



Media Contact:

Robert Clarke

Phone: (404) 446-1670

E-mail: rclarke@duffey.com

The Gateway to China: How the Right Outsourcing Partner can Benefit U.S. Information Technology Development

By Kevin Jackam, Managing Principal, for Kittim Consulting

While India – long considered the leading destination for outsourcing – has become increasingly saturated and more expensive in recent years, China has quickly emerged as a premier alternative for offshore development centers, particularly for U.S.-based information technology companies.

Outsourcing IT development to a third-party, overseas partner, however, is a big decision. Costs and benefits must be evaluated, along with potential language and cultural differences that often can affect the bottom line. With the correct partner in place, IT companies can guarantee a direct and low risk entry point to China.

Here are a few of the issues your Chinese outsource partner must navigate to be successful in this rapidly changing region of the world:

- **Economy:** Your offshore development partner must keep a pulse on the Chinese economic market to determine how fluctuations can affect your performance and revenues. China has the third-largest economy in the world, trailing only the United States and Japan. With the fastest growing major economy for the past 30 years, as well as an average annual Gross Domestic Product growth rate of more than 10 percent, this economic muscle is a major contributing factor for outsourcing to China. An exceptional offshore development partner can identify and act upon variable market opportunities, on your behalf, to help you make the most of quickly emerging opportunities.
- **Infrastructure:** China's infrastructure has expanded along with its economy. Transportation, telecommunications and network infrastructure have all improved significantly in the past few years. The Chinese government's commitment to building out an IT infrastructure that features

Comparisons of China and India's ICT Capacity and Usage

- **Teledensity:** (China) 57 per 100 persons; (India) 11 per 100 persons
- **Total Subscribers:** (China) 750 million; (India) 123.85 million
- **Bandwidth:** (China) 43 GBPs; (India) 1 GPB
- **Broadband Connections:** (China) 64.3 million; (India) 300,000
- **Internet Subscribers:** (China) 210 million; (India) 60 million
- **Host Computers:** (China) 45.6 million; (India) 10 million

Statistics presented at the recent SIIA/BIIA44 conference by Intrepid Explorers, Inc.

high-speed Internet and optimally located outsourcing parks has made the country favorable to many North American companies who are looking to China for IT development. Your offshore development partner can harness these key infrastructure improvements to pass along innovation and savings to your customers.

- **Government:** The Chinese government is mobilizing quickly, heavily investing in the software services industry and awarding grants to certified service providers. Tax breaks and incentives for software companies are clear signs of the Chinese government's commitment to elevate the country's status as an IT development hub. Again, your offshore development partner should move quickly to make sure your company is poised to take full advantage of upfront incentives that set the stage for immediate and long-term financial viability.
- **Educated Workforce:** According to the 2009 KPMG report, "*A New Dawn: China's emerging role in Global Outsourcing*," 300,000 technology students and 600,000 engineering students graduated from Chinese universities last year. Although China's talent pool remains largely untapped, the country continues to establish national schools for software training to help meet the demand for skilled IT talent in the United States. An experienced partner has beneficial relationships, knows the best resources from which to recruit talent and knows how to manage communication between a Chinese workforce and western-based companies.

With an estimated 2.368 million Chinese IT workers, according to the KPMG report, outsourcing IT development to China makes a lot of sense for many companies. Your outsource partner, however, must thoroughly understand how to help western IT organizations align with and capitalize upon eastern social, economic, and governmental influences.

Kevin Jackam is Managing Principal for Kittim Consulting. For more information, please visit www.kittimconsulting.com.

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