PANKAJ MISHRA

Pankaj Mishra has over nine years of experience in IT Journalism. Having started his career with Express Computer, Pankaj then moved to become the India Correspondent for the Singapore-based and US-headquartered United Business Media where his role involved tracking the Indian Technology industry for Asia Computer Weekly, Network Computing Asia and Intelligent Enterprise Asia. He then moved to Jasubhai Digital Media as a Senior Assistant Editor. In 2006, Pankaj joined Mint as its lead Technology Correspondent and later also covered Telecom for the publication. Pankaj recently joined the Indian Edition of CIO Magazine as its Executive Editor. His interests include writing on Software Services, Business Process Outsourcing and Emerging Technologies in the areas of wireless and enterprise applications. Pankaj has a Bachelors degree in Commerce from the University of Allahabad.

Pankaj won The PoleStar Award for ‘Best Feature in IT Journalism’ for 2007 for his story titled, ‘Rural twist to BPO story’, published in Mint.

RURAL TWIST TO BPO STORY

Sai Seva in an Andhra village offers solutions to cost and attrition worries of firms such as Royal Sundaram and HDFC

PUTTAPARTHI, ANDHRA PRADESH: G Shekarappa, a 44-year-old farmer in drought-hit village of Veeranjaneyapally near Anantpur district in Andhra Pradesh was struggling to support his family of three despite four acres of land and four buffaloes. That is, until last year, when his only son, G. Hari Babu, a commerce graduate, got a job with a back-office solutions firm, Sai Seva Business Solutions, which is based in Puttaparthi, just five kilometers from Shekarappa's home.

Babu, who still sells milk in the morning hours around his village, could now be seen processing account opening forms for Mumbai applicants of the country's second largest private bank, HDFC Bank Ltd, out of Sai Seva's 1,000 sq. ft office, along with around 50 colleagues, including a barber's son and the local postman's daughter. Babu is among hundreds of educated youths from across nine villages around Puttaparthi who have a desire to earn more to support their families reeling from frequent droughts, but who might have had to migrate to cities such as Bangalore and Hyderabad for lack of opportunities in their villages.

Until they were hired by Sai Seva

"Not only am I able to bring cash every month for basic needs, but I can also stay with my father and support my family," said Babu, who has recently also enrolled for a Master's in Computer Applications course from Indira Gandhi National Open University.

Founded by four friends Sai Narain C.D.K, Sujatha Raju, R. Prasanth and Prasad Avvagari in May 2006, the venture was built around the notion that "around 80 lakh educated rural youths are still unemployed and Gartner (a research outfit) said that India could lose 70% of the BPO opportunities to more cost-effective countries by 2010," according to Narain.

Narain, who was a Marketing Director with Citibank NA in Taiwan and Head of Consumer Banking at Standard Chartered Bank in Bangalore, along with his friends, invested around Rs. 850,000 to buy 40 workstations and also rent an office space for the BPO.

Prasanth, who has an MBA and a thriving tech-support venture called Travee Solutions, and Avvagari, a systems manager with Hewlett Packard Co. in California, are the other two directors.

Initially, the venture waited for word of mouth to bring in customers, but "we are now looking at seriously marketing the advantages of outsourcing to potential clients not only because we are 40-60% cheaper, but also because we do not have to face the urban challenges of high attrition," said Narain.

The pitch appears to be working

In addition to HDFC, Sai Seva also processes insurance claims for microfinance company Basix as well as Royal Sundaram Finance. When HDFC's Chief Information Officer, C.N. Ram first came across this venture, he immediately pitched for it to the top brass at the bank. "We were battling with high attrition rates at our back office, and it was becoming an unviable proposition," he said. "We have lent around Rs.500 crore to a million families in villages under our microfinance business, providing a huge opportunity to scale up on outsourcing.

HDFC has started with outsourcing of data capture for account opening forms and would look at more activities such as data filling and other forms processing if the pilot project with Sai Seva goes well," he said. "We can replicate this model endlessly across many destinations," added Ram. "Whatever we are outsourcing is a critical piece for our business."

