

## Business process outsourcing and call centres

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Business Process Outsourcing (BPO), call centres and other Information Technology Enabled Services (ITES), delivered remotely through telecommunications, principally the Internet, are driving India's emergence as a significant factor in the global information society. BPO requires a world-class infrastructure, but industry growth is stretching existing facilities. Government sponsored technology parks provide infrastructure, including in 35 secondary cities. Hundreds of medium and small-scale businesses can serve customers worldwide because of the bandwidth and value-added services they receive from the parks.



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### The Indian ITES-BPO industry

In India, the terms ITES-BPO (Information Technology Enabled Services-Business Process Outsourcing) and call centres are used as synonyms for ITES. These services, delivered remotely through telecommunications, principally the Internet, are driving India's emergence as a significant factor in the global Information Society.

Strategic imperatives often drive a company's decision to go offshore. These may involve, in varying measures, the need to reduce costs, improve quality, refocus on core business and processes, or the need to respond to a changing marketplace. By outsourcing IT and business processes that are ancillary to the main business, management can focus on building the business.

Some common reasons to outsource include:

- ✓ Reducing and/or controlling operating costs;

- ✓ Improving company focus;

- ✓ Access to additional resources;

- ✓ Freeing up resources for other purposes;

- ✓ Accelerating re-engineering efforts;

- ✓ Accelerating migration to new technology;

- ✓ Sharing risks;

- ✓ Redeployment of internal resources;

- ✓ Enabling quicker response to business drivers;

- ✓ Transforming capital expenses and fixed assets to more flexible monthly business expenses.

A number of factors facilitate the growth of the Indian ITES-BPO market:

- ✓ India is the world's largest democracy, with a population of more than 1 billion people;

- ✓ It is the world's second largest English speaking region;

- ✓ World class quality with cost-effectiveness;

- ✓ High reliability and rapid delivery;

- ✓ State of the art technologies and infrastructure;

- ✓ Supportive government policies;

- ✓ Geographical advantages;

- ✓ A richly experienced, vast pool of expert manpower, software and hardware engineers and knowledge workers adapted at all IT jobs.

Companies around the world now see India as an attractive alternative for information technology outsourcing. India's ITES-BPO industry has passed through distinct growth phases.

Multinationals like GE and American Express led the wave by setting up large captive units. A number of venture-capital-backed third party vendors followed them. Established software services companies have ventured into ITES-BPO activities to leverage their existing customer relationships. Now, large players are acquiring some of the earlier start-ups.

The main verticals in the ITES-BPO market are telecommunications, financial services, automobiles, HR services, health care and energy and call centres/customer care. The processes are call centres, internal auditing, payroll, human resources, benefits management, payments/claims processing, real estate management, supply chain management and content development. Since these are not core activities for most companies, outsourcing will likely increase in coming years.

Call centres have shown significant results. Revenue and employment has doubled between 2001 and 2003. Revenue has grown from US\$400 million to US\$810 million and employment from 30,000 to 60,000. The growth in 2003-04 was 60 per cent. Overall 30-35 per cent of the revenues of ITES-BPO are from the call centres. In 2002, the global BPO market was US\$773 billion. By 2006, the potential for ITES-BPO is likely to reach to US\$1 trillion; India, an early ITES-BPO entry, has a good opportunity to capture the bulk of this.

The US has been, and will remain, the biggest ITES-BPO spender. The US accounts for about 59 per cent of total worldwide spending. Europe, the second largest market, accounts for 22 per cent. Around 80 per cent of our exports are to these two regions.

A large number of players are setting up additional centres in smaller cities, drawn by the attractive incentives offered by many state governments, to diversify the risk of running a single location centre and to take advantage of lower labour costs.

The leading ITES-BPO vendors should grow over 100 per cent. Managing such high-speed growth presents the challenges of scaling up infrastructure, rising financing, training the available workforce, etc.

India's ITES-BPO industry has grown robustly over the last few years and continues to do so. Growth, however, is beginning to stretch the capacity to develop the supporting infrastructure at the state and local government level. Nationally, infrastructure issues—telecommunications systems, power, etc.—are being adequately addressed, but the local infrastructure—roads, bridges, airports, urban transport, housing, medical care, education and leisure—also requires attention. According to Nasscom-McKinsely, India's ICT industry should reach US\$77 billion by 2008,

with US\$50 billion coming from exports. These figures might even be surpassed, given continuous improvements in core infrastructure facilities in telecommunications, real estate infrastructure, power, transport, local amenities and trained manpower.

Multinationals have traditionally looked to India for low-cost outsourcing, but now see advantages in India's quality, commitment to service delivery and ability to scale up the operations.

## Telecommunications

ITES-BPO uses telecommunications, principally the Internet, to deliver its services. Therefore, bandwidth and domestic leased lines are essential to the industry. Engineering Services Outsourcing, the next wave, is extremely bandwidth intensive and India is a favoured destination.

### • Bandwidth

Bandwidth availability is one of the key drivers of the BPO business. About 70 per cent, 7.26 Gbps of India's bandwidth demand of 10.23 Gbps, is by the BPO industry and this is doubling every two years.

Presently, India has five submarine cable landing stations. In Mumbai, we have three stations and one each in Chennai and Cochin. The present capacity of 14.767 Gbps has to double every year to meet growing BPO industry demands. Tariffs, although decreasing, are still high compared to competing countries. A comparison of tariffs in the US and India is shown in the table.

