

White Paper



Indian Domestic BPO

Moving Beyond Call Centers

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Abstract

This white paper aims at providing an overview of the existing dynamics in the Indian domestic BPO sector. The paper starts with an analysis of the growing industry demands for business process outsourcing services due to the increasing realization of the associated strategic value. In the subsequent section an effort has been made to analyze the increasing competence level of the Indian service vendors to meet the large and complex needs of the domestic clients. The next chapters essentially look into the segmentation of the Indian outsourcing market and explore the various offerings that are currently in need due to the inherent high value business potential and also hold a lot of promise for the future. The paper ends with an overview of the increasing importance of innovation in domestic business to mitigate the challenges that exist in the environment.

The Indian BPO Market: Scoring the Home Run

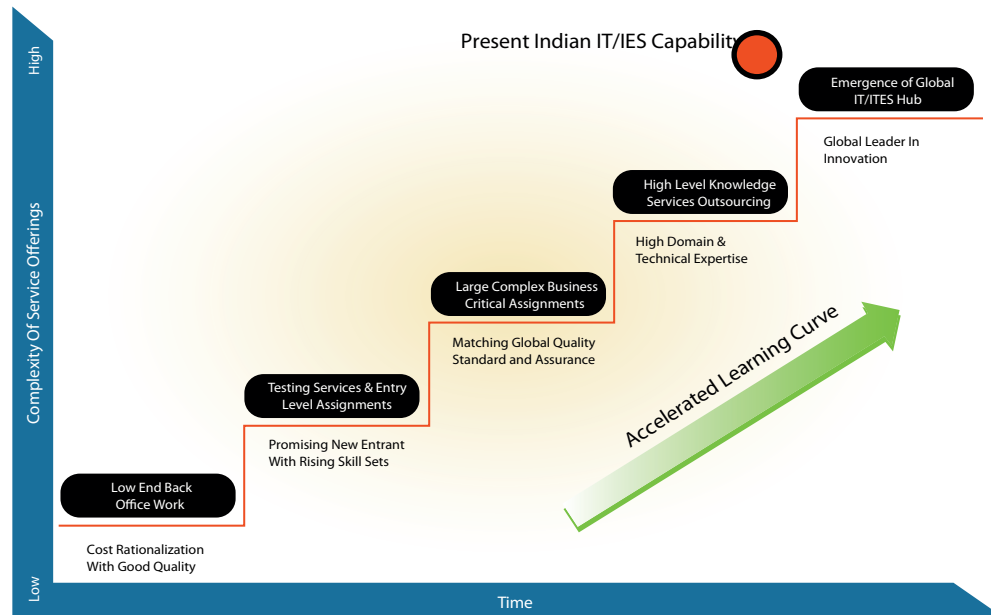
The emergence of India as a major player on the global economic landscape has triggered significant growth across many sectors. The high expansion trajectory of the Indian organizations require them to concentrate on core business issues and outsource the non core back office functions thus, creating a major demand for high quality BPO services as identified in the Figure 1. However the long term scope of BPO in the Indian business context is not restricted to just back office process augmentation, but can be extended to strategic means of attaining economics of scale coupled with benefits of consolidation and standardization across dispersed business units and locations. The consolidated transformation approach will also create a single window view for the management to look into the organizational performance and allow them to affect a better corporate governance to facilitate the growth phase.

Figure 1

Sector	Nature of Growth	Outsourcing Trends
Telecom	<ul style="list-style-type: none"> Exponential Growth Cut throat competition Mix of established and new players 	<ul style="list-style-type: none"> Has been very aggressive on outsourcing Focus has been primarily on Customer Service and IT Has now opened up for enterprise processes like F&A, procurement and HR and looking for setting up SSC Also looking for outsourcing the management of new products that are ready to be offered to the market
Government	<ul style="list-style-type: none"> Government operations are expected to undergo a major IT/ITES service implementation in future owing to increasing drive to improve efficiency with large budget for e-Governance project 	<ul style="list-style-type: none"> Entire end-to-end outsourcing of IT and BPO needs Mostly Greenfield projects
Financial Institutions	<ul style="list-style-type: none"> Massive expansion in India owing to rising needs of growing income 	<ul style="list-style-type: none"> Increasing regulatory compliance creating demands for digitization of records Increased focus on providing excellent customer service for creating a niche appeal Many new projects in both public and private sector requires massive investment and both IT and BPO services
Insurance	<ul style="list-style-type: none"> Gradual penetration into rural India expected to create demand for specific domestic BPO functions like native language based customer service 	<ul style="list-style-type: none"> Increasing regulatory compliance creating demands for digitization of records Increased focus on providing excellent customer service for creating a niche appeal Many new project in both public and private sector requires massive investment in both IT and BPO services
Manufacturing	<ul style="list-style-type: none"> Poised for very high growth as the Indian manufacturing industry is now expected to acquire companies in international markets 	<ul style="list-style-type: none"> Requires support in expansion plans Business too big to be managed by having distributed and decentralized back office Will require severe process improvements and reduction of cost across the value chain thus necessitating participation of 3rd party service experts

Capability of Indian BPO Players: Stepping On the Accelerator

The major story that can be associated with the Indian IT/ITES industry is the highly accelerated learning curve the industry has experienced in terms of expanding the capability breadth. Starting off as being service vendors for low-end back office work and call centre operations, the industry has risen to become a strategic partner with global players carrying out complex and critical business processing clearly reflecting on the emerging quality standards and enhanced in house skill repository.



