Taking the long view

The world's largest software company Microsoft is spending big bucks in India. It is prepared to wait for returns. A Team **India Now** report

The dictionary defines "vista" as a "distant view or prospect". When the Redmond (US)-based Microsoft Corporation named its next-generation operating system Vista, it probably wasn't thinking about the deeper connotations. Vista has been delayed by several months. Recently, Microsoft chairman William (Bill) Gates III gave Vista only an 80 per cent chance of shipping by its latest release schedule - January 2007. "We got to get this absolutely right," he told journalists in Cape Town, where he was visiting on a philanthropic mission. "If the feedback from the beta tests shows it is not ready for prime time, I'd be glad to delay it."

In India, where 250 engineers at the Microsoft India Development Centre (MSIDC) at Hyderabad are working over-time on Vista, the delay won't matter so much. India is still Windows 98 country; in some places, Windows 95 is going strong. Microsoft's more recent operating systems - Windows 2000 or Windows NT - are used only by companies and a handful of individuals. A survey by the Delhi-based Manufacturers Association of Information Technology (MAIT) earlier in 2006 established that 66 per cent of desktops used Windows 95 or Windows 98. If Vista ships a little later than scheduled, nobody is likely to get unduly worked up.

Except Microsoft Corporation, of course. The $44.28 billion company (year ended 30 June 2006) has always been paranoid about competition catching up. It's a young company; it was founded in 1975. And it is constantly looking over its shoulder at the second largest software company — International Business Machines (IBM). The latter was incorporated in 1911 and has software revenues of $16.8 billion. More importantly, it has bought up 31 software firms in the past three years, including FileNet for $1.6 billion and MRO Software for $740 million. Besides, IBM, which is more into hardware, is much the bigger company with 2005 revenues at $91 billion. There are others not so large, but successfully keeping Microsoft at bay from their niches.

But Microsoft in India seems a very different company from its parent. The latter has been fighting governments at home in the US and in Europe over monopoly and antitrust accusations. In India, however, the company works hand in glove with the government. Says Microsoft India chairman and vice-president Ravi Venkatesan: "As India moves towards a leadership position in the global knowledge economy, Microsoft continues to work in close partnership with all stakeholders, including the government at the state and national levels, the Indian IT (information technology) industry, and academia."

This is evident when Microsoft India talks about the achievements and projects it is particularly proud of. Earlier this year, the company unveiled Saksham (which means self-reliant). This is a self-sustaining kiosk model aimed at spreading IT in the rural areas. A public-private partnership, it will be supplemented by a rural portal developed by Microsoft. "Under Project Saksham, we are in the process of establishing 50,000 kiosks across rural India in partnership with the government, financial companies, NGOs (non-governmental organisations) and local ISVs (independent software vendors) to provide a bouquet of educational, financial and other services, opening up new opportunities," says Venkatesan.

Microsoft is not the only company taking this route. Tobacco-to-hotels major ITC and Unilever subsidiary Hindustan Lever are also setting up such kiosks as part of their distribution chains. Observers feel that such networks will eventually become independent of companies; you can't have 20 people doing the same thing. At this stage, however, it is necessary for some to play a catalyst's role.

"Our research shows that rural users want various things like access to government records, agriculture-related information, entertainment and communication services, access to commercial services such as astrology and matrimonial services, and education and learning," says Tarun Malik, who heads Microsoft's rural computing initiative. "With Saksham we aim to enable the rural ecosystem to deliver solutions to these needs."

Microsoft has tied up with Drishtee, a rural network for delivering services and related information to the village community, for this effort. Says Drishtee CEO Satyan Mishra: "This partnership will enable the Indian rural space to use IT as a tool in their daily lives." Other partners include Jai Kisan (an NGO involved in the process of rural computerisation), n-Logue (which provides equipment, training and support to rural Internet service providers),

Bill Gates wants to invest heavily in India

"AS AN IT NATION WE REMAIN LARGELY UNDERINVESTED IN IT"

WINDOW OF OPPORTUNITY: Working in close partnership with all the stakeholders

When Ravi Venkatesan took over as chairman of Microsoft India in early 2004, it was a post specially created for him. Earlier, the company had a president, who looked after the sales & marketing functions. The two development centres in Hyderabad and the Technical Support Centre in Bangalore were reporting directly to Microsoft Corporation. Today, they all report to Venkatesan.

Before Microsoft, he was chairman of diesel engine manufacturer Cummins India. He is a mechanical engineer from IIT Bombay. In addition he holds a master's in Industrial Engineering from Purdue University, Indiana, and a MBA from Harvard.

