Trends in BPO

Let a thousand flowers bloom

Change is a constant here. In fact, it’s rather difficult to keep track of the kaleidoscopic changes taking place in the BPO space. From call centres to transaction processing to high-end activities like research, analytics, animation….you name it and it’s already being done. New ground is being broken everyday

This is a little like trying to count the feathers of a bird when you are travelling in a train in the opposite direction. Things are changing so fast in the BPO sector that it is difficult to pin point what exactly is happening right now. Possibly, it could not have been any different. You never had such a word as BPO in the Indian lexicon until two years ago. And now you are told that this thing is so hot that well, these guys are going to ‘leave the IT guys behind’. India, or for that matter any other country, has never had a sunrise industry which has grown at such a scorching pace that within no time the industry not only forms a huge chunk of exports but also contributes to the country’s GDP and the employment opportunities in a significant way.

The numbers are doubling, newer services are being added, companies are joining hands, there are HR problems, technologies are changing and well, a host of other things. A few of the trends that can be discerned are:

1. Mergers and acquisitions
2. Captive vs third party
3. Increasing number of high-end BPOs coming up
4. Willingness to shift from call centre to transaction processing
5. Increasing recruitment from the middle-age group
6. Preference for IP technology over traditional circuit-based networks
7. Measures being taken to battle attrition

Mergers and acquisitions

One striking trend visible in the BPO space is that of mergers and acquisitions (M&As). Industry sources say that this is the latest evolutionary factor in the BPO sector. In other words, M&As could be one reason why the BPO industry has achieved so much in such a short time. M&As are rife in the BPO space, a sector not even five years old. Well-performing BPO companies have been targets for larger firms which are seeking to expand
their services portfolio, thereby strengthening their position in the market. Most deals that have taken place are above $10 million in value. Some such takeovers include the acquisition of Transworks by the AV Birla Group, CustomerAsset and FirstRing by ICICI OneSource, Apollo Contact Centre by HCL Tech and Corpay by Datamatics Technologies. The acquisition of Spectramind by Wipro for Rs 465 crore (around $99 m) was one of the larger deals.

Either groups, diversified across many industries, existing IT companies or BPO firms have acquired other BPO units. Joint ventures have also taken place, a case in point being Cadmus and Datamatics partnering to create a new entity, KnowledgeWorks Global. Raman Roy, chairman and MD of Spectramind, says, “Depending upon the strategic intent of a company, it can exercise the choice of either starting a BPO outfit organically, or buying one. The acquisition of BPO units gives companies an easy opportunity to enter the BPO field.”

What could be the reasons behind the acquisition spree that a large number of companies are going through? “The foremost reason is customer acquisition”, says Manish Modi, CEO of Datamatics Technologies. Sujit Baksi, President, vCustomer and the former head of HCL BPO says, “Indian IT companies acquire BPO companies for a quick entry into the BPO space and customer acquisition. On the other hand, foreign companies acquire Indian BPOs for their skill and manpower. The situation is different for diversified companies, which acquire BPO outfits to enter a high-growth business.”

Some companies like Datamatics Technologies have acquired BPO outfits to have an onsite production facility. According to Mr Modi, there are certain jobs that have to be done onsite. The acquisitions of Saztec and Corpay have helped them do the same.

Another advantage of acquisitions or joint ventures with companies abroad is that they result in back-to-back orders. For example, the acquisition of Apollo Contact Centre by HCL Tech has helped HCL BPO to bag the $160-million BT contract. The joint venture of Datamatics with Cadmus is another instance of such a deal, wherein Datamatics helps Cadmus to manage costs more effectively and it also gets the opportunity to serve the existing customers of Cadmus.

The fact that there is an ever-growing market for back-end jobs is one of the reasons for acquisitions. The incessant flow of jobs from the US and Europe to India, in addition to the easy availability of skilled manpower, results in the companies having rosy revenue projections for the years to come.
Fierce competition, with more than 300 BPO companies in India, is also propelling BPOs to function as a one-stop shop provider to its clients. Acquisitions in the BPO space give the acquiring company the opportunity to strengthen its position in the market by cashing on the strengths of other established BPO companies. These strengths could be in terms of vertical expertise, an established client base, greater geographical reach and also skilled and trained manpower. For example, WNS acquired ClaimsBPO for its strong presence in the healthcare industry.

