

# ANNEX BULLETIN

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## GLOBAL TRENDS

Updated 3/09/06, 10:00AM MST; adds [OECD report](#)

### *Analysis of Hewlett-Packard's Operations in Bangalore*

# HP Thriving in India

## *From Maharaja-style Palaces to Utter Squalor in Streets; a Country of Stark Contrasts and Great Opportunities*

SCOTTSDALE, Mar 9 - India has always held a romantically mystical attraction for a western visitor. E.M. Forster described it beautifully in his 1924 book, "[A Passage to India](#)" (also see the [Annex Newsflash of the same title](#), July 2003). And Taj Mahal has remained for centuries an unsurpassed monument to eternal love.

This supreme temple of love, standing gracefully by the sacred Yamuna at Agra, is set amongst the serene ambience of a well laid out garden.

The massive white marble structure was built in the 17th century by the Mughal Emperor Shahjahan in memory of his beloved wife, Mumtaz Mahal. Shah Jahan was so disheartened by her death that the royal court went in mourning for two years and there was no music, no dancing, no



celebrations and no feasting for two years.

After such a long period when he recovered his consciousness, Shah Jahan decided immortalize their love in the form of the Taj Mahal. He had selected the place for the Mahal Taj in Agra so that he could see it from his personal palace at Agra Fort.

Designed by the local Muslim architect Ustad Ahmad Lahori, the Taj Mahal is a reflection of the gardens of Paradise to which the faithful ascend. The entire complex, with gardens, gateway structures, and mosque, was completed in 1643.

(an excerpt from [Destination India](#))

Story goes that Emperor Shahjahan then had the unfortunate architect beheaded after the job was done, so Lahori could not build for anyone else something as beautiful as Taj Mahal. Just one of many Indian legends...

And the Taj Mahal lore continues to this day. Here's for example the Taj



Mahal Palace Hotel in Mumbai (formerly Bombay), built in 1903 (left), at which this writer stayed before going on to Bangalore, one India's Silicon Valley. Just yards away, is the famous Gate to India through which the British royal couple, George V and Queen Mary first entered the country in 1911 (below right).

In many ways, not much has changed since the last turn of the century, this writer found out in his first "passage to India" last month. Cows and stray dogs still share the sidewalks and streets with people. And shanty towns consisting primitive lean-to's line the streets of major cities (see below).



Yet in many other ways, there is a whole new, modern, "high tech" India rising above the poverty and the squalor of the old. And sometimes in the middle of it.

Every country has its poor and its wealthy. But they tend to live in different parts of the city. No place this writer has ever seen has them sharing the same space and living in such proximity to each other as do Indian cities. The have's and the have not's; the old and the new India; are often only yards away from each other. And yet neither seem to mind it. They all seem to get along, at least for the most part.

This writer found such seemingly egalitarian attitudes a strange contrast to the western segregation along the vertical social strata, especially considering the elaborate caste system that once existed in India. "A country of stark contrasts" seems an apt epithet for this vast and densely populated country.

## **No Trickle-Down Economy**

How densely? Well, Bangalore is considered "a big village" by Indian standards, according to one ex-pat with whom I shared a flight from Mumbai to Bangalore. Yet it has a population of about eight million. Mumbai, on the other hand, does rate as a big city. Its population numbers 18 million.

These are staggering numbers by western standards. India's population has more than doubled over the past 50 years to more than a billion people, while its urban dwellers have nearly quadrupled. Over 200 million people now live in 3,600 Indian cities, one in three of them in abject poverty, according to [The World Bank Group](#). Every year another 15 million swell their ranks, and nearly 68 percent of these slum-dwellers are women or children.

Clearly, these are not the people who are taking away the American jobs through "offshoring" trends. In fact, such squalor still visible in large cities is proof that the billions of dollars the West has been spending in India isn't necessarily trickling down to the ordinary man in the streets.

Nothing new there. Back in 1998, a doorman at a luxury Dublin hotel told this writer that he had also heard of the Irish economic boom. "But it ain't trickling down to me, that's for sure," he assured me with a broad smile. Guess one has to have a sense of humor under such circumstances.