Corporate philanthropy, by itself, does not bring about sustainable change, he told India Now. Needed are innovative business solutions. Excerpts:

Why is the penetration of information technology (IT) in India so poor despite the country having a huge IT talent pool?

The Indian IT industry has been able to build an enormous amount of equity for itself in the global software market. It has emerged as the backoffice and IT services delivery engine for the rest of the world. However, it has been unable to create the same vigour in spreading the use of IT within the domestic Indian market.

On our part, we have initiated key programmes, which have sought to increase the penetration of IT across industries and end consumers. Recently we started an initiative in association with the National Manufacturing Competitiveness Council (NMCC) to make small and medium enterprises more IT enabled. On the consumer front, we are constantly endeavouring to enable affordable access to computing. We are collaborating with local software vendors to create local, customised solutions for our customers. In India, we are engaged with close to 4,000 partners for offering technology-based solutions to our customers.

How would you in brief describe Microsoft in India?

As India moves towards a leadership position in the global knowledge economy, Microsoft continues to work in close partnership with all stakeholders — including the government at the state and national levels, and the Indian IT industry, and academia — to ensure that technology is leveraged as a catalyst for enabling more and more individuals and communities to realise their full potential.

You have been talking about moving from renting intelligence quotient (IQ) to owning intellectual properties (IP)?

When we talk about India's IT success today, there exists a huge paradox. It is essentially export-oriented software services driving this growth, at the cost of software products and creation of Intellectual Property (IP). As an IT nation we remain largely underinvested in IT, and have only a handful of Indian software product companies creating valuable IP. There is an urgent need to reverse the situation and focus on replicating the IT export success for software products creation and move from simply renting our IQ to creating IP.

In the long run, this would be a key differentiator for us in the global IT market when, after a certain stage, the cost advantages that India has compared to other countries will diminish. So the final differentiator of our success will be our IQ skills.

Isn't it better for a country like India to opt for cheaper Open Source technology than Microsoft products?

Microsoft strongly believes that governments and users of technology should be free to use the software that best meets their needs. We have found that customers and governments, who select Microsoft solutions, make that choice based on value, support and ease of use. The question however that needs to be reiterated is one of interoperability. In an increasingly complex technological scenario, every organisation must strive to ensure all their systems and technologies are able to talk to each other. In India over 150 e-governance applications are running on the Microsoft platform today and we are closely engaged with more than 14 state governments.

You have just reached a milestone of 1,000 developers in Hyderabad. What are these people working on?

The Microsoft India Development Centre (MSIDC) is a state-of-the-art product development centre, which has grown as a strategic asset for the parent company.

MSIDC has one-fourth of its engineers working on Windows Vista and the Longhorn Server. MSIDC has also established itself as a mobility centre of excellence. It has full responsibility for Office Communicator Mobile, SQL Mobile (recently renamed SQL Everywhere), Office Mobile and Visual Studio for Devices.

The Microsoft RFID (Radio Frequency Identity) platform now under development at Hyderabad was successfully incubated by MSIDC.

MSIDC is a leader in creating intellectual property from India and has filed for over 100 patents in the past two years.

A few years ago, philanthropy didn't exist in the Microsoft lexicon. Today the company seems to be making a virtue of philanthropy? Why has this change taken place?

Corporate philanthropy, with a few exceptions, can alleviate deprivation and suffering in pockets. But it usually does not produce either sustainable change or scalable solutions. Well-intentioned initiatives like mid-day meals at a school in the local community are essential but not sufficient because they lack a sustainable economic model and are therefore vulnerable to shifts in corporate largesse.

We believe in C.K. Prahlad's view that companies need to create innovative business models for the marginalised sections of society and not view them through the lens of philanthropy. By empowering them economically and unlocking the doors of innovation and business to them, a win-win situation can be created for everyone.

What I believe is needed are new business models or approaches where making profits and doing good go hand in hand. The challenge is to innovatively use technology and new business models to deliver products and services that the poor can afford — and to do this in partnership with governments and NGOs where appropriate to deliver scale. This will not only bring about the socio-economic changes that are so desperately needed but also open up huge new growth opportunities for companies in emerging markets around the world.

and India's largest bank, the State Bank of India (which has finance schemes for such entrepreneurs).

Another rural effort is Project Jyoti (light). This involves setting up community technology learning centres, which are easily accessible and provide free or low-cost services. "People of all ages and abilities can come here to learn about computers, use the Internet, explore new careers, further their education, participate in community activities or develop technology skills," says the company. Microsoft has tied up with various partners such as Mahila SEWA Trust, the NASSCOM Foundation and the Grameen Sanchar Society. The company has given grants totalling $6.5 million so far under Project Jyoti, which is the local avatar of Microsoft's global Unlimited Potential Programme.

