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Hidden dragon, tubby tiger!

Neha Kapoor

WHAT's the good word? That's the game that comes to mind when anyone speaks of China in the context of software. And the flurry of verbosity that follows includes:

Competition

Threat

Hype

Potential Market

Over the past few months, every entity worth a mention in the world of information technology has, at some point or the other, propounded a particular theory about China.

The very mention of our 'friendly neighbour' manages to elicit a response. And there's so much of response that there is some confusion about the exact nature of the 'threat' that this mammoth nation poses to our country's software industry. And, in the past few months, yet another thread &#151; that of China being a potential market for Indian IT companies &#151; has been added to this tangle. Once again, there are opinions galore.

And so much controversy is too tempting to pass up. So here's an attempt to get to the real picture beneath the alarm and the indifference.

Threat

The almost unanimous verdict is that in the short term, Indian software companies may breathe easy but the Dragon could raise its head in the next four to five years. The operative word here is and nothing is definite as yet.

Ravindra Datar, Senior Analyst, IT Services Printers, Gartner India Research & Advisory Services, says that though the threat is not so serious in the short term, it is certainly something that Indian IT vendors should give a serious strategic thought to, in their long-term planning. "The ostrich mentality is not going to help in anyway!"

Datar says, "The very fact that the Chinese Government and the Chinese IT vendors are making serious efforts to develop strengths in software means that there is a competitive threat for the Indian software industry. However, one needs to look beyond the hype and look at how serious the threat is in the short term and in the medium to long term. Though the threat is low in the short term, a well-developed software industry in China could pose a serious threat for Indian software and services vendors in the medium to long term."

He adds, "At present, the Indian software industry is way ahead of the Chinese software industry on the export volumes, brand value and maturity fronts but if the Chinese IT vendors take up serious efforts, it is not impossible for them to catch up with Indian vendors, especially if the vendors remain complacent."

Sanjiv Agarwal, Ernst & Young's Partner, Corporate Finance, is in agreement, "presently this (the threat angle) is mostly hype and Indian companies don't face any serious challenge from Chinese software companies in serving English-speaking markets. However, there is a feeling that Chinese software companies can provide serious competition to Indian companies in the next four to five years in the following areas:

Bodyshopping

Oriental language software market, notably Japanese companies' software requirements.

Probably in the software products market as well as in China's large local market, especially in SOHO/individual consumer segment."

Universal Consulting, a consultancy that works specifically with small and medium-sized enterprises (SMEs), sees things a bit differently. According to its Chief Executive Officer, Jay Desai, "The Chinese threat is serious &#151; for one, the Chinese domestic IT industry is bigger than any other country, except the US. In addition, it boasts of better IT infrastructure than India. Recently, the Chinese Government formulated a policy aimed at making China the IT superpower in the new millennium and has invested heavily in improving high-technology sectors. Growth centres such as Hong Kong, Shenzhen and Beijing have much potential for IT and IT-enabled services. These, in turn, provide the much needed environment for programmers to mature."

"There is another factor too &#151; in Silicon Valley and other high-tech zones, there are more Chinese immigrants than Indians, for instance, about 2,000 Chinese head firms in Silicon Valley, far more than the number of Indian chiefs. This could be an indicator of the power they can wield," Desai adds.

Queen's language to the rescue

Much has been said and written about China's efforts to brush up its English skills. And the picture that has oft been painted is that once the language battle is won, China would emerge a formidable competitor.

Can honing language skills alone make China a worthy competitor, then?

"To some extent but not significantly, at least in the short to medium term. Indian software companies would be able to retain a few years of advantage, say another four to five years, in this regard over Chinese software companies," says Agarwal.

To attain that competitive edge, according to S. Ramadorai, Chief Executive Officer, Tata Consultancy Services, China needs to work on many other areas apart from language. " There are areas of quality processes, achieving the CMM standards, building intellectual assets, etc which can happen over a period of time. Indian companies have a distinct advantage here. Additionally, Indian companies are moving up the value chain which will allow us to keep some lead for a few years."

