

An Inefficient Truth – Talent Gap Wastage

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Abstract: It is an old saying, cheaper is not always cheaper. Penny smart, pound foolish. This document will outline one of the most common scenarios that clients find themselves in China where new arrivals exercise their firm belief that everything must be cheaper because it is China.

The Problem

When is cheaper not cheaper? Well this is not a question that can be answered categorically in this paper. What can be explained categorically is that failure to fully cost out a solution and infrastructure investment with a Total Cost of Ownership approach, can lead to a decision where the sub optimal cost performing option is chosen.

The focus of this paper will be on one of the most commonly misunderstood concepts in dealing with China; that labor is cheaper.

While low skilled factory jobs producing commodity items are a large part of the reason for this belief, this cost structure does not flow over into other more highly skilled sectors of the labor market. Indeed while some jobs may command salaries that get close to equalizing those in the west for a similarly skilled worker – there is still a large toe to the curve between those western matched workers and the assembly line workers.

It is in this area that the most abuse of the “labor is cheaper” paradigm occurs. Because it is in this range that you can get significantly cheaper labor – but not equal labor and it is the contention of this author that some of the cheaper skilled labor is not good value. That is, the skilled and more expensive labor in China is good value, much like the low skilled labor. The middle labor is less so.

The Talent Gap

This middle spectrum labor mismatch is now being referred to in some circles as the *Talent Gap*. It is the presence of this gap that has led to one of the most fascinating occurrences of “Penny Smart, Pound Foolish” in China. While the manifestation of this syndrome occurs in different ways, one that CANDIS has seen over and over again has to do with the almost steadfast opposition to the industrial revolution and automation in general. That is the replacing of machines with people and the replacing of automation and efficiency inducing inventions with manual approaches – because “labor is cheaper”.

Using technology infrastructure as an example, we can see in one practical sense how the prevailing mentality of business operators in China helps blow out costs, reduce quality of service and in general add to the already systematic risks in China that organizations, in contrast, have no control over.

An Inefficient Infrastructure

Servers cost a lot of money. Not only do you spend the 5-10K USD for the server and warranty, you then have collocation fees, cooling costs and power costs - this all adds up. And if you skimp on something like cooling, your equipment can age prematurely, which adds more direct cost as well as book costs due to the China taxation laws allowed depreciation rates.

So why would an organization wish to invest and purchase more servers than they absolutely have to?

This is where the talent gap first appears. It is at this point with server count explosion that you get your first insight into the prevailing practices in China. And how the talent gap directly and indirectly leads the assault on cost explosions.

The initial most common problem is the lack of awareness and understanding of Virtualization technologies and the engineering behind them. Through many projects where third party vendors are responsible for CRM and ERP systems, CANDIS is constantly met with vendors that do not know what Virtualization is and the ones that do, have a very out dated and incorrect understanding. What is then demanded is that more servers are acquired to run their application; otherwise they, the vendor, won't support it. What happens here is that the client, through the ignorance of the vendors in China, is forced into added infrastructure expense.¹

¹ Please see www.candisgroup.com for more white papers on virtualization and operating costs

An Inefficient Human Resource

In one situation CANDIS had a client that was struggling to keep up and online with their 8 server cluster. The client kept purchasing new servers when things went bad and slowed down. Which seemed to happen all the time with increasing frequency. Now what I know and their engineer didn't, is that an out of the box Linux system is not overly tuned for performance and in this particular case the concurrent IP connection tracking value in the kernel is a little conservative for a highly active system, serving millions of small page requests per day.

After some adjustments were made, instead of the client having 8 servers running at 20% capacity and still not managing the load on them as a cluster. They now had 3 servers are doing the job, with better outward performance to the clusters users as well. Not to mention a reduction in operating costs. If such knowledge was sought earlier, this client would have also been saved the cost of five servers, costing approx 5K USD each.

What makes these situations all the more relevant, is that in China, capital asset valuations are fair game for being compared to the salary of a team of workers to perform the same job (quality and reaction times not withstanding). And this is where the problem often starts. Organizations believe that XYZ server or infrastructure acquisition is far too expensive when humans can do the same job, because labor is cheap. The organizations have both *under valued* the output and efficiency of the technology infrastructure and *over valued* that of the human capital available to them.

So, in summary, I will go out on a limb here and make a bold assertion;

There are probably more servers than needed running in IDC's across China, due to engineers not knowing how to admin them properly, organizations not knowing how to architect systems properly and not knowing how to leverage new technology better.

Seems that in the past you could be a lazy programmer and no one would notice due to the liberation of faster processors and free cycles. Or in China, buying another cheap server is better than paying the for the expensive vendor support or consolidation/virtualization software. And an army of workers can bridge the gap.

However as one famous economist once mused, "there is no such thing as a free lunch".

What CANDIS tries to impart on all new clients is that services in China are not necessarily cheaper and that failing to perform the same due diligence in China as one would elsewhere will only lead to more expense.