The primary reason for this unprecedented growth remains the emergence of IT majors from India like Infosys in the global space. Not only have these companies shown exemplary ability to develop a robust and sustainable global delivery model and align them to high learning opportunities; but they have also invested considerably in infrastructure and training of skilled personnel to align to global standards and emerge as the global hub of IT/ITES services.

Indian BPO Players: Matching To Indian Demands

The common belief that exists is that Indian industries are technologically less savvy than their American or European counterparts whereas in reality this is far from the truth. The level of IT spend by Indian companies and the existing level of interest in augmenting IT remains very high, creating a lot of promise for the domestic outsourcing and IT implementation market.

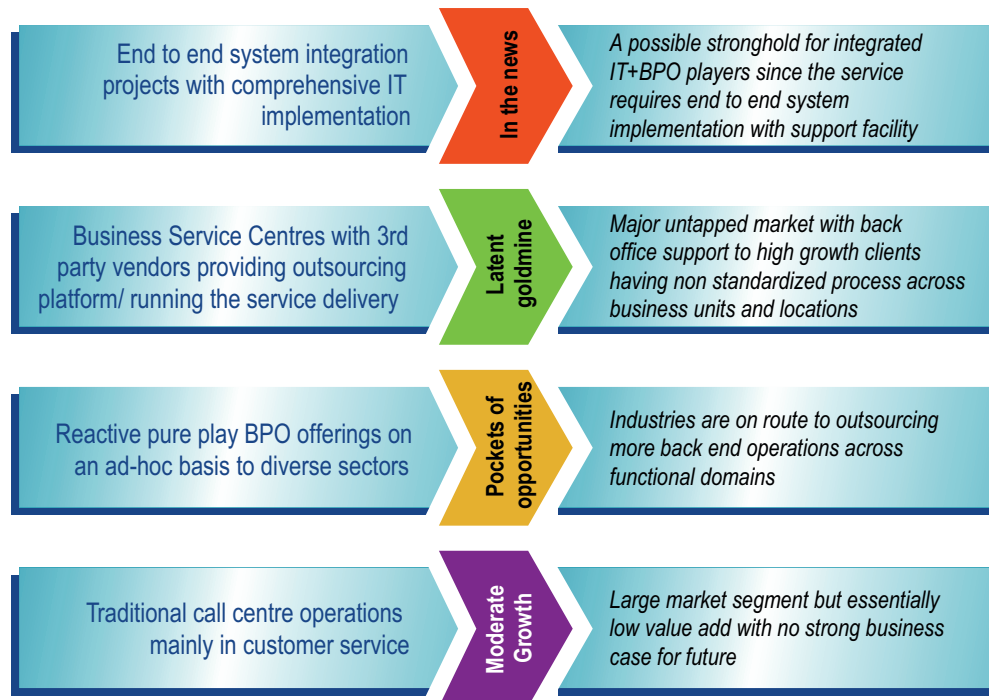
The major driver for this trend remains the high growth trajectories that most of these companies have devised for themselves. In order to attain that high growth companies are gradually learning the importance of focusing on core business activities, efficient back office management for better decision making with enhanced control and compliance mechanism and freeing the executive bandwidth from managing non- revenue generating functions. In order to attain the same, companies are progressively adopting the concept of outsourcing which at least till now has remained a theoretical concept within the shores of India.

These demands from Indian industries for high quality value added business process services are being very well met by the expanded knowledge based Indian BPO players who have globally matched IT infrastructure and service offerings backed by decades of successful implementation practice and delivery experience with their international clients. Thus a very effective synergy is being created in the domestic outsourcing space where demands of high quality services have a suitable match from the supply side thus heralding an era of extensive mutual growth.

Another ace up the sleeves that is existent in the domestic BPO space is the lack of cultural mis-alignment and geographic separation. Being rooted in the same country gives the participants the advantage of more frequent and personal communications that lead to elimination of many gaps while understanding the true business synergies and thus help to create highly rewarding experiences from the engagement. Moreover, coming from the same culture help both the members to understand and appreciate the existing societal and sovereign inefficiencies that may be a huge concern while dealing with an international client.

Segmenting Indian Domestic BPO Market: Opportunities Ahead

Presently India domestic BPO space is dominated by voice services; however it is now shifting towards more strategic outsourcing practices including Business Service Centre and System Integration that would aim at increasing the overall efficiency of the function rather than mere cost rationalization and back office customer service management.



