Thriving in India: Company snapshots

Global Executive Forum Research

TVS Motor Company

The story of TVS Motor Company is the story of India: Fast growth, worldwide exports, ever increasing revenues, and respected brand. “It is a company with a long history of manufacturing two-wheeler vehicles: motorcycles, scooters, mopeds and scooterettes,” says Forum member Earl L. Wright, reporting on the Global Executive’s visit to the TVS Bangalore motorcycle plant and the presentation by S. Murali, senior vice president of finance.

“TVS is the third largest Indian motorcycle manufacturer in India, after Hero Honda Motors and Bajas Auto,” says Wright.

Sales of all TVS units 2005-06 totaled more than 13.42 million. Motorcycles saw growth of 16 percent in February 2006 and 25 percent the month before. These numbers make TVS “the third largest two-wheeler manufacturer in India and among the top 10 in the world,” says Wright.

With a staff of 3000, TVS is geared for production. “Of the 3000, 2000 are on the manufacturing floor, 1000 are engineers,” says Wright. “Two-thirds of the 2000 manufacturing employees are temporary and seasonal workers.”

The reason for so many temporary workers is because “once someone stays for more than nine months, the government requires the employer to treat that person as a full-time employee.” With that change in status, other costs and regulations kick in, particularly when terminating an employee, and that can be difficult, says Wright.

“Four hundred of the 1000 engineers are in research and development. Of the professional engineering staff, 8-10 per year are sent to the United Kingdom to earn a master’s degree; 20 per year are hired from iiit-b-B, an academic institution specializing in master degree programs.” Education makes the wheels go round: “All the floor personnel have a high school education at the minimum,” says Wright.

“The employment goal is to have 15- 20 percent females in engineering positions. There is significantly less than that now.”

Two-wheeler market

“At the Bangalore plant they produce 1.1 million motorcycles of which 100,000 are exported – primarily to Asian markets. The global two-wheeler market is dominated by China with 41 percent, India 17 percent, Indonesia 12 percent,” says Wright. “The growth potential in Asia for two-wheeler vehicles is astounding, taking into account the population base and GDP.”
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“The head of export spends about 100 days a year on the road in various countries trying to set up dealerships. He works with four professionals, four support staff and 45 contract employees who create knockdown versions of motorcycles that can be reassembled in the destination country.

“For a bike to be approved in the United States, it needs to have a modified signal system. But TVS emission standards meet all the requirements of the United States except for the state of California.”

Affordable, practical

Most motorcycles are priced around US$1000 (+/– 10%), cheap by American standards but not for a high percentage of the Indian population. Taxes run approximately 35 percent, with a value added tax of 22 percent. Financing is available, typically for 24-36 months, and the banking community enables many Indians to get the loans they need to buy a two-wheeler.

The bikes are built with a specific mechanical life expectancy, says Wright.

- For scooters with 100 cc engines, the life is expected to be between 60-80 kilometers before major mechanical work on the engine is needed.

- Motorcycles with 100-150 cc engines are expected to have an 80-100 kilometer mechanical life before major mechanical work is needed.

“TVS will soon be producing a three-wheeler transportation carrier appropriate for people and/or freight. Although mopeds have dominated production at TVS in the past, there has been consumer interest in motorcycles with higher power engines of 125-150 cc.”

The company’s various divisions operate under the principles of Total Quality Management. Says Wright, “TVS is the only two-wheeler company in the world to have been awarded the prestigious Deming prize for quality.”

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<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Average Income per capita</th>
<th>Ratio of Motorcycles per 1000 Pop.</th>
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<tbody>
<tr>
<td>Taiwan</td>
<td>22,894</td>
<td>$25,100</td>
<td>590</td>
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<tr>
<td>Thailand</td>
<td>65,444</td>
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<td>Malaysia</td>
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<td>India</td>
<td>1.1 billion</td>
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<tr>
<td>China</td>
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Infosys Technologies

Infosys has racked up impressive growth since its founding in 1981 by seven software professionals. Providing operations and IT consulting, software implementation and business process outsourcing, the company has grown at 60 percent CAGR (compound annual growth rate) over the past decade. In 2005, Infosys had revenue of $2.01 billion and a market cap of over $22 billion.

Employee growth is occurring at 1000 per month and at last count more than 49,000 people were on the payroll spread out over 45 offices in 17 countries.

