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Chief Guest

"Intellectual property model is far more sustainable than the services one"



The technology pioneer, **Vinay Deshpande**, who spearheaded the development of over 50 hardware and software products ranging from PCs, notebooks (including the smallest and lightest multimedia laptop), set-top boxes and embedded systems, isn't happy with the state of hardware market in India. As chairman and CEO of Encore Software Ltd, and lately as president of MAIT, he wants solutions. An MSEE (digital systems) from Stanford University, Deshpande started in 1970 as a design engineer at Memorex Corp., USA. He co-founded one of the earliest hardware firms in India, PSI Data Systems, and then in 1990, Ncore Technology, which became Encore Software. In a tête-à-tête with Computers Today's [Sudhir Chowdhary](#), the techie turned into a savvy analyst.

Why is the hardware industry as a whole languishing in the country?

I agree that not much is talked about the Indian hardware industry compared to the performance of the software industry. But it is also equally true that the hardware industry does not have much to talk about. The industry is in a languishing state of affairs significantly for its own doings.

Let me explain that. The industry has focused too much, for too long, on protection (from outside competition) and on assembly of kits. Also, it has been focusing on a certain set of products, and not really looking creatively and beyond what may have been conventional and traditional needs. It's counterproductive. Whether you like it or not, when the WTO happens, we are going to have to contend with a regime where there are no duties on imported products. So, instead of talking about protection from that onslaught, we need to look at how we can fight that. Instead of getting despondent about it, a better way is to see what can be done to revitalise the industry.

We never looked at the world as a market and prepared ourselves for it. Now somebody is forcing us to do that which I think is a blessing in disguise. We, therefore, should take advantage of that rather than complain that the Chinese are going to flood the market. It is not the right process. What we are trying to do at MAIT is not to educate but to awaken our members to the potential of design and the potential of adding value through innovation and design.

How can we revitalise the industry?

We can definitely fight back by adding value to our products. If we continue to focus on the so-called low cost of our manufacturing labour alone as a value proposition, we are going to be in a miserable state because there are other countries where the cost of labour is even

lower than ours. Therefore, we need to look at where we can leverage our design talent and software talent into adding value to products. By adding value, I just don't mean adding features, performance, etc., but also optimising cost. There are quite a few examples of Indian manufacturers starting to manufacture somebody else's products and then, through their own innovation, could reduce the cost of those products by redesigning particular components or subsystems. They reduced manufacturing cost by as much as 30-35 per cent.

The result has been that while they started as a mere manufacturing contract for a certain percentage of the foreign customer's total volume, the entire volume got transferred to India, and exports to all other countries is coming from India. Examples of this are plenty- TVS, Wipro, D-Link and Godrej have done a lot of indigenisation.

Even the government now seems to be very supportive of the hardware industry. Going by the latest concessions announced, I believe it is beginning to realise that the hardware industry can do as well as, if not better than the software industry in terms of revenues. The development of Simputer (simple computer) is an example. The slogan "Indian solution for Indian needs" is as applicable to India as to any other country.

According to you what are the major stumbling blocks in that process?

We should get away from mundane issues of taxes and duties. There will always be some amount of unfairness in terms of duties because of various pressure groups. We will continue our efforts towards making sure that at least until the WTO regime comes in, there is a certain amount of duty differential so that Indian manufacturers have a little breathing time to gear up to the zero-duty regime. Beyond that, there are other issues that need to be addressed. First, creating an Indian environment conducive for manufacturing, including infrastructure, logistics and removing procedural hassles in imports and exports. The turnaround time, which is very high, needs to be brought down to international levels. The concept of advance customs clearing is good to cut down transit delays for exports. We need to look at 24 hours a day, 7 days a week, 365 days a year customs time.

Some of the MAIT members-who are multinationals manufacturing in India-have done internal surveys. They have come to the conclusion that India is the lowest-cost manufacturing place at the same time offering highest quality. That's a win-win situation for everybody.

However, the speed of operations is a negative issue. They can never commit a particular delivery schedule. They say if the government pays attention to vital areas of infrastructure, power, roads, communications and airlines, India can become a manufacturing superpower in the world.

What should we manufacture in India?

Because of the convergence of networking, communications and computing, a whole new opportunity lies ahead of us. Internet appliances, PDAs, handheld devices, you name it and there is immense potential for it. We need to look beyond the PC. There are many start-up companies like Tejas Networks in Bangalore which are going to export hardware and not software. And when they succeed, they have the potential of becoming a mini Infosys. D-Link is a Rs 150-200 crore business dealing entirely in non-PC products. There are add-on cards, routers, hubs, switches, network interface cards, digital cameras, VoIP products...

There is no reason why Indian companies can't manufacture set-top boxes. The small gadgets for billing in STD booths are an example of non-PC business area. Take Internet kiosks; they are not dependent on a Wintel architecture. Why don't people look at optimising the cost and value of a product through creative design?

It's not that we don't have people for that. We have plenty of hardware design or software talent, we are just not focusing our efforts towards this end. There are unique Indian problems, unique Indian needs. For that, we should not blindly transfer technology from the developed world. Instead, we should look at developing unique Indian solutions for unique Indian needs.

Do Indian companies invest in R&D?

Very little. And that is the reason why the hardware industry is in such a state today. However, I think once they start seeing the benefit of doing R&D, the attitude would change. Indian companies are beginning to realise that R&D doesn't mean within three months you can get returns. But in a reasonable time if they can see the potential for profits and growth, then they are willing to invest in it. Some Indian manufacturers, who have so far been only taking kits and assembling them, are today talking about what they can do to add value. How can we make greater profits because, these days, there is hardly any differentiation?

We need to look at creating markets. We can build our own products for our own requirements.

How is your firm spearheading this initiative?

I have always believed in what late Rajiv Gandhi used to say, "Talk less and do more". Our market is abroad and we are a 100 per cent EOU. Basically, Encore Software is a pioneer in offering technological solutions in DSP-based modems and embedded systems, which have vast applications in Internet, telecoms and consumer electronics. We develop DSP-based soft modem and speech-coding algorithms for licensing, apart from providing contract development services.

We are a technology company. We are not based on the services model. We are in the business of creating intellectual property and licensing them to companies around the world. Intellectual property model is far more sustainable over the long term than the services model. I am not saying that we should not do services. However, if we only focus on services, we will not be able to achieve our targets.