INDIGENOUS IRISH TECH COS, OPPORTUNITIES AND PROBLEMS

INTRODUCTION AND BACKGROUND

"The Irish economy, coming out of recessions is a strange hybrid. The front legs of its export sector may have recovered tiger like strength, but the hind legs of the domestic economy are more akin to those of a sickly Mediterranean goat." So says the *Economist* issue dated Jan 10th, 2013. While the domestic economy is still climbing out of recession, the export sector, especially the technology sector is booming. While the Irish tech sector is ready to take off, many challenges (among them the economic policy) remain.

In this document, Metadesign (www.metadesignsoftware.com) analyzes the tremendous opportunities and significant challenges facing the Indigenous tech companies in Ireland, and proposes some ways to grow bigger, faster.

THE LANDSCAPE OF THE TECH SECTOR IN IRELAND

Ireland has developed as the heart of tech in Europe. Global giants like Google, Facebook, Dropbox, LinkedIn, Paypal, Twitter, Amazon, Zynga have flocked to Dublin. IDA, Ireland says that in 2012, 140 foreign companies either expanded or launched in Ireland.

Indigenous Irish tech companies have a glorious history of innovation. Many indigenous companies like IONA, Xilinx, Openet, Trintech, Baltimore, Havok, Newway have become icons of the tech industry.

There are approximately 5400 tech companies in Ireland, and the tech sector employs around 75000 people. There is a shortage of 2500 people in the tech sector in 2012, and this is expected to grow by 1500 every year.

OPPORTUNITIES AND CHALLENGES FOR INDIGENOUS IRISH COMPANIES

The biggest tech companies in the world, some of the biggest Venture Capitalists, and some of the greatest minds in the world today are converging on Dublin. The Irish Government, and organizations like Enterprise Ireland, IDA, Launchpad etc are providing support to tech entrepreneurs and organizations.

But there are many challenges for indigenous tech companies. Indigenous Irish companies are competing with Global giants for the same talent. Rapid growth is challenging, since developed markets are stagnant.

Government has come up with initiatives. It proposes to introduce a Tech Visa, which will help attract global talent more easily.

Companies are trying to solve this challenge by doing more of the same thing. They are increasing investing to sell more to the same markets, raising salaries to retain talent, and to contract work instead of employing people. Some companies are also outsourcing.

These measures of the Government and companies are not helping. Current markets are saturated. Raising salaries will not help retain employees who see an indigenous company only as a stepping stone to a global giant. Outsourcing is not a silver bullet because of the hidden costs due to higher rates, lower efficiency, and lack of trust.

CHANGING TRENDS IN OUTSOURCING – INDIA'S HUGE MARKET POTENTIAL

Outsourcing was driven by labor arbitrage – however, the success of outsourcing and global manufacturing has spawned an increasingly well-to-do middle class in India and China. This has reduced the labor arbitrage.

However, this has also created a huge market – especially in India. India has an internet subscriber base of over 100 million users and a mobile user base of 929 million. India has a young population, 54% of Indians are under 25 years of age. Rising incomes in the hands of a young population, a growing economy, expansion in the availability of products and services and easy availability of credit — all of this has given rise to new consumer segments and a rising acceptability of debt. Audis, Bentleys, Jaguars, and BMW cars are now more common on the streets than the occasional cow.

The market for technology is also booming. The Indian government will spend 6.9 Billion US Dollars on technology in 2013, whereas the total IT spend in India is expected to reach 71.5 Billion USD in 2013.

The IT infrastructure is in place for selling software to this market. India's Unique Identity (UID) program has a goal of capturing and storing personal and biometric information for each and every one of India's 1.2 billion residents. The program is envisioned as the basis for new mobile apps that would facilitate everything from banking transactions to the purchase of goods and services.

This is a market rife with possibilities. Companies should establish base here not just for outsourcing for cost reduction, but rather establish a beachhead to enter the Indian market.

RIGHTSHORING MODELS

A base in India can provide access to talent, and to a bigger fast growing market. The best model would be where Core product and functionalities would be maintained in the company. Auxiliary product features, and customizations would be performed in India. India office could also explore a market for the product in India, and grow the sales function.

STEPS TO RIGHT SHORING

It is best to proceed with levels of Confidence Building measures mentioned below, each requiring increasing capability and trust. It is best to move to the next level only after success at one level.

> Augment on site work force with programmers onsite at contracting rates for some time to establish competence and compatibility
> Add more programmers offshore at outsourcing rates. Recruitment to be cobranded.
> Once trust is established, move to a cost plus model for same programmers
> Explore Sales function and introduce product to Indian market
> Establish a shared Indian subsidiary. A shared subsidiary is an Indian subsidiary of the Irish company, that primarily focuses on development and optionally Sales. Auxiliary functions such as Administration of facilities, HR, Infrastructure management etc are outsourced to a trusted local partner. Offices are shared with other such subsidiaries with secure partitioning of work areas, networks etc but shared facilities such as lunch areas, recreation facilities etc.
> Optionally start integrating outsourced functions into subsidiary.

Points to note: Outsourcing to a separate location introduces between 10-20% loss of efficiency, but is still around 30% cheaper after accounting for this loss of efficiency. Establishing a subsidiary would create a further 30-50% costs saving, and with more efficiency than outsourcing. This is because better programmers can be recruited – because they join the company; not the intermediary. They stay longer. Exchange visits can happen. And company is not competing for mindshare with other companies which outsource to the same outsourcing company.

HOW METADESIGN CAN ASSIST

MetaDesign has been helping product development companies develop and maintain software products in Germany, Ireland, Canada and US for the last 9 years. MetaDesign can conceptualize a product around an idea, build prototypes to validate it, develop specifications of the product, architect, design and maintain it throughout its life cycle. Metadesign also has proven skills in learning and taking ownership of complex, sparsely documented products and maintaining it.

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MetaDesign can assist in every stage of Rightshoring mentioned above, to setting up a development team, exploring Indian market, to set up an Indian Subsidiary.

Founders and associates of Metadesign have lived and worked in Ireland. They appreciate the kind of work done in Dublin, the Irish people, culture, literature and the Irish pubs, not necessarily in that order.

CONTACT US

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