Meanwhile, existing customers, such as Royal Sundaram, are already talking about giving new work around their entire national retail health-care venture. Currently, the BPO is processing over 1,000 claims every month for Royal Sundaram.

Lower costs is clearly one reason

Raju, one of the co-founders, notes that while per seat cost in an urban location, such as Chennai, hovers around Rs15,000, it could be as low as Rs10,000 in the village. "Beyond salary costs, one can also save a lot on infrastructure costs and attrition costs," she said. A 1,000 sq. ft office in Chennai could cost as much as Rs.35,000 a month when compared with a monthly rent of around Rs.10,000 in Puttaparthi.

While many would argue that getting employable youths in such villages could be a challenge, "we have already got over 250 CVs and still get almost five job enquiries every single day," said Sai Krishna, Project Manager with Sai Seva, who left his job at MMC Infotech in Chennai to manage the operations of the village BPO.

Candidates such as Sai Prasad, 21, who joined as an office boy at the venture a few months ago, was recently inducted as a full-time employee working on the HDFC project. "He showed a lot of interest in moving to the operations role, and even picked up typing speed from nowhere to around 62 words per minute," said Krishna. Adds Raju, "We want to take these jobs to the villages and not get them to migrate."

Employees such as Babu and Prasad are paid around Rs.3,500 each month apart from Rs.500 that goes into their bank accounts. They are also eligible for a bonus and medical insurance. Most of the employees at the BPO now speak fluent English. "We put a box in the hall, wherein anybody speaking a word in Telugu has to donate Rs.5. After the first few weeks of utter silence, now many are speaking good English," said Krishna.

With an eye on expansion, Sai Seva has already started training local village youths on basic computer skills such as Microsoft Office, "as it also helps build a pool of resource for any future new business," said Krishna, noting that "it would be difficult to go beyond 200 seats in Puttaparthi."

With new business coming in, Sai Seva is looking at more rural centres in locations such as Bagepally and Kuppam in AP, "and will have centres in over 25 villages across the country in the coming few years," said Narain.

PALLAVI SRIVASTAVA

Pallavi Srivastava started her journalistic career in 2003 as an Audience Research Coordinator at NDTV. She then freelanced with The Future Times and indiantelevision.com before joining the Research wing of CNBC TV18. In 2006, Pallavi joined Business Today as its Principal Correspondent. She is currently working with CNBC TV18 as a Senior Correspondent. Within a short span of five years, Pallavi has had the opportunity to work with both print and electronic media. She did her Diploma in Journalism and Communication at Amity School of Journalism, Noida.

Pallavi won The PoleStar Award for ‘Best Feature in Business Journalism’ for 2007 for her article, ‘Kiranas Strike Back’, that appeared in Business Today.

KIRANAS STRIKE BACK

In possibly the first experiment of its kind in India, some 3,000 mom-n-pop stores in Rajkot, Gujarat, have come together to take on modern retailers. There's no guarantee their initiative will succeed, but without it, their failure is almost certain.

Driving into Rajkot's Dharmendra road, a down town shopping area, from Ahmedabad on a recent afternoon, one doesn't expect to see too many people in the streets. For one, Rajkot is a relatively small town (population: 1.35 million). For another, it's a weekday. But there's a third reason, and the one that has prompted me to come all the way from Delhi: Rajkot's traditional retail formats (for the sake of simplicity, I will be referring to them as kiranas, or neighbourhood stores) are under attack, and, no prizes for guessing, the culprit is modern retail.

At this point in Rajkot's history, modern retail boils down to just one mall, the Iscon Prozone mall, anchored by Kishore Biyani's hypermarket chain, Big Bazaar, and lifestyle store Pantaloon. There are other retail chains as well, including Subhiksha and Adani (now part of Reliance Retail), but these entered the city only last June. Therefore, to say that the 400-year-old city's mom-n-pop retailers are under attack may sound like a lot of exaggeration. But talk to the small retailers, and they will tell you-besides pointing to the empty streets-that they can already see the writing on the wall. "My shop is 40 years old and we sell utensils and crockery of reputed brands like La Opala, Borosil, Coral, and Diplomat. But ever since the malls started selling cheap Chinese crockery and smaller brands that had never entered the city

The big competitor: Big Bazaar at the Iscon Prozone Mall

before, my sales are down more than 20 per cent over the last six months," laments Nayan Kotecha, a 29-year-old who mans his family store in Dharmendra market. With more retailers headed to Rajkot (see Destination Rajkot), Kotecha and his peers have plenty to worry about.

