

# Offshore Update

## Best practices by Applied Development

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**Applied**  
Development

## PsiControl Mechatronics

### Lower costs, more computer scientists

**PsiControl Mechatronics** has worked together with Applied Development from the very beginning. In fact even earlier because there was already a cooperation with the predecessor ValueSource. Ludo Faes, R&D Manager, spontaneously lists three major benefits of the cooperation with Applied Development: flexible availability of computer scientists, broadening skills, and cost reduction.

**P**siControl Mechatronics is a part of the Picanol Group and, amongst others, designs, develops and produces realtime embedded motor steering, machine controllers and man-machine interfaces for looms. The headquarters is situated in Belgium but there are also development and production activities in Romania and China. Recently the company decided it wanted to market its mechatronic expertise in looms in the world of other machines in the textile sector. PsiControl employs 195 members of staff, of which 60 are in R&D.



• Ludo Faes, R&D Manager at PsiControl Mechatronics

on a relatively difficult Java-application. They are developing a user interface for the visualisation and processing of weaving and colour patterns. This interface is used both offline and built-into the loom. For this relatively difficult stand alone application, the Indian project manager came to Belgium for almost a year in order to learn about the looms and their applications. That knowledge has proven it's worth and in the meantime the cooperation between Applied Development and PsiControl is excellent. The cooperation has even been extended to a project relating to remote connectivity by which the looms are monitored remotely via a central server.

#### ATTENTION FOR COMMUNICATION

"Together with Applied Development we very consciously work on communication. That is necessary because people from very different cultures work together. So now we work on both sides with fixed contact points and communicate directly via Skype or chat programmes. The benefits of additional and economically interesting manpower absolutely outweigh the challenges. Along the way it even became apparent that the Indian computer scientists have vast web based expertise. That led us to develop a web application and tool together with Applied Development whereby Picanol is henceforth able to distribute the software updates online."

#### SUPPORT FROM AN INDIAN-BELGIAN PARTNER

Cost efficiency and quality of work is especially important to PsiControl. That is specifically the added value for their customers. "For that reason we started searching ourselves ten years ago for extra and cheaper software personnel in India. Easier said than done because embedded software developers were thin on the ground there. A few years later we found support at ValueSource. The offshore project remained a difficult exercise. Probably we were not ready for it ourselves at that point. Moreover we gave too little attention for the typical communication problems," Ludo Faes explains.

A time later PsiControl dared to make a second start together with Applied Development in 2006. Five Indian software developers now work

## Offshoring today

### India, China and CEE on top of the rankings

According to the report 'Offshoring for Long-Term Advantage - The 2007 **A.T. Kearney** Global Services Location Index' India and China continue to dominate the offshoring index. CEE-countries are also doing very well as an offshoring opportunity.

**I**ndia maintains its lead over China as it offers an unbeatable mix of low costs, deep technical and language skills, mature vendors and supportive government policies. India also maintains a strong lead in terms of language skills and vendor maturity. In both India and China, double-digit growth rates have caused wage inflation. But this has been matched by corresponding increases in skill supply and quality indicators. The Southeast Asian nations also continue to do well in the Index. Malaysia, Thailand, the Philippines, Indonesia and Singapore occupy five of the top 12 spots and Vietnam enters the top 20.

#### CENTRAL AND EASTERN EUROPE

In the same '2007 A.T. Kearney Global Services Location Index' six countries from Central and Eastern Europe occupy a top 20 ranking. The report also states that the trend from last year continues as the estab-

lished service providers in the region – the Czech Republic, Hungary and Poland – lose ground while emerging locations move up in the rankings. Continued improvement in the business environment in the Czech Republic and Hungary cannot offset deterioration in cost competitiveness. Furthermore Bulgaria replaces the Czech Republic as the only country from the region in the top 10. Bulgaria and Romania make big jumps in their business environment scores as a result of reforms intended to qualify for European Union membership on January 1, 2007. Despite a larger population base, Romania's relatively higher average wages put it among the middle of the pack at spot 33. Slovakia continues to do well, edging out the neighbouring Czech Republic to reach rank 12. Finally, the Baltic states Estonia, Latvia and Lithuania jump into the A.T. Kearney index with ranks 15, 17 and 28.

Rank	Country	Financial attractiveness (scale: 0 - 4)	People and skills availability (scale: 0 - 3)	Business environment (scale: 0 - 3)	Total score
1	India	3.22	2.34	1.44	7.00
2	China	2.93	2.25	1.38	6.56
9	Bulgaria	3.16	1.04	1.56	5.75
12	Slovakia	2.79	1.04	1.79	5.62
16	Czech Republic	2.43	1.10	2.05	5.57
18	Poland	2.59	1.17	1.79	5.54
19	Vietnam	3.33	0.99	1.22	5.54
24	Hungary	2.54	0.95	1.98	5.47
33	Romania	2.88	0.87	1.53	5.28
47	Ukraine	2.76	0.98	1.09	4.83

The weight distribution for the three categories is 40:30:30. Source: A.T. Kearney.

