

business today

special

INDIA CALLING, STILL

A survey of India's
IT-enabled services
industry.

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VIVAN MEHRA

FROM VOICE TO VALUE

Call centres still account for 82 per cent of the ITES industry's revenues, but to stay competitive in the long term, India's BPOs must look into more critical and high value processes.

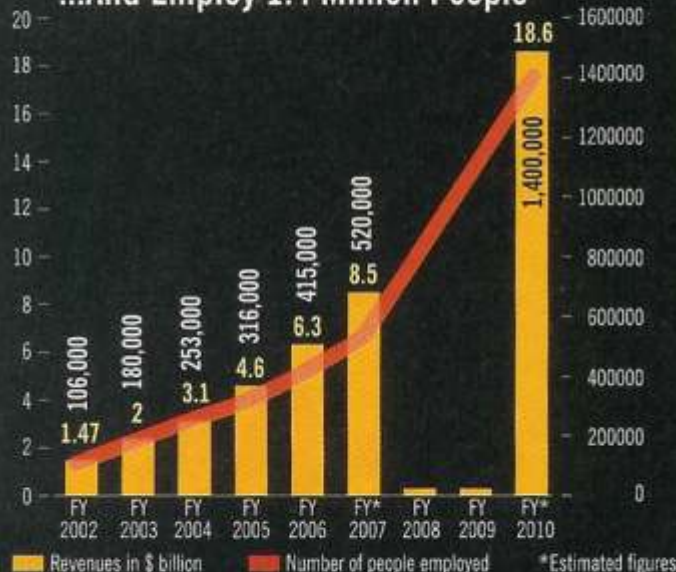
IT IS QUARTER PAST THREE IN THE MORNING. SITTING in her well-lit cubicle at a leading call centre on Bangalore's Hosur Road, Sally, aka Shalini Mathur, is on the phone, coaxing a Californian resident to opt for a pre-approved loan from a global banking giant. The monitor in front of her displays the credit history and creditworthiness of the prospective client. After explaining certain details and double-checking some credentials in a four-minute chat, Sally signals a thumbs-up to her team leader hovering anxiously in the background. A loud cheer breaks out in the room as the team celebrates hitting the shift's goal of 20 closures.

One small deal for a call centre agent, but yet another (giant) vindication of a business model that didn't exist as recently as 1999. Indeed, it is on such minor triumphs that India's IT-enabled services (ITES) industry has been able to build a projected \$8.5-billion (Rs 39,950 crore, 2006-07) business from nothing, employ 520,000 people, and become the country's

On A Roll

By 2010, the Indian ITES industry could have revenues in excess of \$18 billion...

