

India's Next Step

First it became a hub for IT services. Now, India stands to become a major force in the software industry, too.

By Paul McDougall, [InformationWeek](#)

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Like a growing number of businesses, Sharebuilder Corp. recently turned to India to help keep its operating costs in check. But the online brokerage didn't send its software development or call center offshore. Instead, it bought inexpensive customer-relationship-management software from Talisma Corp. in Bangalore, saving enough money on the deal to let it use the application to continue to run a call center in the United States.

What's happening at Sharebuilder shifts the debate over whether India's rise is good or bad for U. S. workers and opens a window on the country's emergence as a hub of software startups in its own right. India's revenue from software sales and research and development increased 30% last year to \$3 billion, according to the National Association of Software and Service Companies, a trade group for India's IT industry. That's still dwarfed by the country's revenue from IT services--about \$13 billion--but the gain is big enough to portend a shakeup in the commercial software market.

"India is almost certain to have a major role as a center of software development," says Vivek Paul, who left his position as vice chairman at one of India's largest IT-services companies, Wipro Ltd., to become a partner at private equity firm Texas Pacific Group, where he'll work closely with its Asian affiliate, Newbridge Capital.

Established software vendors, including IBM, Microsoft, Oracle, and SAP, already tap Indian talent not just to crank out code but to help design and develop commercial offerings. Microsoft has an R&D center in Hyderabad, working on database and messaging technologies, among other projects. And Indian companies such as **Newgen Software Technologies Ltd.** supply multinationals, including Toshiba, with key applications that run under the hood of their office-imaging products.

Just last week, Oracle revealed plans to spend \$316 million to acquire a 41% stake in i-flex Solutions Ltd., a Mumbai banking-software maker owned by Citigroup Venture Capital.

Increasingly, Indian software entrepreneurs want to put their own companies' names on product labels, at home and abroad, by capitalizing on their country's highly educated and low-cost workforce to build and sell software for everything from back-office programs to customer-facing applications. It could have far-reaching consequences for software prices worldwide. Not only would low development costs let Indian vendors reduce licensing fees, but the competition could force North American and European vendors to adjust their prices downward.

"Prices will inevitably come down, and we will go through another revolution like we had in IT services," predicts Marc Hebert, executive VP of Sierra Atlantic Inc., a Fremont, Calif., company that builds software for North American companies, including Siebel Systems Inc. and Agile Software Corp., from development centers in India.

It's not just the cost structure that makes Indian software companies interesting. Many of the entrepreneurs come from India's IT-services industry, and their development teams bring with them the disciplined Six Sigma and CMM-I approaches to quality management and experience with Web services and hosted applications to the products they develop. It's a mind-set that fits well with the business world's slow march toward more services-oriented, Web-friendly IT architectures.



Sharebuilder chose Talisma's software after what chief operating officer Harold Zeitz describes as an exhaustive search. "We went with the best product at the best price," Zeitz says. Talisma's hosted software costs about \$50 per seat a month for 35 call-center workers, and the call-center reporting capabilities are stronger than those that other CRM vendors offer, including Salesforce.com Inc., Zeitz says.

Polaris is moving "full force" into the United States, Kaushik says.

Photo by Erika Larsen/Redux

Be prepared for more stories like this. Experience, talent, and ambition are propelling the growth of the Indian software market, with offerings being put forward by IT newcomers and old-timers alike (see story, [Up-And-Comers: Companies With Bright Futures](#)).

Polaris Software Lab Ltd., in Chennai, India, shows how Indian companies can parlay industry knowledge gained working for others into products. The 20-year-old company began as an IT-services shop supporting Citibank's global operations, giving it the bona fides to claim a world-class understanding of banking technology. "We weren't just doing legacy support, we were developing brand-new, customer-facing systems for one of the world's biggest banks," senior VP Kartik Kaushik says. Two years ago, Polaris started marketing its business-process software for the financial-services industry.

The company's commercial software customers now include ABN Amro, Lloyd's, UBS, and, yes, Citibank. "Because we had done a lot of contract-development work for Citibank, our understanding of the financial-services market was very mature," Kaushik says.

In 2003, Citibank aggregated all of its Indian technology operations into a subsidiary, called Orbitek, then sold a portion of the unit to Polaris for an undisclosed amount, giving Polaris access to banking-savvy technologists and much of the intellectual property it had developed for Citibank. "Until the sale, we could not take any of Citi's [intellectual property] to outside customers," Kaushik says. "We paid a stiff price for that right, but it's going to be worth it."

Some of the largest companies in India's IT-services industry are taking a similar path. They rake in billions of dollars in support fees from international customers, but there's an upper limit to their rampant growth, and shareholder pressure is driving them into the higher-margin software business. (IBM's gross margins, for example, are 26% for services and 87% for software.) Tata Consultancy Services Ltd. has launched more than a dozen commercial applications, including Tata HMS, an enterprise-resource-planning system for health-care companies.

Having established its reputation in India and Europe as a software provider and services partner to help banks migrate legacy systems to Web-based platforms, Polaris has plans to increase profits. It's "going full force" into the U.S. market, Kaushik says, hiring bankers in the United States to bolster its sales and marketing. "We need people with executive-level knowledge of the industry," he says.