# GIMV takes the plunge with Applied Development

## "We invest in potential market leaders"

"We invest in companies with the best strategy and potential to become market leaders in their niche", says **Steven Coppens**, Investment manager and sponsor of the deal by which GIMV acquired a 10% interest in Applied Development this summer.

**G**IMV, founded in 1980, realises management buy-outs and growth financing in traditional sectors but also invests venture capital in ICT and Life Sciences.

"It is almost no longer possible to compete in the software-industry without an outsourcing component," says Steven. "Furthermore: an ICT-start-up has to start outsourcing from day one, otherwise they lose the 'time to market'. At some point they will be confronted with it anyway and then the decision is much harder. You do not immediately have to outsource everything but at least one person must be on outsourcing."

Where the code is written is unimportant. What is important is that it is done cheaper. Major ICT-companies have used offshoring for longer. SMEs (Small and Medium Sized Enterprises) find that more difficult. They do not know how, or have had bad experiences in the past. Providers like Tata and Infosys are too large for their needs. "There are opportunities for Applied Development to provide good quality and service to small and medium-sized projects." "We found the company via Vlerick", Steven continues. The managing director of Applied Development Bipin Nambiar worked there on the business plan and sought introductions.

GIMV looked over his shoulder and advised 'more ambition'. But at the same time the interest was awakened.

GIMV ICT makes five to ten investments each year. "A lot of our dossiers relate to outsourcing," says Steven. "Applied Development, that manages projects in Belgium and writes software in India, can operate as a portal for SMEs who develop an offshoring strategy. Synergies are possible within the company portfolio of GIMV. Applied Development is consequently also one of our strategic companies."

### COMFORT AND CHALLENGE

An average participation of GIMV is 20 to 30%. "Ten percent is on the low side", Coppens admits, "but it is not unheard of to start small. We want to leave the management with enough incentive to make it a success." The deal has 'comfort elements'. Already in 2000, Bipin set-up the highly successful ValueSource that has been the offshore software wing of KBC since 2004. Ivan Vercrey, the second managing director, is known to GIMV from other dossiers, like Keyware. "Both have already shown that they can do 'it'." "The growth strategy is clear and pragmatic: first find reference customers in Belgium and



• Steven Coppens, Investment manager at GIMV

then internationalise. In Europe Applied Development can approach 200 to 300 starting software companies each year and innumerable companies in the middle segment who want to migrate their platforms. Moreover only few players are active in this niche."

"Our goal is financial return," says Steven. Risk capital strives for 25 to 30% IRR which implies strong growth. "Generally we invest four to seven years in a company but we can also stay on board for longer. Consequently we hope to create an important player in this niche."

**O**ffshore Update: What are the principle reasons for companies and organisations for offshoring their IT development?

**Jef Loos:** "Offshoring generates a significant cost reduction. It also enables companies to switch from body shopping to fixed pricing. Other reasons for offshoring are reduction of the time to market and access to skills that are getting scarce on the home market."

**O.U.: Which countries are most suited for offshoring IT development?**

**J. Loos:** "To whom you outsource is more important than where you outsource but there are differences between countries. In India for instance risks are lower than in CEE countries because of the higher IT protection level. The Indian market is also more mature than in CEE. Furthermore with over 1 million IT developers the Indian market is about 10 times bigger than its CEE equivalent. Nevertheless in some cases nearshoring in CEE or other regions can be interesting because of the local knowledge of specific languages. However, a company can also choose to outsource its activities to a

## Jef Loos, Morgan Chambers "Offshoring requires strategic approach"

"Organisations that consider offshoring need to establish a sourcing strategy before going into business. Therefore preparation is essential", says Jef Loos, Director BeLux at Morgan Chambers.

partner in the homeland that has its own offshore branch."

**O.U.: What are the selection criteria to choose an offshore partner?**

**J. Loos:** "Cultural fit is essential. Irrespective of objective criteria you have to have a good feeling about your subcontractor. You also have to be important enough to them. Thus in some cases it might be better to cooperate with a tier 2 or 3 company. Being more important to them means that they will invest much more in service and quality."

**O.U.: Which elements and obstacles does an outsourcing company have to be aware of?**

**J. Loos:** "Preparation is crucial. You need to establish a sourcing strategy before going into business. If you outsource your infrastructure without considering development, you may have troubles afterwards. It also is important to outsource step by step in order to get familiar with the process. Besides, you have to make sure that the subcontractor has a reasonable profit margin allowing them to keep up high standards. Finally governance has to be built in the strategy."