...And Employ 1.4 Million People

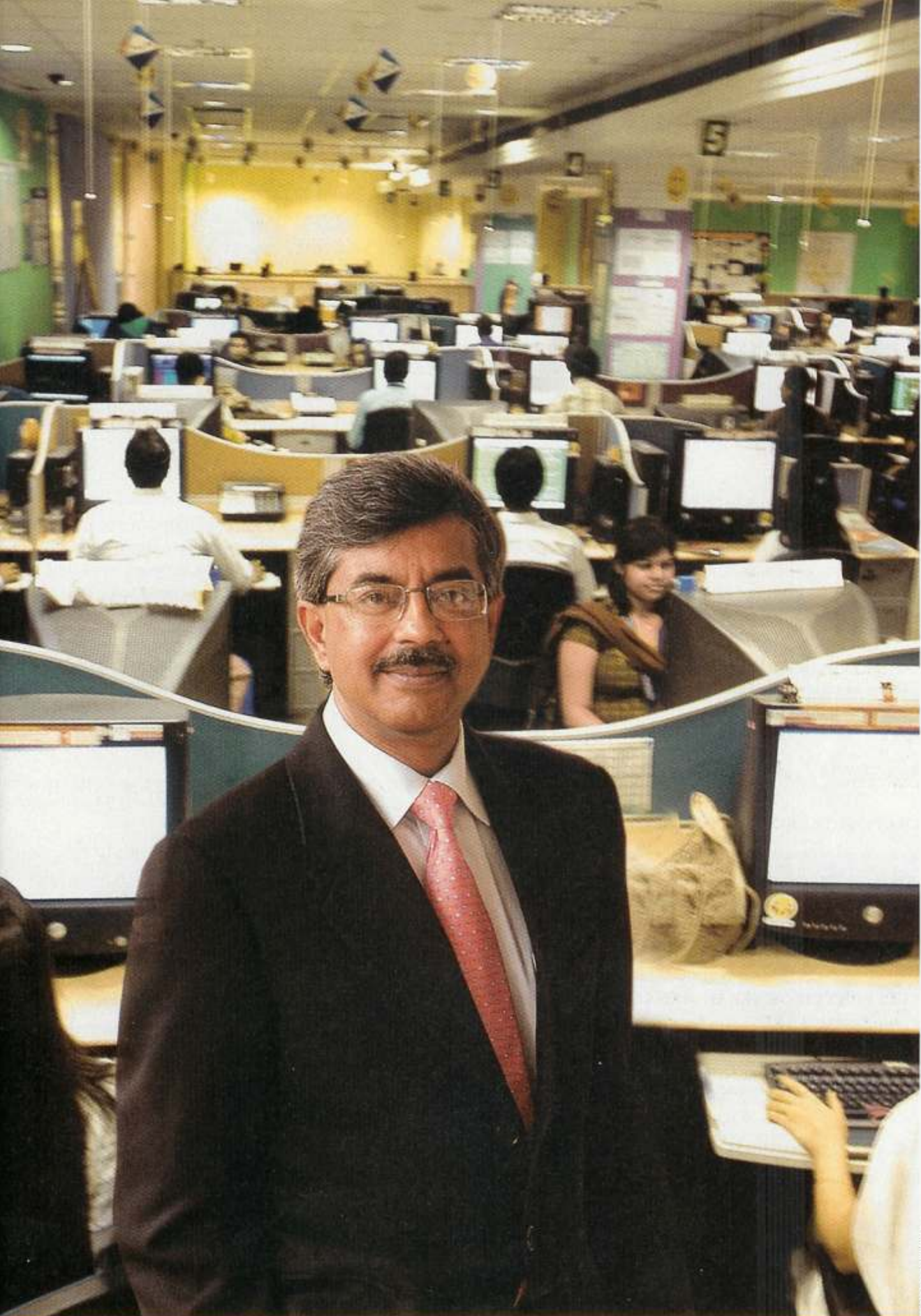


The BPO Stack-up

Here are the top 10 BPOs by revenues.

COMPANY	REVENUES
Genpact Undertakes BPO services through 23 centres globally	Rs 2,218.5 crore
WNS A leading BPO services provider for travel and tourism	Rs 921.15 crore
Wipro BPO Is in the midst of a move to higher-value services	Rs 762.7 crore
HCL BPO Services One of the earliest to acquire a presence overseas	Rs 587 crore
ICICIOneSource Has moved into KPO with its Pipal Research buy	Rs 553.5 crore
IBM Daksh Claims to have grown revenues 100 per cent since 2004	N.A.
Infosys BPO Gets 80 per cent of its revenues from data-based services	Rs 380.84
Aegis BPO Services Focuses on multi-channel customer support services.	Rs 309.15 crore
EXL Services The former captive centre is now a third-party vendor	N.A.
24/7 Customer Provides mainly voice-based services	N.A.

Several vendors in this list have revenues from centres outside India, which are not tallied for NASSCOM's rankings. TransWorks, the BPO company of the Aditya Birla Group, was not included in the original NASSCOM top 10 listing. But after its acquisition of Minacs, it would become the second largest player in the country by revenue. N.A.: Not available. Source: NASSCOM, companies



YIVAN MEHRA

Genpact CEO Pramod Bhasin: A third of the BPO's customers figure in *Fortune* 200

SAPTARSHI BISWAS



Infosys BPO's Chaudhry: He believes that a true BPO should mirror the back office operations of most large corporations

calling card around the world. The rush to outsource back office work to India has been so strong that the industry, also known as business process outsourcing (BPO), has grown at a compounded annual rate of 35 per cent over the last five years.

Yet, the ITES players, or BPOs, are beginning to feel a little vulnerable. That's partly because despite its soaring revenues, the industry is fragmented and there are new low-cost outsourcing destinations emerging elsewhere in the world. Sure, the top 10 BPOs account for about 20 per cent of the industry's revenues (see *The BPO Stack-up*), but there are 190 other players. Besides, about 80 per cent of the \$6.3 billion (Rs 28,350 crore then) in revenues last year came from voice calls, whether it was outbound calls (that is, a marketing call like Sally's) or inbound calls from customers for assistance. When a BPO from India pitches for a contract, it often must fend off contenders from countries such as Hungary, Ireland, Czech Republic, China, Vietnam and the Philippines.