But then, don't forget that this is Gujarat (Rajkot is about 218 km from Ahmedabad) and home to some of the savviest business communities in the country. So, far from rolling over and playing dead, Rajkot's kiranas, some 3,000 of them, are coming together to take on modern retailers at their own game. A brainchild of Rajkot Chamber of Commerce & Industry (RCCI) President Hitesh Bagdai (who, in turn, roped in Delhi-based consultancy Technopak to devise a strategy), the Rajkot experiment is both ambitious and unique. The plan is really simple: Create an umbrella association under which Rajkot's fragmented retailers can rally around and start becoming more organised in terms of how they buy and sell and how they manage their inventories and customers. "I think the Chamber is on the right track and if survival means getting together and spending a bit more on marketing, I don't mind it," says Kotecha.

A question of survival it is, as Bharat Thakkar, owner of Options, a four-storeyed branded-goods store in Rajkot's Tony shopping district, Dr Yagnik Road, has discovered. Come March 31, Options, Thakkar says, will see a 10

GETTING ORGANISED

If you can't beat 'em, join 'em, say Rajkot's kiranas.

- **The Front-end Plan**

  All the 3,000 small-time retailers plan to rally under one shopping mall or complex, and offer modern facilities such as food courts, ATMs, and entertainment (gaming)

- **The Back-end Plan**

  Do collective buying to increase the negotiating powers of small retailers vis-à-vis the bigger, modern retailers

- **Wooing Customers**

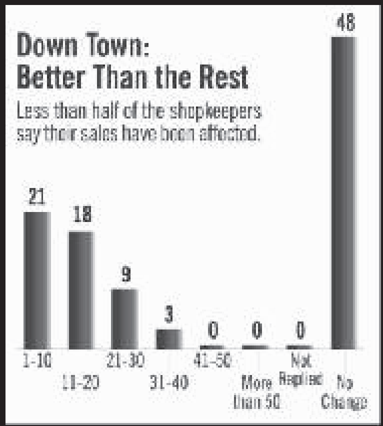
  Offer same quality, hygiene and service levels as modern retailers, while continuing to do things like home delivery

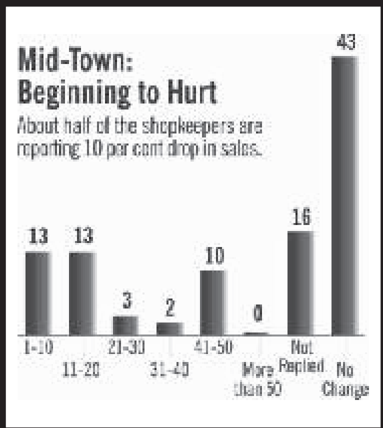
- **Sharing Logistics**

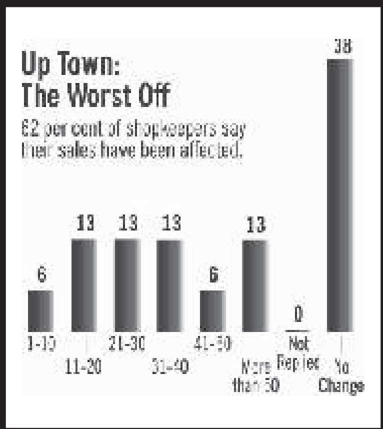
  To reduce infrastructure costs, create common warehousing facilities, database and connectivity, besides common parking facilities

FEAR THE MALLS?

So far, shopkeepers in key shopping districts haven't seen their sales get hit because of malls-of which there's only one in Rajkot.