## **OECD: Job Losses to "Offshoring" Are a Myth**

Furthermore, some recent studies have shown that the notion that "offshoring" is taking away American jobs may be a bogus argument advanced by partisan politicians. "The idea that offshore outsourcing has a detrimental impact on jobs is simply a myth," according to a report from the Organisation for Economic Co-operation Development (OECD)," in a [March 6 release](#) of the British-based Infoconomy.

The report, which analyzed trade and occupational data from 20 OECD countries, including the U.S. and the U.K., found no evidence to support the commonly held theory that IT-enabled offshoring of service jobs has led to a decline in employment on home shores.

The comprehensive OECD research, [\*The share of employment potentially affected by offshoring - an empirical investigation\*](#), found that, "in the long run, the positive benefits of services offshoring outweigh the costs, even though the adjustment process may occasionally be difficult in the short run," the OECD report said.

An examination of economic data by the OECD found no "systematic evidence" that net outward investment of services is associated with significant levels of decline in employment as a result of offshoring.

"Exports of business services are found to have a positive statistical association with the share of employment potentially affected by offshoring, suggesting that increases in demand and production have also raised demand for these types of occupations."

In fact the report found that IT standardization and automation - not offshore outsourcing - are more likely to be responsible for rendering many jobs and roles redundant.

The report comes in the same week that a [study](#) by US IT industry body the Association of Computer Machinery also claimed offshore outsourcing has not hit IT jobs, citing the fact there are more jobs now than at the height of the dot-com boom.

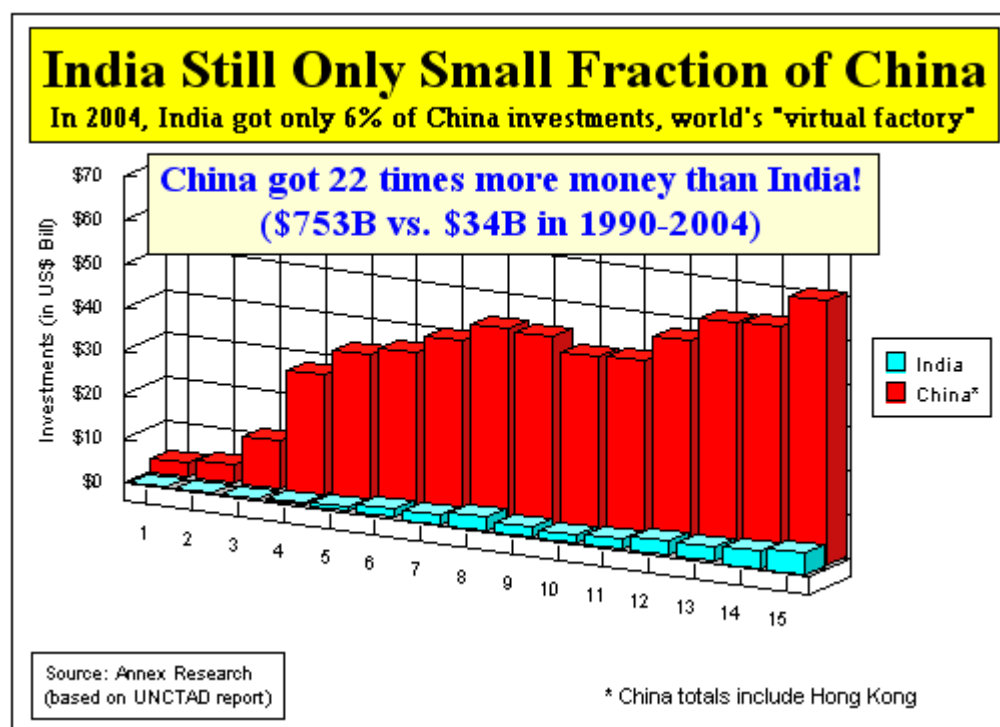
Besides, what is really "offshoring" in a global economy? As Bala Mahadevan, director of HP's South Asia cluster applications, put it during a tour of HP's global delivery facilities in Bangalore, "we will banish the word 'offshore.'" Bratislava (Slovakia) is offshore to me, and Palo Alto (HP's HQ) is offshore to San Juan (Costa Rica)," he opined. "There is no offshore in a global delivery system," he added emphatically.