Agarwal adds, "Chinese software companies would suffer from the disadvantage of political/social/cultural differences from a large part of the western world. However, non-resident Chinese returning from the US and other countries can and are setting up software companies in Shanghai. This can provide good competition but it will remain sporadic."

Datar takes a look at what it takes to sell one's products and services beyond the obvious ability to communicate effectively with clients in their own language:

Ability to understand the client's requirements and to translate this understanding into solutions.

Technical/domain expertise

An understanding of the way processes are run in the client organisation and ability to develop solutions attuned to these.

Understanding of the business culture in the target market.

Ability to establish trust with potential clients and to establish long-term relationships.

Building significant brand value in the target markets.

Building quality processes to be able to achieve sustainable and uniform output in terms of products and services.

Building long-term sustainable competitive differentiation vis-a-vis competition.

"Chinese vendors would have to identify which of the above they need to improve upon and work on all those besides English language skills to develop a strong competitive position in the global markets," he says.

### Business in China: Opportunities and difficulties

While the Chinese catch up, Indian software companies are testing waters and `considering' targeting the domestic Chinese market, especially its financial and manufacturing sector.

"China as a market offers huge business potential over the long term. We are already witnessing many western companies targeting this market. They would be more comfortable working with Indian vendors with whom they have existing relationships rather than form and manage new relationships, if these Indian vendors have a presence in China. To that extent, it would make sense for Indian companies to build `China Capabilities'," says Datar.

"In China, opportunities exist on two fronts &#151; one as a market and the other as a place where software platforms can be developed. The latter is more likely the first step that Indian companies would take. Indian companies in the education space have already established presence in China. Of course, essential to success will be knowledge of the local language and culture," says Ramadorai.

Apart from working with global clients in China, like they would in any other market, and looking at it to develop software, Indian IT companies &#151; with domain expertise in verticals such as banking, financial services and insurance (BFSI) and manufacturing &#151; have expressed intentions to set up shop in China, especially to service its domestic financial market.

According to Agarwal, "though not many Indian companies are targeting this market at present, going forward, this could be an opportunity for the likes of i-Flex and Infosys to sell their packages to financial companies in China. Other companies can look at implementing packages together with local Chinese companies/talent."

"The manufacturing sector in China has evolved tremendously in terms of capabilities to mass manufacturing products at a low cost. Indian vendors might want to target the manufacturing sector initially. Also, with the huge population spread over a vast area, the retail and communications sectors could be interesting areas to tap," says Datar.

In terms of strategic opportunities, Agarwal feels that Indian companies should recruit the best software talent from China, especially to serve the local market as well as the Japanese market." Also, Indian companies could collaborate with the best Chinese software companies to serve the oriental market as well as to develop products."

According to Ramadorai, "It is not just the financial sector that looks attractive even from a distance. The sheer size of the Chinese economy makes many sectors appealing for Indian software companies, including, banking, manufacturing and transportation. But targeting specific sectors and actually getting assignments are two different things. There is the issue of understanding the Chinese culture, language as well as being in a position to offer our services at the right price."

"Indian companies need to be perceived as offering a definite price/value equation which becomes difficult to resist. We are not sure if Indian companies are currently in that position, so getting assignments in whatever sector is not going to be easy," he adds.

Datar agrees that it is not as if Indian companies can start operations tomorrow and make money immediately. "Just like the Chinese vendors have to understand the western business culture and the finer nuances of doing business with western companies, Indian vendors will have to develop a good understanding of Chinese business processes before they can start offering services to Chinese business in a big way."

"Indian companies will also have to build significant levels of trust and credibility with the Chinese business community before Chinese financial institutions let them work on their databases and infrastructure," he adds.

There's another, rather interesting, area that Desai expects to be problematic for Indian software companies in China.

"Chinese professionals are focussed only on monetary benefits as opposed to career growth and development. One Indian company, for instance, started a management development programme for its employees but aborted it in a month after seeing a complete lack of interest from employees. Also, Chinese professionals are not as creative as their Indian counterparts !"

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