Software services outsourcing: China vs India

Last year, the Chinese government declared its ambitions in the global software outsourcing market and announced its 10-100-1000 strategy for year 2010: (i) develop 10 outsourcing base (cities); (ii) secure 100 multinational clients; and (iii) grow 1,000 local companies into global players. The outsourcing market is worth US$60 billion now and is expected to increase to US$110 billion in 2010.

Currently, India is the leader in the software outsourcing space, employing 1.2 million people and chalking up US$23.4 billion turnover in 2006. In comparison, China achieved revenue of US$1.43 billion, which is merely 6% of India's capture. By 2010, China hopes to achieve US$5 billion revenue; India is shooting for US$61 billion.

China has 10,000 software outsourcing providers, with 67% of them having fewer than 50 employees, and only 5 with over 3,000 employees. India, on the other hand, has fewer than 3,000 software services companies, and the top 5 employs at least 45,000 staff. An annual turnover of US$50 million qualifies a Chinese company into the top 10 league, whereas India's top 10 have revenue above US$500 million. The top 10 players in China have a combined market share of about 39%, which is close to India's 45%. Overall, the Chinese software outsourcing industry is fragmented with too many players and although there is some market share concentration for the top 10 providers, these firms are smallish in size compared to their Indian counterparts.

In China, only 7 of the 30 largest software companies are certified at CMM (capability maturity model) level 4 or above, whereas in India at least 90% of the top 30 have already achieved level 5 certifications. China mainly exports low-level software coding services to Japan (52% of total exports) with average operating margins of 7% (due to limited product differentiation, inability to secure high value-adding services work, and severe price competition amongst themselves) compared to global average of 11%.

Special purpose acquisition company

Special Purpose Acquisition Companies, commonly known as "SPACs," are blank check companies, without any business operations, formed for the purpose of implementing a merger, asset acquisition or similar business combination. Most SPACs are listed on the American OTCBB ("over the counter" stock market), although some list on the AMEX or London AIM markets instead.

Its initial assets include cash (between US$30 million and US$1 billion) and a management team. The sole purpose is to make an acquisition within 18 to 24 months after the listing. Once this happens, the acquired company merges into the SPAC shell and files for a listing on the NASDAQ, AMEX or other securities markets.

According to SPAC Analytics, 66 SPACs had successfully raised US$12 billion in 2007, up from 37 in 2006 which raised US$3.4 billion. Despite the turmoil in the equity markets, a series of SPAC IPOs recently raised in excess of US$500 million each compared to the usual US$50 million to US$100 million range. In December 2007, Liberty Acquisition raised more than US$1 billion, making it the largest SPAC offering. SPACs are increasingly being used as an avenue for companies to do a reverse IPO. In an increasingly tightening credit market, private companies may prefer a SPAC merger over an IPO where the success of the latter is subject to market conditions. A SPAC merger is more controllable as the funds have already been raised and it relies on more sophisticated shareholders voting in favour of a deal.

China has become an attractive investment sector for US in recent years. Many mid-sized Chinese companies are looking to list on NASDAQ through reverse mergers with SPACs as the traditional IPO route favour larger companies. Synutra International, a Chinese maker of infant formula, is an example of a Chinese company that has successfully gone public in US through merging with a shell. The company effected a reverse merger with Vorsatech Ventures Inc in 2005, and transferred from OTCBB to NASDAQ in April 2007. It has almost tripled in market capitalisation since then and trades at a market cap of US$1.5 billion today.

Offshore/onshore IT outsourcing

Emerio GlobeSoft Pte Ltd (www.emeriocorp.com) is one of the largest IT outsourcing companies in Singapore with four key business portfolios including application management, infrastructure management, professional services as well as software development services. OWW and a co-investor have recently injected an aggregate of S$5 million to support Emerio's expansion plans.

Starting with a 4 men team in 1997, Emerio has grown to over 1,300 employees and has spread its wings globally (more than 10 countries at last count). Maintaining a multitude of locations with a strong Southeast Asian base allows Emerio to alleviate customers' concerns on geopolitical as well as data privacy and security issues (see OWW Investment Quarterly 1Q07).

Owing to its strong track record, Emerio has built up a customer base counting HP, Citibank and Agilent Technologies among its key clients. It has achieved revenue growth at a compounded annual growth rate of 80% for the past few years.

Priding on excellent service quality, Emerio has garnered a growing list of accolades. It has made it to the Global Outsourcing 100 list (ranked by International Association of Outsourcing Professionals) in 2006 and 2007. The company emerged 67th on the 2006 list in The Black Book of Outsourcing. Emerio is also ranked 30th on the Enterprise 50 list in Singapore in November 2007.

Travel meta-search engine

OWW has recently invested into Bezurk Pte Ltd (www.bezurk.com), a leading travel meta-search engine in Asia. Bezurk is a vertical search engine which searches other search engines and/or databases, and seeks to provide only highly relevant travel information to users. It is led by a management team with extensive experience in both the online and travel sectors. Some of the key partners that are currently working with Bezurk include Yahoo!, News Ltd, Lonely Planet and Yellow Pages Singapore.

Online travel market in Asia Pacific is projected to reach US$25.6 billion in 2007, which is more than double of that in 2004 (source: PhoCusWright Inc.). Several key drivers are propelling the dynamic growth. There is a dramatic increase in the number of low cost carriers which spurs growth in intra- and inter-region travelling. In addition, there is an influx of many new online travel agencies and traditional suppliers investing in online channels which ensure that customers get to enjoy a rich online shopping experience.

Bezurk is founded in 2005, and despite its short history, it has been recognised as a rising star in the Web 2.0 arena. Business 2.0 magazine (published by The Fortune/Money Group of Time Inc.) named Bezurk as one of the "31 of the world's hottest startups" outside the U.S. in July 2007. Apart from that, it has received mentions in publications such as The Wall Street Journal Asia and Los Angeles Times.

About OWW

OWW Capital Partners Pte Ltd ("OWW") (www.oww.com.sg), formerly known as OCBC, Wearnes & Walden Management (Singapore) Pte Ltd, was established by OCBC Bank, WBL Corporation and Walden International in 1991. In October 2006, the management team of OWW acquired WBL Corporation's interests and the company assumed its current name.

OWW focuses on expansion stage companies in the enterprise and consumer services sectors within the South East Asia and North Asia regions.

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