



Your Vision - Brought to Life.

---

White Paper  
A Local View of the Global Marketplace



*The Clear and Present Disruption of "Labor Arbitrage"...*  
*and how to make it work for you.*

# Disclaimer

Although Informulate LLC takes great care to ensure the accuracy and quality of these materials, all material is provided without any warranty whatsoever, including, but not limited to, the implied warranties of merchantability or fitness for a particular purpose.

**Trademark Notices:** All product names and services identified throughout this document are trademarks or registered trademarks of their respective companies. No use of any such trade names in this document is intended to convey endorsement by Informulate or affiliation with Informulate.

Copyright © 2007 Informulate LLC. All rights reserved. This document is prepared for the use of Informulate, its clients and its authorized representatives only, and may contain confidential, personal and or privileged information. Please contact Informulate immediately if you are not the intended recipient of this communication, and do not copy, distribute, or take action relying on it. Any communication received in error, or subsequent reply, should be deleted or destroyed. This publication, or any part thereof, may not be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, storage in an information retrieval system, or otherwise, without the prior written permission of Informulate LLC (866-222-2307). Informulate's World Wide Web site is located at <http://www.Informulate.net>.

## TABLE OF CONTENTS

Introduction .....	4
Globalization 1.0.....	4
Globalization 2.0.....	4
Information Technology and Globalization.....	6
Choosing a Partner .....	8
Informulate as enabler.....	8

---

## **Introduction**

Globalization has been a much-talked about topic in business for the last decade and continues to be so. One unfortunate side-effect of such fame is that it now “tastes like chicken”, and is indistinguishable from any number of socio-economic and political trends of recent times.

This paper is an attempt to disambiguate globalization and also to bring out a basic facet of it, which relates to the Information Technology industry.

### ***Globalization 1.0***

Globalization 1.0 was all about big business, specifically multi-nationals, using their superior product and service offerings and especially their deep pockets to enter heretofore uncharted markets. This would soon evolve a localization aspect in order to advertise, create relationships, and basically do business in other cultures. This would further evolve as businesses found high quality local resources that were much cheaper than overseas resources and thus more competitive. And that would spark the flow backwards where high quality product and services were being packaged from developing nations and being marketed competitively in domestic markets.

### ***Globalization 2.0***

That set the stage for Globalization 2.0; which is characterized by not just the continued exposure of new markets and new opportunities to multinationals, but the leveling of the playing fields between large multinational corporations and local, small businesses. Supply chains, delivery channels, mass advertising, and manufacturing have all evolved a long way, through the last decade, from being giant pipelines that only bulk consumers could leverage. Distributed sourcing, micro-manufacturing, targeted advertising, and a plethora of radical offerings have acted as “force-multipliers” that allowed small business with drive and vision to compete successfully against larger players. The on-ramps to the Globalization Super Highway are now truly wide open to small business in a way that has never existed in the past. A 2-man, Detroit-based auto parts design company can now, for example, simply get online, upload a specification and order a set of 5000 new engine blocks built at Chinese prices with ease. It can also get this shipped directly to its client in Europe easily and thus save on shipping by not routing it through Detroit first.

There is an interesting set of commoditized relationships here. To the European client, this design company is able to mimic a large manufacturer that is able to turnaround projects quickly and cheaply. The profit margin for the design company is larger when they ship a client completed products than simply the design specification but they don’t have the resources or even the competency to manufacture this. Also if this design firm decides to expand out into piston rod design as well, they can simply shop around for another specialist that offers this

the cheapest. Now the Chinese manufacturer is a specialist in Engine blocks that manufactures engines for the Detroit company but could also be doing this for their closest local competitor (completely oblivious to all concerned). They are able to do things in volume by leveraging Internet sites that offer escrow services and a marketplace for such business to occur. The European client was able to shop around for engine blocks that met a specific set of criteria which were best met, in this instance, by the Detroit-based design company. For a future project, it might well choose another design but might probably end up with the same Chinese manufacturer of this block. The marketplace exposes each party's past record, quality level, rates and dependability and enables each party to be much more successful by focusing on their core strengths.

Such is the “mix and max” power of Globalization 2.0.

## Information Technology and Globalization

As expected initially, Information Technology was a prime beneficiary of the free movement of resources and knowledge that characterized Globalization 1.0. Large numbers of knowledge workers traveled the world using intra-company transfers or selling their skills to big companies for large projects. However, this did not drive competition to impact small business positively and to a large extent still does.

