CHAPTER VIII

FUTURE PROSPECTS IN BPO
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8 Opportunities and Prospects in BPO

The future for the IT/BP industry holds bright. It is estimated that 56% of the BPO market could be India's by the year 2007 with the demand for BPO services increasing at an annual growth rate of 50 per cent during 2004-06. The pace at which the Indian BPO market is increasing is tremendous. The market of BPO in India is likely to be around $12-15 billion by the year 2007 and will employ around 0.4 million people. The BPO market is ready to fire up and India Inc is all geared for this big opportunity.

This is really great news for India Inc since we have to tackle the BPO backlash as well. Though there are chances of this party being spoiled by the US led backlash but then also India is sure to have a large share of the BPO market. This will go a long way in making India the BPO super power of the world. If the backlash stays on for sometime, then may be India could
only have a 42% share of the market instead of 56%. Though it is a reality that companies outsourcing their business operations to Indian BPOs have been saving a lot of money and also saving jobs of their own countrymen.

Offshoring of engineering services is estimated to be a $40 billion opportunity for the Indian software services sector by 2020.

According to a report prepared by Nasscom and Booz Allen Hamilton, globalisation of engineering services will be the next growth frontier for India and this is expected to create 250,000 jobs in India.

According to the report, the total offshore engineering spend is expected to grow to $150-$225 billion by 2020, and India, with its talent pool and existing experience in engineering services, is well-suited to realise 25 per cent of the opportunity.

Announcing these details, Nasscom President Kiran Karnik said: "The Indian IT and software industry is continuously
renewing itself and seeking to grow by addressing newer service lines, the latest being engineering service.

"Companies in India have developed capabilities and skill sets, and have invested in technology platforms to leverage the opportunity. The growth in engineering services signifies the need for global corporations to expand their R&D pool beyond their home countries."

As per the report, India enjoys a relatively strong position in the automotive and high-tech/telecom engineering services market with $25 billion opportunity by 2020.

Aerospace offers the greatest potential for expansion, though it is also one of the toughest opportunities to tap because of its close association with the defence sector. The report calls for greater support from the Government to realise the opportunity.

B Ramalinga Raju, chairman, Nasscom and also chairman, Satyam Computer Services said: "Engineering services will give India the edge as it aggressively gains momentum in the manufacturing space. This presents a great opportunity as a lot of companies are looking at an alternative to China and
engineering services expertise is of strategic importance in that angle."

Even as estimates of business process outsourcing have been projected to increase from $570 billion in 2002 to $2,200 billion in 2007, a United Nations Development Programme report called 'Trade on Human Terms' has pointed out that global outsourcing must not be seen as the only engine of growth.

According to the report, outsourcing flows between countries are becoming more complex. For instance, several Indian IT firms and some independent business process outsourcing providers are outsourcing to other developing countries like China and the Philippines.

Singapore companies like Singapore Computer Systems are in turn establishing outsourcing facilities in India and China.

"These new patterns of outsourcing are driven by the need to diversify production bases, pool risks and take advantage of individual country strengths," the report stated.

It indicated that even countries with considerable experience in outsourcing could run into problems.
India, for example, was finding it difficult to recruit enough skilled people, the education pipeline was not producing a sufficient number of educated young people, turnover rates were high, wages were rising and service providers were poaching amongst themselves.

It observed that bans on Government outsourcing were not likely to have a major impact since in countries like India such projects constituted 1 per cent or less of outsourcing.

"However, the protectionist challenges could grow and start affecting the volume and type of business outsourcing," the report stated.

The direct impact of outsourcing on reducing poverty was not substantial. "India, for example, has just over a million people working in software and IT enabled services, but this amounts to just one-quarter of 1 per cent of all workers. Even if the sector were to grow fourfold over the next few years, it would still account for only 1 per cent of the world force and the opportunities would be limited to those who have basic literacy and computer skills and access to training opportunities," it added.

8.1 India Ahead of China
At present India is undoubtedly the BPO superpower of the world but there are other strong competitors of India who might spoil India's party. China is one such country which can eat into the BPO share (market) of India. But for the time being India is well ahead of China because of some inherent advantages. India is currently booming in the BPIO arena and has scored over China to emerge as the top offshore destination for Global businesses. In the 2004 offshore index, India remains the star performer. It has once again captured the top spot in outsourcing by a comfortable margin due to its strong mix of low costs and noteworthy depth in human resources. This fact was brought out in a study conducted by AT Kearney, an international consultancy agency.

India proved better than China on account of several factors. The study pointed out that China lags behind India in terms experience and other important factors like IT and management education, language skills, concerns about intellectual property and overall country risk. As per the "2004 Offshore Location Attractiveness Index", which evaluated all countries based on corporate surveys, offshore experience, labor and Government
initiatives, Malaysia, Czech Republic and Singapore make up the next three countries, after India in outsourcing.