Like other foreign software vendors that saw big opportunities in the United States--SAP among them--Indian companies increasingly want to turn their local successes into a greater U.S.

presence. That includes business-process and document-management application vendor **Newgen**, which says it has a 40% share of the Indian market for software that connects workflows. The company wants to partner with vertical-apps developers in the States to aim its offerings at health care, financial services, and the government. "People take us more seriously now because many of these enterprises have themselves gone to India for services," says Sanjay Kalra, VP for business development.

While he's focused mostly on large companies, Kalra believes the low price of the company's various business-process modules, which cover functions such as invoicing and accounts payable, also could appeal to the small- and midsize-business market. "Even a company with only five or 10 people in accounts payable could break even on our product in a year," he says. "They could get rid of three people." That raises the specter that low-cost automation will join outsourcing as a threat to U.S. jobs--again, thanks to India.

But that may be jumping the gun. While the comfort level with Indian IT expertise has greatly increased, and the cost savings of using lower-priced software is attractive, going up against name-brand players in more established Western markets won't be easy. **Newgen** offers a lower total cost of ownership, Kalra says, but he concedes that the U.S. market for the software his company sells is mature.

And there's a good chance that promising Indian startups will get snapped up by big Western companies anxious to stave off competition. "They're wary of India becoming a disruptive force," Texas Pacific's Paul says. Oracle's decision to buy out Citibank's stake in i-flex is a case in point. I-flex's products include Flexcube banking software, the Revelus business-analysis application, and the Daybreak consumer-lending application. They're used for corporate, consumer, investment, and Internet banking, as well as asset-management and investor services. Oracle plans to align i-flex's product-development, sales, marketing, and service operations with its own.

Another potential stumbling block to India's growing stake in the commercial software industry is the competition for talent. While Indian technical schools are churning out more than a half million programmers per year, that's barely enough to meet the growing demand for workers in indigenous services firms and the foreign multinationals that also are tapping the country's IT workforce. By some estimates, Oracle employs more than 5,000 developers in India, and IBM has unveiled plans to hire about 14,000 programmers there. With all that competition, "it's hard to hold good employees," admits Tim McMullen, VP for products and alliances at Talisma. To compete, Talisman pitches its product focus. "We're not a body shop; we offer a path that we think is more interesting," he says.

Even so, only a small percentage of the talent pool of IT workers in India has experience building or managing software companies. That may be changing, as India's tech economy grows, and many ex-pats return home from the United States to take advantage of India's nearly boundless opportunity for top-gun tech entrepreneurs and MBAs. "It's a reverse diaspora," says Sierra Atlantic's Hebert, a former Oracle CIO.

Though he made the move earlier than some, Anuj Gupta exemplifies the trend. He spent several years in the United States in the telecom industry and in the late 1990s, with the Indian tech market booming, returned home to pursue his entrepreneurial dreams. With a partner, Gupta launched Final Quadrant Solutions Ltd., which offers an "ERP-in-a-box" system for travel agencies and resellers to connect with global distribution services such as Sabre. Customers



The United States is Final Quadrant's key to growth, Gupta says.

Photo by Pablo Bartholomew/
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include a number of midsize European travel agents and brokers, but Final Quadrant, too, has its sights set on the expansive U.S. market. "It's key to our growth," says Gupta, whose company's annual revenue is about \$3 million.

THE UPSHOT

India is no longer just a hub for IT services. It's also the country from which North American businesses increasingly could buy commercial applications.

Many of the country's software entrepreneurs are using the experience they've gained in services to deliver apps based on a world-class understanding of their clients' businesses.

Challenges, however, include an immature capital market and heavy competition for talent.

Final Quadrant plans to recruit independent software vendors to sell its technology in the United States, and some influential backers could help it develop a foothold. Ronald Rose, CIO at discount travel reseller Priceline.com Inc., is on the company's board of advisers. "It's very smart, very innovative," Rose says. Priceline likely will give Final Quadrant's technology a long look at some point, he says.

But it's more common than not for Indian software entrepreneurs to lack such influential backing and the financing they need. "The VC ecosystem in India needs to develop the way it did in Silicon Valley," Paul says, to provide a nurturing environment for growing companies. Yet Gupta is confident that "the bottlenecks are being resolved," and he may be right. Last month, the Indian School of Business hosted a conference in Hyderabad aimed at connecting U.S. venture-capital firms with Indian software entrepreneurs.

Talisma, which former Microsoft executive VP Pradeep Singh founded in the late 1990s, is backed with funding from Oak Investment Partners. Annual revenue for the company is less than \$50 million, but it has big plans for growth. It wants to use some of its VC funding to add capabilities, such as voice over IP, to its CRM software through internal development and acquisitions, McMullen says. And its sights are set on in-country business as much as on the North American market--specifically, on the service providers in India who've taken over operations, including call centers, for major multinationals.

China is another natural market for Indian-made software. Earlier this year, the prime ministers of the two countries met to forge closer ties that could hasten the region's emergence as an IT powerhouse and center of innovation (see "Tech Powerhouse," April 18, p. 20;

informationweek.com/1035/indiachina.htm). That was followed last month by ministerial meetings aimed at developing a free-trade accord that would make it easier for Indian software companies to export to China.

The market for software with "Made In India" slapped on the box is just getting started, but there's no telling how far it can go. Backers are thinking big, though. Says Hebert, "It's inevitable that there will one day be an Indian answer to SAP."