

# An assessment of regional potential

China

An excerpt of a report done in Oct  
2002

By

Prayag Consulting

[www.prayagconsulting.com](http://www.prayagconsulting.com)

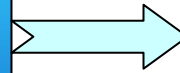
- IT industry in China – an overview and analysis
- Comparison of relative strengths of India and China as offshoring destinations
- Road ahead
- What's in China for Indian IT players?
- Some recommended entry strategies

# IT Industry in China – An Overview

# Key industry metrics

## Industry size

- Size of IT services market (2001) – RMB 40.16 B (appr \$ 4.9 B)
- Size of professional services market – RMB 21.1 B (appr \$ 2.5 B)
- 160,000 people employed by the software industry
- Total exports – US\$ 0.85 Bn



## Projected growth

Targeted exports by 2005

US\$ 2 Bn

by 2006

## Profile of industry

- 3000 + software development companies
- 2000 companies involved in software sales
- 160,000 people employed by the software industry
- Average size of players
  - The larger local players (listed) have shown revenues of about US\$ 200, annualized.
  - 10 players have more than 1000 people.
  - Most companies are still small- over 55% have <50 people

All global software product vendors as well as IBM have a presence in China

# Some well known local players

- Asia Star
- North East University software
- Great Wall Software
- Ion Global
- Newgrand
- Asia Info
- CVIC SE
- Tongtech Co.
- Neusoft Group Ltd
- Kingdee software
- Powerise
- Ufsoft Co Ltd
- Navion

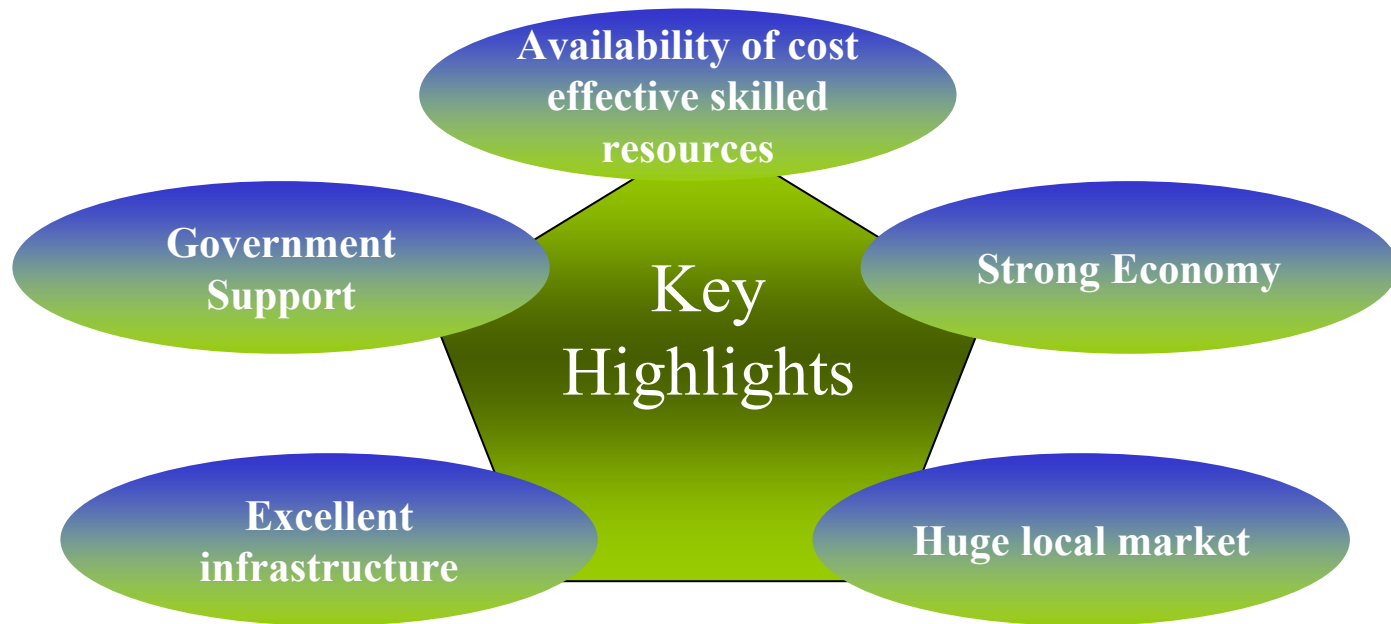
Mostly focus on the local market; few players have attained critical size to effectively compete at a global level

# And where they operate....



All major software development hubs are located on the eastern side. Dalian, located close to Japan, services the Far Eastern market.