The costs, then, in India are favourable except for telecom. To sustain the competition of BPO worldwide, particularly with China and the Philippines, certain industry concerns should be addressed: 1) telecom tariffs; 2) bandwidth availability; 3) bandwidth on demand; 4) flexible tariffs.

## Last mile and National Long Distance (NLD) connectivity

In the early stages of the BPO industry's growth, the last mile was microwave and copper. As the licences lay optical fibre, fibre connections are becoming more common. In several locations, the players are limited to one or two and the tariffs are fixed. The Telecommunications

Tariff Order (TTO) 1999 specified cost, based tariffs for domestic leased circuits. Players supplying leased lines offer discounts, at times as high as 60-70 per cent. As per the International Bandwidth Report and Database PriMetrica 2004, transmission circuit prices have fallen by about 90 per cent since 1999.

For strategic reasons, BPO units are setting up facilities in multiple locations in the country and require connectivity between their units. The cost-based tariff ceilings will, no doubt, drop considerably. In addition, the industry's capacity needs are growing from E1s to DS3 to STM1. Such capacities should be built in several secondary cities.

## Real estate infrastructure, power, transport and local amenities

BPO requires a world-class infrastructure. Call-centres have expanded from a few call-attendant seats to several hundred seats during the last three years. Major cities such as Mumbai, Bangalore Gurgaon, Chennai and Hyderabad have been the centres of this activity, but there are now more than a hundred secondary cities. Good infrastructure, including power, transport, facility and low rental costs will attract small and medium enterprises and even multinationals. The Government is encouraging IT parks anywhere in the country. In Maharashtra, there are more than 100 IT parks.

As alternative locations are essential for overseas clients, the State Governments have announced IT-ITES policies that encourage private investors to set-up state-of-the-art infrastructure IT Parks in various secondary cities and to develop other infrastructure to attract BPO units.

Some of the key factors of the state governments' IT/ITES policy are: getting enablers (decision making bodies, policies, institutions, IT architecture) in place; defining thrust areas; catalysing the creation of infrastructure; leveraging private sector initiatives; accelerating the development of a knowledge hub; and providing the right social environment.

## Human resources

India has a pool of 2.9 billion engineering students and approximately 2.46 million college graduates each

year. While this has ensured a plentiful supply for entry-level positions, there is a dearth of candidates for middle management positions.

ITES companies recruited an estimated 74,500 professionals in 2003-04 and 245,500 in the five years since 1999. ITES Professionals require linguistic skills and appropriate functional experience.

The educational sector has to ensure an adequate supply of English speaking graduates who can be further trained to meet specific job requirements. Graduate and vocational schools, state and central institutes should take up skill development training to support the growth of the ITES sector by building the pool of trainable and employable people.

There are several challenges facing the ITES-BPO industry:

✓ Support infrastructure—several offshore locations do not yet have adequate infrastructure for telecommunications, power, roads and airports;

✓ Management practices—for customers and vendors, offshore relationships challenge existing staffing styles and informal systems. The customer organisations must support the relationships with offshore vendors and assure that objectives, contracts and delivery models are aligned;

✓ Maturity of suppliers—the global ITES-BPO industry is quite young; vendors are not yet mature, resulting in greater risk and greater need for due diligence;

✓ Customer control requirements—most vendors lack the expertise and must acquire it from the customer organisation. The customer, in turn, must exercise higher levels of operational control, thus diluting the cost savings.

Software Technology Parks (STP) of India, an autonomous society established by the Ministry of Communications and IT to boost the IT export industry, plays a significant role by providing regulatory support and infrastructure. It has enabled IT activities in 35 secondary cities. STP members are responsible for 80 per cent of India's exports.

There are now data communications facilities at 40 locations; hundreds of medium and small-scale businesses can serve customers worldwide because of the bandwidth and value added services they receive. This

industry has demonstrated its benefits, including economies of scale, wage arbitrage, improvements in quality, access to global talent, etc. Continuing pressure on cost and growing competitiveness will lead the companies to look at offshore outsourcing as a strategic alternative, as interest among Fortune 100 companies in India's ITES-BPO shows.

### **Moving up the value chain—a vision for the industry**

✓ The Indian IT services and IT-enabled services industry is on track to achieve its long-term potential, though the mix is likely to change;

✓ Four powerful forces will continue to drive the growth of this industry:

1. Many large potential customers are poised for rapid ramp-up;

2. Global IT services and BPO majors are coming under increasing competitive pressure to move work to India;

3. There is significant potential to expand services for applications development and maintenance;

4. Customers are becoming familiar with Indian services and are considering a broader range of offshore services.

✓ Achieving the long-term potential of the ITES industry will dramatically change the face of the Indian economy;

✓ The industry's share of GDP will increase from the 1.4 per cent in 2001 to 7 per cent by 2008. The industry will account for 19 per cent of incremental GDP growth between now and 2008;

✓ More than 30 per cent of all foreign exchange earned will be from IT and IT enabled service exports;

✓ As many as 4 million jobs will be created—2 million directly and 2 million indirectly;

✓ India will be firmly placed on the global technology map as a major technology hub.

India has the advantage of a significant pool of educated, English-speaking talent for the ITES-BPO market and, with the right infrastructure in place, we can make every city a possible IT unit destination. ■



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