We'll come to the country challenge towards the end, but, meanwhile, what's wrong with voice? As IT major Wipro discovered soon after acquiring Delhi-based Spectramind four years ago, voice is too competitive a market with low margins. Whereas a more value-added work, such as accounting or claims management, takes only as much in terms of investment per seat, but fetches more revenues. Says Sudin Apte, Senior Analyst and Country Head (India), Forrester



RAJKUMAR

Xansa's Hall: Feels that transition to a more knowledge-based work has become mandatory for the industry to survive and grow

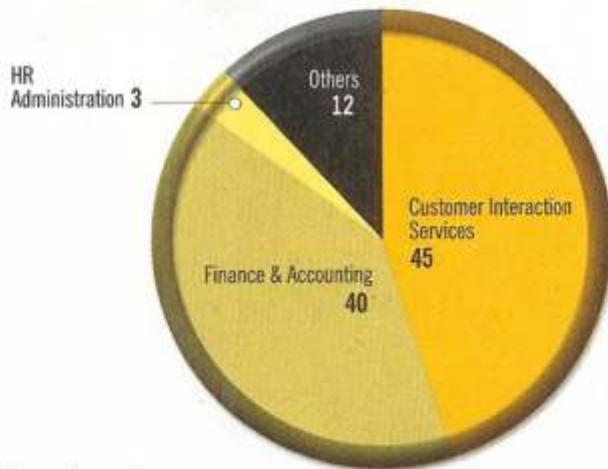
Research, a consulting and research firm: "While what has been achieved is commendable, players must realise that low cost alone cannot be a permanent advantage. Other low-cost emerging destinations may eventually undercut India on price." So, while voice business may be easier to acquire, it will increasingly get harder to retain it unless players move away from 'pure voice' to 'value-added voice'.

The good news: The shift is already happening from low-end voice work to higher-end data work, asserts Ashish Taneja, CEO, Vertex (India). Lately, he notes, there has been an increased focus on acquiring non-voice processes, as many BPO companies are looking to expand their areas of services and expertise, which would in turn help the industry grow to a more mature level. Taneja feels that voice work requires a lot of operational management bandwidth and expertise with hands-on focus on day-to-day operations. Others like Louis Hall, Chief Operating Officer, Xansa (India), point out that the transition from a low-end voice-based work to a more knowledge-based work has become mandatory for the industry to survive and grow.

There are others, however, who believe that voice in itself can be an extremely profitable proposition and a move towards data is not inevitable. "We don't believe that voice is low-end," declares S. Nagarajan, COO, 24/7 Customer, a Bangalore-based BPO. "It is a myth that needs to be busted. *Fortune* 500 companies are handing over their end-customer experience

The BPO Break-up

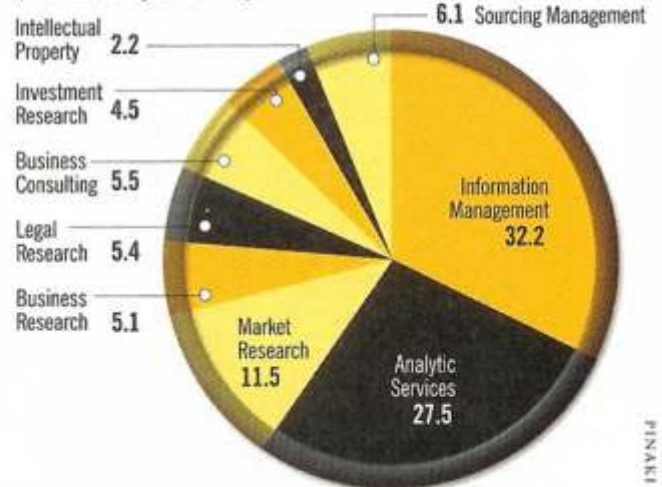
Customer interaction and finance and accounting fetch more than two-fifths of the industry's revenues.



Figures in per cent

The KPO Opportunity

Information management and analytic research are big drivers of this \$1.2 billion-a-year industry.



Figures in per cent

KPO current market size estimated at \$1.2 billion
Source: NASSCOM, neoIT, company reports

PINAKI PAUL

management to companies like us. Their brand value depends on how we manage their end customers, and that is not low value." Ananda Mukerji, MD and CEO, ICICIOneSource, also says that voice services can be highly profitable and sustainable.

