Revolution of Chinese Offshore Development Business Model

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2. Problems of Offshore Development
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1.1 The Ordering Places of Offshore

The ordering places of offshore for Japanese companies.

- Philippines
- India
- Vietnam
- China

investigation of 2010 (N=73)
investigation of 2009 (N=76)
investigation of 2008 (N=72)
investigation of 2007 (N=62)
1.2 Chinese Software Industries

From: MII (Ministry of Information Industry), 2011
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2.1 Cross-Culture Communication

The same word with different meaning in Japanese and Chinese.

<table>
<thead>
<tr>
<th>Word</th>
<th>Meaning in Chinese</th>
<th>Meaning in Japanese</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set with blank</td>
<td>Space or Null</td>
<td>Space</td>
</tr>
<tr>
<td>End of the year</td>
<td>End of the December</td>
<td>End of the March</td>
</tr>
</tbody>
</table>
2.2 Depending on a Certain Person

BSE (Bridge System Engineer) has been a bottleneck.

- The number is limited
- Unevenness of the level
- It takes time to bring up

--> bottleneck occurs
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### 3.1 Conventional Business Models

<table>
<thead>
<tr>
<th>Model</th>
<th>Merit and Demerit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Bidding</td>
<td>Cut out a part of certain large-scale project and choose several contractors to do estimate. By judging from the estimate and the integrated situation, they’ll select the best one to sign the contract with it.</td>
</tr>
<tr>
<td>Laboratory Contracts</td>
<td>Contract with fixed engineers during the certain period by guaranteeing the works</td>
</tr>
<tr>
<td>Subsidiary Company Establishment</td>
<td>Establishing the subsidiary companies in China for further pursuit of the convenience of personnel and reduction of the cost and aiming at Chinese domestic market</td>
</tr>
<tr>
<td>Joint Venture Establishment</td>
<td>Establishing the joint venture with Chinese companies instead of establishing the subsidiary companies in China.</td>
</tr>
</tbody>
</table>
## 3.2 Merit and Demerit

<table>
<thead>
<tr>
<th>Model</th>
<th>Merit</th>
<th>Demerit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Bidding</td>
<td>Order with low risk</td>
<td>1. No future for Chinese market</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Unevenness in quality and quantity</td>
</tr>
<tr>
<td>Laboratory Contracts</td>
<td>Stabilization of talents</td>
<td>1. Risk of order guarantee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Futureless for Chinese market</td>
</tr>
<tr>
<td>Subsidiary Company Establishment</td>
<td>Possibility of Chinese market</td>
<td>1. High risk for fixed costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Difficulty for getting talent resource</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Awkward with local labor management</td>
</tr>
<tr>
<td>Joint Venture Establishment</td>
<td>1. Possibility of Chinese market</td>
<td>1. High risk for fixed costs</td>
</tr>
<tr>
<td></td>
<td>2. Acquire some resources from Chinese companies</td>
<td>2. Easy to occur conflicts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Limits with talent resource</td>
</tr>
</tbody>
</table>
4 Introduce of Business OEM Model

Key point: building the channel from Japan to China

Quality assurance technique of offshore development
“Process sharing depends on the difference acknowledgment”

Business Base
BPM Function

Japan

China

Offshore development base of China
- Management of Q&A
- Development Standard+7 Means
- Talent training
- Management of joint company

BPM: “Business process manager” or “Business process maker”
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5 Elements of Business OEM Model

Solution for Value Judgment Differences
Standardization of Independency
Talent Training Mechanism
Establishment and Management of Joint Venture
5.1 Value Judgment Differences

Figure of apple (Fail)

Import apples to Japan

I see, It's OK since we have the experience of exporting to Thailand!

1t

Outrageous!

Shape and size are average and displayed neatly for sell.

Fail

(Actual situation of Japan)

Outrageous!

(Actual situation of China)

In the supermarket of China, apples are sold with different shapes and sizes.

(Delivery is based on the individual's experience.)

(vague specifications)
5.1 Value Judgment Differences(2)

Import apples to Japan

(vague specifications)

Although there is no experience of exporting apples to Japan, the target number of Q&A is established.

Q1: How many tons?
Q2: How to choose with 200g?
Q3: How to pack it?

A1: No, 120 apples, and each one is about 200g.
A2: Measure each apple in scales and choose the weight of about 195g-205g.
A3: 12 in one box, and total ten boxes

Although it is inexperienced, work is done according to a development manual.

