# Dr. Jiren Liu

*Chairman and CEO, Neusoft*

***Editor's Note: martin****wolf* reached out to Dr. Jiren Liu, Chairman and CEO of Neusoft, one of the largest Chinese IT companies. Dr. Liu provided his thoughts on globalization, the Chinese IT landscape and other topics relevant to growth and valuations of IT companies. An excerpt from our interview was published in our 4Q12 VDI – the entire interview is available below.

**Neusoft has been a remarkable success story by virtually every measure. How have you managed to maintain such high growth rates -- 30% average annual revenue growth -- as the industry has grown, changed and matured -- especially given that the Chinese domestic market for IT outsourcing is still relatively nascent?**

I think we live and grow in a lucky era with tremendous challenges and exciting opportunities, and those who can identify opportunities earlier than others and take risks smartly will be more likely to leverage those opportunities to become winners. In the past 20 years, entrepreneurship and the spirit of adventure have been the important driving forces for the fast growth of Neusoft. From its university origins, Neusoft has always been brave to do long-term R&D investments when we foresaw some valuable opportunities in the future, which has enabled us to build solid competitiveness before others realized the same opportunities. Meanwhile, we have been cautious when we made decisions for taking risks, and we have chosen not to take risks which would threaten our survival. We are always trying to be a smart adventurer.

Globalization has been the driving force pushing the multinational companies' pouring into China market, and the Chinese companies' expansion into global markets. During this integration process, Chinese enterprises have been moving up the global value chain and China's position has begun to shift from manufacturer to innovator in the global community. Neusoft has benefited a lot from this transformation, and now we have been working together with many famous multinational companies as their innovation partner, which has not only contributed to our fast growth in overseas markets but also gives us opportunities to learn from those world-leading companies and helps us to build competitiveness and maturity for the long term development.

Meanwhile, the dynamic China market has enabled us to build a good balance between overseas and domestic markets. The whole world has been attracted by the huge demand and potential of the China market, and that was why we have been attaching great importance to

our home market in the past 20 years. Currently, approximately 70% of our revenue comes from China market every year and we have maintained leading market shares in many industries. Compared with developed markets, the Chinese IT outsourcing market is still relatively nascent, but this also means that it has great potential. The transformation towards a sustainable society is further accelerating the booming demands for IT-enabled services in China, and we are embracing a new wave of IT outsourcing in China's economic and social transformation.

**What do you think it will take to break open the Chinese domestic outsourcing market? What has to change for outsourcing to become an accepted practice in China?**

As I have mentioned above, the transformation towards a sustainable economy in China is further generating booming demands for IT-enabled services across many industries, which will greatly accelerate the development of IT outsourcing in the China market. IT technologies will further respond to the demands from economic and social transformation, becoming one of the most important driving forces for new economic growth.

China is embracing new technologies at an unprecedented pace, and IT outsourcing has already become a common practice in many industries in China such as telecommunication, social security, finance, transportation, and many others. Compared with developed countries, China still has a long way to go in this sector, but the future is definitely promising. We need to build a healthy and sustainable ecosystem to support the development of IT outsourcing in China. The industry needs more high-end talent, and the maturity level of both buyers and providers needs to be further improved.

**You are a huge advocate of globalization. What do you think it takes for a Chinese company to be successful outside of China and especially in the United States? What unique challenges do you think Chinese companies face in the U.S.?**

I think there are three key elements for a Chinese company to be successful when going to the overseas markets. First, the company needs to gain deep understanding of the overseas local markets, understanding the industry trends, business opportunities and the business eco-environment. Second, the company needs to build mature cross-culture operation and management ability. For software and IT service provider, the operation system to support the global delivery model is the key to drive its global growth. Third, for IT and software industry companies, talent and competitiveness are the most important assets, especially when facing the challenge of exploring the unknown overseas markets. Chinese companies looking to expand need to attract enough high-quality talent with cross-culture

communication and operation ability to support the business expansion.

**There is increasing competition between Chinese and Indian IT companies in the global market. Generally speaking, how would you describe the advantages and disadvantages that companies in each market have? How long and what do you think it will take for Chinese IT companies to overtake Indian companies as global competitors? What are the factors driving that competition?**

Indian and Chinese IT companies face increasing competition in the sector of offshore outsourcing, but their overall business models are different. For Indian IT companies, 80-90% of their revenue comes from overseas markets, but for Chinese companies, most of the revenue comes from domestic market. So from this angle, I don't think Chinese and Indian IT companies are direct competitors in every sector, and Chinese companies have our own innovation competency and creative business models that will differentiate us from our competitors.

As far as the advantages of Indian IT companies, I think the first advantage Indian companies hold is that they have more experience and better historical market performance in the U.S. and in Europe. Their large quantity of English-speaking talent, excellent global marketing and project management ability and large scale mature IT talent education system contribute to their leading advantages in these markets. Another element, which we can call "people network," also cannot be ignored. A large number of Indians work as senior management team members – such as CIO, etc. – in U.S. companies, which translates to deeper roots and understanding of American markets, and this people network is definitely a favorable element for communication and trust in outsourcing relationships.