“The Infosys headquarters in Bangalore is the second largest corporate campus in the world after Microsoft,” says Gail Schoettler, who with Earl L. Wright contributed to this report.

“Infosys has been the preferred outsourcing resource for business process outsourcing,” says Wright. “They have built a niche in the tax and financial analysis call centers.”

Infosys affects efficiencies for clients by implementing an enterprise system package in India or at one of their other global sites rather than training the client’s personnel to do the work. Savings can be as much as 30-40 percent of the cost of putting in a new system, says Wright.

“They are now branching out to include consulting services, advising clients on how to affect efficiencies within the organization through the best use of the various systems.

“They point out that the BPO opportunities in India create about $16 billion a year; whereas the work on software design as well as system support is $200-250 billion a year. I think that is the far greater opportunity for Indian companies than BPO,” says Wright.

Company values and integrity and protection of customers' intellectual property was part of the presentation. “I thought this was a particularly important point when in conversation with someone later on, the presenter pointed out that Indians in the past were characterized – apparently rightfully so – as not having a high level of integrity.”

Infosys has fashioned itself according to the tenets of Jamsetji Tata, who founded the Tata Group of Companies in the second half of the 19th century. “They credit Tata for establishing principles for Indian commerce and how Indians should conduct themselves in building the industrial base of India rather than just being a resource for western Europeans,” says Wright. “It is clear that Infosys has adapted the same code of integrity and value creation in growing their company.”

Says Schoettler, “Infosys is focused on ethics and they have a number of sayings that drive home this point:

- “The softest pillow is a clean conscience.” This is particularly important as they have employees working on projects for companies that compete with one another,” says Schoettler.
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- “Transparency and frugality are our financial management pillars.”
- “When in doubt disclose.”
- “In God we trust; everyone else must come with data. In other words, you can’t work there and just guess about what to do. You must come armed with data to support your proposals and projects. If there’s no data, they said, there’s no conversation,” says Schoettler.

In 2005, Infosys hired 12,800 people out of 1.3 million applicants. “Obviously, people want to work there,” says Schoettler. The company claims it is ‘obsessive’ about perfect engineering.

“Ninety percent of their new revenues is from existing clients so that would seem to show that the company does what it says it will do.”

24/7 Customer

The Global Executive Forum visited the Bangalore offices of 24/7, a BPO service provider that functions as the client’s outsourced call center. Headquartered in Los Gatos, California, 24/7 Customer serves global clients from its seven offshore service delivery centers at Bangalore, Chennai and Hyderabad in India and Manila in the Philippines.

“24/7 is a young company, founded in April 2000 with venture capital funds out of Silicon Valley,” says Earl L. Wright reporting on the meeting. “The company has attracted rather significant venture capital support from the Sequoia Fund (known for its Google investment) and prestigious partners such as Michael Moritz and George Shaheen, former chief executive of Anderson Consulting (now Accenture).

“The company has had an average growth rate of approximately 11 percent per year. In addition to call center services, 24/7 is expanding into the area of back office services,” says Wright, “which includes record keeping and customer transactions. However, they do not handle transactions related to confidential customer financial information.

“They feel the marketplace for what they are doing is huge. BPO is growing approximately 15 percent per year and the general outsourcing area is growing approximately 9 percent per year.”

Language is extremely important when taking calls from people around the world. “The company will be offering services in 21 different languages by mid 2006.”

Gail Schoettler adds, “Even though Americans and Europeans now know that our customer service calls are often answered in India, the employees are trained in American and British accents and they are very good. All the employees are college graduates, many with higher degrees, earning about $200 a month.”

Software design and system support is a $200 to $250 billion a year industry in India.

Ninety percent of Infosys’ new revenues are from existing clients.

The 24/7 staff is trained to understand the various languages their call service centers support.
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With 6,500 employees, "the turnover rate is approximately 35 percent, which is extremely high," says Wright. "Average age of the staff is in the low 20s.

"Today’s sophisticated electronics and communications capabilities allow this company to be successful halfway around the globe from their primary information source. When normally that client is closed for business, through the services of 24/7, they are open for business in India."

Wipro

A global IT company, Wipro was incorporated in 1945 as Western India Products Limited. In its early years it was primarily a cooking oil factory and manufacturer of laundry soap. At that time it had only a modest presence in India.