Figures in percent

Source: T.N. Rao College of Management Studies, Rajkot

DESTINATION RAJKOT

A handful of malls are to open in the city by the end of 2007.

- Iscon Prozone Mall
  Operational, 170,000 sq. ft
  (Pantaloon and Big Bazaar)
- Reliance Mall
  200,000 sq. ft
- Crystal Mall
  150,000 sq. ft (Anchor: Croma)
- Iscon Mega Mall
  200,000 sq. ft (Westside)
- Ozone Mall
  100,000 sq. ft (PVR)

per cent drop in sales over last financial year. The store's in-house merchandiser says that he has had to change his sourcing points, as his customers have become more brand-conscious with the advent of big retail in the city. In fact, apart from losing customers, Thakkar has lost employees as well to the bigger retailers. Others tell similar stories. “With diminishing sales, I have almost halved my sourcing and even removed the HLL Super Value scheme and started keeping locally made products to supplement my income, but I am sure that with the Chamber's help, small grocers like me will also be part of (the manufacturer's) promotional campaigns and eventually get my customers back,” says 43-year-old Raju Bhai Manwani, who says sales are down for the first time in 23 years.

The Rise of ‘Small-Marts’

To start with, the Chamber plans to develop three market clusters in the first year. The first cluster to be developed will be in the old areas of Rajkot, comprising the three parallel markets of Dharmendra Road, Lakhajiraj

Road and Gheekanta Road, which also happen to be the oldest market lanes in the city. Here, the shops range from tea shops to garment/saree shops to those selling electrical appliances. The Rajkot Municipal Corporation (RMC) has already widened the roads here and although the complete makeover will take some time, the vendors are excited about the project. “When conceptualised, this will give us the scope to not only retain our customers but also become a shopping centre as attractive as the malls,” says Sarju Karia, who runs a hosiery store, Liberty, in Dharmendhra market.

The second cluster to be developed would be at Dr Yagnik Road and the third at Kalawad Road. These clusters will be developed like any other shopping complex, with street furniture, decorative lighting system, systematic billing and hygienic food outlets. There will be common sourcing and warehousing of goods, common advertising, marketing and below-the-line activities and a single identity created via common designs and colour schemes for all stores on the street. All stores in this model will have a unique identity and shoppers would be given discount coupons on purchases from any shop on the same street.

Prabhudas K. Tanna’s saree shop is three generations old. He fears he may lose customers once branded saree stores come to town

New & happening: Iscon Prozone mall

SOME BIG RETAILERS ARE STEPPING UP THEIR PRESENCE IN THE CITY

- **Subhiksha Hypermarket**
  Currently has one, but plans to add another seven by June this year
- **Future Group**
  Has one each of Pantaloon, Big Bazaar, Gini & Jony. Intends to spread across the city, even expand in other areas, specifically in the old market area
- **Reliance Retail**
  Plans to open eight Reliance Fresh Stores by year-end (including Adani)
- **Croma**
  The consumer electronics retailer will open its first showroom by April
- **Adani (now part of Reliance Retail)**
  Has five stores as of now
- **HLL Super Value**
  The FMCG giant’s self-service format that partners with local grocers has 34 outlets in the city-down from a high of 50

For the first cluster, the Chamber has already received RMC’s permission to convert a defunct vegetable market into a multi-storey parking lot, which will connect the three market roads to the main road. The corporation has

Bharat Thakkar (in front), owner of a four-storeyed branded-goods store, has not only lost customers but also employees to the bigger retailers

also set aside a budget of Rs 5 crore for the cosmetic changes of the old city area, and part of that money would fund a planned makeover of the marketplace as well. RMC has also decided not to sell any more land in the old city area for any sort of commercial activity. For back-end operations, the Chamber has sought the Gujarat State Civil Supplies Corporation's (GSCSC) permission for the use of warehousing and other facilities belonging to "Kalpataru" Super Markets, a defunct departmental store chain owned by GSCSC. "We will help the group in any way we can, whether it is in creating a special purpose vehicle (SPV) or giving them assistance in infrastructure," says Vijaykumar Rupani, MP, who thinks this is the only option available for the traditional shopkeepers. "Almost Rs 5 crore will be needed for the backward integration in the first phase, but almost all the money needed can be raised internally," says Tecknopak's Anil Rajpal, who is assisting RCCI in the initiative.