For Chinese IT companies, the huge China market creates opportunities for us to develop our own products and build our own brands, enabling us to achieve the balance between outsourcing business and self-owned brands. The enormous IT infrastructure demand from many industries also provides huge potential for Chinese IT outsourcing providers. Second, Chinese IT companies have advantages in the area of product engineering, especially in the embedded software sector. China's leading position in manufacturing will further contribute to the booming growth of demands for embedded software, and globalization has pushed China to become an active player in the global product engineering innovation community. Third, because of the cultural, language and geographical advantages, Chinese outsourcing providers have more advantages in cooperation with the companies in Northeast Asian countries.

**Two of your competitors, hiSoft and Vanceinfo agreed to merge in November. You were quoted saying that you don't think it will affect Neusoft's business much because you work with high-end customers and only 20% of your business is outsourcing. But how do you think the merger will affect other competitors? And what is the main takeaway for industry observers from the merger? Additionally, BeyondSoft acquired Achievo in August. Are we about to see a wave of consolidation in the sector as smaller and even mid-sized players struggle to maintain their high growth rates?**

I think the driving force behind the latest trend of mergers in the Chinese outsourcing industry is the increasingly fierce competition caused by soaring human resource costs and the decline of profits. The profit margin of pure outsourcing has declined to a very low level, and any fluctuations in the economic environment will bring risks and uncertainties to outsourcing providers. The increasing diversity of outsourcing destinations worldwide aggravates the competition pressure. I think these are the major reasons for the recent mergers in the industry, and providers chose to merge to better embrace the unprecedented challenges that they are facing. However, I don't think it is the best way to change the situation and gain real competitiveness.

Some people may thought that the merger of leading providers in the industry would squeeze the market share of Neusoft, but I think for Neusoft our top priority is how to maintain sustainable development, but not how to maintain or enlarge our headcount scale. The new round of competition in software and IT outsourcing industry is about business model innovation, so we don't think we can bet our future on the scale of headcount, especially when the cost of talent in China has kept increasing at an unprecedented speed.

Our Neusoft model is to attract more high-end innovation and design talent to provide software service that better responds to the transforming market demands. We are undergoing a profound transformation towards a knowledge and innovation-driven company. Our business model is shifting from B2B to B2B2C. We are trying to build a sustainable business model to provide sustainable value for our customers and make software and IT service become an integral part of social transformation and people's daily life. We believe such sustainable competitiveness is the only guarantee of survival and continuous development in the dynamic and complex future.

**Neusoft is certainly an innovator. But there are those would say that Chinese companies are not innovative. Why do you think they believe this and what would you say to people to dispel this notion?**

Many people say that Chinese companies are not innovative, but I think if they get to know more about China, they will feel the innovation vitality in this dynamic emerging market. I think their perception about China's value position was built on the brand image of "Made in China" in the past 30 years. Previously, Chinese companies didn't need to be innovative to achieve success because it was so easy to make money. But the current dramatic economic and social transformation has completely changed the business landscape in China, and innovation has become the key competitiveness for survival and development.

Globalization has pushed innovation to evolve into a global concept, and China is becoming an emerging player in the global innovation community. The global R&D network is being restructured and emerging multinational companies have become the new active innovation players. Market and talent are the two major driving forces for this trend. The booming economy and consumption, the rapid shift of customer demands and urgent needs for sustainable and harmonious growth in China have posed great challenges as well as huge opportunities for innovation. Many Chinese companies, as emerging multiantional companies, are full of innovation vigor and potential due to their advantages in flexibility, talents and familiarity to the local markets.

The transformation of the definition of innovation is another reason contributing to China's moving up in the global innovation community. Today innovation is more value-oriented and doesn't confine to technology. Innovation is the way to indentify or create market demands, find new growth potential and value the customers in terms of lower cost, better functions, higher qualities and easier access. It is about disrupting the traditional business models to drive new consumptions. We need to understand innovation and its role in an ecosystem, and that it is an integration of the technology environment, customer experience and the demands of social transformation. When we understand the new model of innovation, we can see that emerging markets, such as China, do have the obvious advantages, unique resources and huge potential to be the active players in the new innovation landscape.

**What is your current M&A strategy and how does it fit into your overall business strategy? What should we be looking in mergers and acquisition from Neusoft over the next 12-18 months?**

Our M&A activities in overseas markets were driven by acquiring high-end talents and expertise, which helped us build up local operation quickly, optimize our global delivery ability and accelerate our steps of global expansion for leading businesses. Acquiring overseas local

high-end talents enabled us to form world-class team with large scale, global coverage, high quality and cost efficiency, which definitely increased our competitiveness and create more values to our customers. Such integration will give us more opportunities to become a global leader in this dynamic and promising industry.