Based on the market segmentation analysis there is a high potential for End-to-End System Integration and Business Service Centre models since both these cater to the futuristic demands of Indian conglomerate by using BPO as a strategic tool rather than a back end call centre processor.

End-to-End System Integration

The domestic BPO sector has witnessed a major trend in the end-to-end system integration services where the service provider needs to offer an integrated IT+BPO platform to manage the comprehensive technology platform for the clients and provide the necessary BPO services associated with it under the same roof. This model has been gaining momentum since the clients benefit majorly from the 'one stop shop solution model' from qualified IT+BPO service providers through economics of scale and lean vendor management.

Business Service Centre

The Business Service Centre model is the outsourcing model that holds a lot of potential for Indian domestic BPO space in the future since it caters to the specific requirements of consolidated back office for companies that are expanding across diverse business units and locations and are presently suffering losses emanating from the fragmented business operations. Through this model, organizations can not only achieve benefits of a standardized organizational performance, but also can enforce a stronger control and regulatory environment through enhanced data management.



Innovation Remains the Key: Discover 'Value'

Innovation remains core to the development and sustenance of any business but it assumes more criticality in perspectives for Indian domestic business since the biggest value driver of 'cost arbitrage' does not work by default in this market. Hence it becomes imperative for Indian players to constantly innovate both in terms of service offerings and operating models so as to 'discover' latent values and pass the same to clients thereby helping them to better operations.

Standardizing Operations

Growing Indian companies are on high expansion mode and major value adds for these players may be simplification and standardization of business across units and geographies over a consolidated outsourcing platform. Indian IT/ITES players have shown increasing maturity in this space and there have been constant innovations through the shared service models that aim at realizing the benefits from standardization. This model, apart from realizing the benefits of consolidation also provides a high degree of data control that facilitates management to monitor processes more effectively, identify inefficiencies easily and effect better enforcement of control and compliance that will lead to decreased loss due to operational leakage and have positive effect on bottom line performance.

Intelligent Technology

Indian IT/ITES service has come up a long way from the low end call centre operations and is today equipped with the most fascinating cutting edge technology and analytics solution that may help clients to monitor their business more intelligently. These high technology based solutions like data analytics help in better customer profiling, churn management and loyalty management that assist organizations to serve clients better. Technologies like e-Auction provide the best lever for controlling costs and managing performance across the sourcing organization. Through better predictive analytics, Indian BPO players can also enhance client relationship resulting in growth of the top line performance.

Operating Models

Indian companies are progressively looking out for innovation in the operating models for doing BPO business in India. The primary motive for this trend is to redefine some of the cost parameters so as to make the idea of outsourcing more attractive. Some of the innovative new operating models that have been deployed over time and have been able to garner high business value for clients include:

- Moving away from Capex approach to more variable Opex cost model by providing solution over a shared business service centre where the clients necessarily pay only for the operations and do not have to worry for the license payment.
- Innovative pricing models like outcome based pricing or transaction based pricing have also been employed to increase the outsourcing attractiveness for the probable clients.
- Development of Rural BPO model has received tremendous boost in the recent years especially to serve Indian clientele primarily due to the high demand of native language skills as required by the Indian customers. Apart from overcoming the language barrier, this model also helps to reduce cost of operations since employee cost in rural India remains 50% lower than metros, low attrition result in less knowledge loss and recruitment cost and favorable government support due to the generation of rural employment. Since this model is a win-win-win model for BPO players, Indian corporate and Government, the model remains very stable and promises to become the most effective strategic ploy in Indian domestic outsourcing business.

Transformational BPO

Business outsourcing services are progressively looking into realizing transformational benefits for the clients in terms of achieving an end state where operations would be carried out differently with maximum efficiency at least cost possible. One avenue to achieve the same is to automate and standardize the existing processes in organizations so as to achieve benefits in terms of cost rationalization and productivity enhancement. The other way is to constantly step up on the innovation ladder to create new solutions and offerings that may not be prevalent in the present but if designed and deployed, will accomplish high value additions for organizations. To summarize, Indian BPO players need to give themselves a broad canvas to allow for any possible chance of innovation that may end up creating high business worth for Indian clients.

Challenges: The Road Ahead Remains Steep

The Indian domestic outsourcing has its own loopholes that make the business of operations for BPO players quite challenging. The major challenges that are troubling the Indian BPO players include:

- Value of outsourcing is still not a proven economic concept in many industries in the Indian market since there remains no long historical trend of outsourcing benefits. Hence clients remain a little skeptical when it comes to viewing business outsourcing as an effective strategic move.
- Low awareness about the probable transformation benefits like more effective organizational alignment with the broader goal of the company that result from outsourcing among the Indian companies remain a major hurdle in the growth trajectory in the domestic landscape.
- Lack of benchmark business cases within India demonstrating the benefits of outsourcing and the value add through such offerings since the industry itself remains at a nascent stage.
- Current players in domestic BPO are on working on extremely low margins without focusing on the long term sustainability of the model that poses high obstacles towards the growth of the industry.

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