Yet, the Rajkot experiment is fraught with risks. The biggest challenge is, of course, keeping all the 3,000 retailers together, even as they compete with each other-and not just larger retailers-for customers. It would be reasonable to say that some of the small retailers will necessarily shut shop, while some others will find their own niches in terms of products and customers to survive. That is already the case in older retail markets such as Chennai. Helping traditional retail survive are also manufacturers, who see it as a foil to modern retail. "We are tracking these developments closely and our strategy will evolve in course of time," says Milind Sarwate, Chief Financial Officer, Marico. The Rajkot experiment, as Bagdai explains, is not meant to counter the rise of modern retail ("we are not against modern retail," he clarifies), but to help traditional formats become more like modern retail. There's no guarantee that the RCCI's initiative will succeed, but without it, the death of Rajkot's mom-n-pop stores is almost certain.

PRATIMA HARIGUNANI

Pratima Harigunani started her career as a copywriter with MAA Bozell and then moved to The Maharashtra Herald, Pune, as Sub-editor cum Reporter for Business and IT. Pratima is currently the Assistant Editor – Content for CyberMedia News, CIOL. She has written research papers for various journals such as the Indian Journal of Service & Marketing.

Pratima won The PoleStar Award titled, ‘Jury’s Special Recognition’, for 2007 for her articles: ‘What’s cooking at OPD?’ and ‘Is your ATM safe?’, that appeared in CyberMedia News.

WHAT'S COOKING AT OPD?

Offshore Product Development or OPD has been in the limelight for quite some time as a new chapter in the Indian IT success story

PUNE, INDIA: Year 2004. A Nasscom-Mckinsey analysis had predicted the opportunity in the products and technology services space would be worth $8-11 billion by 2008. Year 2007. Nasscom estimates that OPD exports will grow from the current $2 billion to over $7 billion by 2010.

Back to year 2004. For companies and geeks around the world, Indian IT prowess was synonymous to application development, coding or testing. The global platter was ripe but India was still delivering the starters (testing), the mocktails (applications) or the desserts (maintenance and support). The main course (core product development) was still not under India's IT province. But some adventurous and plucky chefs woke up to the challenge, that was at the same time, a delicious opportunity. If companies could offshore peripheral work, why not the products too? And so began the experiments with a new recipe-OPD or Offshore Product Development. So has the recipe worked?

Whipping up the right mixture

There is no arguing the fact that India is well equipped to handle the OPD challenge. Challenge it is, for it is not without its own set of reservations. Product development is no small feat. It needs the upper-tier of development skills, domain grip, insight into the end-requirements and time-to-market imperatives. More than that, it is not easy for a company to let go of its life-blood and entrust a third party for its core work. No matter how much one talks about one's track record in OPD, unless it is evidently demonstrated that an OPD vendor is more of a partner in the product, it is not easy to win and sustain business.

As Shirish Deodhar, senior vice president for Symphony Services, a formidable player in the OPD market that has clocked a CAGR of 190 per cent over the last four years, reasons, "Reservations are not absent. Any time there is an off shoring transaction from the US, the operational level needs time and proof to go over the initial resistance. But when India is able to deliver, the hitches are ironed out."

With over 80 customers and 225 Products Under Management (PUM), he surely has enough experience to support that. Symphony, for instance, has over 1650 deliveries to its credit with 644 deliveries last year. Ten releases last year constituted de la crème 'white board to market' category. "We are doing a couple of major releases per week and some minor ones on a per day basis," he says. The score of 400 minor releases and 225 major ones is enough of a glimpse but more what tickles one's curiosity is that 10 per cent of its PUM belongs to the complete ownership league, where Symphony has traversed the whole hog, from design to support stages of a product. "This is an example of maturing of the market. This wasn't the case earlier," Deodhar says.