Neeraj Bhargava, President and CFO, WNS, says, “From a seller's perspective, it is becoming increasingly clear that the BPO business is a big boy's game. Small companies find it difficult to compete for large contracts and when they realise that size is a limitation, they look to get acquired. Also, many of the sellers were doing it as a defensive measure because they would not have survived anyway.”

In addition to the increased revenues from a greater client base, higher valuations are a motivating factor for the BPOs. Valuations for BPO companies are more complex than in the case of IT companies as there are two streams of revenues – annuity-based and contract-based (one-time revenues), in comparison to just project-based revenues for IT companies. Cross-selling skills and growth momentum of the target company are assessed. The number of years over which the annuity revenues are spaced out, coupled with the profitability and the customer base are other vital parameters for valuation. Mr Bhargava says that WNS would prefer a high performing company that is already profitable so that they do not have to try and turn it around, but instead focus on taking it to a higher trajectory. Bad debts of a BPO company could pull down its valuation. The value of the deals could range from 0.3 to 1.5 times the annual revenue of target units.

Going by the fervour with which mergers and acquisitions are taking place, it is likely that the next eighteen months would separate the men from the boys, industry sources say. The deals are expected to be of a greater size in the near future.

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<tr>
<td>Healthscribe of USA</td>
<td>64.99% stake in Max Healthscribe *</td>
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<tr>
<td>Joint venture - Cadmus - 80%,</td>
<td>new entity - KnowledgeWorks</td>
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<td>Company</td>
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<tr>
<td>Datamatics – 20%</td>
<td>Global</td>
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<td>WNS</td>
<td>ClaimsBPO</td>
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<td>Godrej</td>
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<td>Polaris</td>
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<td>India Life</td>
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- **under consideration**
- **Source: Et Intelligence Group**

**Captive and third party units**

The BPO wars are complicated. Some of the new MNCs are seriously debating the merits of outsourcing work to third-party or captive BPO units. Some of the captives are trying to enter the third-party space and competing with vendors to offer services to external non-parent companies. Again, some MNCs with captives are seriously considering outsourcing some of their work to third-party vendors.

eFunds International started off as a captive of eFunds Corporation in 1998 and began to consider external work from 1999. eFunds International is now not even recognisable as a captive unit. Almost 80% of work at eFunds is for external clients. However, Atul Kunwar, managing director, advises that MNCs should not consider setting up captive BPO because it involves considerable headache. Again third-party BPOs are cost competitive. Most MNCs end up running high-cost captives because of the absence of competitive pressures.

Ananda Mukerji, MD and CEO, ICICI Onesource, says that while earlier MNCs did not have any option but to set up their own captives, the proliferation of third-party vendors now offers a choice. Smaller companies, which mostly operate in their own countries, may not have the expertise or
the confidence to set up a captive in India and hence third-party is the only option. The arguments for going the third-party way are factors like the reduced management load, lower costs and ability to enforce price and quality competition.

It is also important to remember that third-party vendors would have to make 15-25% profit margins besides having to invest in marketing and hence may not necessarily be more competitive. It is also possible for some captives to do complicated processes in-house, while outsourcing the simpler ones.

\textbf{BOX}
\textbf{Title: Take Your Pick}
\textbf{Sub-head: Advantages Offered By Captive And Third Party BPOs}

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<th>Advantages of outsourcing work to third-party services:</th>
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<tr>
<td>1. They are more cost-competitive; however, one needs to note that the third-party players need to invest in marketing, which is not the case for captive BPO units</td>
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<td>2. The management load is reduced</td>
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<td>3. They are a saving grace for small companies that cannot afford to set up captive units, and yet want to outsource call centre/backoffice related work</td>
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<td>4. They offer a choice to the customers; companies can decide either to go for a third-party player, or set up their own captive unit</td>
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<th>Advantages of outsourcing work to captive BPO units:</th>
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<tr>
<td>1. The organisation has the flexibility to deploy the services of BPO employees at any location within the organisation</td>
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<td>2. At times, well-performing BPO employees are offered the option to move to a mainline (non-BPO) function within the bank or an insurance company, thus going a long way in motivating them</td>
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<td>3. In some countries like the UK, the financial services industry is highly regulated, in which case it is easier to conform to them via the captive unit way, according to Prudential Process Management MD R K Rangan</td>
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HSBC would never outsource these. Again, HSBC Electronic Data Processing would never consider doing work for other companies as the focus was totally on managing internal operations.

