



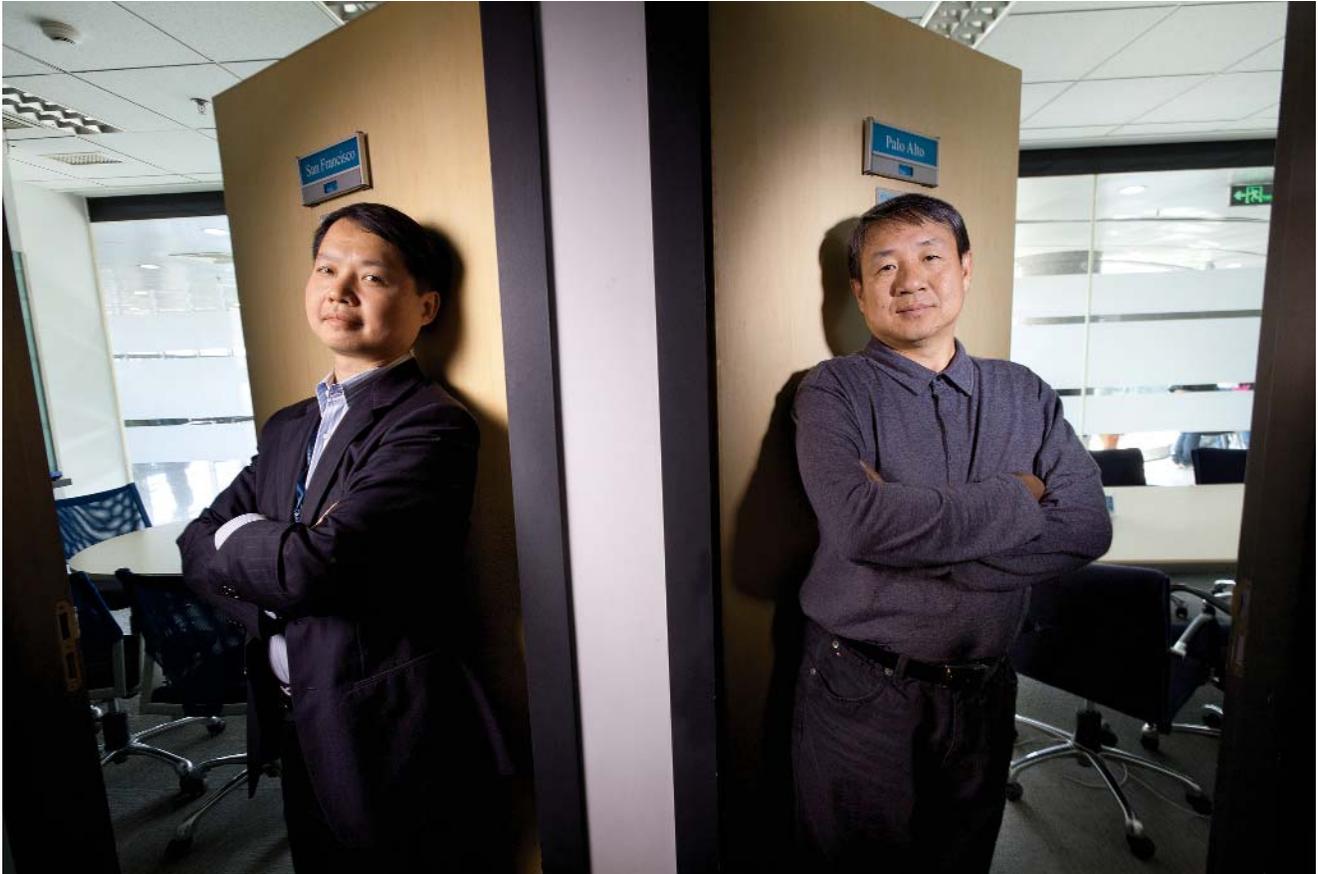
FORBES ASIA

VANCEINFO TECHNOLOGIES

Service Provider

Two tech guys named Chen are trying to answer the question:
Can China do IT outsourcing like India?

BY RON GLUCKMAN



"It's our style to be frugal": VanceInfo Technologies Vice Chairman David Chen and Chairman Chris Chen (no relation) have adjoining offices.

When David Chen met his future business partner, Chris Chen, in 1992, David was a Chinese student struggling to make ends meet in Southern California and Chris was working at a Great Wall computer store. Happy to find a fellow mainlander behind the counter, David put in an order for one of the cheap knockoffs the

company sold. "It was all I could afford," he says.