Persistent Systems that has added 64 new customers (including license sales) in FY07 and reported consolidated revenues of $70 million in FY07 is another upbeat player in this market. Almost a pioneer over the past seventeen years, with a CAGR of 60 per cent over the last three years, its delivery record shows 170 global software companies, including companies in the start-up phase and has undertaken over 1200 product releases.

Dr. Anand Deshpande, chairman and managing director of Persistent Systems, cites the Nasscom & Booz Allen Hamilton report for a flavour of how tantalizing the market is. Outsourced Engineering and Design Segment is set to touch $40 billion by 2020 while total Offshoring spend to grow to $150-225 billion by 2020. "These figures are proof enough of the upswing the industry has witnessed in the past few years and how it is expected to grow in the future."

Still catching up

For many, however, there's more to be done and a realistic assessment points out other chinks in the armor. Customers still do not completely and easily perceive the difference between a generic provider and an OPD provider. Bhoovarahan Thirumalai, EVP and co-founder of Aspire Systems, another player in OPD that claims nearly 80 per cent growth, opines that customers are still 'offshoring', not 'outsourcing product development'.

"The differentiation is even more confusing - from a customer's perspective - when the generic IT service providers-including the tier-1 companies claiming to specialize in the OPD space. So, while OPD companies have reported impressive growth - the generic growth of the industry matches with that. The larger players in OPD have reported around 40 per cent revenue growth-in fact one public company in the OPD space has reported a 35 per cent increase in revenue but only a 5 per cent increase in profit. But, that growth is in line with what Infy or TCS have reported, at a much smaller base. What that means is-it is the 'offshoring' buzz, that is giving the growth, and OPD buzz is still catching up," says Thirumalai.

His argument is simple. The momentum to grow beyond the speed of generic offshoring industry will be with companies that perfect the art of product engineering-not just from the technical angle, but also from the overall packaging angle.

The pie has changed

Throughout the OPD journey treaded by India so far, the roster of work has visibly changed. This is palpable not only in the complexity of the work that is coming to India but also in the strategic thrust that clients put behind it and of course, the deal sizes which have enlarged the pie.

"Clients are no more just putting a toe in the water but they are ready to jump in the pool. Not only that, when they come to India now, they already have a plan, a transformational mindset," Deodhar says as he points at how the market has changed from transactional to strategic nature.

Another big change is in the perspective from the client's side. More cutting-edge work is now happening from India. As Deodhar explains, "Instead of asking an Indian company to do something, clients are now saying that teach us what we may do. This change is backed by their reckoning that while a client might just do ten releases in a given period, as an OPD vendor we are doing 1600 at the same time and hence our spectrum of work and expertise is no less." Another ripe market, in Deodhar's estimate, is emerging fast and wide-the software enabled business, where the company already has over 12 customers. "It is an exploding market. From Google to ebay to even traditional companies are looking at in-house products for their internal requirements. From $6 billion in 2006 it is projected to go up to $20 billion in 2011. We are increasing our action here."

Persistent on the other hand is increasing its action space from traditional strongholds like infrastructure ISV, application ISVs, telecom, life sciences and business intelligence to verticals like communication, media entertainment. Deshpande shares, "There is an interesting category of players such as the next generation platform players on the internet, and other B2B, and B2C plays; here the platform is the product. We are also actively involved with some established players in this space as well as next generation web 2.0 plays."

A look into Aspire's basket reveals a change in the mix as product engineering practices are culminating as frameworks. "We will be making a lot more 'engineering' announcements in the days to come by - consolidating the difference of OPD and excellence of Product Engineering versus generic offshoring," says Thirumalai.

In fact, of late, many other Indian players have announced releases in the area of frameworks, with NIIT, Synechron and Cognizant to name a few. Frameworks constitute a new strategy where service companies tap their experience in applications and services and churn out reusable components that can be used as ingredients in turn, by other companies. Something similar to the OEM market that Indian manufacturing space witnessed before it started producing made-in-India fare. Synechron had sometime back entered the market with two Strategic Solution Frameworks (SSFs) for the mortgage banking industry while it had plans for insurance and capital market verticals a well. Similarly, Cognizant has in its basket frameworks on RFID and SOA.

