

Writing on the Wall: China Growth Phenomenon Challenges & Opportunities in Scaling China Operations

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Background

Developed economies like US, Japan & Germany have been the biggest economies in the past. However, recently, the focus of world economy has shifted to the Asian economies led by China & India, growing at a pace of 7-10% annually. Given that global economy is expected to grow around 3% per annum, by 2030 the gross domestic product is likely to almost double. Economies like India (250%), China (210%) & Indonesia (175%) will be among the fastest growing economies. By 2030, China is likely to exceed US economy by 50%. The other Asian power house India will be in third place, and will still be half of Chinese economy.

In the last 15 years, organizations with global aspirations have been focusing on China as a market, as a destination for sourcing or as a destination for setting up operations. During this time, China has witnessed a phenomenal average GDP growth rate of close to 10% annually. By virtue of witnessing this growth phenomenon in the past 10-15 years, these organizations have gathered first hand experience of working with the local authorities, regulatory mechanism, competing with local giants & dealing with cultural and language issues.

The biggest question now is – How best this experience can be leveraged to re-draw future business strategies, in order to contribute to & benefit from China Growth Phenomenon?

In order to assess challenges faced by global organizations and opportunities in scaling up their China operations, we spoke to the Chief Operating Officer of Infosys Technologies (China) Co. Ltd. (Infosys China).

Profile of Mr. Rangarajan Vellamore



Chief Operating Officer Infosys China

Ranga (as he is popularly known) has been spearheading Infosys* China operations as Chief Operating Officer (COO) since 2007 and is based out of Shanghai. Infosys China has about 2000 people strong operations spread across 2 locations, namely Shanghai and Hangzhou, delivering services for Global and Greater China Clients.

Out of the career spanning little over two decades, Ranga has been with Infosys for the past 13 years. Prior to joining Infosys, he has also served in Indian Civil Services. Apart from Greater China, he has extensively worked in other geographies like US and Australia in various leadership roles. His key contributions have been in the area of client management and delivery covering technology outsourcing and consulting business. Ranga is proficient in motivating and developing high performing teams.

Ranga is an IIT Kanpur alumnus, and had been an active Rotarian for 7 years. In his free time, Ranga likes to play Violin (Indian Classical Music).

* Infosys Technologies Ltd. (NASDAQ: INFY) is a global leader in the "next generation" of IT and consulting with revenues of over US\$ 4.8 billion (FY 10)

Question & Answer

Question:

What are the significant learnings from your existence so far in China? Do you think this experience adequately equips global organizations in designing future growth plans?

Answer:

Infosys has been present in China for the past 6 years and I have been leading China operations for the last 3 years.

It has been a step-by-step journey and there is a long way to go. As Confucius said “First step is the most important step in the 1000 mile journey”. The good news is that we are on the journey which is probably once in a life time opportunity. It is exciting to be a part of an economic growth phenomenon which has never happened before. The important learnings of working in China can be classified as follows.

Strategic Perspective:

1. You need a lot of patience and perseverance. Long term investment strategy is very important.
2. One needs to be thinking big in terms of strategy and its deployment in China.
3. One should never consider China as unified composition. There is a lot of diversity in China and there is a lot of empowerment at Provincial and City level of governance. As a market, one shouldn't consider this as homogenous market.

Cultural Perspective:

Culturally, there are lot of similarities between India and China. However, there are certain differences such as

1. Many a time, Chinese people will not express their ideas voluntarily.

2. They would not like to talk openly about the challenges they have and also will not escalate the situation unless it is absolutely clear that it can't be solved by them.

Some of these characteristics are different from the behavior you would normally encounter in other geographies. For sustained operations, you need to take cognizance of this fact.

Both these learnings are definitely important in designing the future growth plans.

Question:

What is the current composition of domestic & export consumption in China? Is it going to change significantly, shaping the future growth?

Answer:

Currently 65% of our business comes from servicing global customers. However, in future, we see that domestic business will grow with growing market opportunities.

In order to leverage this situation, our current focus areas are:

1. Domestic market
2. Leveraging the

local talent for servicing global business

We feel that both are important as they provide ability to build scale and can

prove to be useful in delivering value to both local and global customers.

Question:

Have you seen any shift in government policies assisting global organizations to scale and gear up for the future growth?

Answer:

Chinese government constantly reviews and comes up with various schemes encouraging companies to grow their business in strategic areas. Service industry is a key focus for the Chinese government as it plans to further increase the contribution of service industry to GDP over the next 10 years. Hence Chinese

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government, from time to time, comes up with policies on Taxes and Subsidies for these industries to grow. These policies definitely help the companies to establish the foundation and grow.

Question:

What is the level of competition faced by the global organizations from the local Chinese giants?

Answer:

Chinese private enterprises are relatively young compared to global organizations as entrepreneurship was encouraged only after opening up of the economy. Many of the Chinese companies are on an average only 15 – 20 year old. In the manufacturing and consumer durables locally there are lots of dominant players such as Haier, HiSense, etc. If you look at the telecom space, Huawei and ZTE are emerging as global brands. In the space of internet technologies Alibaba has emerged as a large player. Many of the global companies do face competition in the local market with these brands. These companies are also becoming global in nature. For example, India is one of the largest international markets for Huawei. In the IT services space there are many companies and the industry structure is fragmented. They are definitely growing up and building large scale of operation and many of them are primarily focused on exports.

Question:

What are the current industry-practices undertaken by global organizations to widen their reach in the local market?

