

Business World

The BPO Status Report

By Shelley Singh

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Next time you pick up a consultant's Business Process Outsourcing (BPO) industry report, chances are that it would already be outdated. Don't blame the mavens for not getting the numbers right. The industry is transforming so rapidly that reports lose their relevance even before they manage to get out of the printing press.

When we conceptualised this cover story, we faced the danger of meeting that fate. So why did we take up this challenge? Because the palpable excitement around one of India's fastest-growing industries is infectious. The crowds at conference halls holding BPO seminars – there have been three in the last month alone – spill over into the corridors as people scramble for more. Clearly, the people are searching for answers to lots and lots of questions. There's a vacuum of information that is hard to fill. Which are India's largest BPO firms? Who's winning and who's losing? What are the new challenges before companies? What are the new opportunities? Even the companies in the sector are unsure of most of the answers. And venture capital firms are wondering whether to plunge headlong into the BPO industry, especially after having burnt their fingers in the Internet bust. Joseph Sigelman, CEO, OfficeTiger, says: "It's no longer a game for small investors. There will be a lot more long-term strategic investors now."

This cover story tries to answer many of those questions. It is about Stage II of the Indian BPO industry where third-party operators are starting to come out of the shadows of the more visible, captive BPO units run by multinationals. At current growth rates, the \$2.3-billion BPO industry is fast catching up with the much-acclaimed IT industry (\$7.2 billion in 2002-03).

Projections range from the extraordinary to the merely ambitious. A couple of years back, Michael Dertouzos, director at the Massachusetts Institute of Technology's (MIT) laboratory of computer science, reckoned India has some 50 million English-speaking people, each of whom could earn \$20,000 a year doing office work "preferred across space and time", making a total of \$1 trillion. That's twice India's current GDP.

Other predictions were more restrained and were then upgraded even as the sector grew 55-60% a year. When the Nasscom-McKinsey study was released, it emphatically stated that IT-enabled services will employ 1.1 million people and earn \$17 billion by 2008. That was soon revised to \$24 billion.

As on 31 March 2003, the sector employed 171,000 professionals. It has \$1 billion invested in it, creating about 100,000 smart cubicles in 7.5 million sq. ft of space. And it generated revenues of \$2.3 billion in 2002-03.

The rapid growth is throwing up winners (See "The Winners And The Losers" on page 30) who did nearly everything right and are now set to take on a larger share of the BPO pie even as they gear up to meet competition from the world's biggest BPO corporations which are eyeing India. About 8-10 Indian start-ups are set to clock \$100 million in revenues in the next 18-24 months, purely on the strength of their current contracts.

Yet, a vast majority of the 310 start-ups (Nasscom figures) are headed for a dead-end. (Assocham puts the total number of start-ups at 400.) Their capacity utilisation is less than one (of the three shifts). Many of these are companies that converted their empty basements and warehouses into BPO units. Or firms with \$10 million-20 million VC funds that ran out of cash without creating anything more than white elephants. Dennis Ross, global general manager, Convergys Corp., notes: "It's the desperate players who are responsible for the irrational pricing behaviour. We get calls from about 6-8 of these companies to buy them out."

They have driven down prices to grab business, but have failed to deliver. They were always clueless about people, processes or technologies – the three key elements of the BPO business. One example: the Noida-based Phoenix Shoes took on a job in the niche area of psychological counselling without having the expertise to pull it through. Many players who jumped in recklessly have shut shop while others are desperately looking for white knights. Sunil Mehta, vice-president, Nasscom, says: "The severe consolidation which has already started will actually be good for the industry."

Meanwhile, the industry has more to worry about than just reckless start-ups. Primary among those is infrastructure. While telecom networks are state of the art, getting a connection still takes up to three months. Unreliable power supply is

forcing units to create their own back-ups. Roads are bad and airports are in dire need of repairs and upgrades. Nasscom's Mehta, for instance, just met a US telecom major which plans to offshore work to the tune of \$2 billion. However, its only concern is the infrastructure in India. Such perceptions could indeed dampen spirits.

Another major problem is the high attrition and growth aspirations of the workforce. At least 60,000 of the 171,000 workforce change jobs every year. About 80% of them look for better prospects within the industry. Agents want to become team leaders. Team leaders want to upgrade to supervisors, quality professionals or operations heads. The HR problem threatens to soon become grave. Says Amit Maheshwari, CEO of the Boston-based I-vantage, which advises GE, Ford Motor and Baxter Healthcare: "In the next 8-12 months, recruitment will be a significant issue. Good agents are becoming hard to find and with tardy infrastructure, big moves to the much-talked-about smaller towns will take longer. This means costs will rise, making it difficult for small VC-funded companies to survive."

And finally, the success of offshoring to India has woken up other English-speaking countries such as South Africa, Australia, New Zealand and Canada. All these countries have a large pool of professionals. Companies are already beginning to set up centres there. But the biggest perceived threat to the Indian BPO industry is from China, which has made English mandatory in schools and colleges. In another four to five years, China could pose a challenge in non-voice businesses, if not voice-based operations.

The only way to tackle such threats is to continue to do the job as best as expected and to re-engineer client's processes, thereby adding value. The ongoing shake-out in the industry will only make strong players stronger and weak players even weaker. Those who emerge out of this current round of consolidation will be the big boys of the Indian BPO industry. But the silver lining is that it will bring order to the chaos. India could well become the world's BPO capital in the next three years. And the effort must be to ensure that Indian BPO companies get business not just for the cost advantage, but also because the job is best done here.