Over the years, whether to fix a malfunctioning keyboard or brainstorm big ideas, they kept in touch. Today the pair, who aren't related, run one of China's fast-growing info-tech outsourcing businesses, VanceInfo Technologies. It's a long way from playing in the same league as the Indian giants—Tata Consultancy Services, Wipro, Infosys and

HCL Technologies—but it does list blue chips such as Microsoft, 3M, IBM, Citibank and AirAsia among its customers. VanceInfo collected \$212 million in revenue last year and turned in a \$30 million net profit. This year consensus estimates call for \$276 million in revenue and a \$40 million profit. Analysts say revenue could jump to \$345 million next year.

Typically, big companies turn to out-

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sourcers such as VanceInfo to handle some part of their operation. The outsourcer supplies the office space, employees and the ability to scale up quickly to fill a need. Last year Hong Kong's Cathay Pacific Airways delegated some of its growing IT and software development workload to VanceInfo, which set up an office across the border in Shenzhen. Cathay's chief information officer, Tomasz Smaczny, says outsourcing an IT operation pays better dividends than buying individual IT services or hiring more staff: "We didn't do this so much for cost savings as for effectiveness and increasing our capabilities. Outsourcing allows us to dial up or dial down as needed."

VanceInfo runs such offices around the country and works with some 25 universities to provide and train staff. Many of the offices are scattered around a huge new computer park on the outskirts of Beijing, though there's no way to tell from the outside—they often sport only the customers' sign. There's a big office for Microsoft, a customer since 1997, where VanceInfo worked on Windows 7.

VanceInfo also keeps its headquarters here. Despite the marquee clients, and stakes that make them both well off—Chris' 8.6% stake is worth \$37 million, David's 0.7% stake \$3 million—each Chen drives his own car, unusual for Beijing executives, and works out of a nondescript office when he's not traveling. David, 43, the company vice chairman and president, has files piled to the rafters in his. Chris, 48, the chairman and chief executive, sits in the next one, which does boast a window but it looks out at the wall of another IT office. "It's our style to be frugal," he says. "We're in an industry where there aren't big margins. What impresses our customers is good service at good prices."

The austerity is certainly part of the company culture. One example cited by Alicia Yip, a former Citigroup analyst who followed VanceInfo, involves the chief financial officer, who found that his flight to the U.S. had been

Punished for a Rival's Misdeeds

VancelInfo began the year tipped as one of the world's hottest stocks. Then in May a scandal erupted at rival Chinese outsourcer Longtop Financial Technologies, hitting the shares of the entire sector. From around \$32 a share, VanceInfo's stock fell to almost \$5 early last month before beginning to rebound to around \$11. And it didn't help that VanceInfo Chief Financial Officer Sidney Huang served as CFO of Longtop in 2005–06; he has not been connected to the scandal.

Investors were giving the sector's wave of listings increased scrutiny, albeit a bit late. Both Longtop and VanceInfo went public on the New York Stock Exchange in 2007. Choosing the U.S. over markets in China opened the vaults to bigger investments, at the price of more regulation and paperwork. The scandal came to light when its auditor for several years, Deloitte Shanghai, resigned, alleging that financial information had been falsified.

By the time trading in Longtop was halted in August, over \$1 billion in value had evaporated. Scores of lawsuits are pending and a U.S. Securities and Exchange Commission investigation guarantees that the matter will remain in the news. "It will take some time to recover," says VanceInfo's David Chen. Yet he downplays any long-term impact. Rising costs and the yuan's continuing strength, he maintains, are bigger concerns that also contributed to the stock drop. Now, with a chance for the sector to feast on Longtop's clients, analysts see VanceInfo becoming a hot stock again, climbing to a \$16 to \$20 range. —R.G.

booked in business class. "He quickly went online and changed the ticket to economy," she says. Another time, at a conference, she remembers that VanceInfo executives checked out of the pricey conference hotel and moved to a nearby budget inn.

Chris Chen grew up in Wuning, a remote village in remote Jiangxi Province that had scant electricity. His mother is illiterate. "She cannot even write her name," he says. Nonetheless, he scored high on the national college test and won a place at Tsinghua University, considered the MIT of China, and graduated in 1986. He didn't know anything about information technology then, so when he started working for Great Wall, then China's biggest computer company, "Some people thought I was useless," he says. "My major was mechanical engineering."

Chris' skills were more suited to an entrepreneurial age that hadn't yet dawned in China. He spent six years

with Great Wall and was posted to California, partly to scout new technology. In addition to selling computers to walk-in customers such as David, he was always on the alert for opportunities. One arose when IBM asked Great Wall to translate its operating system software into Chinese. The profit margin didn't interest Great Wall. Chris pounced.

