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China's Century Hype or Hope?

Tom Hickman
December 2008

Agenda

- Introductions
- Fast facts about China
- ChinaSourcing overview
- Intellectual property and security
- Case study

Introductions

- Tom Hickman

- Founder of *Inside Outsource Consulting*
- Formerly Director of Global Sourcing at Iron Mountain
- Prior to that, 15 years in IT Systems Development, Solutions Engineering, Software Development, and Quality Assurance
(at Boston College, American Internet, Cisco Systems, Connected, and Iron Mountain)

China's Century

Tuesday Dec 2 2008
All times are London time

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Liu to have surgery this month in US

By Lei Lei (China Daily)

Updated: 2008-12-02 10:02



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Chinese toxic baby milk

By Patti Waldmeir in Shanghai

Published: September 17 2008 03:00 | Last update



Vaclav Havel (L) and the Dalai Lama

Dalai Lama calls for dealing firmly with China

20 hours ago

PRAGUE (AFP) — Tibetan spiritual leader, the Dalai Lama, Monday called on the world to stand firm when dealing with China, while recognising that the Asian economic giant could not be ignored.

"I'm always telling my friends that a good, a close relationship with a huge country like China is very essential, and not only for the economy," he said at a press conference during a private visit in Prague.

Renminbi posts record one-day fall

By Peter Garnham

Published: December 1 2008 11:50 | Last updated: December 1 2008 15:28

The renminbi posted a record one-day fall against the dollar on Monday as speculation mounted that the Chinese authorities might use a weaker currency spur economic growth.

The speculation was triggered after the People's Bank of China set an unexpectedly high central parity in the dollar/renminbi rate.

The central bank manages the currency around its central parity rate, allowing it to fluctuate by 0.5 per cent on any one day.

EDITOR'S CHOICE

Short View: Reading the renminbi - Nov-25

UN REPORT

Torture in China

December 1, 2008

China is in denial about its secret jails and torture the world should not be. The police-state apparatus Beijing was designed to make people forget is United Nations report reminds us.

Forced hospitalization in psychiatric wards, int

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China Fast Facts

- **Official name:** **The People's Republic of China**
- **Population:** 1.3 billion (1st)
- **Size:** 3.7 million square miles (4th)
- **Time zone:** Chinese Standard Time (UTC +08:00)
- **Government:** Single party Socialist Republic
- **Religion:** Officially irreligious
in practice highly diverse
- **Languages:** Mandarin and 13 related dialects
English mandatory in schools
- **Education:** est. 400,000 CS/IT grads annually

China – Future Trends

- Economy:
 - 4th largest nominal GDP today, at 24% of US.
 - *At current growth rate*, passes US around 2030.
- Purchasing Price Parity:
 - 2nd largest GDP – PPP today, at 50% of US.
 - *At current growth rate*, passes US by 2016.
- Population:
 - Largest nation at 1.3B, 20% of global population.
 - *At current growth rate*, passed by India in 2025.

ChinaSourcing

- *China Inc.*
- *5-year plans*: long-term investment plans responsible for building “the workshop of the world.”
- The 11th *5-year plan* highlights IT Outsourcing as a major engine for the future of China's economy.
- The CCIIP (*China Council of International Investment Promotion*) is the steering committee and marketing arm for the IT Outsourcing industry in China.

The 1000-100-10 Project

- Part of the current *5-year plan*.
- Attempting to:
 - Start 1000 new IT Outsourcing companies.
 - Win the business of 100 “internationally famous” MNCs.
 - Build 10 high tech centers of innovation in selected major cities.
- Business park development, influence over higher education curriculum, relocation subsidies, massive tax subsidies for workers and companies.
- *Silicon Valley as Field of Dreams.*

Hype or Hope?

- China will have the largest population of English speakers by 2010.
 - English language skills in China are vastly overstated.
 - This is the biggest problem I've encountered with existing Chinese teams and vendors.
 - High premium cost for verbal English skills.

Hype or Hope?

- 400,000 CS Graduates annually.
 - Numbers vary widely, and are almost certainly inflated.
 - “CS Graduates” are not at parity with US Bachelor of Science degrees.
 - Soft skills are particularly lacking.
 - For example, Cisco Systems expects to spend at least a year training every “fresher” they hire in China.

Hype or Hope?

- China is going to undercut all outsourcing destinations on cost alone.
 - Costs run at 15% to 20% of US fully burdened salary.
 - Software developer in China will start at \$12K to \$15K a year.
 - Experience gap with India and Russia. Largely a junior “software factory” workforce.
 - Cost for quality or productivity may be comparable, or even higher.

Security Concerns

Chinese engineers will steal your software and set up shop next door. Not my personal experience, but that of people I trust. I'd say we're a decade - at least - away from sensibly off-shoring there.