\textit{High-end BPOs}

High-end BPOs have come up in a major way. They constitute the special class of BPO companies that are into value-added activities like research and analytics, or in other words, operate in a niche segment. These companies are different from the rest of the BPO companies on various fronts.
Firstly, a significant chunk of the manpower consists of postgraduates, in comparison to the graduates who take up most call centre jobs. Further, the attrition rates of these companies are lower than the average rate for the BPO industry. These firms prefer to describe themselves as global resource specialist providers, research agencies or high-end BPO firms rather than BPO companies. Though people at such firms also have to work in several shifts, the satisfaction that employees derive from the work is higher, industry sources say.

Evalueserve and OfficeTiger are examples of third-party firms engaged in research and analytics. RT Outsourcing Services, also a third-party BPO player, offers technical support service to its clients. Among the captive BPOs, US financial major J P Morgan has recently set up a BPO which carries out research.

GE Analytics also belongs to the breed of high-end BPO companies. It supports the GE Capital and industrial businesses to provide data-driven predictive decisions in areas such as risk, marketing, collections, pricing, logistics, asset management, supply chain and inventory management, e-business, business intelligence, and enterprise-wide business solutions. The company conveys that the main motivation behind GE outsourcing high-end work to India is that it wanted to leverage on the intellectual capital of India, not to save costs.

Risk modelling and financial analysis of customers are some of the functions that OfficeTiger executes for its clients. Evalueserve carries out high-end business analytics including various kinds of research. This includes business research, equity research and statistical modelling.

Such firms recruit people from leading colleges. A large chunk of the manpower consists of postgraduates. In the case of Evalueserve, the employees are recruited from leading colleges like the IIMs, IITs, FMS and XLRI. On the whole, the talent pool comprises MBAs, engineers, CAs, doctors and lawyers. Only 10% of the total talent pool consists of graduates. About a third of the total employee strength of OfficeTiger consists of CAs and MBAs. J P Morgan’s BPO is aggressively recruiting experienced MBAs and accountants, primarily from IIMs and JBIMS for its research work, who would be assisting front-end research analysts.

Office Tiger, a $20 million annual turnover company, experiences an attrition rate of 8%, much lower in comparison to that of the rest of the BPO industry. Ashish Gupta, country manager and COO of Evalueserve says, “Due to the satisfaction derived from high-end work, the company's attrition rate, at around 20%, is lower than that of consulting firms in general.” As
such, it appears that the call-centre jobs are primarily responsible for the high attrition rates in the BPO industry. For the companies that have moved on to value-added activities, employee churn is not a major concern.

**Transition from call centres to transaction processing systems**

The BPO industry in India is undergoing a silent revolution with regard to segments. While three years ago the craze was about setting up call centre operations, almost every BPO today is trying to get into transaction processing. Mind you, most BPOs still get most of their revenues from the call centre operations. However, every company is working towards changing the revenue pie by aiming for half the revenues from transaction processing. In a sense, it is a movement from front office to back office. Some companies want to avoid call centre operations all together. Progeon – the Infosys BPO - does not want to be another call centre company. Akshay Bhargava, MD and CEO, Progeon says that call centre operations won’t pay in the long run. Progeon is looking to offer end-to-end solutions and set up complete back office and this, he says, could have a call centre component. However, Progeon won’t consider just call centre operations. The operations in call centre are too commoditised and apart from initial cost savings there is no potential for offering either process re-engineering benefits or technology-driven cost savings.

ICICI OneSource, however, is still betting on call centre operations, with almost 85% of revenues coming from voice-related work. Mr Ananda Mukerji, managing director and CEO, ICICI Onesource says that currently the market wants voice capabilities and if a BPO wants to succeed, it must be ready to offer these. In fact, voice-based offering can be used to gain a foothold and this could be later leveraged to offer the entire gamut of services. He also disagrees with the hypothesis that transaction services have higher margins, stating that it depends on the complexity of operations.