The company has also joined hands with the National Manufacturing Competitiveness Council (NMCC) to focus on the SME (small and medium enterprises) segment. Unlike a decade ago, when renowned global consultants were predicting the death of manufacturing in India, today's prognosis is that the country can take on the world in this arena too. The big manufacturing companies can take care of themselves. But the SMEs need some handholding.

Microsoft's Project Vikas (progress) is a five-year action plan designed to enhance the competitiveness of India's SME sector through a multi-pronged strategy, encompassing skill and capacity building, knowledge creation and dissemination, and enablement of linkages in the cluster ecosystem. This approach is not about making software and hardware available at attractive prices to manufacturing clusters. It is more about creating an ecosystem which includes IT service providers, technical support centres, facilities for labour skills upgradation, and linkages with research institutions. "The creation of forward and backward linkages for specific clusters will lead to knowledge networks being created," says the company. "This, in turn, will contribute to the enhanced competitiveness."

Microsoft is also participating in several e-governance projects. This includes Bhoomi (land), a Karnataka government project to set up land record access kiosks. Today, 6.7 million farmers of this southern

> **The creation of forward and backward linkages for specific clusters will lead to knowledge networks.**

state can access, at the click of a button, the 20 million or so different land ownership records available with the government. Among others projects are a national network for the National Crime Records Bureau and the community information centres set up by the National Informatics Centre (NIC) in the northeast.

"In India, Microsoft has been a pioneer in defining the e-governance landscape by working together with governments from a stage when e-governance was at a nascent stage till today, when it is almost mandatory for central/state governments to have dedicated IT budgets," says the company.

Another initiative is Project Shiksha (education), styled "Empowering the future". Microsoft is again partnering various state governments in this. "We are delivering computer literacy to 200,000 government schoolteachers and indirectly impacting nearly 10 million students. Till date however we have trained 100,000 teachers and impacted 5 million students," says Venkatesan.

All this may give the impression that Microsoft in India is basically in the business of philanthropy. That's in no way true. Venkatesan says that this is, in fact, a workable business model. "These innovative projects combine corporate citizenship with long-term business development," he says. "There is a viable economic model underlying each, which means they are likely to sustain and scale. Partnerships with other companies, NGOs and the government ensure that everyone has an incentive to collaborate rather than duplicating investments. Combining our business interests with doing good and building an inclusive society is a powerful idea whose time has come."

"AFTER THE US, INDIA IS THE SECOND-MOST INTERESTING COUNTRY"

Microsoft chairman Bill Gates' views on India, sourced from his public pronouncements:

On the importance of India.

India is a fast-growing market. Apart from the business dimension, we are partnering the government, schools and other institutions here. India is also a focal point of incredible technical talent. We will continue to make investments in this country. India is much more than a market to us. India is immensely important to Microsoft.

After the US, India is the second most interesting country simply because of the breath of engineering skills, the global reputation that has developed here, and its vibrant software vendor industry. The US represents 1 per cent of the world's population, but gives Microsoft 40 per cent of its revenues. Some day Microsoft's revenue from India will equal the percentage of the world's population that India has. Microsoft likes taking a long-term view, and that's why we are investing heavily in India.

On what Microsoft is doing to bridge the digital divide.

Our mission is to take the computer to every home and to every desk while continuing with innovation to bring better and more exciting products for local consumers.

Last year, we announced several initiatives after a series of in-depth discussions with your government. Many of these projects have already made considerable progress. These include: Broadening language availability for first-time PC users by offering a multilingual Windows XP Starter Edition built exclusively for use in India.

Transforming education instruction through ICT (information & communication technology)-based learning. Microsoft will initially adopt 100 schools in six states to provide an interactive learning environment. The project will be extended to the entire country later.

Supporting the programme of the Ministry of Communications & IT to establish 100,000 rural kiosks by offering a range of affordable products, services, consultancy, training and support.

Partnering companies like BSNL, MTNL, HCL, HP, SBI and ICICI to offer special broadband and PC packages at an affordable monthly instalment.

Setting up an E-governance Centre of Excellence along with an Indian institution.

On India's advantages over China.

China can never be left out in any discussion because the economic growth there is incredible. They are certainly jealous of everything that the US is good at; they are trying to be the best at everything India is good at. Perhaps it is in manufacturing that they can really say they are the best in the world today.

But China has a big challenge in terms of scaling up its university system. They haven't had something like the IIMs (the Indian Institutes of Management) and they don't have as many private universities as the US has that are important for this IT market.

China has two universities (in Shanghai and Beijing) that have done a great job. But China hasn't even done a tiny bit of what Wipro and Infosys have done in India.

On what the $1.7 billion Microsoft investment in India announced last year will be used for.