- a Senior Architect at Yahoo, speaking on the condition of anonymity

Recent news:

- *The Great Firewall of China* – Skype text surveillance, search results filtering, political censorship, cultural censorship, Big Brother.
- Bloggers imprisoned as dissidents.
- Search logs, e-mail and other personal information seized by the government.
- Pirated software (and other knockoffs) for sale on the streets.

Security Risk Mitigation

- Relationships matter. Vet your prospective vendors carefully.
- Don't rely on traditional IP protection such as non-competes or patents. They will be largely unenforceable
- Don't host data in China. Obfuscate any sensitive data you use in development or testing.
- Host all your source code, specs, and other IP at your site, not in China.
- Embed critical IP as object code, with a standalone build machine and repository.
- Use Citrix and ACLs to tightly restrict remote access to a “need to know” basis.
- Do not inadvertently become an ISP to your offshore staff.
- Oh, and do all this without creating “second class citizens” in your team.

Case Study

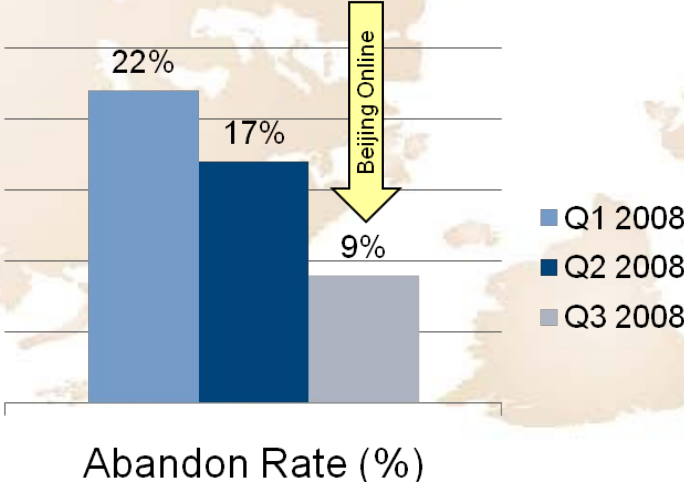
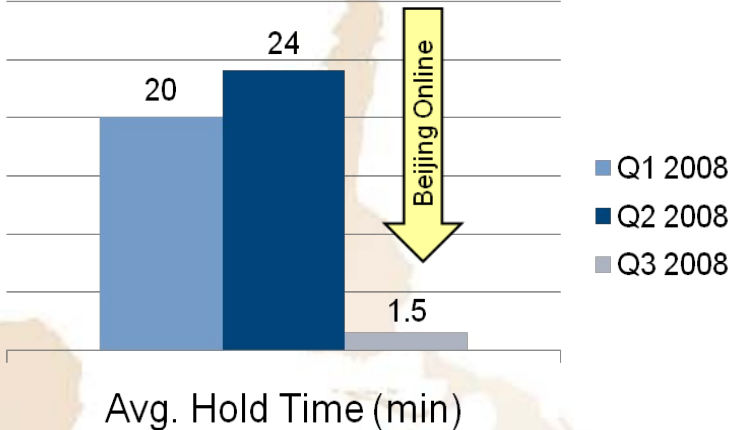
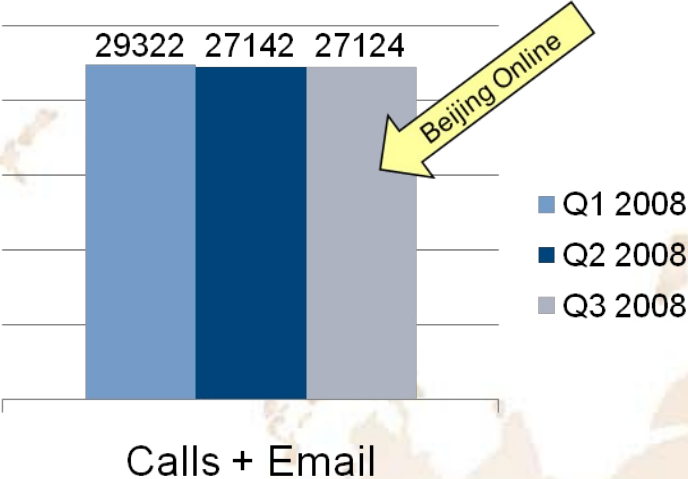
Business Problem:

Boston-based technology-enabled service provider has to support the IT questions and escalation of ~25,000 US employees.
The cost of skilled labor in the US is prohibitively high.

The Solution:

Beijing-based internal help desk, through an existing ITO partnership.
16 Help Desk associates, 3 leads, 1 manager.
24 X 7 “Level 1” internal help desk support.
Telephonic and e-mail.
11 months into the program.

Performance Stats



Problems and mitigation

Problem: *Language Skills*

- On-site English “coach” provided by vendor. Classroom training, particularly in English/American names and accents.
- Mentor program by leads with better US English skills.
- Process changes to move away from *name* as UID.
- Screening in hiring process for replacement hires.