The recent years, we've all seen the Indian BPO industry grow, mature and consolidate. However, the question still remains as to whether the BPO industry moved has beyond simple processes or tech support work that it started out with?

Furthermore, is it ready to take on large chunks of back office operations that will make a dramatic impact on client organizations?

One of the major reasons for the increase in the BPO work is the realization of the importance of having professionals such as Accountants, PhDs, MBAs, economists around, who would essay the role of keeping a tab on quantitative research and quality analysis.

It also points out to the nature and size of the BPO firm that puts forth such an advertisement. Finally, the advertisement represents the core of the processes, keeping in mind the fact that Financial Research is considered to be the heart of any business.

Cynics might point to a number of boutique research companies who have been around for the last two years.
However, all these companies are tiny operators who get by on small pilot contracts. This is the first public evidence of scale in the areas of mainstream high-end BPO work like financial research.

This also brings forth the issue of Captive BPOs and their importance. Captives haven't really been the most preferred choice of global clients as they believe that a captive will never achieve the operational efficiency of a focused, well managed, profit driven third party supplier adds to the perspective.

The recent sale of GECIS, following earlier deals done by Swissair and BA (i.e. sale of captive units) are causing clients to seriously question the importance of these captive BPOs for large outsourcing deals.

Another reason being sited for this is due to the emergence of credible third party BPOs who have moved beyond the standard roles and demonstrated their ability to handle complex, end-to-end processes.

The recent acquisitions and mergers by the Indian operations of global BPO companies (Accenture, IBM, etc.) show that there is a substantial demand for the Indian BPO market and this also proves that Indian BPOs can compete at the same
level as the global supplier. This also shows that India has the potential to win on a larger platform.

These continuing trends point to a phase of Indian BPO where India is an integral part of the customer's overall business. Captives are not an automatic choice and Indian BPO providers are seen as credible competitors to global providers - a powerful cocktail indeed!

To achieve the goal of being able to win on a larger platform the Indian BPO needs to keep aside the other matters such as HR, transport etc and focus on the larger picture. This way, the client community will surely benefit from a wider variety of stronger and more capable service providers and BPO employees will see more complex jobs coming their way.

8.2 HR BPO, the next wave

Globally a $40-$60 billion industry, the HR BPO segment is still a fledgling in the Indian BPO industry. Yet to take off in a big way, it is however poised to be the next big thing in the BPO space. The opportunities are undoubtedly immense, with the global market growing at 14 percent per annum. The HR BPO industry could be divided into two categories-large multinational players such as Hewitt with an outsourcing centre in India, and
secondly the pool of small outsourcers that cater to the local market (engaged in payroll processing). Midway are the few established third-party outsourcers who serve international clients.

The history of HR outsourcing (HRO) industry can be traced back to more than five decades, when ADP (Automatic Data Processing) set up its payroll processing services in the US. Today, the company has annual revenues of $7 billion and 40,000 associates.

Global HR BPO players like Hewitt and Fidelity have set up operations in India. Chennai-based Secova eServices is the first third-party Indian HR BPO organization in the country. V Chandrasekaran, Co-Founder and Chief Technology Officer, Secova eServices says, "At present the Indian share of the pie is a mere $43 million, according to Nasscom, which is insignificant compared to the overall opportunity.

HR BPO is the least serviced segment of the BPO space, though the potential is enormous. Gartner has forecasted HR BPO to reach $51 billion to represent 39 percent of all BPO revenue by the end of this year. "Other analysts such as Bernstein and Everest Consulting have said that HRO is in the
'cradle of opportunity' and appears to be the best among various BPO opportunities for growth".
QUESTIONNAIRE FOR BPO EXECUTIVES
Appendix A

Questionnaire for BPO Executives

Question 1

Which among the following reasons is primarily truthful for business outsourcings in existing international development of market?

A) Reduce the operation cost
B) Easy Availability of Skill resources in developing countries
C) Incremental Value
D) Increased efficiency

Question 2)

What problems were faced by your organization before implementing the concept of Business process outsourcing?

A) Over budget
B) Non availability of skilled professional
C) High risk of meeting deadlines
D) Managing Resource

Question 3)

In coming five years which business processes will be most candidates for outsourcing

A) HR Services
B) Finance & Accounting Services
C) Insurance - BPO
D) Customer Interaction Services
E) Translation, Transcription & Localization

Question 4)
What was the reason for undertaking Business process outsourcing effort by your organization?

A) The digitalization of processes
B) Off-loading responsibility to someone better able to manage the process
C) Providing a standard approach to a global process
D) Risk control.

Question 5)
What were the challenges faced by Business Process outsourcing organization in current international market trends?

A) Pricing Pressure
B) High attrition of talent
C) Information and data security
D) Internal and external regulatory