So, contrary to all expectations, Information Technology outsourcing still maintains its status as a “Big Player’s Pipeline”. The benefits of Globalization 2.0 that have revolutionized industries still remain out of reach for the average small business which pays multiples of the global wages for its IT solutions and is expected to have in-house experts in diverse skill-sets to meet its IT needs. The IBM’s and Microsoft’s and Oracle’s of the world can build their own IT departments across the globe or make the most of their relationships with the Infosys’s and Cognizant’s of the world to achieve competitive labor costs.

Why is this so? How can an industry; that is probably the easiest to manage over long distances, that can ship its “products” across the world in seconds, and can pretty much do its entire business over the Internet, remain the domain of the large corporation? How can a Detroit-based auto parts manufacturer simply get online and order a new engine block built at Chinese prices but not be able to upgrade its web site at Indian prices? Let’s take a look at the roadblocks that stand in the way of small business players:

1. Unaccustomed to custom solutions: Software reflects a business process and, for better or worse, every business has its own. A wing nut is a wing nut is a wing nut but an inventory management system is practically impossible to mass produce. This means that for every implementation, professional analysis and design are vital to the success of the project.
2. IT ain’t easy: Information technology projects are complex undertakings with statistically low success ratios. Reports put the majority of projects as failures and this ratio is even worse for first-time outsourcing attempts.
3. Deep Pockets? Not an option: Small business simply cannot afford to hire and staff their own IT departments overseas to create custom solutions like large multinationals can. It is also common for small businesses not to have skilled or experienced business analysts in their staff to correctly derive and communicate requirements to possible vendors.
4. Habla Hindi? : The language barrier is very real when it comes to software, as specifications cannot be expressed in exact numbers and dimensions like engine blocks can. Flow charting and modeling languages are great tools but you still need English to express functionality. Differences in phrasing and usage here can have very unintended outcomes across cultures. Plus the time differences that

exist between developing nations and domestic small business add to the communication issues.

5. Metrics are in the eye of the beholder: Product quality in the physical product world is easy to test but not for software. How does one measure if the software does what the user wanted? What about user requirements that slipped by unstated? Even if it meets requirements currently, what about future requirements? What about budget or timeline overruns during the project? And maintenance problems on deployment? And reliability or performance? And technological obsolescence? And ongoing support? As you can see, measuring quality needs a deep understanding of the process.
6. Peer to Peer doesn't quite cut it: Online bidding sites that match up coders with businesses allow for connections that bridge the "labor arbitrage gap" by offering cheap services to small businesses. But unfortunately, coding has never been the most important part of a software project. Analysis, design, quality control, maintenance, deployment, and project management are all crucial components of a successful implementation that can truly meet user needs and budgets.
7. It's a jungle out there: And finally there are so many players that participate in the marketplace of varying skill levels, how can a small business validate its credentials from a continent away? Given the low success ratios mentioned before, it's a risk of time and money that many simply prefer not to take.

## Choosing a Partner

Given the risks just described, it becomes clear why most small businesses have chosen to ignore the potential for large savings on software development efforts. The returns may be in the order of up to 300% for comparable quality implementations but the risks have just not been worth it.

The small business now begins to recognize the need for a partner that can diffuse these risks while still providing the cost savings. This partner cannot be completely local because then the cost savings would not exist. Yet, this partner cannot be completely offshore because of all the risk factors mentioned above. The partner needs to be very different from both of these models and provide a unique blend.

### ***Informulate as enabler***

This unique blend is what Informulate (<http://www.informulate.net>) calls its niche; by using a combination of local Project Managers / Business Analysts that can interact with small & mid-sized business in a personal, direct and efficient manner while employing offshore, competitively priced programmers. The project manager now becomes a focus for ensuring that the requirements derived are clearly communicated to software professionals overseas and executed correctly.

A typical project has 60% or so programming/development work and the rest is made up by QA, business analysis and deployment. By providing clients major savings on the 60% “grunt” work and still minimizing risk by using trusted, local resources to do customer interactions, Informulate partners with their clients to provide them a “best of both worlds” solution.

To learn more about Informulate and its attempt at bringing Globalization 2.0 to small business, email them at [clients@informulate.net](mailto:clients@informulate.net).