

## CATALYTIC SOFTWARE IN INDIA: NEGOTIATING ENTRY

In late January 2000, Catalytic Software founders Eric Engstrom and Swain Porter began rethinking their plans to rent office space in one of India's major cities. The two Americans had visited Mumbai, New Delhi, and Chennai and been disillusioned by the quality of construction. They had even pulled chunks of concrete out of a support beam at one new site. They simply were not willing to put the several thousand software engineers they planned to hire in such buildings, especially in light of India's potential earthquakes.

One alternative was to design and build their own offices, but Engstrom and Porter had encountered other problems as well. "Brownouts" in the power supply were common. Rough roads made transportation difficult and time-consuming for employees, suppliers, and a host of other business partners. Broadband connectivity—a key factor for an information technology (IT) services firm like Catalytic—was limited. Indian software specialists were in hot demand and very mobile. Catalytic needed ways both to attract and retain them. As Engstrom and Porter talked, they conceived an even bigger alternative: to build an entire community—a place to live and work.

This grand idea raised a host of questions. What would this community look like? How big a development budget would be necessary? Who would fund it? (Catalytic was a three-man startup established in the U.S. less than a year ago.) Where would this "company town" be located? Given the legendary bureaucracy in India, was this idea even feasible?

Two of India's southern states drew the Catalytic executives' interest: Andhra Pradesh and Karnataka. They had opened up to foreign investors more than northern states and were leading the charge in "India's Awakening." Their respective capital cities, Hyderabad and Bangalore, were high technology centers with worldwide reputations.

Catalytic was anxious to pursue its evolving plan. Which of these states would be most suitable for the investment, and what types of incentives would each government offer Catalytic to locate in its state? How far would the governments go to entice foreign firms when there were indigenous firms such as Delhi-based HCL Technologies who might commit to similar projects? What kinds of commitments would Catalytic have to make? Where would Catalytic raise capital? These were just some of many issues that Catalytic and government officials would face in their negotiations.

*[Note to reader: The next sections describe Catalytic Software, the global software services industry, India as a country, IT and IT services in India, and Catalytic's India strategy. The text then covers the State of Andhra Pradesh, State of Karnataka, Catalytic's negotiations to date, doing business in India, state-affiliated financial institutions, and US-India relations.]*