Indian Services Vendors: Areas for improvement

By **Vinnie Mirchandani**

"Indian services vendors could do a lot to improve," believe Vinnie Mirchandani, an ex-Gartner analyst and CEO of Deal Architect. Starting this issue, Mirchandani will write a regular column wherein he will give his perspective of what Indian IT services players can do.

FIRST, DUE PRAISE. WHILE PEOPLE CALL IT ASIAN Tiger, I think of the Indian services market as a cat with nine lives. It has endured unbelievable adversity and continues to thrive and evolve. You have to admire early entrepreneurs like Murthy of Infosys who succeeded in an environment with no VCs and an unsupportive government. You have to admire the software quality focus in India, when around them shoddy products profited and more recently, the market has survived angst in Western economies about white collar job losses.

Survivors and adapters they may be, Indian service vendors still need to be careful about some strategic and tactical areas I outline below:

Stay "Hungry and Humble"

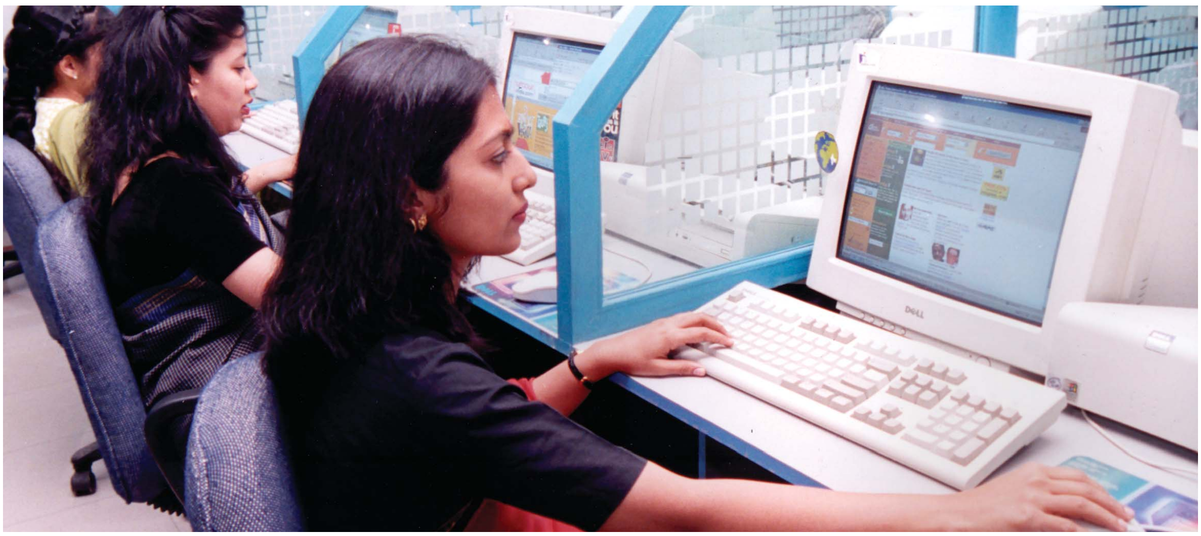
Three years ago, a client engaged me to survey the largest offshore consuming companies in the U.S and Europe. I was pleasantly surprised by the overwhelmingly positive comments about Indian vendors, but one description stuck with me: "hungry and humble".

On a recent trip to India I was struck by the confidence, possibly bordering on arrogance, in several of the Indian firms I met. The general consensus was President Bush's re-election should ensure continued prosperity.

I felt a reality check when I met Manjeet Kripalani, Business Week's India bureau chief, during the visit. She termed the Indian software industry an "accelerator". Not in fancy, glorified terms – just "accelerator". She has a broad perspective on the Indian economy and pointed out that in spite of its success, software is still only three percent of India's GDP. Also, I was recently disappointed to not see a single Indian vendor in a Morgan Stanley survey listing of the top 40 technology vendors with whom CIOs spend their budgets. It is important for Indian vendors to put their success in perspective and continue to stay "hungry and humble".

Diversify customer bases

I am often asked what I consider the biggest risk to Indian vendors, whether it be competition from China, protec-



tionist trends in the U.S, etc. I believe it is their lack of market diversification, in three areas: customer, vertical and geographic concentration. The average Indian offshore firm derives more than 40 percent of its revenues from its top five customers. It's nice to have loyal customers – even nicer to have many of them! Many Indian vendors have done well in banking and discrete manufacturing. Few have accomplished much in entertainment or utilities. Most customers are concentrated in English speaking countries, with over 50 per cent on average from the U.S. They can only envy i-flex, admittedly more of a software company, which has customers in over 100 countries.

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Rethink customer acquisition

In my role as a sourcing consultant, I am able to observe a number of sales teams from Indian vendors in action. I recently listened to a U.S sales pitch from a well-respected firm with five staff on-site and ten on the phone (all Indians) They struggled to finish their 80-slide presentation in an hour. While they possessed obvious technical competence, they broke just about every rule of professional selling.