Raising money from friends and relatives, Chris started a business. That morphed into a company called Worksoft, which later changed its name to VanceInfo (*see box, p. 38*). It quickly enjoyed success in localizing software for China and helping foreign IT firms operate there. "We had no concept of outsourcing," says Chris. "We just did projects, focusing on opportunities to make money. If I knew anything about outsourcing then, we'd be much, much bigger now."

David brings a dab more international expertise to VanceInfo. From Fujian Province, he went to the Univer-





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sity of California, Irvine, earning a computer engineering master's in 1994. He moved to Silicon Valley, where he worked as a software engineer at Oracle and a consultant at KPMG. After a decade in the U.S. he returned to China in 2001 and joined Chris. With his Silicon Valley background, David comfortably courts new customers and oversees operations. Chris is more of the strategist, as well as the closer. "Chris has great people skills, and is a good storyteller," says David.

But can the Chens propel VanceInfo out of the crowded ranks of midsize Chinese outsourcers and into the global big leagues? It's probably one of the three or four biggest outsourcers now. (Comparisons are tricky—larger companies, such as Insigma, Neusoft and DHC, get some of their revenue from software and product sales and other sources.) Analysts also see VanceInfo as one of the two or three best run and most reputable. Frances Karamouzis, an analyst for Gartner and the coauthor of a report last year on the Chinese outsourcing sector, praises VanceInfo's adoption of Western-style accounting, which led to a New York Stock Exchange listing in 2007; most competitors opt to trade in China.

The comparisons with India are inevitable. Outsourcing has mushroomed into a \$70-billion-a-year business in India, while some analysts value the Chinese sector at \$20 billion; CLSA predicts that it will reach \$30 billion in 2014. "China is almost exactly where India was a decade or so ago," says

OUTSOURCING GIANTS

THE FOUR MAJOR INDIAN IT FIRMS ARE FAR BIGGER THAN A TYPICAL CHINESE OUTFIT.

COMPANY	ANNUAL REVENUE
TATA CONSULTANCY SVCS	\$8.2 BIL
WIPRO	\$6.8 BIL
INFOSYS	\$6.0 BIL
HCL TECHNOLOGIES	\$3.5 BIL
VANCEINFO	\$212 MIL

SOURCE: BLOOMBERG.

Pierre Samec, former chief technology officer of U.S. Internet travel company Expedia. "I think it will follow the same rapid growth curve." VanceInfo set up an outsourcing operation for Expedia in Shenzhen.

But times are different, and China is a different country—it may never produce another Infosys. Just as the Chinese industry is today, the Indian industry was once very fragmented, with dozens of small companies vying for business. The industry underwent a rapid consolidation, but in China, where analysts have been predicting the same trend for five years, it's been slow in coming. Karamouzis says that when it does arrive, the key for VanceInfo will be how well it handles the numerous deals and the integration of thousands of added employees. It's done four deals this year, spending almost \$9 million to buy three Chinese outsourcers and one in Australia.

A hiccup for VanceInfo over the past six months was the drastic drop in its share price after an accounting scandal at rival Chinese outsourcer Longtop erupted in May (see box, p. 36). With consolidation a key to growth, the lower share price leaves VanceInfo with a weaker currency for buying other companies. Indeed, of its four deals this year, it did the two before May with cash and stock while the two since May were cash only. But David says: "We are actually in good shape. We have a lot of cash on hand (\$130 million as of June 30), and are still looking at acquisitions." He added that a lower share price could be an advantage in buying companies, giving the sellers more potential upside.

Another difference from India is that most of the Chinese outsourcing business is in Greater China—with Chinese companies or multinationals operating in China. Indian companies exported most of their work to the West (and have never been able to make many inroads in China). VanceInfo's headcount numbered 12,542 at the end of the second quarter—up by 25% from a year

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The Name Remains The Same

VancelInfo's first name was Worksoft, but the company later discovered a U.S. company called Worksoft. When it changed its English name to VancelInfo, it decided it didn't need to change the Chinese name. The first character denotes literature or culture, and the second, contemplation and thinking. In Chinese they sound similar to "vance," so the company chose VancelInfo for the English name. It's a play on "advancing information," says President David Chen. "It is really what we are about, to advance your potential." —R.G.

earlier—but only 200 of those were outside Greater China. The company does seek to grow in Europe and North America by moving into consulting and business solutions, allowing it to travel up the value chain by taking on more lucrative projects.

But despite VanceInfo's digital culture, change can be slow. In fact much of the industry looks inward, because business has been so abundant in China. "This is a very Chinese company," says Samec, noting that there has been much talk of adding foreign expertise to help the company grow and especially to expand overseas, but little action. Says David Chen: "This is something we have talked about and agreed upon, but we have been slow to implement. We really need to step up." 

