INDIAN ITES-BPO INDUSTRY : NASSCOM ANALYSIS

The Global ITES-BPO Scenario

Indian ITES-BPO continues to grow from strength to strength, witnessing high levels of activity – both onshore as well as offshore. Continuing pressure on cost bases at a time of growing competitiveness is driving companies to look at offshore outsourcing as a strategic alternative. Access to global talent, economies of scale, process engineering and enhancements, wage arbitrage, increased profit margins and improvements in quality are some of the gains that companies have realized.

Complementing the growth in ITES-BPO exports was the spurt in domestic demand for especially in the BFSI and telecom verticals. The industry also witnessed a high degree of M&A activity involving some of the key players in the sector. In spite of the consolidation, the share of the top 20 players remained relatively unchanged at approximately 49 percent of the industry as the rest of the industry also witnessed impressive growth.

The Indian ITES-BPO Scenario

<table>
<thead>
<tr>
<th>(US $ bn)</th>
<th>2002-03</th>
<th>2003-04</th>
<th>2004-05E</th>
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<tbody>
<tr>
<td>ITES-BPO</td>
<td>2.7</td>
<td>3.9</td>
<td>5.7</td>
</tr>
<tr>
<td>- Exports</td>
<td>2.5</td>
<td>3.6</td>
<td>5.1</td>
</tr>
<tr>
<td>- Domestic</td>
<td>0.2</td>
<td>0.3</td>
<td>0.6</td>
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</table>

Source: NASSCOM

- The Indian ITES-BPO industry is forecast to grow at approximately 44.4 per cent to US$ 5.7 bn, including domestic market revenues of US$ 0.6 bn in FY 2004-05
- Indian ITES-BPO exports registered a growth of 44 per cent in FY 2003-04 clocking revenues of US$ 3.6 billion. The Indian ITES-BPO exports are likely to reach revenues of US$ 5.1 bn in FY 2004-05

- Some of the key drivers of the Indian ITES-BPO industry include:
  - Competitive pressures on client organizations
  - Ability of Indian vendors to ramp-up operations rapidly
  - Widening breadth of services
  - Shift towards high-value services
  - Sustained cost advantage - In spite of the rising elements of cost, Indian offshore operations provide cost savings of 40-50 percent
  - Delivery process enhancement and improvement
  - Access to an abundant skill pool - India has the largest English speaking IT talent pool in the world - over 120,000 trained IT professionals and approximately 3 million other graduates are added each year
Key markets: The US remains the key market, accounting for over two-thirds of the total ITES-BPO exports from India. Western Europe, primarily the UK, accounts for approximately 20 percent.

Market segmentation: Customer care and support services remain the largest segment, accounting for 38 percent of the sector’s employee base and a third of its revenues. Finance, administration and content development were the next three segments contribution 23 percent, 14.9 per cent and 15 percent, respectively to the revenues.

<table>
<thead>
<tr>
<th>SERVICE LINE</th>
<th>FY 2002-03</th>
<th>FY 2003-04</th>
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<tr>
<td>USD MN EMP REV</td>
<td>EMP REV</td>
<td>EMP REV</td>
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<tr>
<td>Customer care</td>
<td>66,400 830.0</td>
<td>96,000 1,200.0</td>
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<tr>
<td>Finance</td>
<td>25,500 540.0</td>
<td>41,000 835.0</td>
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<td>Administration</td>
<td>26,000 325.0</td>
<td>40,000 540.0</td>
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<tr>
<td>HR</td>
<td>2,100 45.0</td>
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<tr>
<td>Content development</td>
<td>48,000 510.0</td>
<td>51,000 550.0</td>
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<tr>
<td>TOTAL</td>
<td>180,000 2,480</td>
<td>253,500 3,630</td>
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EMP: Number of Employees
REV: Export revenues

India’s value proposition

At the core of India’s great attraction as the outsourcing destination is its unbeatable value proposition – PQR (Productivity, Quality and Rate) factor.

Key drivers of global offshoring, along with India’s strengths are continuing to stoke the Indian ITES-BPO growth engine. Some of these drivers include:

- **Focus on margins and cost pressures:** Outsourcing to India has helped companies achieve 40-50% cost savings. Companies are also able to generate higher free cash flows due to reduced investments in physical infrastructures, telecom and equipment. Wage arbitrage has also led to increased cost savings.

- **Growing demand for high quality, skilled workforce:** India has a large pool of educated, highly skilled, English speaking manpower. This has placed India favorably over other offshore locations, since other than wage arbitrage, companies benefit from improved quality and higher productivity rates.

- **Global quality accreditations:** In an increasingly competitive economy, customers demand and expect highest levels of quality. Indian vendors are quality centric and have adopted several industry standards such as SEI-CMM, ISO, TQM, 6 Sigma Quality and COPC. The various quality certification processes practiced by the players are: COPC; ISO for process mapping; Six-Sigma initiative for defect and cycle time reduction and eSCM for continuous quality process enhancement especially for the ITES-BPO players. COPC quality certification emerged as the most widely accepted certification process.

**Source:** NASSCOM

**Highlights: COPC–QAI study**
- As per the COPC-QAI study, Indian ITES-BPO providers have a client satisfaction level of more than 80%
- Less than 2% of quality fatal defects.
- Telecom reliability rate of less or equal to 99%
- Indian ITES-BPO players are world class in their offerings as compared to the other countries
- At the bottom most level there are some areas of mediocrity, which needs improvement in terms of End User Satisfaction
6 from the top 25 third party players, already having COPC certification and an encouraging 12 having applied for.