# Strong pull factors make...



...China an attractive IT destination

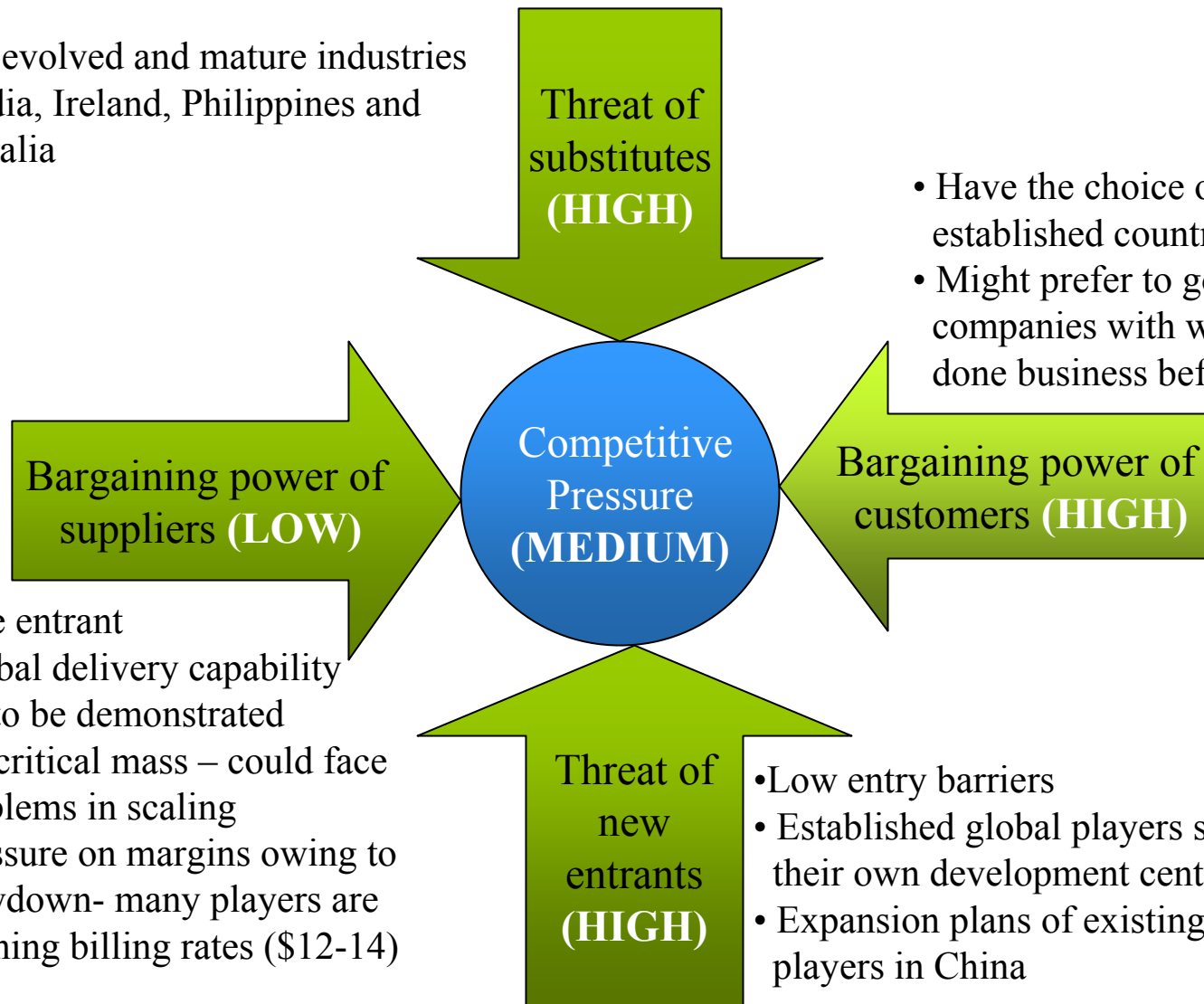
Neutralizing the pull factors are some challenges...