“It diversified into computer manufacturing in 1980 and IT services in 1991," says Forum member Steve Halstedt, who with Earl L. Wright contributed to this report.

“Since then, its revenues have grown at 21 percent annually, net income at 30 percent per year and market capitalization 26 percent compounded,” says Halstedt, adding, “Wipro counts itself among the top three IT outsourcing companies in Bangalore.”

A global company, Wipro has more than 35 offices across North America, Europe and Asia and publishes financial reports for eight countries.

Says Wright: “The IT business now dominates their entire revenue and profit base: over 90 percent of revenue comes from 485 IT clients; 96 percent of EBIT (Earnings Before Interest & Taxes) comes from that same base. They see their IT business opportunities doubling to quadrupling in size in the next five-eight years.”

Strand Life Sciences

Strand was part of a panel (along with Wipro and e4e) that addressed the Global Executive Forum after the TiE presentation (see Page 9). Earl L. Wright reports.

Formerly Strand Genomics and now Strand Life Sciences, the company was started in 2000 by a professor of computer science and three colleagues from the Indian Institute of Science. “Funding for the startup came from the Indian government which provided a loan of about $1 million at 3 percent interest, and the World Bank which made a $1.3 million equity investment in the company. Focused on developing technologies for drug discovery and development, Strand generates about $1.5 million in revenues per year,” says Wright.

Strand offers stock option plans to entice individuals to join the company.

Wipro sees its IT business doubling to quadrupling in size in the next five-eight years.
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“The company uses computer programs to ‘mine’ an abundant amount of research data to get a sense of trends and indications in product development. These trends would perhaps be missed without a computer looking for correlations and relationships among the data presented.

“Of their workforce, 25 percent hold doctorate degrees and 30 percent hold master’s degrees. Seventy percent are computer science professionals, 30 percent life sciences. Strand, like all the venture capital startups we talked to, offers stock option plans to entice individuals to join the company.

“It was pointed out there is no tax on capital gains that may come out of an equity investment in a company. A flow of capital in and out of India does not have any restrictions at the present time,” says Wright. “On short term gains with regards to a venture capital investment, there is a 10 percent tax. Thus, Strand is a favorable environment for venture capital investments in India at the present time.”

Tata Consultancy

One of India’s most successful companies and one that India is proud to show to the world, Tata Consultancy Services (TCS), Mumbai, is a division of the $10 billion Tata Group, according to Earl L. Wright reporting on the Global Executive Forum’s visit to the company.

TCS provides information technology and management consulting services to major corporations in 53 countries. Founded in 1968, the company has grown to more than 50,000 employees and 150 offices spread out on the world map.

“TCS has annual sales of nearly $3 billion, which makes it a very significant player in the IT arena,” says Wright.

In today’s work environment, getting and keeping employees can be challenging, even for a company with the stature of Tata; turnover among new hires in their first two years averages 8 percent.” The problem? “People tend to be loyal to the profession, not the company. They are demanding opportunities, be they financial and/or career, and they are willing to leave the company if they don’t get them.” Add to this the prevalent culture in India’s IT industry which generates “very high peer competition.”

Although TCS operates globally, “its corporate language is English,” says Wright. “So no matter what nationality they hire, they want the individuals to be fluent in the English language as well as their own native tongue.

“Starting salaries in the consultancy group are indicative of increasing competition for professionals. It appears as if $7000 per year or 280,000 rupees is a starting salary for individuals coming out of one of the technical schools,” says Wright. “But those with a master’s degree end up being paid $9000 per year or about 380,000 rupees. And someone from a prestigious MBA school could end up earning $18,000 per year or 708,000 rupees.

“Salary increases have been between 9-11 percent per year. Tata is aware that if they continue salary increases at the double-digit level, eventually the pricing advantages they have will begin to disappear.”

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In the meantime, competition for strong techies is intense and not just in India. The US beckons with starting salaries of “between $120 thousand to $160 thousand” for candidates with the right stuff.

Though low, Wright believes the figures regarding compensation in India are being quoted correctly. Consequently, he does not anticipate that “a significant number of Indian scholars and IT workers are likely to migrate back to India. However, those who are uncomfortable with our culture and want to reconnect with their families might find it less of a financial sacrifice to return to India versus staying in the US and reaping greater economic benefits.

