

Product Innovation: Growing up the Value Chain

Zinnov

1.0 Overview

The outsourcing market in India has grown phenomenally in the last few years. The industry has consistently grown more than 30% a year over the last few years.

From supplying knowledge workers to enterprises across the world, the IT industry in India has matured to a level of providing business consulting to Global 1000 companies.

The BPO organizations have also grown up the value chain from being the providers of back office operations to providers of high-end analytical services as well as consulting on process re-engineering.



Figure 1: Innovation Value Chain for IT Industry in India

In the last few years, a growing number of enterprise product companies are using development centers and vendor partnerships in India to build and maintain the products. The core competency and the resource pool thus created are mature enough to create innovative solutions. This article discusses the evolution of product innovation in India, case studies and the challenges and opportunities in this area.

2.0 Product Innovation

In late 90's, a few Silicon Valley companies started their operations in India to leverage the cost advantages and the availability of a talent pool. A majority of the companies used their India operations to test product quality and to maintain older products so that their local team could work on newer and innovative products.

This offshoring process accelerated in 2002 when companies realized that there was no speedy recovery from the challenges of the economy crisis, and they need to be cautious about their operating costs. The management teams of these organizations were under tremendous pressure to increase their offshoring to India, this created a talent pool of resources working on software products and assisted in cultivating the mindset of resource towards innovation.

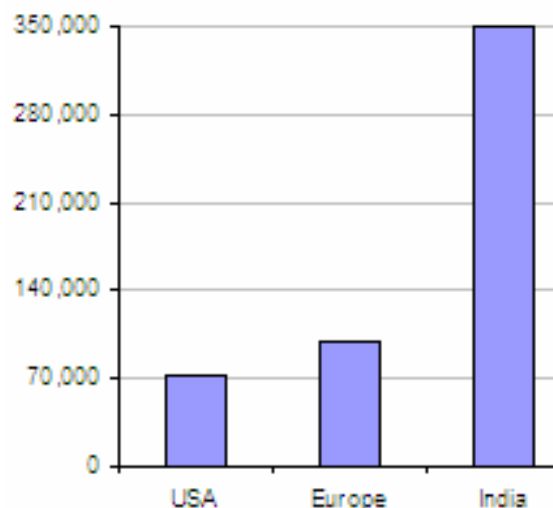


Figure 2: Number of Engineering Graduates per year

The economic boom in India is also slowly making India an attractive destination for global companies to sell their products.

The combination of new market creation in India and the availability of talent pool with product development expertise have triggered efforts to create innovations from India. The efforts are categorized as originating from 2 distinct set of companies.

2.1 Innovations from Multinational Companies

More than 150 international companies, large and small are doing R&D in India

Multinational companies started hiring strong leaders to run their development centers in India. Some of these companies imported *expats* (professionals returning from US, UK and other western countries) to run their operations in India. The leadership teams of these companies understood that they could do a lot more from India than being a back office to the product teams in the US. A silent revolution started within companies' a couple of years ago.

The India based leadership teams of these companies convinced their executive management to allow them to take ownership of certain products whereby the Indian teams could conceptualize and build new features and modules.

Internet innovation

One of the key constraints for fostering innovation in India was the distance between the resources in India and the customers in western countries. Resources did not understand who the customers were or how they used the products. However, the Internet changed all of that. For companies such as Google, Amazon, Yahoo etc., the internet was the customer and the development teams in India suddenly had access to the customer information and the customer needs.

Amazon and Google are among the few companies that started their development centers in Bangalore to create completely new products and not be the back office to their US organizations. Amazon India uses a 2-pizza team model where small, highly talented teams are given the tasks of coming up with innovative ways to solve customer problems, build and release these products from the India center.

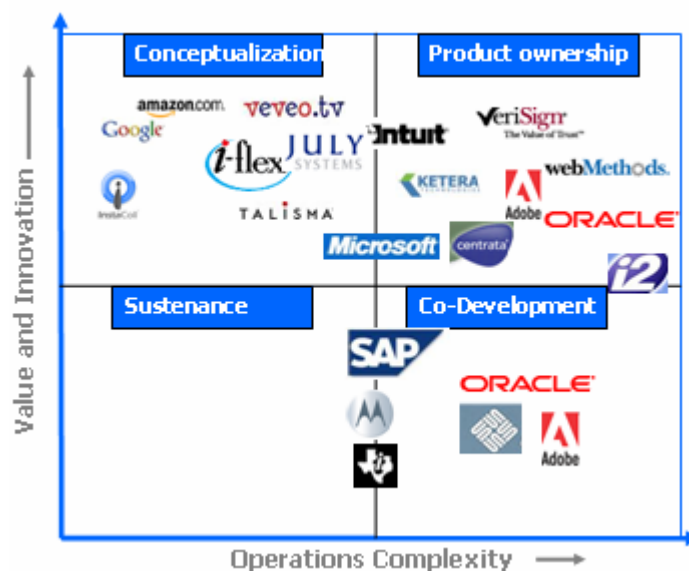


Figure 3: Product Companies' Operations in India

Amazon India Development Center played a significant part in the conceptualization and creation of a9.com, a search technology developed by Amazon.