Half of the $1.7 billion — $850 million — will be spent on research & development at the five centres — the India Development Centre, the Global Technical Support Centre, the Global Development Centre, Global Services India and Microsoft Research India, all of which are in Bangalore and Hyderabad.

The other half will be used to expand sales infrastructure to 33 more Indian cities and to open 700 retail outlets. Microsoft will also help the country's efforts of providing high-speed Internet to 100,000 Indian villages in the next two years.

So what is Microsoft India really all about? Well, it started life 16 years ago to vend products like Windows and MS Office. But it also flagged off a training programme - on which it has spent more than $25 million. Over the years, it has produced more than 100,000 Microsoft Certified Professionals, a cachet that is recognised the world over. This has contributed to some degree in developing India's software talent base.

Over the years, the company has metamorphosed. At a very general level, it has moved from being a distant outpost of the empire to the spearhead in what Gates describes as "the second-most interesting country after the US" (see box). It's where he announced an investment of $1.7 billion last year.

Today, Venkatesan oversees four legal entities. These are Microsoft India Corporation (Private) Ltd , Microsoft Research India, Microsoft India R&D Private Ltd and Microsoft Global Services

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India Private Ltd.

❖ Microsoft India is the marketing subsidiary (set up in 1990) engaged in consulting and marketing of Microsoft products.

❖ Microsoft Research India in Bangalore focuses on developing technology for emerging markets, multilingual systems, sensor networks and geographical information systems. Researchers collaborate with leading academic, government, and industry researchers.

❖ Microsoft India R&D has under it the Global Development Centre India in Hyderabad, which develops mission critical enterprise applications that support Microsoft businesses worldwide; the Microsoft India Development Centre also in Hyderabad, which plays a critical role in Microsoft's global product development initiatives and future product innovations; and the Global Technical Support Centre in Bangalore, which focuses on providing high-level technical resolution services to English-speaking customers and partners across the globe.

❖ Microsoft Global Services India in Hyderabad is involved in the architecture and design of large and complex engagements or solutions based on cutting-edge Microsoft technologies.

Observers feel the company is finally on a rapid growth trajectory. "Microsoft has got its act together," says industry monitor Dataquest. "This was an eventful year in Microsoft's India chapter. Bill Gates announced a $1.7 billion invest-ment over the next four years to make India a major hub for Microsoft's research, product and application development; and for services and tech support for both global and domestic companies. Sales were robust."

According to Dataquest estimates, Microsoft has revenues of around $450 million, an increase of 50 per cent over the previous year. Last year, revenues had grown 43 per cent, itself a handsome step up over the 24 per cent in 2003-04. (Microsoft itself does not disclose turnover and profit numbers.) Dataquest put it at No 14 in its list of Top 20 IT giants. (This includes both hardware and software companies.) The list is led by TCS, Wipro and Infosys, in that order and includes Hewlett-Packard and IBM in fourth and fifth place respectively. In India at least, Microsoft is not looking over its shoulder but at the road ahead. It has improved its ranking from No 19 in 2004-05.

Is Microsoft making money in India? Bill Gates in his last trip to the country had indicated that Microsoft was prepared to wait. "Microsoft likes taking a long-term view, he said. "That's why we are investing heavily in India."

"We are one of the fastest growing subsidiaries within Microsoft," adds Venkatesan. "The latest announcement of the $1.7 billion investment is a testimony to the increasing confidence of the company in India and the seriousness of our India commitment. Today, India is among the fastest growing subsidiaries for Microsoft in Asia and is poised to be among the Top 3 over the next five years."

One area where the company is willing to reveal numbers is in staffing. And there has been galloping growth here. Microsoft had 450 employees in 2002-03. This rose to 617 in 2003-04 and 1,000 in 2004-05. It has 4,000 employees on its rolls. Another 2,500 is to be added soon. Says Venkatesan: "As committed by Bill, we plan to increase our India headcount to 7,000 over the next four years." Says an analyst: "Microsoft has reached critical mass in India."

Ravi sums up what Microsoft in India is all about and what it wants to be. Our focus today is on six broad levers, he says. These are:

❖ continue to collaborate with the Indian IT industry to drive domestic IT opportunity as well as global successes;

❖ help our customers and partners succeed and realise that IT matters;

❖ help create a digitally inclusive society;

❖ excite consumers and exponentially grow penetration of PC (personal computer) and non-PC devices;

❖ be a trusted partner to Indian governments; and

❖ provide global opportunities to the Indian IT talent pool.

Gates puts it more simply. "Our mission is to take the computer to every home and to every desk while continuing with innovation to bring better and more exciting products for local consumers," he says.

Both he and Ravi are waiting for the day when India and the world will share a common vista.