# Key challenges faced by industry



# A more detailed industry analysis...

- More evolved and mature industries in India, Ireland, Philippines and Australia



- Have the choice of going with established countries and players
- Might prefer to go with those companies with which they have done business before

- Late entrant
- Global delivery capability yet to be demonstrated
- No critical mass – could face problems in scaling
- Pressure on margins owing to slowdown- many players are slashing billing rates (\$12-14)

- Low entry barriers
- Established global players setting up their own development centers
- Expansion plans of existing global players in China

# And an industry SWOT analysis...



....shows that the balance is even

# India and China- Relative competencies

# On Macroeconomic parameters....

Parameter	China	India
Population	1.3 B	1.08 B
Population growth rate	0.88%	1.55%
Literacy rate	81.5%	52%
GDP	\$1.16 T	\$ 42.9 B
GDP CAGR	7.2%	5.5%
Forex reserves	\$224 B	\$42.9 B

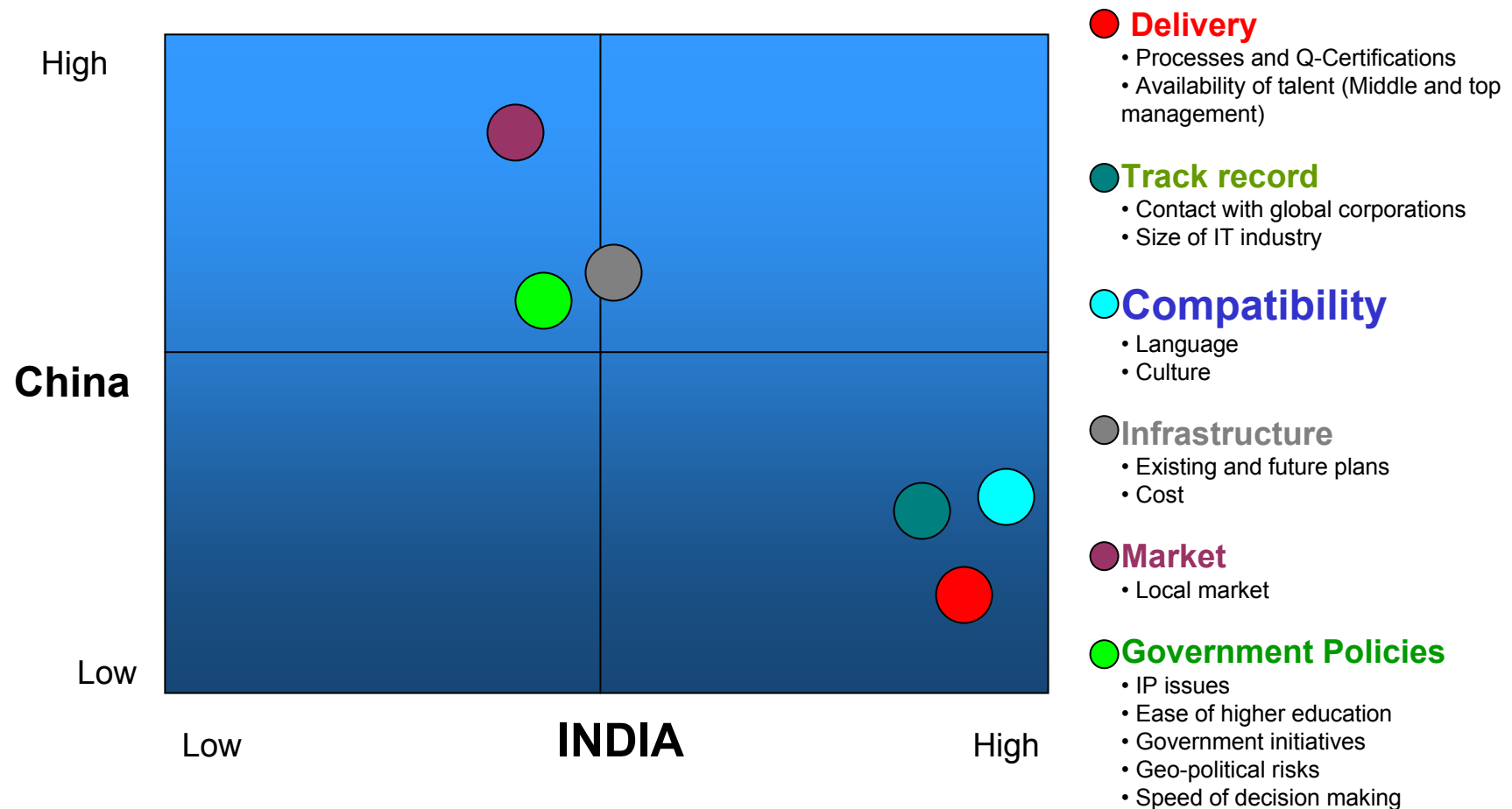
...China has a clear edge, given the strength of its economy