## **Investments in China Tower over Those in India**

Furthermore, as we pointed out the [Annex Research analysis of global investments \(Oct 24, 2005\)](#), the money being spent on India by multinational companies is a tiny fraction of that they are investing in China:

**India.** In 2003 and 2004, and especially during the last U.S. presidential campaign, political rhetoric made out India as the biggest nemesis of the American workers. But talk is cheap. And the latest UN figures show that political noise can overpower financial facts by a country mile.

In 2004, for example, even after a hefty 25% annual increase in foreign investments, India attracted “only” \$5.3 billion of foreign capital. China, on the other hand, got \$95 billion, as you saw earlier.



The discrepancy between the two countries is even larger over a longer period of time. Since 1990, for example, China has attracted 22 times (!) more capital than India. Yet our politicians, especially the Democrats, are screaming bloody murder with respect to “offshoring” of American jobs to India, while remaining mostly mum about those that have gone to communist China.

Why different strokes for different folks? Maybe the Indians yet have a thing or two to learn from the Chinese about buying of American politicians? (see “[Sellout of America - II](#),” Mar 2005, “[The Worst of Both Worlds](#),” Mar 2005 and “[China Follies Revisited](#),” Mar 2004).

Sounds like the Indians are quick studies, judging by this week's first-ever

visit to their country by the American president, and the nuclear treaty the two countries signed that exempts India from international inspections. Stand by for floodgates to investments into India to open up, especially in defense-related areas.

## India's English Proficiency Overrated

Meanwhile, the famed Indian English proficiency due to the long British colonial rule is overrated, this writer has found during his stay in India. True enough professionals who work for western companies do speak passable English. But venture into the streets of Mumbai or Bangalore and start mingling with common people, and you will rarely hear English. And if they do try to speak it, chances are you're going to have a hard time understanding them (for more on that, check out this writer's [Mumbai personal travelogue](#)).

That's when I was reminded of something Som Mittal said at another conference in San Jose, CA, in October 2004:

What makes India so attractive? In a word, its population.

“It is the first time in history that India’s (large) population has become handy,” said Som Mittal, senior vice president in charge of Hewlett Packard’s Indian services operations, replying tongue-in-cheek to our question during an October 2004 conference in San Jose, CA. Mittal should know. He is an Indian entrepreneur who was bought out by large multinationals (first Digital Equipment Corp., then HP).

Continuing to speak in a lighthearted vein, Mittal credited three major factors for India’s popularity:

1. Pingala, the Indian mathematician who first discovered the binary system in 5<sup>th</sup> century BC;
2. Columbus, for having discovered America (while looking for India);
3. The British, for having left the English (language) behind.

Levity aside, since English has become a global business language, India’s proficiency in it has been indeed its big advantage over non-English speaking world regions, such as Russia or other Eastern European countries.

[Annex Research analysis of global investments \(Oct 25, 2004\)](#)

Well, maybe not so big as we thought 18 months ago. For right after India,

this writer visited Moscow, for example, among some other Eastern European countries. And found out that there wasn't really that much of a difference between the average taxi driver's English comprehension in Moscow versus Mumbai (more on Russia's and Eastern Europe's investment appeal in future issues).

## HP Thriving in India

But that may change if the western companies continue to pump money and resources into India at the accelerating pace that has been evident in the last several years. HP, one of the top five global IT services provider, for example, already has over 27,000 people in India.

And most of them are based in Bangalore. HP's beautiful campus where its Global Delivery Center is located looks as pretty and sophisticated as any top-flight high-tech operation in Silicon Valley or elsewhere in the U.S. (see the photo on the right).

Unlike other western companies, however, HP has also won outsourcing contracts within India (see "[A Passage from India](#)," Mar 2004). Which means that the Bangalore center is used to support domestic Indian customers, such as the Bank of India, and not just those from the U.S. or elsewhere in overseas countries.



