

'The Indian BPO sto

by Arindam Mukherjee

INDIAN BPOs are still the talk around the global village. But slowly, a few dissenting voices have begun to gain resonance. For long, in low-end work like call centres, Indian firms have refused to develop any competencies apart from adopting the cost arbitrage model. This, say a few experts, will result in search for new low-cost destinations, as has happened in the past. Indian software czars have found it difficult to make the transition to be in a position to offer value-added services, bogged down as they are by the short-term demands of investors, whose focus is on the financials rather than long-term strategy or future vision. And, unlike China, India has been unable to make products or develop services for the local market that can make a mark globally. We ask four top leaders in the IT sector and think-tanks to debate these critical issues that may derail the rapid offshoring journey:

Question: In the last two years, many MNCs have closed down their captive BPO centres. There is an apprehension that this is the beginning of the end of the great Indian BPO. Strategic marketing expert Prof Jagdish Sheth has said that 90 per cent of Indian call centres are likely to close down in the near future. Also competitors like the Philippines are catching up fast and US firms are looking at "near-shore" centres in Canada. Do we have anything to fear?

Azim Premji, chairman, Wipro Ltd: I haven't heard of a "lot of captive centres" closing down. Some may have, but that is inevitable anywhere, if one does not keep cost structures in line with basic business economics and market. This story is still near the beginning, it's just transitioning to the next chapter. This new chapter is about delivering integrated solutions to customers. Not just voice-based but solutions that combine complex technological and business skills, with some voice content. This is greater value add for customers and, therefore, harder to replicate. As I said before, all advantages are fleeting. It's innovation that drives constant reinvention and what will keep you ahead. At Wipro, we have tried to keep the spark of creativity kindled, and



ARUN JAIN "The domestic market is too small, just 5-10% of all companies' business. Technology is still not considered a core driver for growth in India."

tried to balance it with processes and structures that make innovation repeatable and ingrained in the organisation. **Arjun Malhotra, chairman, Headstrong:** Cost savings is not really a factor and the work is done in India for quality, talent and process maturity, and

process discipline. It's true, initially the driver was cost. Now it is quality. Today, quality has become a commodity. The challenge for us is to go up further in the value chain. Countries like the Philippines are good but don't have the volumes. They are like what India was

ry is in transition'



AZIM PREMJI "All advantages are fleeting. A new chapter for BPOs is about delivering integrated solutions, greater value-add for customers that will be harder to replicate. But cost structures will have to be kept in line."

seven years ago. But both attrition and increasing costs are serious problems and both are absolutely pulling down the Indian BPO story. People are changing jobs for 5-10 per cent salary hikes. India will have to go through this turbulence for the next 3-5 years. But the industry is smart enough with enough entrepreneurial spirit to find a solution. We will have to find it.

Arun Jain, chairman, Polaris Software: There's probably no need to fear. The Indian BPO sector is going into the next phase. There is an issue with attrition but it is much higher in the US, almost 100 per cent. As far as cost is concerned, there is still a big margin in India. But costs are increasing and will become a problem. But we are reasonably low and safe for the next 3-5 years.

Other centres are coming up. That is why even Indian firms are setting up shops abroad. We should look at it as one more option for Indian firms. What will probably develop is a mixed model, where Indian firms will use their expertise for global delivery of services and processes. The near-shore model will also emerge and locations like Canada and Ireland will cater to clients in the US and Europe. That would be the next paradigm where the processes would be broken down into discrete (geographical) pieces. Many Indian companies like TCS are already doing that.

Sidhartha Pai, partner, TPI: It's true that captives have had to face increasing costs and attrition. That said, many captives were originally set up because third party service providers had not

reached adequate scale or maturity. The scenario has changed, but the dynamics of keeping strategic work in-house while outsourcing the less strategic and commoditised services remain the same. Our data suggests that there are more companies entering India with captive centres than those exiting, and the former are largely driven by the push into knowledge services.