# Statistical comparison of IT industry..

Parameter	China	India
Size of software industry	0.85 B	6.2 B
Demand for IT professionals	350000	400000
S/w professionals added each year	50000	75000
Annual salaries- developers	\$2500-\$ 4000	\$ 2500- \$4000
Annual salaries- PM	\$ 6000 - \$30000	\$6000-\$20000
Availability of managerial resources	Low	Medium- High

... Indian industry is more mature

# Mapping competencies ...



- India enjoys a distinctive advantage of delivery capabilities, proven track record and language compatibility

## Strategic Advantage India – Now

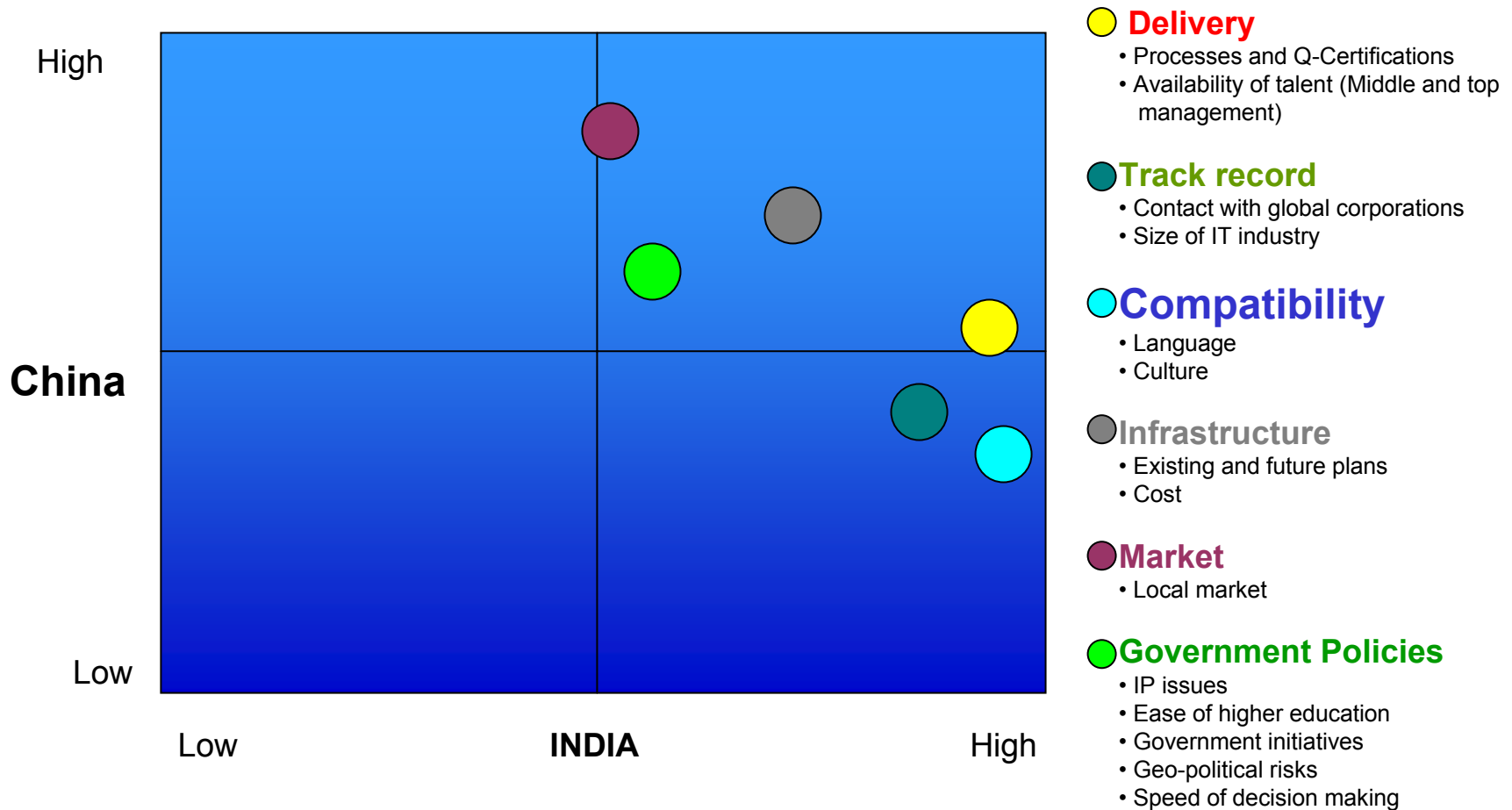
- China is unlikely to pose an immediate threat to India
- India has a head-start that would be hard to neutralize