The Google India center worked on new product development as opposed to taking over the maintenance of the existing systems build by their US team.

Krishna Bharat, the creator of news.google.com moved back to Bangalore, India in 2004 to setup the Google R&D center to help Google create the next set of innovations.

Traditionally, the value from the India development centers was measured by the amount of money they had saved for the company.. This new model has helped companies to measure the performance of the India centers based on the impact on the top line i.e. by the revenue generated by the new products from their India centers.

Enterprise product companies

A new set of enterprise companies have started to look beyond the constraint of not being close to the customer and have started building the entire products in India. Ketera funded by Kleiner Perkins Caufield Byers (KPCB), build their entire product portfolio from their India centers. They have hired experienced management teams in India that have built products before and are able to foster innovation among their team members.

Veveo.tv is another Silicon Valley startup working on a technology to enable viewers to view television programs wherever they are. The company is currently working in a stealth mode in their Bangalore office to build this product.

Traditionally, Indian companies failed in designing an efficient user interfaces for products due to the distance from the customer. However, few enterprise product companies are successfully using a small UI vendor in India to develop their entire user interface at fraction of the cost compared to what it would have cost them in the US.

Innovation for Indian market

Motorola's two research and development facilities in India helped produce a sub-\$40 cellular phone for emerging markets.

Apart from developing high end enterprise chips, Intel's India design center is working on conceptualizing consumer chips suitable for developing countries.

VC Firms

US venture firms are expected to raise over \$1 billion for funding India based companies or companies with a major presence in India.

Soft Bank Asia Infrastructure Fund has earmarked \$100 million of its new \$650 million fund for India. WestBridge Capital Partners is closing a \$200 million India-only fund. Other venture firms with presence in India include Walden, Draper, and Accordiant Ventures etc.

Various companies such as Microsoft, Oracle, and AMD are tying up with Indian educational institutes for research collaboration

2.2 Product innovation from Indian companies

The last few years have also given rise to a set of Indian companies that have created world class products. These companies are able to refine their products by selling to the Indian customers, who are known to be highly demanding. These refined and mature products are then released in the other markets.

- Talisma is a pioneer in developing software products in India. Talisma's CRM suite is widely used in enterprises across the world. The entire development was done from their Bangalore office, though the majority of their customers are based in the US.
- ProjectbyNet is a project planning software built by a Pune company called compulink (<http://www.compulinkgroup.com/>). The project management software is used by a large number of IT services companies in India to manage their client projects. The product has an uncanny ability to provide transparency into project execution so that the clients know the exact status of the project at any point. The product sells for a fraction of price compared to competing products from other parts of the world. With right marketing strategy, the product can be a huge success in other parts of the world.
- IPlan (<http://www.iplanenterprise.com/clients.htm>) is a similar Indian company with tremendous market potential.
- PointCross, a startup started during the dotcom boom is also a success story from India. PointCross has developed content management and collaboration software that lets companies improve the communication between various teams and provide them ability to aggregate context-based knowledge. PointCross has innovative processes in place that allows it to effectively manage the client installations and service them remotely from their India office.
- IFlex, recently bought by Oracle for more than \$600 million dollars, was also a home-grown product company with a world class banking software.
- InstaColl, a startup company based in Bangalore recently released a product to compete in the real time collaboration space dominated by WebEx and Microsoft. Though in the nascent stage, it got good visibility due to a comparable feature set offered at a very aggressive price.
- Companies such as Teneoris, a Bangalore-based Product Company that is creating technology to integrate home digital entertainments and computing platforms is looking at China and other Asian countries to market the product before they enter the US market.

Various IT companies also have initiatives to build their own products. Finnacle, from Infosys, is a highly successful banking product with clients all over the world. IT vendors such as Persistent systems are starting to partner with their clients to create new products that compliment their client products. The intellectual property thus created is that of the vendor rather than their clients.

3.0 Challenges and opportunities

- As the cost arbitrage keeps falling (1:4 in 2001 to 1:2 in 2005), companies are leveraging their India centers for improving their top line (revenue generation) instead of acting as a low -cost centers.
- Talent pool with product development experience is still evolving and it would be a few more years before the quality/size of the talent pool can be compared to that of the major technology centers across the world.
- The engineering talent in India needs frequent exposure to the product customers to understand their ever changing needs. As more companies partner with educational institutes this challenge can be appropriately addressed.
- The local market in India should get more attractive for product companies to sell their products to Indian enterprises. This would enable them to sell the products locally and refine the products before they are sold in the US and European markets.
- US product companies spend more than 30% of their total cost on marketing and sales. The Indian product companies would not be able to afford similar costs and needs to find innovative ways to share the cost of marketing between India and US markets.



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