"Building" a "Buy" culture

By Vinnie Mirchandani

With a strengthening rupee and highly valued equity of Indian service firms, the investment return on current revenue and relationships as well as the potential to double or triple revenue through increased product flow often makes "buy" option much cheaper than the "build" option of relocating Indians or hiring western sales people.

BUY VERSUS BUILD IS A CHOICE EVERY CORPORATE technology decision weighs. India has benefited largely from the strategic direction of enterprises to buy rather than build packaged software, IT and BPO services. ISVs have been hiring in large numbers as they build captive Indian development and maintenance subsidiaries. Indian service providers are inevitably a vastly advantageous contributor to its balance of trade. It is ironic that most ISVs and service providers are culturally "Build" oriented and often cynical of the "Buy" options regarding their own operations.

Many ISVs have been building their own captive units in India, although some have outsourced a portion of their development activities (like PeopleSoft to Covansys, Lawson to Xansa). They do this even though their own customers have been using world class, CMM Level 5 capabilities of Indian IT services firms. Their justifications for building against buying are varied and creative, with reasons including their intellectual property being too valuable to outsource, superior code writing abilities and hiring local talent at low costs.

Most auto companies around the world have outsourced manufacture and assembly of 40 to 80 per cent of car parts. Couldn't Daimler or Toyota just build their own seats or axles? They can, but may not necessarily enjoy the complex supply chains built over previous decades. These companies have learned to harness the efficiencies and innovations of their vendors by turning fixed costs of building products into variable procuring costs. In doing so they have morphed corporate DNA to embrace sourcing and vendor management as essential disciplines. ISV outsourcing is child's play compared to these industrial-outsourcing arrangements.

Customer pressure is likely to force software vendors to outsource and partner more with Indian services firms. For years there has been muted dissatisfaction about the quality of packaged software along with the torrent of bugs, fixes, and patches. Now with their offshore vendors, companies have benchmarks proving externally developed code can be improved. By involving certified offshore vendors, image and product quality improves. Cost pressures including ISVs' profitable maintenance revenue is increasingly perceived as overpriced by most customers. Outsourcing that service and distributing the savings conserve revenue to third party maintenance providers. Also, more customers are wondering if their ISV is truly committed to helping manage TCO of its software why they are not introducing more implementation partners using lower cost deployment models.

Once the "buy" culture begins to take root in an ISV, many Indian services firms describe them as ideal customers. The sales cycle is much shorter than selling to a Fortune 500 enterprise. Executive buy-in at the highest levels is easy to arrange with a tech-savvy team. The code specifications tend to be much tighter than what they normally receive from their corporate clients. Their staff enjoys observing their efforts materialize in commercial products, rather than hiding behind a corporate intranet. The ISV community is already very multi-ethnic so cultural problems that often occur in large corporate offshoring are not as common.

Of course, more than a cultural change is required at the ISV. Most vendors lack procurement and outsourcing experience. Their own legal staff focus almost entirely on customer licensing and contracting, but few have ever drafted a vendor contract.

With service level definitions and unique outsourcing personnel issues such as re-badging employees as well as vendor management, large corporations have far more outsourcing experience than ISVs. Long term commitment coupled with resulting payback from a "buy" culture requires this investment be made. If this appears unfeasible, simply compare it again to the supply chain of an Airbus or a Daimler.

On the other hand, Indian service providers are guilty of their own version of a "Build only" culture. They have been cautious with mergers and acquisitions despite their significant equity valuations, and many have botched the ones previously executed. They argue not wanting to spend time on small acquisitions, inadequate bandwidth to assimilate these acquisitions, the benefits of organic growth and previous acquisition failure.

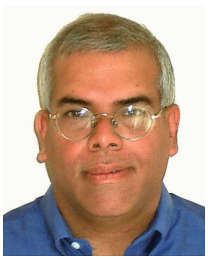
They could learn from Cisco and GE in particular. Both companies handle many small acquisitions each year, with an occasional large one. While arguing about the value of organic versus acquired growth, companies' attitudes is that acquired growth becomes organic growth in the next quarter. If one can take a \$ 30 m company and expand it to \$ 60 m the next year with larger channel and better brand, the merger assimilation effort is highly worthwhile.

I regularly observe many Indian firms struggle with Western sales models. They send mid-level Indian executives to the US or Europe for one to three year assignments and expect high sales results. Few of these executives have formal sales training, and even fewer have a respectable contact network. But they are considered a cost efficient low risk investment by many Indian firms. How "low risk" is an option if the sales closure ratio is 1 out of 20 targets or lower? Other Indian firms have hired small numbers of Western sales people, and many are constrained by previous non-competes as they try to sell to customers they know really well. Still others complained of cultural assimilation issues and returned to the Indian sales model.

A much better option in many cases is to acquire small Western services firms with deep customer relationships. Many such firms primarily deliver project-based services. Usually there is an opportunity to promote application maintenance and other multi-year contracts through this channel. With a appriciating rupee and highly valued equity of Indian service firms, the investment return on current revenue and relationships as well as the potential to double or triple revenue through increased product flow often makes this "buy" option much cheaper than the "build" option of relocating Indians or hiring western sales people. Certain firms, which are more ISV and other technology centric, like Siebel partners, can also bring invaluable alliance opportunities, which many Indian firms have not successfully cultivated. It is easy to use ISV logos on your web site and boast your alliances. However, successful alliances are measured in the field, when ISV sales people start lunch with your sales representatives and actively discuss customer opportunities.

Building a successful acquisition oriented infrastructure requires creating an intelligence network encompassing your own business development people, bankers and consultants introduce "deal flow" and procure an image that you are approachable with merger discussions. It also means you do not have stubborn policies like not paying more than one times the revenue. Of course, it means the ability to execute acquisitions so well that key executives and staff, including customer relationships and networks of the acquired firms stay and continue to be motivated two years after acquisition. The same transitional management and cultural crossover skills that Indian firms have honed to deliver their customer contracts can be applied to successfully integrate acquisitions.

It is unrealistic to expect an ISV to become as good as Toyota regarding supplier management. It is similarly unrealistic to expect Indian services firms to reach GE's level of acquisition skillsets. It is realistic, however, to expect both groups aggressively initiate a "buy" culture and quit making excuses. India's entire IT sector is dependent on the buy culture in corporate Western companies. It is time vendors, which thrive on this customer trait, start making that part of their own DNA.



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