Adi Sarvannan, president, Allsec Technologies, informs that while the company is mainly into call centre activities, it is considering strategic diversification to transaction-based activities. This is because the margins are higher in transaction-based BPO services.

Other companies have different reasons. Ravi Venkatesam, vice president - operations (technical support practice), 24/7 Customer says that the company is trying to get into transaction processing mainly to utilise the infrastructure better. The call centre infrastructure is used over two shifts during evening to night hours and the same infrastructure could be used once more for day-time transaction processing activities.
Call centre operations are very technology intensive and require considerable investments in telecom infrastructure. Though revenues per employee are significant the massive infrastructural investments in call centre operations mean that the profitability is rather low. Prakash Gurbaxani, CEO, Transworks, plans a change of mix of operations away from call centre operation. While presently only 10% of revenues come from transaction processing, the company is planning to increase this to 40% within three years.

Call centre operations often run into losses because of badly negotiated contracts. Shyam Bhethanbotla, chief marketing officer, GTL Limited, says that too many contracts involving outbound calls are very dicey. The performance-based payouts look attractive, but the goals are almost elusive and an organisation that jumps into too many of such contracts always has a danger of running into trouble.

**BPOs are increasingly recruiting people from the middle age group**

A mother and her children working together in the same company would be unusual in most circumstances. However, this is becoming something of a trend with BPO companies. Some BPOs increasingly prefer to recruit older people. There are an increasing number of cases where the mother has been preferred over the daughter or mothers and their sons/daughters are working side by side.

Though some companies are looking at the middle age group simply to expand the employee base, a few actually prefer older people. e-Serve, for instance, chose a mother over her 21-year old daughter during the recruitment process. K S Kumar, HR head, e-Serve International, says, “The mother was a better speaker, and was also able to analyse better.” The company has about three employees in the range of 38-46 years age group, one of them being recruited as a trainer.

Vertex, a leading UK-based BPO company, which set up operations in India in December 2002, also has several mothers and their sons working side by side. The firm has a number of employees in the age group of 40 to 60 years in addition to the younger ones. Dan Sandhu, the CEO of Vertex, India, says, “We do not want to restrict ourselves to any part of the demography, hence we are recruiting mothers also.”

EXL Service, for instance, has a mother and son working in its voice process. Deepak Dhawan, VP (human resources), EXL Service, says that the firm’s recruitment strategy does not preclude older workers. "Interestingly, 8 to 10% of our work force is in the forty-plus age group. We are absolutely
fine with higher age groups employees. They have proved to be more stable and steady. Age is definitely no bar but what is important is the ability to work smart and a willingness to belong in an international atmosphere." The company has started placing recruitment advertisements with the message – ‘Age no bar’.

Jerry Rao, chairman and CEO of Mphasis, which has Msource a Rs 94-crore BPO outfit as its subsidiary, says that the company is open to hiring older employees.

Atul Kanwar, managing director of eFunds International, says, “We are going in for more and more employees belonging to the middle age group, as we would like to utilise the services of this group of people also.” He also added that the work hours needed to be adjusted for this age profile, especially for the mothers, since they would like to return home by a certain time. The firm is trying to align various profiles of employees with the process and business requirement.

However, a certain section of the BPO industry feels that older people would not be able to withstand the pressure of call-centre jobs, may not be computer savvy and also may not be as efficient.

**IP Technology being preferred to traditional circuit-based networks**

About a few years back, a majority of the companies were exploring the opportunity to go for VoIP- Voice on Internet Protocol. However, it didn’t take them much time to almost abandon it because the voice quality was poor. The cost savings were also not significant. However, now VoIP seems to be making an indelible mark on the BPO arena.

Some Indian call centres are trying this untested territory and migrating to the IP infrastructure. Traditionally, call centres have used voice networks based on TDM (Time Division Multiplexing) which is circuit-based.

