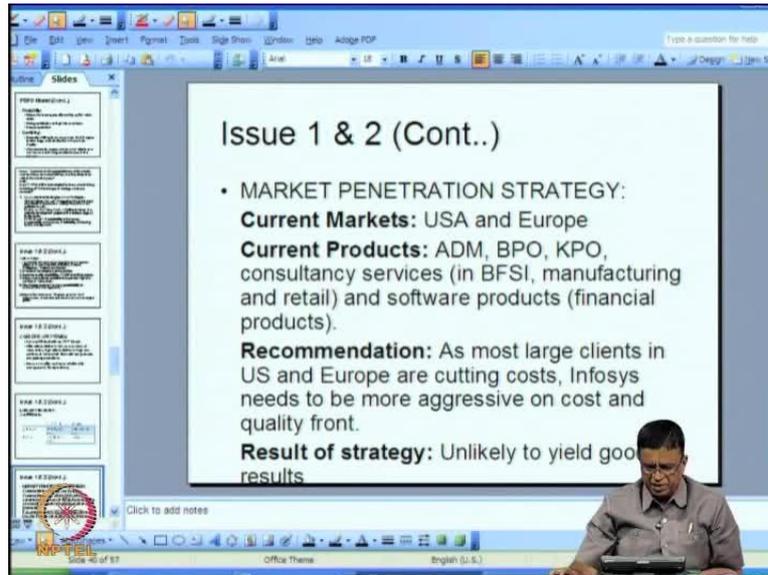
Issue 1 & 2 (Cont.)

3. GRAND STRATEGIES:
Ansoff's Matrix:

	Current Market	New Market
Current Product	Market Penetration Strategy	Market Development Strategy
New Product	Product Development Strategy	Diversification Strategy

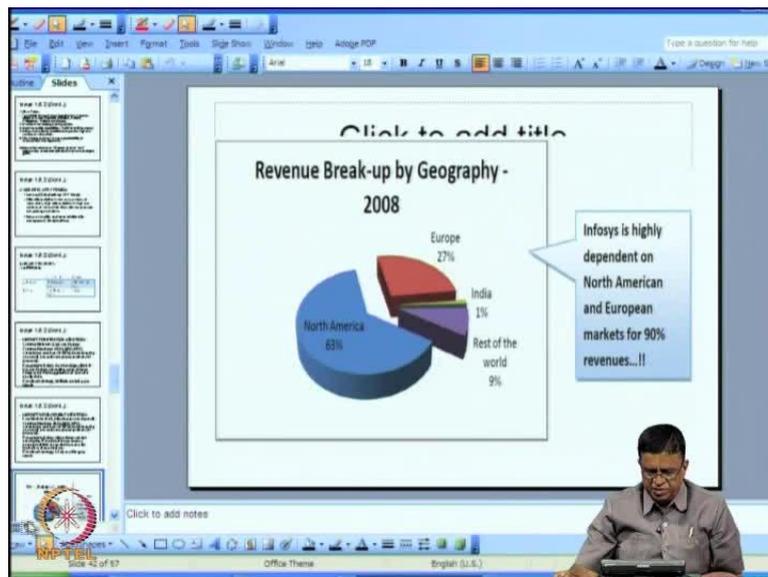
Then the grand strategies these students have analyzed with respect to the Ansoff's matrix.

