

ADM OUTSOURCING IN CHINA

Proceed With  
Caution When  
Considering  
Large-Scale ADM  
Outsourcing in  
China

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China is considered an emerging market for offshore outsourcing services, including Applications Development and Maintenance (ADM), by many clients and industry analysts. From a strategic vantage point, China can seem attractive because of its rapidly growing domestic market, large population base, good governmental support for the ADM sector and a reasonably good educational system. However, in TPI's opinion, clients should be cautious about outsourcing large-scale ADM engagements to China in the short- to medium-term, for a number of reasons:

**Small outsourcing firms dominate the service provider landscape** — Leading domestic outsourcing firms in China are small (typically measured in the 1,000 to 3,000 full-time equivalent [FTE] range for “offshoring” operations, or equivalent to a Tier 3 Indian service provider), and would have difficulty in scaling to meet the demands of a global corporation.

**Hourly costs are not necessarily lower** — Major centers, such as Beijing and Shanghai, are actually equivalent to or more expensive than Indian locations, especially for specialized skills (ERP, domain experience, technical leads, etc.) and management personnel. Unfortunately, these types of resources are very difficult to find outside of these major business hubs. Costs can further escalate on a “total cost” basis for clients due to lacking or inefficient processes, insufficient quality assurance practices, language barriers and inexperienced project management.

**Challenging staffing environment** — Viewed to be as challenging as India, staffing demand in the Chinese market is currently outstripping supply. Coupled with a booming domestic market, this creates hiring and retention challenges. Staff attrition is a constant challenge and is reportedly as high as India-based operations.

While some Chinese firms have achieved CMMi-5 status, and more are working toward it, the experience base in large development/ maintenance projects and an orientation toward disciplined processes lag behind many of these firms' peers in India or Western delivery centers. To date, much of their real experience has been based either on staff augmentation or relatively small project work, and thus disciplined process implementation and rigorous project management oversight are lacking.

**Poor English skills** — Language barriers continue to make the region a challenging operating environment. In general, most Chinese firms make the project manager or client lead responsible for all communications with the client, as many, if not all, of the actual team members only have rudimentary English skills (mostly reading). This obviously can create inefficiencies and quality concerns and require greater effort for the client to ensure proper requirements definitions and other project-related communications.

The Chinese firms don't have the client in-country presence to support a significant or robust on-site component to the delivery model. While they will generally provide on-site account management, there is little or no “subject matter expert” depth in domain or deep technical design/architecture skills available.

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**Intellectual property (IP) protection remains a concern** — While the IP/legal environment in China has greatly improved in recent years, there is still moderate to considerable risk in this area.

## THE OTHER SIDE OF THE COIN – MITIGATING FACTORS

Counterbalancing the aforementioned views are a number of positive observations, including:

- Skills around complex ADM work, particularly in the product engineering domain.
- A robust domestic market, coupled with China’s position as the leading global hub for manufacturing, creates an environment of developing domain expertise and a “productized” mind set.
- Strong government support for the ADM sector and streamlined foreign ownership regulations have accelerated investment in the sector.
- Aggressive English language training, both within the service providers and primary and secondary educational system, will improve English skills in the medium-term.

Should a significant Chinese delivery component be explored by global corporations, TPI’s point of view is that the most effective means would be to work with a larger India-based or multi-national service provider to remove some risk from large-scale ADM solutions, particularly if your corporation has limited operating experience in China to date.



**Most of the growth seen in the outsourcing market in China has been driven by regional support for global clients in the Asia-Pacific region.**

Most of the India-based service providers announced significant growth plans in China a number of years ago as part of their emerging market strategies. However, TPI’s “on the ground” experience indicates they have significantly underachieved in the Chinese market and have scaled back their expectations for their operations. Most currently number in the hundreds or very low thousands of FTEs.

Multi-national service providers such as IBM and Accenture have experienced better success and generally have more robust operations in China. Note that, to date, most of the growth seen in the outsourcing market in China has been driven by regional support for global clients in the Asia-Pacific region, especially those back-office processes that require specific language skills, such as Mandarin, Cantonese, Japanese and/or Korean.

## ABOUT THE AUTHOR

### **ADM OUTSOURCING IN CHINA:**

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As a leading expert in globalization, Paul advises clients across industries on information technology and digital strategies, optimization and outsourcing. He has deep experience in global operations and creative approaches to business growth, including captive operations, joint ventures, build-operate-transfers, and mergers and acquisitions. He recently helped a global consumer packaged goods organization save more than 40 percent by realigning its captive, joint venture and offshore operational strategies worldwide. Paul also assisted a major retail company redesign its global customer digital model to improve quality and increase transparency for executive decision-making. Prior to ISG, Paul served as CEO of a number of software and technology start-up companies.



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