- **Secured environment for businesses to operate in:** Indian companies as well as the Government have been proactive in taking appropriate steps to tackle security concerns. Many Indian companies are aware of and are opting for international security standards such as ISO 17799, BS7799, COBIT and ITSM. NASSCOM, with the Indian government, has laid the foundation for the required legal framework. The IT Act, 2000 includes laws and policies concerning data security and cyber crimes. Other than IT Act, the Indian Copyright Act of 1972 deals with copyright issues in computer programs.

- **Increasing focus on core competencies:** The need to focus on core competencies to remain competitive is driving more companies to offshore outsourcing. Offshoring helps free up resources and help higher management focus on core business requirements. Offshoring also allows for access to new technologies and talent to help strengthen business offerings.

According to the NASSCOM – McKinsey Report, in the long term, the two parameters that will differentiate the business models of successful ITES-BPO players would be the level of intellectual property and the breadth of offerings the player specializes in. Thus four distinct models would emerge:

- **Service Factories** which would be back end processing arm or third party services provider for global BPO major
- **Process Expert** who would be specialists in a process that may or may not be specific to a vertical like payroll, credit card processing
- **Service line aggregator** who would specialize in a group of relates processes like pay roll, benefits in HR and inbound call center
- **Bundled Service provider** who would provide combined BPO and ITO services

### Trends in Indian ITES-BPO market

- **Continued market consolidation:** The last eighteen months have been a period of significant market activity for the ITES-BPO sector in India. Coupled with the growing stock of firms expanding their offshore initiatives in India, the wave of consolidation as several large M&A deals were scripted in the industry
- **High levels of absorption:** The rapid growth of Indian ITES-BPO in the last eighteen months has contributed to a continued mismatch between the demand and supply of experienced resources in the industry. Consequently employment generation and attrition levels remain high. Indian ITES-BPO added approx. 74,000 jobs in FY 2003-04 – with the number expected to double in the current fiscal. Even so, demand for experienced professionals outpaced their supply and attrition levels in the industry remain between 25-40%

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*Privacy laws exist in China, but they are not comprehensive Source - Evalueserve Analysis
- **Vendor maturity – managing people risk:** In spite of the relatively high people risk – attributed to the high turnover and attrition – Indian companies displayed increasing maturity as companies deployed innovative employee retention strategies. These included – employee recognition schemes, career planning services, educational guidance and assistance and a greater emphasis on improving the quality of work-life.

- **Maturity pricing and engagement models:** The maturity of the third-party model has brought with it a variety of pricing and engagement models. The most commonly adopted pricing models include: 1) Per-unit time / variable costing (per seat, per hour, etc.); 2) Per seat or full time employee (FTE) per month; 3) Activity based billing; 4) Gain-share models; 5) Hybrid-pricing models

- **Onshore expansion to strengthen global delivery capabilities:** According to Gartner, Indian ITES-BPO companies are acquiring companies in the U.S. and other locations with several objectives. These include access to a new market beyond just a toe-hold, with ready resources, clients and revenues, access to a new set of skills or domain and process expertise in the target market, access to a new technology or intellectual property and also greater credibility with target clients, by having a strong local presence beyond just a sales office. This growing trend further highlights the transformation of offshore outsourcing to global sourcing.

**NASSCOM Initiatives**

**NASSCOM ITES-BPO Forum**

In early part of 2001, with the phenomenal growth of the ITES-BPO industry in India, there was an increasing realisation on the need to have a separate group that can address the needs of this market segment.

It was therefore felt that a "NASSCOM's ITES-BPO Forum" under NASSCOM banner can best serve the dual objectives of addressing the specific needs of the ITES-BPO industry and at the same time build the India brand in IT Enabled Services.

**Initiatives under the NASSCOM ITES-BPO Forum**

- **HR Strategy Group**

In India over the past few years, the ITES industry has been growing rapidly and this growth has fueled a lot of HR challenges. The biggest challenge of them all is to manage the ambitious and transient workforce. Moreover, since the industry is predominantly service oriented the importance of attracting and retaining talent has become very critical.

Realising the importance of the issue, NASSCOM has initiated focused regional meetings on HR best practices sharing; under the aegis of NASSCOM ITES-BPO Forum: HR Strategy Group.
• Workforce Development for ITES–BPO industry: Assessing and Certifying Talent

NASSCOM and the ITES-BPO industry at large want to undertake initiatives to help create a steady pipeline of talent for the industry. As an immediate priority, an assessment and certification process is to be designed which can provide a credible standard for ascertaining minimum skills for prospective candidates. Once the Assessment and Certification framework is in place, develop the course content aligned with industry needs and create a model for licensing the same to training providers.

NASSCOM will work with respective stakeholders to develop a long-term strategy for workforce development, and undertake initiatives to
  o Generate a buy-in of various stakeholders viz. concerned government ministries at the state and national level, formation of nodal agency etc.
  o Ideate, plan and facilitate systemic changes in the primary and secondary education in the country to make the education system more aligned with the economic trends

• BPO Newsline

BPO Newsline, a monthly newsletter, aims to inform people about the goings on in the BPO industry—both on home turf and the geographies beyond. The newsletter serves as a unifying, interactive link between NASSCOM members (Indian BPO companies), central and state governments, global players and customers.

• BPO Website

NASSCOM has an exclusive website on the BPO industry (www.bpo.nasscom.org) which highlights India’s value proposition, key issues and challenges and provides a platform for stakeholders to voice their opinion on the industry. The website has sections focusing on human resource, process excellence, policies and promoting India as a favoured BPO destination.