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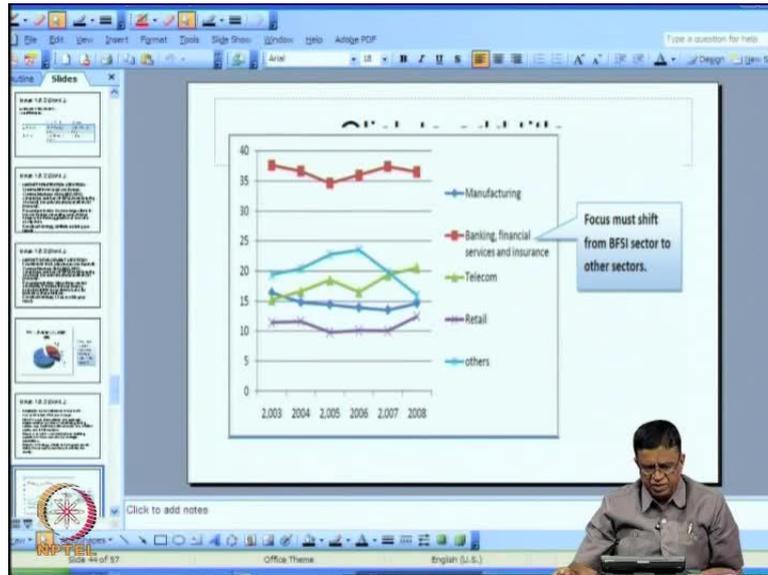
Then, the market penetration strategies which the company has adopted.

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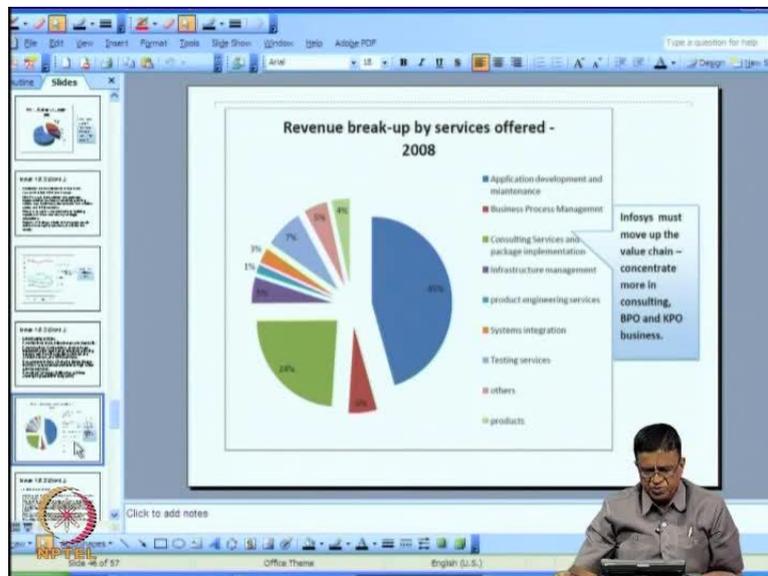
Then, the students have given the revenue break-up by Geography.

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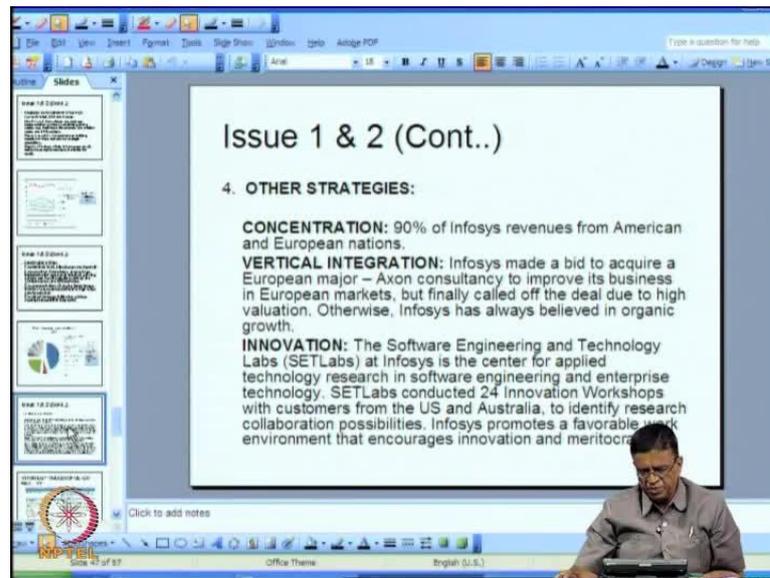


Similarly, they have addressed the other issues after this revenue break up. They have gone to issues 1 and 2 with respect to concentration. Where it is coming from? 90 percent is coming from American and European nation.

