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Home
News
News Update

eWorld

Columns
eWorld
Index
Archives

Features

Investment World
eWorld
Catalyst
Mentor
Life
Canvas
Praxis
Urban Pulse
Brand Quest

Stocks

Quotes
SE Diary
Scoreboard
Open-End Mutual Fund

Port Info

Ships in Ports

Archives

Yesterday
Datewise
Resources

Group Sites

The Hindu
Business Line
The Sportstar
Frontline
The Hindu
eBooks

eWorld - Outsourcing
Info-Tech - Mergers & Acquisitions
Columns - Thought For Thought

The window's getting smaller

Amit Garg

Mergers and acquisitions. That's the buzzword now in the Indian BPO sector. Now that the action has begun, where does the industry go next?

WHEN IBM acquired Daksh recently, it effectively signalled the end of the first phase of the BPO industry. The pace of growth and consolidation in the last few years has probably been unprecedented in Indian industry. It started with Wipro buying out Spectramind. Since then, most of the independent BPO firms have been bought out by larger, more global entities. Transworks was bought by the AV Birla Group, Customer Asset and First Ring went to ICICI, Hewitt took over India Life, Quintant was sold to iGate and Perot bought out Vision Healthsource. In essence, the window of opportunity for independent call centres has been closed. The big boys have come to the party.

In many ways this has been a unique phenomenon in India. One would struggle to find another industry that has grown so

Stories in this Section
The window's getting smaller
This slump is good
Parting of ways
New kid on the block
A thumping vote
Shared log-in
Solutions and tips
Surely, all's well... ?
A tough act to follow
Quiz
Excel in modelling skills

rapidly since inception, and where there has been such a furious pace of early stage consolidation. As the next phase of industry development takes place, there are a few factors that have changed dramatically.

First, the acceptance battle is over. Companies around the world have understood the cost savings involved. They have also seen their competitors and customers relocate activities to India. It'll be a very brave organisation that thinks it can do without reducing its costs. Yes, there will continue to be political pressures against outsourcing, and there will also be some instances where companies withdraw from India. But fundamentally, no one is questioning the choice of India as a BPO destination. That is a remarkable change in itself.

Second, independent call centres are no longer an attractive business model. The competitive field has changed drastically. Instead of the start-ups of yesterday, the competition today comprises large, international organisations. Think of it. Daksh is now IBM, Spectramind is Wipro, Transworks is part of the AV Birla empire, Vision Healthsource is part of Perot. All of these are billion dollar-plus corporations, with the capacity to invest ahead of demand and build the market. Competing with these giants will not be easy. I will be surprised to hear of a completely independent call centre that isn't contemplating a sell out!

What will happen next? Some things are easy to predict. One will be the rise of the specialist BPO providers. Already, the quality of outsourced work is increasing. This will now include areas such as engineering design, biotech research, customer analysis, market research, legal research, human resources, equity research, insurance claims processing, etc. The list is endless. The common factor is that these activities are all people-intensive and skill-based. As a result, billing rates will also be high.

While the billing rates of such specialised BPO activities will hold their own, that of the call centres will continue to crash. There is far too much capacity and too many struggling players still left in the industry. And the capacity growth hasn't stopped yet. All that has happened is the removal of the small players. The winners and losers among the big players are yet to be decided! Act II will also have its own set of consolidation and we've already seen the early signs of this wave. On the one hand, the specialist start-ups will start coming up for sale. India Life's sale to Hewitt was an early example of that. On the other hand, MNCs will start selling off some of their captive BPO operations. The sale of Phoenix's Indian operations to TCS was a sign of things. Many others are actively thinking along those lines. Again, the end result will be much more powerful firms. What is not so easy to predict is the shape of Act III, which will follow. The IT industry has struggled for years to develop genuine domain specialisation, and except for a few companies, has not been very successful. The BPO industry, by contrast, is one where domain specialisation is developed very quickly. Today, several new practices and skills are being transferred to India. What will happen once we combine our IT skills with our BPO knowledge — as companies like mSource are trying? What happens when individuals use their learning of MNC practices to set up new businesses? How will the Indian environment start shaping MNC product design? One can imagine a whole new set of products and services springing up in the next few years.

Act I may be over, and call centres not so attractive anymore... but the overall window of opportunity remains very wide open! Stay tuned.

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