Problem: *Low perceived quality of service*

- Tracking of re-opened tickets
- Hard targets and metrics for Help Desk staff performance.
- Audits of calls by US management.

Problems and mitigation

Problem: *High attrition, particularly senior staff*

- Deep involvement in the hiring for replacement management.
- Clear articulation of expectations for leadership, performance management, and shift coverage.

Problem: *Internal cultural rejection*

- Education campaign within the enterprise.
- Talking about cost of service, quality of service.
- Asking internal customers for *case numbers*, not anecdotal complaints.
- Implementing *Employee Self Service* with Remedy, to allow reduction in reliance on telephonic support.

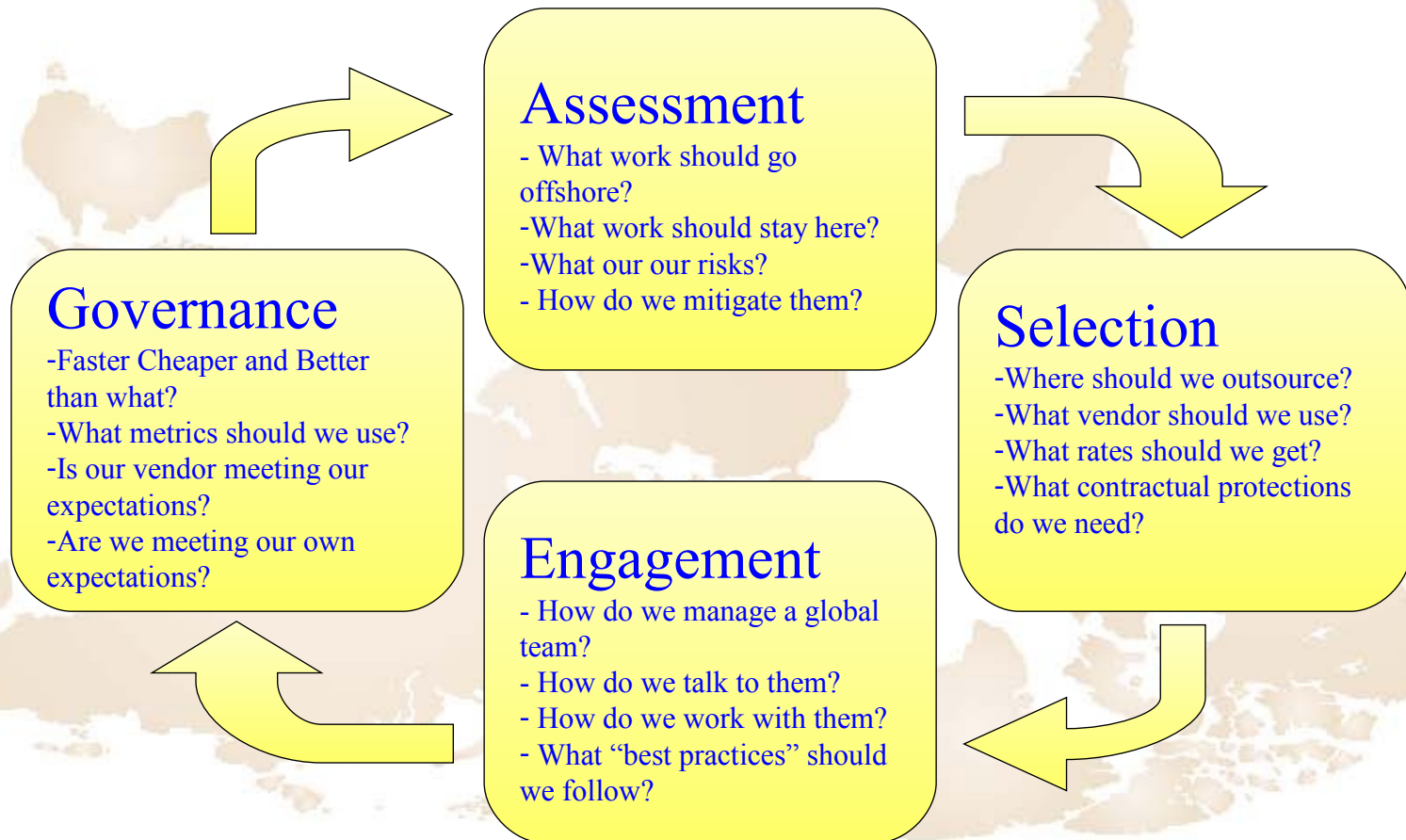
Lessons learned

- Ensure business alignment before sourcing any work to China.
- Don't underestimate the cultural resistance.
- Develop a way to measure internal customer satisfaction, particularly for operations with high surface area to your internal constituents.
- Screen for language skills, and insist on vendor-funded skill-building in language, accent, and idiom.
- Build SLAs in up-front.

Q & A



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