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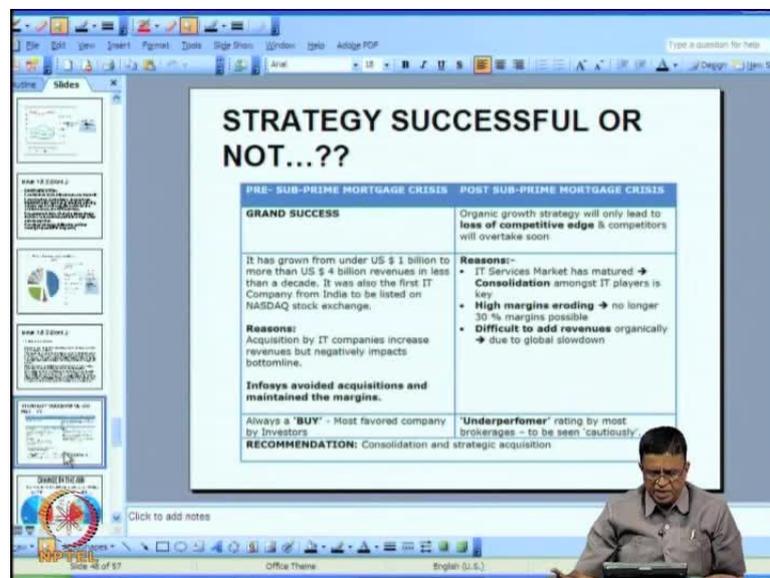


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So, this company is looking at vertical integration; then, innovation that are SET labs which has been set up in Infosys.

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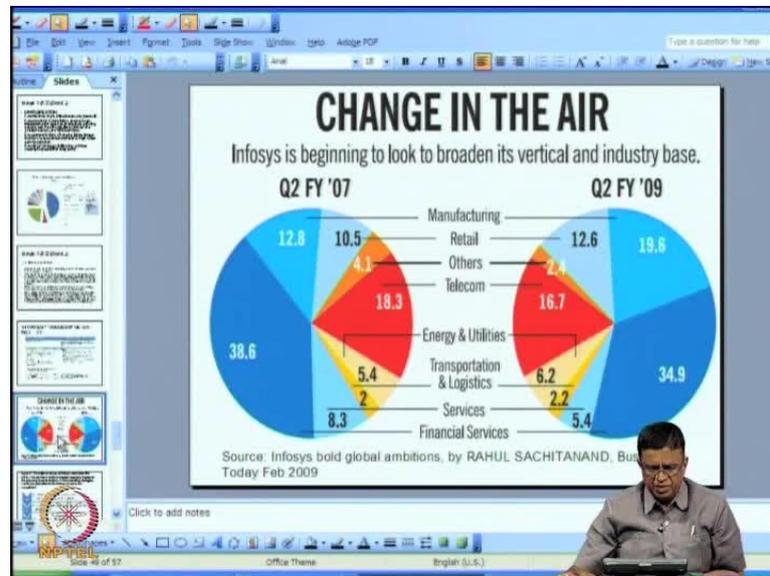


Then strategy - whether it is successful or not.

So, there is a recommendation which is made. This is a group recommendation, if you really see, always by most favored company by investor under performer rating by most

brokerages to be seen cautiously. So, recommendation is consolidation and strategy acquisition. So, just consolidate yourself in a market and before acquiring a company.