Agile or rapid development, which has been considered as an antithesis (sometimes - even as antidote to offshoring) is witnessing change too. "These processes are getting more and more adapted in the offshoring scenario. OPD companies are spearheading this effort," Thirumalai adds.

Changes in the menu

As Indian OPD players get mature and bigger, the servings are also maturing on the product development value chain. OPD is happening both in core and non-core areas. Deshpande explains the chain citing the four phases of outsourcing. "The first phase is what we call cost arbitrage, the second phase is process efficiency, the third phase is design for manufacturing (DFM) and the fourth is Original Design for Manufacture (ODM). The twist from a software product perspective on all of this is that a product line may encompass varying degrees of the above, and hence it is more of a continuous evolution as opposed to discrete phases."

"Cost arbitrage means that companies are looking for places to get cheap labor. So they essentially do the same thing that they are doing somewhere else and put as many people as are required to do the job as long as it costs less. In the process efficiency stage the company realizes that it does not need a large workforce and can instead be more efficient by doing some rearranging or tuning of processes. The next step is design for manufacturing. Here companies start to innovate on products and processes. In this context, the software industry in India has evolved from cost arbitrage to process efficiency, where software developers are looking to be more efficient, have their processes in place and in turn reduce cost and time to market and finally innovate on services and offerings." Persistent, he cites again, has segmented the market into small/start-up/mid size ISVs and mature ISVs. "This has enabled us to focus separately on these segments and cater to their requirements accordingly. For example, we help early stage companies encountering challenges of rapid prototyping for POCs, agile development, dynamically evolving requirements and development and testing across multiple platforms. We have initiated the Design for Manufacturing strategy through our service offering called 'Go-To-Live' which is targeted specifically at emerging software vendors and vendors looking for imminent time to market advantages."

Starters

Overall the industry is maturing. So, there is a lot of energy and action in growth and mature products as opposed to start-ups, thinks Aspire's Thirumalai. "But, many start-ups are definitely doing their product development in India - with OPD firms. We have had the opportunity of working on a handful of first version work in Aspire."

His explanation goes thus, "Out of $5 billion invested by VCs in 2006 in 865 deals as announced by National Venture Capitalist Association, only 1.2 billion was invested in 234 new companies as first time - or seed capital. This leaves the other funding sources including private equity and plough-back of profits that growing and mature companies invest in R&D. Also, consider the fact that start-ups put less investment on product engineering than growth and mature stage companies."

So, product engineering investment and hence OPD revenues will continue to be majorly towards growing and mature companies as opposed to start-up firms. "Whoever is reporting more start-up sided revenues - is not playing in the larger market," he quips.

Symphony Services kitty has 60 per cent of its 80 customers belonging to the enterprise class while the rest are early-stage start-ups. Most of the products are from the US while only four to five customers are from other regions. The tide has also changed when it comes to sunrise and sunset products. Previously it was more of cross-platform support or maintenance, but now product ownership is increasingly conspicuous.

'Captiv'ated

There's one more sea change happening. The captives for development that many companies set up for work of the OPD flavour are also coming into the fold of pure play OPD vendors. "More and more companies are saying that take my captive over. Close to 1000 employees from several captives have moved to Symphony and more captives want to integrate with Symphony," shares Deodhar.

Aspire nods in agreement. That trend is gaining definite traction. "Aspire Systems is yet to announce deals in this direction, but we are working in that direction, and will see action there," adds Thirumalai.

Captives of some ISVs have matured as Deshpande puts it. "They undertake more high-value work and are beginning to outsource peripheral functions to third party vendors. This helps them to save costs and maintain a healthy bottomline."

Minding one's Ps and Qs

What effectively turns the tide of OPD in India's favour is the degree to which factors , that are almost the clinchers in any PD deal, are managed – Patents (or IP) and Quality.

