Executive Summary

Two years is not a great deal of time. Or so one would have thought. Economic Times Intelligence Group (ETIG) had come out with a report 'ET Knowledge Series - IT Enabled Services 2002' precisely two years ago. But in two years not only has the name of the industry changed but the fledgling ‘oh-will-it survive’ industry has become India’s brand wagon with established credentials and has a potential to change the output, exports and employment scenario in India in ways that we might have dreamt but would never have believed. Ladies and Gentlemen, ETIG is proud to present what was a babe in the woods turned into a kid in wilderness and has grown up to be the young person with a bright future – The Indian BPO industry.

This is the power of positive thinking at its best. The Nasscom-Mckinsey report of 1999 set imaginations on fire on the possibility of huge exports out of BPO (business process outsourcing) activities, then called IT-enabled Services (ITeS). It is almost like a self-fulfilling prophecy. ETIG did not attempt to estimate the size of the BPO industry due to the difficulties involved in getting financial information from private companies. However, tentative estimates from Nasscom indicate that the Indian BPO industry is growing at a pace exceeding 60%. The revenues from the Indian BPO industry have grown from around US$ 565 million in 1999-2000 to almost US$ 2,400 million in 2002-03. IDC projects it to grow to US$ 12 billion by 2006 with employment potential of almost a million.

Though the BPO industry was almost started by MNCs setting up their operations here – GE, British Airways, Swiss Air, Citibank - called captives, the growth has been equally fuelled by third-party companies offering services to external clients. Now the opportunity looks so bright that international BPO companies - Convergys, Sutherland, Vertex – have set up operations in India, IT majors are making BPO forays – Infosys, Wipro, Satyam, TCS, and now the captives have turned the tables and are offering services to external clients – WNS, Efunds, for instance.

The potential areas of services being offered by the BPO sector can be quite diverse – customer care (call centres), finance (accounts receivables/payables), human resources (benefits administration, payroll services), payment services, administration, knowledge based activities, and healthcare. However, the Indian BPO is inordinately skewed towards call centre activities with almost 60-70% of employment and revenues coming from that area.

While some would argue that the Indian BPO industry is offering what the market demands, others would justify that it was difficult to sell transaction processing activities initially because of the need to establish credibility. While our earlier study pointed out to the ITeS company hopping on to the call centre bandwagon, the present study indicates that the Indian BPO is slowly, but steadily, changing its mix of services to reduce call centre activities and increase transaction processing activities. Indeed, some companies want to avoid call centre activities entirely on the grounds that it is too commoditised. In the transaction processing space Indian BPOs are looking towards finance and accounts-related activities in a major way and are even exploring supply chain and vendor management activities. The other avenue that is of interest to Indian BPOs is work related to human resources (HR).

Again our present study points to the upcoming segments that do offer an opportunity for growth such as: animation, market research, healthcare, engineering, biotech research, legal arena and analysis. The addressable opportunity in the healthcare space is about US$ 45 billion and likely to grow to US$ 60 billion within the next three years. Biotech is a knowledge-based activity involving developing and discovering new products and getting patents and intellectual property rights for them. There is room for BPOs assisting in business decisions such as in data-driven predictive decisions or market research. With a strong engineering talent base, there is a significant potential to repeat the IT success story in engineering. There are whole lots of opportunities in the legal area. Animation can be another growth segment, if the government is willing to do its bit.
Methodology

The ET Knowledge Series products have behind them detailed primary and secondary research by the ET Intelligence Group (ETIG), the research business of The Economic Times, the world’s second largest English language business paper. ET Knowledge Series reports look at a sector from multiple angles and aim to point out key trends, segments, company strategies, growth potential, new opportunities and so on.

The report had to contain both – information and the meaning of the information. It had to understand not just what the information meant to an analyst outside the company, but also what were the real issues and problems behind the screen of information. And this would be visible only to the top management.

Hence, the methodology of the survey comprised a pre-determined questionnaire seeking information on revenues, training and employees, area of operations, client details, incorporation, ownership and funding details. This was the meat and potato part.

But we also needed the garnishing – the insights, the strategy, the issues, the problems and their solutions. And the garnishing in this case was to be the more important part. Hence, we met the top management of all the companies surveyed.

The companies based in Bangalore, Mumbai, Hyderabad, NCR (Delhi, Gurgaon, Noida) and Chennai region were chosen on the criteria of size, denoting the success of operations, but more importantly, we were on the lookout for companies that were in unusual areas of operations.

Attrition is one area where the Indian BPOs are facing a major problem. The odd working hours, monotony of job and abundance of opportunities makes retaining employees difficult. Indeed, HR is perhaps the biggest challenge facing the Indian BPOs. Some of them are trying to improve matters by organising fun activities and keeping salaries competitive besides striking no poaching agreements with competitors.

Apart from the human infrastructure, Indian BPOs need to be able to ramp up physical infrastructure – telecom and training infrastructures – as well. Indeed, with a rapid growth it is hugely important to be able to set up a complex to house an adequate number of seats in a short time. The telecom infrastructure needs to be able to deliver adequate quality while also providing sufficient redundancy. The training curriculum needs to be broad-based to enable a cultural transition as well as need-based, according to the requirements of the job. Some BPOs are also working towards relevant quality certifications.

We found no consensus amongst companies on strategy. There is no such thing as the strategy for a typical Indian BPO. Some are diversifying and trying to provide everything under one roof. Others prefer to specialise and focus on a niche segment. Pricing is a sensitive issue and while it is important to move up the price range, it is often equally important to keep the competitor at bay. It is also important to not to get involved in contracts that are difficult to fulfil, thus defeating the feasibility of operations.

More than the IT industry, the Indian BPO industry has greater potential to improve India’s image and economic prospects. Again the Indian BPO industry could take the fruits of growth beyond the metros to smaller towns. For those who wish to set up a BPO, it is important to hurry up, as there is too much of catching up to do. More importantly, it is vital to maintain a high quality of service to thrive.