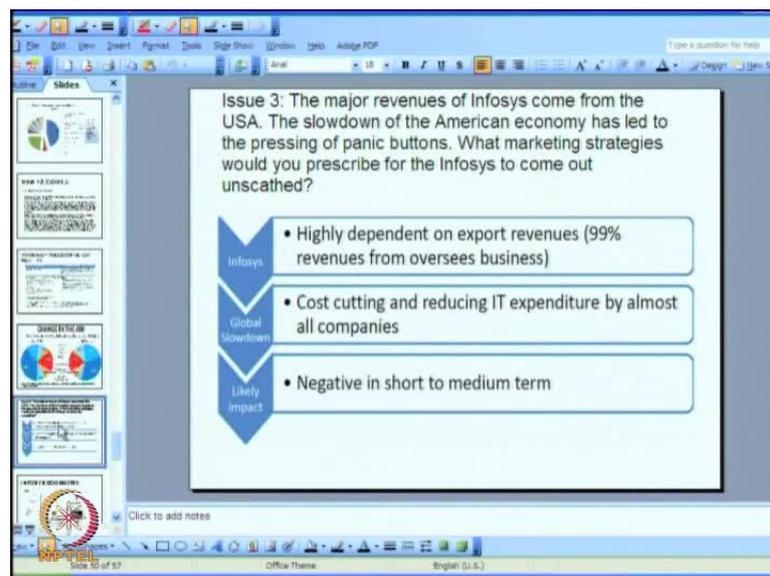
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So, what is the type of thing which you are seeing?

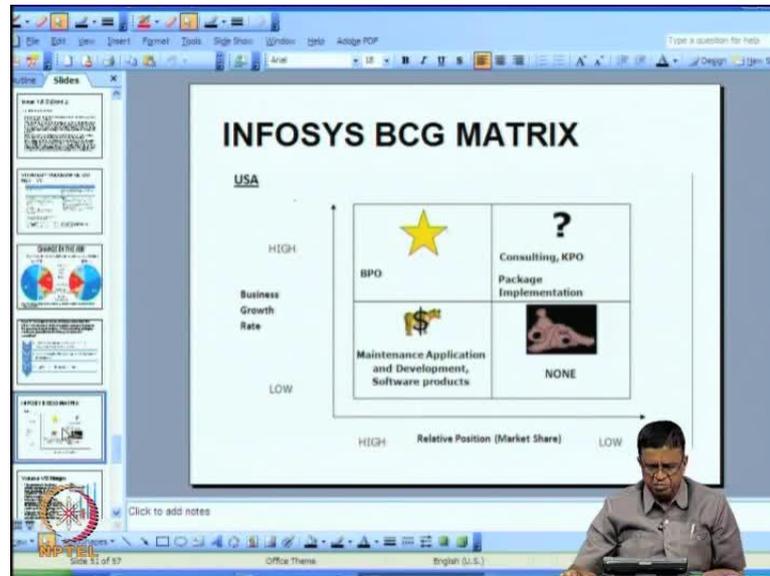
This is reflecting the global ambition of Infosys trying to acquire industries. So, this is with respect to both the vertical and industry base looking at broadening the thing.

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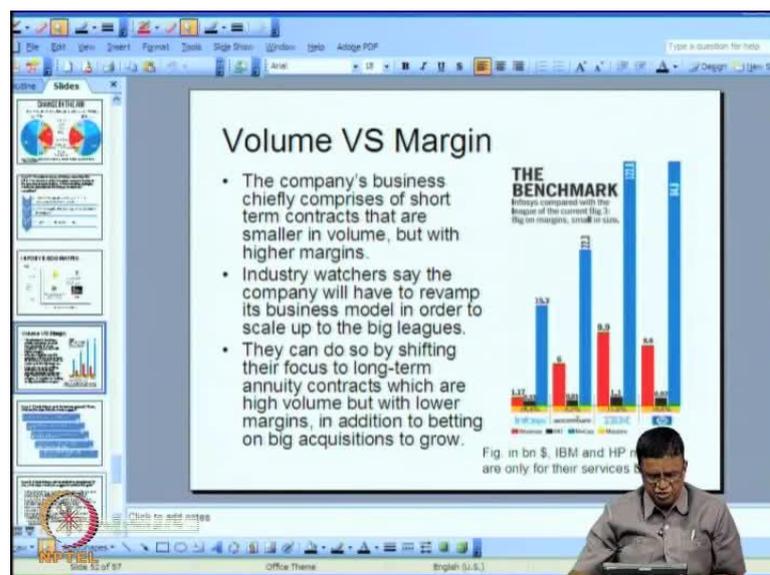
Then, the students address the third issue; so where is it? The company is now looking at other markets, not just the US market. So, the likely impact according to the group is - there is going to be some negative impact, in short to medium term.