Perhaps what most BPOs will end up doing, as Sandeep Dhar, President, Mphasis BPO Services, says, is add non-voice work to voice. After all, work that is low on knowledge and high on repetition can easily be automated with technologies such as Interactive Voice Recognition System. And work that is low on complexity or expertise can easily be offshored to a

more low-cost country than India (see *The India Advantage*). "At present, voice may be profitable, but the BPOs should use this opportunity to move up the value chain," says S. Satpathy, Senior Director, neoIT, a consulting firm.

Needed: Differentiation

For that to happen, Indian BPOs will have to develop deep domain expertise. They will have to start differentiating themselves based on their domain expertise and knowledge of verticals. "Right now, Indian players are trying to be everything to everybody. This is not a

DEEPAK G PAWAR



neoIT's Satpathy: In his view, while voice may be profitable at present, the BPOs should use this opportunity to move up the value chain

SOURIN KAVR



ICICIOneSource's Mukerji: Unlike others, his opinion is that voice services can be highly profitable and sustainable

THE INDIA ADVANTAGE

Despite fresh competition, India has a clear leg up.

A BOOMING OFFSHORING INDUSTRY HAS SPAWNED several new challengers to India's position as the #1 outsourcing destination. Among them are China, the Philippines, Brazil, Ireland, Poland, Hungary and the Czech Republic. While it's quite likely that a few of these countries will take away some work from India (especially, voice-based, nearshore work), it will be a while before any of them becomes an equal alternative to India. Why? For starters, cost apart, none of these countries has the kind of IT skills that India has and neither do they have manpower supply that comes anywhere close to India's (there will 17 million people available to the

IT industry by 2008, NASSCOM estimates). Therefore, in terms of integrated services (IT and ITES), India has few competitors. Even in pure-play BPOs, India has rapidly consolidated its strengths. "Very few countries can match the depth and breadth of services offered by Indian BPOs," says S. Sabyasachi, Director (Research), neoIT, a global offshoring advisory. Some segments of the industry such as customer support (both voice and non-voice) and finance & accounting have matured over the years, but there are new opportunities opening up. These include nascent areas such as content management, legal process outsourcing.

has picked up an 11 per cent stake in ICICIOneSource. "The strategic partnership will open up the client base for ICICI and penetrate the American market, where we are a relatively unknown brand," says Mukerji. Metavante is one of the top three bank technology and payment processors in the US, and works with 91 of the top 100 banks in America.

Beyond BPO: KPO

KPO, or knowledge process outsourcing, is quite a different world compared to BPO. Here's a scene that should illustrate the difference: It's a recent day in Bradford, Massachusetts. A 28-year-old female accident victim has just been rushed to the St. Luke's Hospital half-past-two in the morning. In the emergency room, doctors perform various scans like x-ray, MRI and CT scan on the victim. Within three minutes of the scans being generated, a radiologist sitting in Whitefield, Bangalore, receives the images online, studies them and sends back a report, enabling the doctors back in the US to take appropriate actions to save the patient's life. Time taken from the moment the scans are taken to the radiologist's report going back to the doctors: 20 minutes. Unlike our Sally, Dr Arjun Kalyanpur doesn't cheer every such incident, but the Yale-trained doctor sure knows that he has a good thing going. His four-year-old Teleradiology Solutions is a classic example of the KPO opportunity that India has begun to tap.

With its vast pool of well-trained professionals like doctors, engineers, teachers, lawyers, chartered accountants, MBAs to even journalists, India is experiencing a second wind in the BPO space, doing everything from equity research to business and technical analysis to animation to IP filing to accounting advisory services. In other words, the top end of the BPO value chain is the

KPO industry. Unlike voice-based work, in KPO the billing rates can be as high as \$26 or Rs 1,222 per hour per seat and the margins are also correspondingly higher. In 2005-06, of the \$6.3 billion earned by the Indian BPO sector as a whole, \$1.2 billion or nearly a fifth of it came from KPO work. India's IT Ministry estimates that by 2010, India can tap 15 per cent of the \$54 billion (Rs 2,53,800 crore) global KPO opportunity.