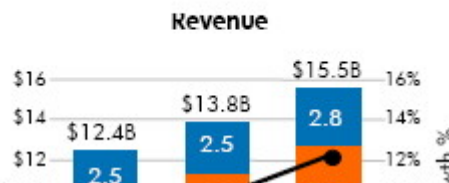
"Nine times out of 10 we win when the customer comes here to visit the Bangalore BPO center," said Bob Schultz, the general manager and vice president of HP Services' (HPS) global BPO operations (BPO - Business Process Outsourcing). After the tour of the center, we can see why...

"We're not happy being a follower," declared Bret Allinson, HPS' vice president in charge of global delivery. "We want to be a leader."

And the HPS executives are confident they have the support of the top management, specifically that of Mark Hurd, the CEO, to achieve that goal.

"HPS is a strategic asset for HP," said Marc Schwarz, general manager and

### HP Services



vice president of the company's Managed Services operations, as he welcomed some two dozen global consultants to a two-day conference in Bangalore. "And Managed Services is a strategic priority for HPS."

Indeed, Managed Services, of which infrastructure outsourcing represent some 90% of business, has been a rapidly growing part of HPS (see the above revenue chart). It accounted for \$3 billion of the \$15.5 billion revenues that HPS recorded in FY2005 (ended Oct 31).

And given that HPS now has 69,000 people in 170 countries, there is little doubt about its global reach and range (also see the above map of its global delivery centers). Besides India, and, of course, the U.S., HPS operates various global delivery centers in China, Singapore, Spain, Slovakia, Poland, Costa Rica, Mexico, etc.

"We're just opening a center in Sophia (Bulgaria) to handle German language customers," said Pablo Sanchez-Lozano, the head of HPS' European operations that have just won a major global outsourcing deal at KONE, a Belgium based elevator and escalator company. KONE's global network spans 50 countries in Europe, Asia Pacific and the Americas.

And even in Japan, a country that has not been exactly in the forefront of the global trend toward services, HP's consulting and integration work is thriving, according to Ganesh Ayyar, the head of HPS' Asia/Pacific operations. "Sometimes we are asked (by Japanese companie) to develop entire ERP systems," he said, lauding the loyalty of its Japanese customers.

Overall, therefore, HP is thriving in India, and specifically in Bangalore. And through its global delivery center there, it is serving its customers all over the world.

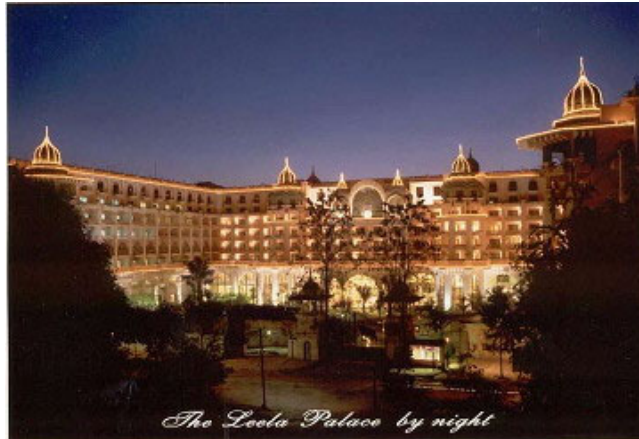
Of course, HP is by no means the only global competitor with extensive operations in Bangalore. As we drove through the city, we also saw IBM, Accenture, Capgemini and Intel offices, to mention some. And many more buildings are going up.

The more the merrier. Maybe in time, some of those dollars will trickle down to India's streets, too? And if that were to happen, the globalization trend would be fulfilling its elusive promise - to bring prosperity to all.

*Happy bargain hunting!*

*Bob Djurdjevic*

## A Bangalore Photo Gallery..



The Leela Palace hotel at which the HPS conference was held




And yes, there are indeed many hardships to being a global consultant, but somebody has got to do it... ☺ [additional photos are available at [my personal Bangalore travelogue](#)]

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