Symphony's Deodhar stresses that OPD's real shine is witnessed in terms of the core IP work being entrusted. "We got 12 patents filed by our customers. Here our engineers were the authors. More than the number of patentable ideas, it's important to ascertain how many actually got converted to an IP. The growing confidence that IP is safe in India solves a critical issue. People thus no more offshore products just for the cost factor. Market has, for sure, matured."

The next inflection point

So what would be the next point of interest in the OPD curve? The next inflection point is not isolated for OPD firms, it is the inflection point that the ISVs need, as per Aspire's Thirumalai. "Software vendors need to have much better product engineering practices. After all, out of the total 600 odd billions spent on IT in the world, software vendors are able to command only one-third market-share. That is because a lot of our customers' customers are 'building' custom applications, as opposed to 'buying' our customers (ISV's) product solutions. That needs to change, and in any other industry - take for examples shirts - 'ready-made' has almost replaced 'custom-made'. And, that is not just a question of standardization, but also availability, customization, scalability, flexibility - the same attributes that software products have to possess compared to custom-made software applications."

From the existing established ISVs' perspective, this will involve re-engineering of code-bases, he explains. "That is a huge investment and that has a slow ROI. ISVs are more bothered about their immediate releases than about the long-term code-discipline. This critical balance and the ability of OPD firms in convincing the ISVs to follow stricter engineering practices, in my opinion, is the next inflection point," he iterates.

A pinch of salt

Doubts and debates do not fail to haunt the OPD house. There's a speculated inhibition from the client side in outsourcing product development to India, specially with regards to SaaS (Software as a Service) genre of software given the factors of internal team collaboration, proximity and regular feedback from end-customers, the creativity versus conformance dilemma. What implications, if any, do these factors have on OPD business?

Thirumalai shrugs it off. "That can be far from true, we have done so much work for ISVs who have been in the SaaS genre. The increasing maturity in processes and collaboration technologies - which creates the ability to deliver using as dynamic and creative oriented development process as Agile - from an offshore center - an art that is being perfected by OPD companies - is a great answer. If this dilemma exists, I am sure it will be short-lived and will go away soon."

Hence, he believes that be it SaaS or any license model - the product needs to be developed. It needs to be engineered perfectly in the most economical way. "And, OPD firms provide the means. There is no stopping that." Persistent's Deshpande discounts the concern explaining SaaS as just another delivery vehicle, which for software has gone through many changes from tapes to CDs to download, and now as a service. "SaaS is just another vehicle and so the process of software development do not change much. While it does need close collaboration and regular feedback from end-users, this can be easily managed in an outsourced environment. Internet is a great equalizer in that respect. Even the end user studies can be done better and more objectively in an outsourced environment."

From cooks to chefs: Learning from mistakes

It has been a market of lessons for Indian OPD experts. As Deodhar from Symphony takes a leaf out from his box, "Quantification of value is one area that needs to be worked upon. It's not just important to deliver but it is also equally important to package it for clients. We could have done that better." But better late than never. Symphony has started what they call as an Innovation Score card that serves as a report card for performance and execution.

Another aspect of learning in Thirumalai's estimates is that OPD service providers are tempted to provide services to meet customer needs. "To go beyond that and making a difference in their product engineering practices is a huge effort. It requires strategic investments from both customers and the vendors. We have been emerging in that field, and we have been able to work with a few of our customers to go beyond day-to-day and look at longer term sustainability." That is a huge lesson, he feels.

And is there a threat from competition, specially when it comes to other Asian countries? There are some talks on India's weakness in Engineering versus China’s strength as Thirumalai observes. "Unbelievable as it may sound but that was the pitch from a couple of Chinese companies in a recent conference. India is good at coding while China is better in engineering was their message. The need of the hour is strengthening product engineering practices."

Deodhar from Symphony says, "India has a ten year lead and has demonstrated a big edge. For some countries that are at par with this edge, scale is still an issue. So India has no major concern or worry, but then the gap can never be taken for granted," he objectively cautions.

Nothing of course, can be taken for granted in India's OPD story now. As Thirumalai from Aspire sums it up well, “Go beyond being a 'server' or a 'cook', and move on to become a 'Chef'. That is exactly what OPD firms need to do." So are the chefs ready?