However, vCustomer has chosen to buck the trend by choosing a 100% IP infrastructure. Sanjay Kumar, CEO, vCustomer says that reliability is the prime reason for shifting to IP-based networks. He explains that say if there are 20 circuits and each circuit carries certain number of calls. In case the circuit fails in the traditional phone type network you tend to lose the calls carried on that circuit and that means customer distress. However, in case the circuit fails in an IP-based network, the messages are routed through another circuit. What about the voice quality? Mr Sanjay Kumar explains that it should be remembered that this may be internet protocol, but the packets are
not travelling over internet. In fact, the packets are travelling through established leased lines and hence there is no compromise on voice quality.

M S Rangaraj, Chief Technology Officer, Nirvana Business Solutions, has different reasons for choosing IP-based infrastructure. He states that it offers easy scalability. Further it allows flexibility of configuring the network. However, Mr Rangaraj says that while initial investments are not necessarily lesser in IP-based networks; the overall investments would be lesser due to advantages of scalability and flexibility.

All the major vendors are now investing in research in IP technology says Jayesh Chitania, business development manager, Cisco Systems. IP technology offers the benefit of easy scalability, convenient configurability, networking flexibility and easier infusion of software intelligence. He adds that the IP-based telephony solution is ideal not just for call centres but even for corporates. However, he complains that though the technology has been around for past three years, there has been inadequate migration to IP technology due to an inadequate knowledge base among telecom professionals, resistance to change and fear of job security.

Jagdish Malgi, regional manager (services), Tata Telecom, refutes the argument that TDM infrastructure does not offer adequate reliability. He says that TDM infrastructure can offer 100% reliability if it is appropriately configured. Though there is slow migration towards IP-based infrastructure, both technologies are equally good, and the final decision is often customer driven. However, IP-based networks do offer cost savings in the long run due to easy scalability.

IP is an incumbent technology and has quite a distance to go says, Nagraj Jain, vice president (enterprise solutions), GTL. The debate on what provides better quality of service – IP or TDM - is still inconclusive. He says IP could be more expensive in terms of ongoing costs, because it requires higher bandwidth. Though IP is being seriously considered all over the world, almost 75% of new call centres internationally still go the TDM way.

Measures being taken to battle attrition

Attrition is one of the long continuing concerns of the BPO sector. Firms are trying to beat this concern in several ways. One such measure is entering non-poaching agreements. These kinds of agreements ensure that the companies involved do not hire people from one another. Members of these non-poaching groups are, however, willing to hire a person if he is applying while working at a non-member company, even if he has worked at the member’s company in the past. The advantage that this kind of arrangement
holds for the BPO companies is that they get to retain the experienced employees, and as such, save costs incurred in churn management of the employees. Moreover, the best talent is not lost to competitors. While these kinds of agreements help the companies in retaining their staff, it reduces the freedom that an employee has. The market for a talented person shrinks as he or she can then apply to only a limited number of companies. Raman Roy, chairman and MD, of Spectramind, says, “We have entered into a mutual non-hire agreement with Daksh, Amex, Dell and ICICI Prudential.”

Deepak Dhawan, vice president, (human resources), EXL Services, says that the company has a non-poaching agreement with HCL e-Serve and Daksh. On being questioned about the sanctity of these agreements, he says that the word of one HR head to another is as good as any written document. Offering a salary hike is another strategy adopted by BPO firms to retain their talent. According to a survey conducted by Hewitt Associates, the highest average salary increase in 2003 across levels was 14%, in the BPO sector. This is the highest amongst all countries in Asia Pacific and also higher than that in the US, across industries.

Companies are also making an effort to retain employees by providing them bachelor accommodation as in the case of EXL Services. A majority of the companies hold parties and fun games to hold the interest of the employees and keep them invigorated. At times, these games are related to performance also. For example, in the case of Global Vantedge, well performing employees are allowed to take part in motivating games. In certain companies, the do’s and don’ts, as stated by top performers are circulated to others.

Yet another measure adopted by some captive BPOs like e-Serve is that the performers are given an opportunity to move to another company within Citigroup, the group that owns e-Serve. For example, they might be allowed to apply for job postings in Citibank.

**Conclusion**

While the above trends hold good for the current scenario, the sweeping changes in the BPO sector are very likely to give way to an entirely different landscape over the next one year. Segments like market research, engineering services, animation and biotech are bound to gain increasing prominence. Attrition might be controlled to some extent. However, one thing is a constant – the indispensability of Indian BPO firms to companies across the globe.