If India is to continue to grow, it must have a large pool of educated employees from which to pick and a large middle class to support the system. “As is the case in many democracies, education often dictates a person’s ability to enhance his position in life,” says Wright. But education is not mandatory in India and even government schools cost money to attend, although they’re cheaper than those in the private sector.

“Discussion with regards to the culture and code within India suggests that the government tries to create equal educational opportunities for all youth. It was the (TCS) presenter’s contention that government schools and private schools do not differ in academic quality,” says Wright. “This contradicted previous discussions at Infosys which suggested that some of the better education, particularly the ability to teach and focus on English, was done at the private schools.”

“The TCS speaker did acknowledge that the quality of education varied from state to state, but the intention was to give everyone an equal opportunity.”

When it comes to postgraduate programs, “everyone agreed that iiti-b is the preeminent institution in India. Graduates holding degrees from iiti-b can count on having increased value to organizations but those organizations are for the most part outside of India,” says Wright. “It would be most unusual for these graduates to have an economic opportunity inside of India similar to what they have outside of India.”

e4e

Headquartered in Santa Ana, Calif., and with operations in India, “e4e specializes in customer resource management on a business process outsourcing basis,” says Steve Halstedt who with Earl L. Wright contributed to this report.

“The company was founded in 2000 with backing from Walden, Canaan Ventures and Global Internet Ventures. Their run rate (extrapolating future financial performance from current performance) is $70 million. e4e boasts more than 100 customers and nearly 4000 employees.

“Their verticals currently include financial services and health care, with expansion into other sectors planned,” says Halstedt.
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“Sridhar Mitta, in addition to serving as president of the TiE Bangalore chapter (see Page 9), is manager of R&D and Information Technology for e4e. Mitta presented a case study of a client for whom they launched an IP protocol to replace voice services, thereby reducing the cost of customer management by 50 percent. e4e’s focus is now on increasing revenues for their customers, rather than just producing cost savings,” says Halstedt.

“They pointed out that in the BPO industry, consolidation is starting to occur along with commoditization. In this kind of environment, competition erodes prices. For companies wanting to compete for the business, this is good news as people and resources should be readily available.

“e43 has identified new business opportunities where they believe they can dominate; financial services is one of them. They are going forward with the attitude that they want to be a business partner and a solution source for clients in the BPO area,” says Wright. “This represents a fresh way of thinking, one of the things that can happen when commoditization hits an industry.”

iiit-b

A new generation graduate school” is how iiit-b describes itself. Focused on all aspects of information technology, it is a public-private partnership promoted by the IT industry and the government of Karnataka State, home to the burgeoning Electronic City outside of Bangalore.

“iiit-b is an academic institution that specializes in master’s and doctorate degrees in software engineering and information technology,” says Wright, reporting on the Global Executive Forum’s visit to the campus in Electronics City.

“Established in September 1999, iiit-b became a full university in 2004, so it is relatively new and it is an experimental school even though they have a couple of pictures of Peter Drucker along with some very complementary comments he’s made about the school. Only Indians may apply.

“The financial model for the school is relatively straightforward: 33 percent of the funding comes from the government, 33 percent from tuition and 33 percent from grants awarded by companies that support the institution’s mission of producing high quality graduates.”

iiit-b is to Bangalore what Stanford University is to the Silicon Valley. “The companies that support iiit-b tend to have courses that support their industries; thus, corporate support tends to influence the academic focus of one industry over another,” says Wright.

“Honeywell, HP, Intel, Daimler Chrysler, Siemens, IBM and Microsoft are some of the companies that have special projects that the school and/or its graduates work on as a part of their academic experience.

“iiit-b graduates more than 100 students a year who are snapped up by the IT sector. They represent the intellectually top of what India graduates on an annual basis,” says Wright. “The 500-plus alumni occupy key positions in more than 60 corporations spread across a dozen countries. “It was interesting to note that iiit-b graduates tend to be very narrowly focused with regard to their training and tend to stay in that narrow focus as they pursue their careers.
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“I had a question for the presenter of our program: ‘Why are Indian PhDs returning to India from abroad despite the lack of financial reward?’ ”

He answered that many of those returning had a chance to make money in the dot-com period. Thus, they come back with savings that enable them to teach and still live rather well. Though lacking in economic benefits, career opportunities in India was better than in the US, the presenter said, and the returnees could spend one day a week working with corporations and teaching the other days.”