Q: There is a debate that Indian IT leaders do a great job to develop software and services products for overseas clients but little for the Indian market. Will the software giants develop products for Indian clients?

Premji: I think the reality is the exact opposite of what you say. India is a great market, it's a great pool of talent and a platform for innovation. We pro-

vide some of the most complex and innovative services and solutions in India. A demanding market like India always challenges one's abilities. In fact, from the 1980s we have used our learnings in India to build our global business, be it our R&D services or our infrastructure management one. India has been our school and foundation in the past, and will be even more important in the future.

Malhotra: You need to have a large domestic market and clearly, we don't. But as this market is growing, we will see opportunities coming up and, gradually, firms will start developing products starting from the Indian market. Some firms have already started it. This is also one way to go up the value chain. We are at a stage where if you have to grow, you have to look at all options, including the domestic one. The problem was that the Indian market was not only too small, it was growing too slowly. What we need is for everyone to get involved to understand the domestic market and then develop products for the world. There was also the other hangover from colonial days that an IBM or an HP is better than an HCL or a Wipro. It's a pity that the IBMs and HPs saw the opportunity but Indian companies did not. But sometimes in a forest you do not see the tree.

Jain: This is an issue close to my heart. There are systemic problems causing this. All incentives are driven towards exports. The domestic income is taxed at 33 per cent while exports is not. So the motivation for all firms is to export. At present, Indian operations account for 5-10 per cent of most companies' business with the majority being around five. The other issue is that the domestic market has been very small. In the banking sector, where we operate, there is appreciation of our work for the private banks. But there are only 10 of them and every company is focusing on them. The bigger chunk of business is with the public sector banks but they look at proposals on L1 basis and the lowest bidder. That method can be good for physical products but not for software, where quality is benchmarked



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and will be the same. A small firm can give a low price quotation, but will quality be the same? The market has to expand. Technology is still not considered a core driver for growth in India. But the positive thing is that in the last 18 months, we are seeing a change and hope that in the next 18, things will be much better.

Pai: India is the largest market for outsourcing services in Asia; it represents over 30 per cent of the total region's



ARJUN MALHOTRA "Big firms become slaves to profit and loss accounts, they are slow to react to changes. Smaller firms'll start a new paradigm."

share. MNCs have seen India as a large and emerging market and are aggressively pursuing business from local corporates. We also see an upsurge in the interest of the India-heritage service providers in businesses that are in their own backyard.

Q: Are big Indian firms wary of taking risks and venturing into newer areas since they are bound by issues such as quarterly results, institutional shareholders and stockmarkets? Is this stifling risk-taking appetite?

Premji: Good governance and transparency are the foundations of good business. So I don't see these things constraining anyone. Instead, these create the right environment. As far as taking risks is concerned, you will see the ambitions and risk appetite of India's business sector (private and public) have never been bigger. Look at any sector, like steel, telecom, retail, auto, oil, forgings...or IT.

Malhotra: I agree. Big companies become slaves to the P&L (profit and loss) accounts, especially publicly listed ones. The big firms are smart enough to see the changes, but they are slow to act because of bindings. But if the big firms are reluctant, that's where opportunistic entrepreneurs can step in and exploit the situation. The smaller firms will start a new paradigm. Look at what Mindtree has been able to do. It's an interesting time and I believe the market will turn more mature with this.

Jain: Quarterly results are foundationally wrong from a strategic point of view, and it's preventing firms from taking risks. That is why we have seen some firms growing fast for the first few years, then slowing down. The marketplace is led by investors looking at short-term gains; no one is thinking long term. In addition, strategic investment is being looked at as an expense. And that makes companies think several times before moving forward on new projects. Risk is being taken only by those firms who either have an appetite for risk or are promoter-driven. Those driven by CEOs are more wary.

Pai: This is something I would leave to the managements to answer. ■