Offer the tool

Q&A

Delivery

Success

In this way, the specifications such as the kind or the color of apple can be transmitted.
5.1 Value Judgment Differences(3)

Solution: questionnaire management (Q&A with suggestions of answers)

- Setting Q&A Amount Indicator
- Standardization of Q&A Description
- Management of the Answers and Analysis
## 5.2 Standardization (7 Means)

<table>
<thead>
<tr>
<th>No</th>
<th>Contents of the Means</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Before begin the dealings, customer’s executives will execute the inspection to the site.</td>
</tr>
<tr>
<td>2</td>
<td>Requiring the customer to explain the specification of the first task at the spot of development site.</td>
</tr>
<tr>
<td>3</td>
<td>“Development Procedures and Quality Management” standard is observed and executed thoroughly.</td>
</tr>
<tr>
<td>4</td>
<td>All the documents and sources are managed by the same folder.</td>
</tr>
<tr>
<td>5</td>
<td>In each stage of the project, the number of Q&amp;A is managed as one of the quality indices. Thus the questionnaire is managed.</td>
</tr>
<tr>
<td>6</td>
<td>The quality assurance department will check the standard observance situation of the project as a third party.</td>
</tr>
<tr>
<td>7</td>
<td>To require the estimation from the customer by a regulated route at the end of the development.</td>
</tr>
</tbody>
</table>
5.3 Talent Training Mechanism

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Students are graduated from polytechnic majors and had studied some software development language.</td>
</tr>
<tr>
<td>2</td>
<td>Focused on Japanese education to achieve the ability of reading and writing in three months.</td>
</tr>
<tr>
<td>3</td>
<td>A thorough education of development procedures and practices in exercise project.</td>
</tr>
<tr>
<td>4</td>
<td>Exercise project which is managed as the same of the formal project centers on coding and unit testing.</td>
</tr>
</tbody>
</table>
5.4 Joint Venture

Establishing the joint venture achieves win-win deal by exchanging the qualities.

Qualities in the Equivalent Exchange (Japan-China)

<table>
<thead>
<tr>
<th>Japanese Companies (Seeds)</th>
<th>Chinese Companies (Needs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Technology</td>
<td>Marketing Capability (proposed ability)</td>
</tr>
<tr>
<td>High Brand Effect</td>
<td>Human Affairs and Labor Power</td>
</tr>
<tr>
<td>High Management Ability</td>
<td>Procurement Capacity</td>
</tr>
<tr>
<td></td>
<td>Licensing Power</td>
</tr>
</tbody>
</table>
5.4-1 Promotion Methods

Intermediate BPM: Business Process Manager
Senior BPM : Business Process Maker

Differences between BSE and BPM

<table>
<thead>
<tr>
<th>Concepts</th>
<th>Management Object</th>
<th>Requisite Ability</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSE</td>
<td>Project</td>
<td>Communication, Professional business knowledge, Development skill, Project management</td>
</tr>
<tr>
<td>BPM</td>
<td>Business process of company unit</td>
<td>Communication, Business planning, Presentation, etc.</td>
</tr>
</tbody>
</table>
5.4-2 Requirement for Establishing a Joint Venture

**Essential factors that companies should be capable of.**

<table>
<thead>
<tr>
<th>Japanese companies</th>
<th>Provide high qualities for exchanged by win-win mode at own fields skilled in</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Take the leadership of the joint venture and use the talented person resource of the Chinese side</td>
</tr>
<tr>
<td></td>
<td>Aiming at Chinese and world market</td>
</tr>
<tr>
<td>Chinese companies</td>
<td>Give up the leadership of the joint venture</td>
</tr>
<tr>
<td></td>
<td>Be able to providing the human resources anytime as necessary</td>
</tr>
<tr>
<td></td>
<td>Be able to meet the requirement of the joint venture</td>
</tr>
</tbody>
</table>
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In the OEM business model, the joint venture group is made of Japanese and Chinese companies. The table below summarizes the effects of this business model:

<table>
<thead>
<tr>
<th>Company Type</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japanese Companies</td>
<td>Easy to progress the quality control mechanism (QC)</td>
</tr>
<tr>
<td></td>
<td>Easy to transfer the business from Japan to China with low risk</td>
</tr>
<tr>
<td>Chinese Companies</td>
<td>Be able to progress without any business action</td>
</tr>
<tr>
<td></td>
<td>Be able to learn the advanced management and technology ability from Japanese companies</td>
</tr>
</tbody>
</table>
6.2 Effect of Business Model(2)


Transition of customer estimation by years

- ◎: extremely satisfaction
- ○: satisfaction
- △: a little dissatisfaction
- ▲: dissatisfaction
- ◎+○: sum of satisfaction


Estimation rate
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7.1 Conclusion(1)

The business OEM model is effective and under this model, Japanese company and Chinese company achieve a win-win situation through "equivalent exchange". Japanese company can transplant their business to China smoothly. This is so-called “business OEM”.
The win-win method of "equivalent exchange" is not limited to software development business. It can spread to all the other business fields and all the other countries theoretically. Possibly the "equivalent exchange" contents can be replaced according to the countries characteristics.
8.1 Future Challenges

1) To open the market to cooperate with European and American companies on the OEM model

2) To avoid the leakage of know-how while the higher lever work such as design is expanded in large scale
8.2 In the Future

We are expecting a good effect of business OEM model when expanding to the global markets.
Thank You!