As the saying goes, people buy from people they know and like. It is difficult and expensive to change buying behaviors and channels. In the 1970s, Japanese automakers saw U.S market traction only as they adopted U.S dealer networks. I know SAP executives were shocked when they entered the U.S market in early 1990s at the compensation sales people expected to make, but they made the investment. Similarly, Indian firms will have to step up. It is not just about cost, it's about revenue (and technology partner management) productivity. A smart strategy is to make small acquisitions that bring tenacious entrepreneurial staff with good customer channels. Unfortunately, I have also seen some poorly executed acquisitions. VCs and other investors have done well, but the executives and entrepreneurs who should have been retained are no longer there.

Get serious about process competence

Mention a technology product term or vendor, whether it's it Java or DB2, EAI or SAP, and Indian vendors perk up, because it's their obvious strength. However, most bunch their technology experiences on vertical lines in financial services or manufacturing, but claim that as vertical depth. With clear exceptions (like Mphasis in financial services) the vertical experience is often shallow. Indian firms do not have the best practices, process benchmarks, adequate staff numbers or other deep business process competence in these areas. This is one reason the prime buying center for Indian vendors has primarily been the CIO, and not as often the CFO, VP of Sales or other business executives. Obviously, as they market BPO offerings they are becoming more business process savvy, even for their IT marketing it is an area, which could use significant improvement.

Expand recruitment horizons

A question I get asked by a number of potential buyers is if India is the second most populated country in the world, why are we hearing so much about India running out of technical capacity? I would like to suggest India's growing staff shortages and wage inflation are self-inflicted –and at least some of the blame must go to the excellent IIT graduates who run most of India's firms. In their desire to hire "clones" only the top engineering talent, they have not invested enough in recruiting and developing talent from secondary educational institutions. Currently, Western firms trying to grow their own India operations are competing for the same resources. Andersen Consulting (Accenture) in the 1980s developed a U.S staff development infrastructure that turned thousands of business, arts and other graduates into very disciplined technical resources. Indian firms need to similarly mine a broader talent pool. They are doing so for BPO offerings and need to for their IT practices as well.

Exercise Pricing Discipline

The hourly or daily rates I have helped our clients negotiate with India tend to be to 10 to 40 percent of US systems integrator rates, depending on skills and onsite or offshore presence. Yet, when buyers are asked how much they save their offshore programs, most will quote saving in the range of 10 to 30 percent - none in 60 to 80 percent. Why the discrepancy? Some of it is clearly attributable to the program overheard buyers have to create to manage unique offshore issues. The rest comes from factors Indian vendors need to work on. We find they tend to "pad"—1.5 to 2 times—the staff count a Western firm would propose.

Level 5 of the Capability Maturity Model (CMM) pertains to Optimising and Continuous Improvement. In every multi-year contract I helped to procure, ask for staffing and cost breakdowns for years 3, 4, and 5. While scope and environments are rarely static beyond the first couple of years, it is surprising that Indian vendors do not drive home a continuous improvement advantage that their level 5 certification would suggest.

Southwest Airlines has inspired low cost airlines around the world. Their discipline is remarkable—last minute, cross-country fares are capped at $ 299 each way. The same price on a competing airline would be many times that and Southwest could easily raise fares 10 to 20 percent a year and still be competitive. Southwest is consistently profitable, yet not greedy. Indian vendors need to show similar discipline even with the temptation to keep growing billing rates compared to Western providers. Sophisticated buyers like GE are now on their third wave of "preferred" offshore providers – they are finding ways to manage cost inflation if the Indian vendors will not.

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Make India visits more enjoyable

Considering that some vendors get several visitors every week to their India centers, the visit process surprisingly leaves much to be desired. During such visits, I find many awkward moments—around meals, politics, and small talk—which only accentuates the fact that buyers are dealing with a very different culture.

Vendors also tend to jam too much into visit days. Mind-numbing twelve speakers, fourteen-hour days are not uncommon. A better approach would be to schedule certain morning presentations, allow free time in the afternoon (when the jetlag truly kicks in) and return in the evening so they can showcase their U.S and European support as they take live client calls.

Pro-actively anticipate frequently asked questions

I find most prospects have common questions:

- What are my intellectual property or data privacy risks in India?
- What business continuity risks will we face with Indian vendors?
- What P.R (Public Relations) issues have other offshore buyers faced?

Most Indian vendors have elaborate answers, when asked, to these and other questions. These are typically informational, not likely to put them at a competitive disadvantage. Vendors (and NASSCOM and the Indian government) would do well to anticipate these FAQs.

The offshore market today is less than 5 percent of the global technology and business services market, so it still has a long way to go. The Indian "cat" has shown itself to be extremely adept at survival and, with some adjustments, should continue to thrive.

Vinnie Mirchandani is CEO of Deal Architect, Inc which helps technology buyers procure offshore and other technology contracts. It also works with technology vendors and investors on strategy and merger transactions. Mirchandani was previously a Gartner analyst and an executive with PwC (now part of IBM). He can be reached at contact@dealarchitect.com.