# Roadmap for industry evolution...

	Current	Near term	Medium to long term
Focus	Partner with global IT players	A major offshoring base for regional markets	Evolve as a global offshoring base
Major emphasis	Processes and quality	Marketing	Global delivery
Target market	Primarily domestic	Primarily regional – Japan, Korea	Increasingly global – US, UK and others
Players	Local arms of global IT players Small pure play IT services firms	ODCs of global IT players A few Chinese pure play services	ODCs of global players Chinese pure play service companies

Time →

# And in Future .....



...China would be a force to reckon with

- With cross-fertilization of ideas from MNCs and major Indian companies that operate from China, the local industry would mature and emerge as a major force to reckon with in the medium to long term
- However, cultural compatibility and language barrier would continue to act as dampeners for rapid acceleration
- Though China would attempt to emulate the success story of Indian IT industry, India would continue to be the favorite destination for IT outsourcing
- And hence, there is room for marrying the best of both worlds and evolving collaborative models of working

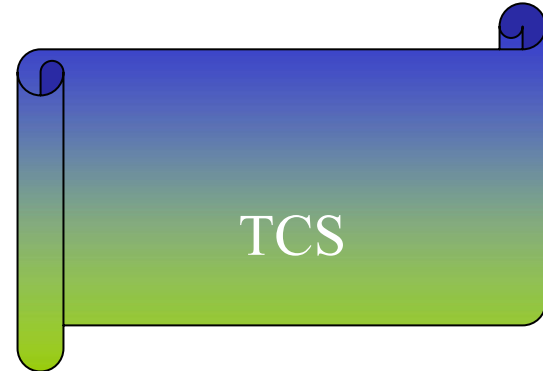
Should Indian companies look at a presence in China now?

Yes,...

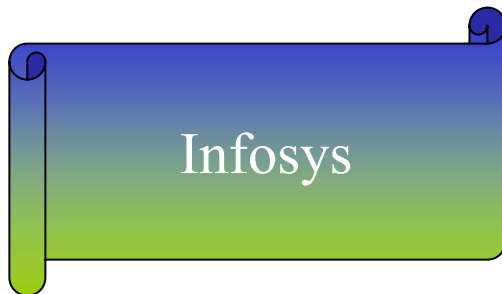
Learning from experiences of industry peers




NIIT



TCS



Infosys



Satyam

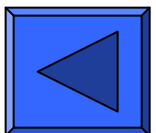
What kind of entry strategies are possible?

- Partnerships, including subcontracting low-end, and well-defined tasks to local players
  - Most Chinese firms are small and lack skills to handle large assignments
  - Lack project management skills
  - No proven scalability skills
  - In turn, the Indian company could use these partnerships to enter local Chinese market and/or serve the APAC region

- Wholly owned subsidiaries
  - Offers better control
  - More useful, if they are to service their existing clients China operations – E.g., GE and TCS
  - Existing clients would be looking at IT vendor base diversification across geographical locations - E.g., Cummins and TCS
  - A wholly owned subsidiary can also be used as an ODC and make use of the local talent – key personnel can be from the parent company

- **JVs**
  - with local players may be a lower risk option
- **Acquisition of a local player**
  - Can acquire companies with good track record
  - Can provide access to their client base for cross selling opportunities
  - Ease of entry to local market
  - Identifying the right player would be key

- China has to increase allowable stake in many industries
- The immediate consequence of WTO is swift increase in investments
- Growth of other crucial sectors like Finance, Banking, Insurance, Internet services and retailing will have a spillover effect on domestic IT industry



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