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So, given the BCG matrix with respect to Infosys, that is USA.

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Then given the benchmark.

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Issue 4: Should Infosys go in for branded products? If yes, what are the steps that you would suggest?

- Product kitty should be enhanced (Only product: Finacle)
- Inorganic growth through Mergers & Acquisitions should be considered
- Sectors with high growth (Telecommunication, Insurance, etc.) should be tapped immediately
- For software product development, Infosys should employ a process that is based on the best practices of Agile Methodology and CMM Level 5 quality
- For mechanical products, Lean Methodology based solutions in knowledge-based engineering should be developed to shorten time to market

Infosys is trying to acquire a few companies in Mexico and Brazil to expand its delivery capabilities.

Should Infosys go in for branded products? Only one branded product is there of Infosys, that is Finacle. So, it may be better; so, what do they say?

The students say that productivity should be enhanced; that is, it may be better to look at more number of products added to this. So, what are the steps suggested? Inorganic growth through mergers and acquisition sectors with high growth to be tapped immediately. Then, for software product development, it should employ a process based on best practices of agile methodology and CMM level fine quality.

Then, for mechanical products, lean methodology based solutions and knowledge based engineering should be developed to short term, time to market.

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The slide contains the following text:

Issue 5: Should Infosys aim for distinctive competence? If yes, what steps would you suggest to achieve this goal?

- Infosys operates in a highly competitive and rapidly changing market and competes with a number of Consulting, IT outsourcing and BPO firms at home turf and globally.
- In near future, competition is expected to grow from firms establishing and building their offshore presence and firms in countries with lower personnel cost than India.
- However, price alone cannot constitute a sustainable competitive advantage.
- Principle factors where Infosys can have a competitive advantage are as follows:-
 - Effectively integrate onsite and offshore execution capabilities.
 - Increase scale and breadth of service offerings to provide one-stop solution.
 - Provide industry expertise to clients' business solutions.
 - Attract and retain high quality technology professionals.
 - Maintain financial strength to make strategic investments in human resources and physical infrastructure through business cycles.

Infosys is trying to acquire a few companies in Mexico and Brazil to expand its delivery capabilities.

Should Infosys aim for distinctive competence?

What does it tell you? According to the group, the factors were: Infosys can have a competitive advantage or by effectively integrating on sight and off shore execution capabilities; then increase scale and breadth of service offerings; then provide industry expertise to clients business solution; then attract and retain high quality technology professionals; then maintain financial strength to make strategic investments in human resources and physical infrastructure through business cycles

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The slide is titled "Road ahead" and features a 2x2 matrix titled "Consulting - Key IT Growth Driver". The vertical axis is labeled "Domain/Consulting Expertise" and the horizontal axis is labeled "Global Delivery Capability".

Domain/Consulting Expertise	Low Global Delivery Capability	High Global Delivery Capability
High	Deloitte, Infosys	Accenture, IBM, EY, PwC, Infosys
Low	Capgemini	Support, KPMG, I.T.S., Infosys, Wipro

So, what does the future hold? Consulting holds a very promising future, for Infosys should look at consulting as one of the very possible options. So, this the way the case like this, Infosys has been analyzed by two students, which I brought out for you to know how you could analyze a case.

So, this is an example of case analysis. The case that is taken up for analysis is the one which is listed, or which is the one which is given in strategic management on Infosys, how you should analyze, I have gone through.

We will continue in the next class.

Thank you.