Answer:

Some of the steps taken by global organizations to widen their reach within the local market are:

1. Developing partner network across the country and working closely with certain local companies
2. Creating regional focus across the country addressing local nuances
3. Understanding local government's priorities
4. Using exports to build capacity giving the companies necessary scale
5. Moving regional head quarter to China

Question:

In order to scale up the operations, what strategies should global organizations adopt that are based on leveraging local infrastructure, skills & culture?

Answer:

Some of the factors that global organizations have to understand to grow their business in China are:

1. One can't compete locally in China on cost related factors. Global organizations should demonstrate value to the customers. Chinese customers are willing to pay if they see value
2. The market is not a homogenous market. Though China has a population of 1.3 Billion, the size of the consumption market is about the size of French economy.
3. Dealing with the Provincial and City government authorities may vary across china due to cultural difference across provinces, size and the industry structure in the province.
4. Local infrastructure is very good in most of the locations. The key is to understand certain local policies and industry-preferences. Many of these rules and policies may not be available in a written form. It will require discussion with the government authorities.
5. From the point of view of having access to the pool of talent, you may often find it challenging in getting middle level management people. Therefore, to begin with, it is advisable to budget for getting people from global locations. As a long term strategy, training is a very important component to develop the local talent. So, one need to make adequate budgetary provisions for training to inculcate company practices, ethics and value system.

One will always hear that China's practices are different. "This is the way business is done in China". While one should respect the global and local practices, the answer lies in deciding what is important for your company? Please don't formulate your strategy based on these practices. Formulate them based on what is important for your company.

Question:

Chinese government, in the past 2-3 decades, has been able to pull 250+ million people out of poverty. So far, what is the extent of participation from global organizations in this?

Answer:

Chinese government has done a commendable job in alleviating poverty in a record time which the world has never seen before. Opening of the economy during the last 30 years is one of the elements that have helped to accelerate this dream. Hence, FDI by various global corporations have helped in creating skilled jobs across the spectrum of industry helping China. Hence in my opinion, global organizations have played a key role in this achievement.

Question:

Is there any room for increasing this contribution, considering a similar or larger growth expected in the next 2-3 decades?

Answer:

I think so. The reach of global organizations has primarily been restricted to the coastal areas. This has resulted into migration of people from West to East. However in the last 4 – 5 years, Chinese Government has also created “move west” strategy. They have created industry Special Economic Zones in the Western provinces and cities, including policies and schemes. This has provided attractive platform for investment in industry. Also as the eastern side costs are increasing, it is likely that many low value activities move to Western area as the costs in these locations are lower. Hence, I believe there will diversified industry development as we move forward and will continue to help in decreasing the poverty level across the country.

Question:

What are the top growth opportunities in China going forward?

Answer:

As mentioned earlier, Services industry is likely to grow across the country. Technology solutions demand will definitely go up as the

Chinese organizations and companies are likely to invest in implementing new systems and solutions. Many industries such as insurance will gradually be opened up for Foreign Direct Investment. This will be a great opportunity for growth. Another key industry which is going to see mega opportunities is in the area of environment and sustainability. Chinese government has taken its own target to reduce the carbon emission level by about 30% or so in next 10 years. This requires lot of investments in the area of energy conservation, clean energy generation and reusable energy etc. This industry is likely to see large growth in China.

Question:

What is the level of skills availability within the local population necessary to fuel this growth? What do you think are the measures global organizations should take in order to complement local skills with multi-cultural resources from outside?

Answer:

Leveraging the local talent is very important and a critical factor for success. Skilled talent is available in large numbers. So for any organization, this will not be a problem. Hence global companies should invest in training and grooming the talent. There will be a shortage of talent at the middle management level. Organizations should look at recruiting people from the region or getting senior folks from different region to develop this talent. However, in parallel, one has to spend time to groom the local talent to the management levels. This can happen by sending local talent to global locations to work and gain experience to come back. One key challenge that global organizations will face in initial stage of evolution is attrition. As there is lot of demand for talent, companies will face the challenge of attrition. One has to figure out a way for retaining the good talent.

Question:

What is the current mode and level of partnership with the local companies? What do you think is the best partnership model facilitating this growth?

Answer:

We have different types of partnerships with local companies such as partners selling our solutions or working with us integrating their specific localization products. The best partnership model is when there are complementary capabilities. It is very important to evaluate this aspect before entering into a partnership. It is also important for each side to make sure their value systems match. Both partners need to ensure that there is a clear understanding of each other's objectives. Joint Venture is also a model which is widely talked about in China. From what I heard about this model is that there are many failures in the market compared to the successes. Hence one needs to be very careful before entering into the JV model.

Question:

What, according to you, are the most critical factors that need to be on the top of the mind for global organizations, in order to scale up their China operations?

Answer:

1. China should be considered as long term investment instead of focusing on short term benefits from the operations
2. Consider China as a large scale operation in your overall business plan
3. Need to focus on getting the right leadership, so that there is good confidence at every level – employees, customers and partners
4. You may see some challenges in middle level talent. Best way to fill this gap is by adopting a dual strategy of complementing with international talent and training local employees

Conclusion:

Business strategy of any global organization is incomplete without factoring in China Growth Phenomenon.

In order to address business growth in China, global organizations carefully need to complement their global expertise with local practices. Forging strategic partnerships with local companies having complementary skills will not only provide the local flavor but also accelerate business growth. Grooming local talent complemented by global resource pool is the best strategy for long term sustainability. Training aimed at inculcating company values, ethics and practices will definitely prove to be beneficial in overcoming cultural barrier.

Partnering with local organizations and Provincial and City Government authorities is the key to success. You need to be aware and be equipped to handle the policy differences across different provinces and cities.

It goes without saying that you cannot afford to ignore the writing on the wall!



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