It is not just the billing and margins that separate KPO from BPO. Unlike low-end BPO, which is necessarily a game of scale, KPO can be niche and still extremely profitable. Lokendra Tomar, VP, Integreon, which is into document, content and knowledge services, says that



Marketics' Ramakrishnan: His company mines data and advises clients on stocking and display decisions, thus increasing their profitability

DEEPAK G. PAVAN



FAWZAN HUSSAIN

THE GOOD AND THE BAD

What India's ITES industry has going for and against itself.

FOR

- It has high process and system maturity, besides breadth and depth of services offered
- It still has the low-cost advantage and the ability to offer integrated IT and ITES solutions
- Market opportunity is largely untapped even now, and BPOs can innovate rather than transplant existing processes. Besides, they can develop vertical expertise

AGAINST

- High rates of employee attrition and a lack of specialisation in services
- The proportion of English-speaking population is limited and there isn't enough supply of quality graduates
- New low-cost BPO destinations are emerging and the BPO backlash continues to simmer. Besides, there are security/fraud-related issues

even a 200-300 people operation is viable. Amitabh Chaudhry, CEO & MD, Infosys BPO also claims that his company has been alive to the KPO opportunity from day one. "When we started in 2002, we took the view that a true BPO should mirror the back office operations of most large corporations—that is while voice is an important part of the operations, it is not the dominant part." As a result, the contribution of voice to Infosys BPO's topline of Rs 380 crore is less than 20 per cent. KPO in itself fetches around 10 per cent of the revenues.

Another major advantage in KPO is that attrition rates are much lower: 25 per cent versus 70 per cent. "The knowledge and skill sets required in a KPO are high and pay scales are also proportionately higher," points out Gautam Sinha, CEO, TVA Infotech, a placement advisory firm. It is not uncommon to encounter Ph.D's, IIT- and IIM-trained professionals working in KPOs. And the engagements can be interesting. For instance, lawyers with medico-legal outlook were employed by a Bangalore-based legal BPO that in turn was working with the main legal team of pharma giant Merck in its

Vioxx battle. Since this is a niche area of expertise, salaries are high and people less prone to switching jobs.

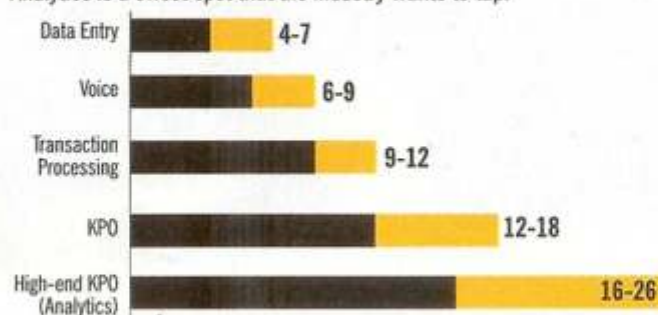
Unlike BPOs, a KPO's central proposition is not wage arbitrage. Yes, that certainly is one part of it, but in some segments such as equity research or financial modeling, relatively easy availability of high-end skills is the driver for offshoring. Take the case of Marketics, an analytics firm that advises its customers (like supermarket chains) on important stocking and display decisions. "It is not about cost. Supermarkets sit on loads of data. We mine that data, add value and advise clients on how to become more profitable," says S. Ramakrishnan, CEO, Marketics.

A NASSCOM-Baring Private Equity Partners (India) report for 2005-2006 indicates that the global market size for analytic services alone could reach \$14-16 billion (Rs 65,000-75,200 crore) by 2010, growing at 45 per cent a year. Of this, up to \$12 billion could be supported from India-based delivery centers, reckons the report. There are a few causes for concern. Ashish Gupta, COO, Evalueserve, points out that on an average Indian salaries in the sector are going up by 14 per cent and that there is a supply constraint in talent. Tomar of Integreon, however, pooh-poohs fears of a talent crunch. "We produce 25-30,000 MBAs a year, of which nearly 5,000 qualify for KPO industry. We also have enough lawyers, bio-technicians and teachers."

Tomar's comment in a way answers the larger question of India's competitiveness as a global offshoring destination. There's simply no other country in the world that churns so many inexpensive, English-speaking graduates. Besides, Indian BPOs and KPOs are setting up centres closer to their customers and acquiring BPOs abroad (see *Time to Consolidate?* on page 142). Therefore, as far as the eyes can see today, India should remain the global back office of choice.

Where's The Money?

Analytics is a sweet spot that the industry wants to tap.



Figures in \$ are industry average rates per seat per hour; can vary by company, customer
Source: NASSCOM, neIT, company reports