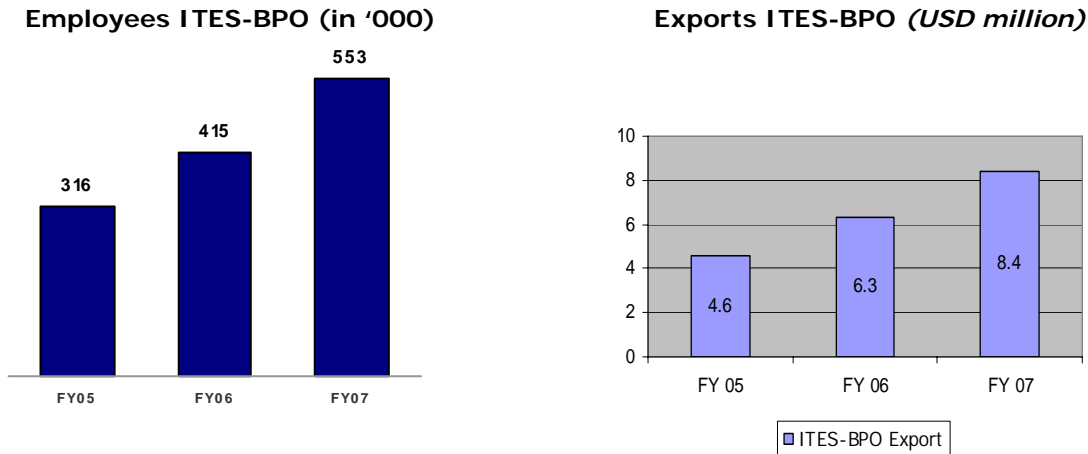


## INDIAN ITES-BPO INDUSTRY : NASSCOM ANALYSIS

### The Indian ITES-BPO Scenario

The Indian ITES-BPO segment has witnessed a steady growth. BPO exports are growing at about 33.5% percent and have exceeded FY06 expectation at USD 8.4 billion in FY2007.



### Key Highlights of Indian ITES-BPO sector performance

- Indian ITES-BPO exports grew from USD 6.3 billion in FY 2005-06 to USD 8.4 billion in FY 2006-07 expected to grow to USD 10.5-11bn in FY08.
- ITES-BPO employee base has grown to 553,000 in FY 07 from 415,000 in FY 06
- Over the past decade, the Indian BPO segment has witnessed significant transformation. Starting with basic data entry tasks, the industry graduated to a high proportion of voice-based services and a range of back-office processing activities. The last 3-4 years have seen the scope of services expanding to include increasingly complex processes involving rule-based decision making and even research services requiring informed individual judgment.
- The rapid expansion in the scope of BPO has been accompanied by an equally rapid adoption across a range of vertical industries. This wide range of services may be summarised into four broad categories comprising Finance and Accounting (F&A), Customer Interaction Services (CIS), Human Resource Administration and niche business services

### Key Highlights of Domestic BPO industry

- BPO demand in the domestic market has witnessed noticeable growth over the past few years. The annual revenue aggregate of the domestic market for ITES-BPO grew to USD 1.2 billion in FY 2006-07 from USD 0.9 billion in FY 2005-06, illustrating a significant increase in demand. While the high growth rate may be attributed to a small-base effect, the rapid adoption of BPO in the domestic market is receiving well-deserved attention.
- As the Indian economy becomes more globally integrated, businesses in India are beginning to face increasing levels of global competition and being pushed to

deliver world class levels of product and service quality. BPO has emerged as an effective means of entrusting specialists with the task of consistently delivering the desired high-levels of quality – leaving the client organisations to focus on their core businesses.

**Contrary to concerns of India’s eroding cost competitiveness, best-in-class players have sustained profitability – while maintaining above-average growth**

With significant bandwidth capacity lying unutilized and the steady advancement in technology making access faster and less expensive than before, it is likely that the share of telecommunications in the cost structure of an IT-BPO firm may further decline. Firms are also managing to lower their facilities costs by expanding into other tier-II locations.

Finally, there is scope for further leveraging operational levers to drive efficiencies in the organisation. A detailed industry benchmarking exercise, underway since 2005, has revealed that there is wide variation in the internal practices adopted across the industry, and suggests that the adoption of industry best-practices can further enhance operational excellence in Indian IT-BPO firms.

This is also being evidenced in the performance of some of the best-in-class players. Contrary to concerns of rising wage inflation eroding the sustainability of India’s cost-advantage, especially over the past two years, leading players have managed to grow at an above average rate– while sustaining their high levels of profitability.

**Key Growth Drivers of Indian ITES-BPO Exports**

- **Abundant Talent-** India’s young demographic profile is an inherent advantage complemented by an academic infrastructure that generates a large pool of English speaking talent. Talent suitability concerns are being addressed through a combination of government, academia and industry led initiatives. These initiatives include national rollout of skill certification through NAC (NASSCOM Assessment of Competence), setting up finishing schools in association MHRD to supplement graduate education with training in specific technology areas and soft skills and MoU’s with education agencies like UGC and AICTE to facilitate industry inputs on curriculum and teaching and develop faculty development programme.
- **Sustained cost competitiveness-** India has a strong track record of delivering a significant cost advantage, with clients regularly reporting savings of 25-50 percent over the original cost base. The ability to achieve such high levels of cost advantage by sourcing services from India is driven primarily by the ability to access highly skilled talent at significantly lower wage costs and the resultant productivity gains derived from having a very competent employee base. This is further complemented by relative advantages in other elements of the cost structure (e.g. telecom) that contribute to India’s cost competitiveness – even when compared to other low-cost destinations.
- **Continued focus on quality-** Demonstrated process quality and expertise in service delivery has been a key factor driving India’s sustained leadership in global service delivery. Since the inception of the industry in India, players within the country have been focusing on quality initiatives, to align themselves with international standards. Over the years, the industry has built robust processes and procedures to offer world class IT software and technology related services.

- **World class information security environment-** Stakeholders of Indian BPO recognise fool proof security as an indispensable element of global service delivery. Individual firm level efforts are complemented by a comprehensive policy framework established by Indian authorities, which has built a strong foundation for an 'info-secure' environment in the country. These include strengthening the regulatory framework through proposed amendments to further strengthen the IT Act 2000, scaling up the cyber lab initiative, scaling up the National Skills Registry (NSR) and establishing a self regulatory organisation.
- **Rapid growth in key business infrastructure-** Rapid growth in key business infrastructure has ensured unhindered growth and expansion of this sector. The BPO sector has been a key beneficiary with the cost of international connectivity declining rapidly and service level improving significantly. The growth is taking place not only in existing urban centres but increasingly in satellite towns and smaller cities. Critical business infrastructure such as telecom and commercial real estate is well in place; improving other supporting infrastructure a key priority for the government. STPI infrastructure available across the country and magnitude of investments shows government support to the industry.
- **Enabling Business policy and Regulatory environment-** The enabling policy environment in India was instrumental in catalyzing the early phases of growth in this sector. Policy makers in India have laid special emphasis on encouraging foreign participation in most sectors of the economy, recognising its importance not only as a source of financial capital but also as a facilitator of knowledge and technology transfer. The Indian ITES-BPO sector has benefited from this approach, with participating firms enjoying minimal regulatory and policy restrictions along with a broad range of fiscal and procedural incentives.