

## Approaching The Indian Outsourcing Market

A closer look at the Indian call centre market reveals an industry that is making large investments in infrastructure, but lacking enough clients to justify ROI. It reveals an industry that is pitching low cost in a time when quality of customer experience is the number one concern. It reveals a tight network of call centre managers, investors, and normal folk who believe (really believe) that they can provide customer service better than anyone else in the world.

The call centre phenomenon in India was sparked by the slowdown in the technology sector. During the dotcom e-revolution of the 90s, India's technology sector flourished. The country was able to leverage its large, well-educated labour pool to establish world-class technology centres in cities such as Hyderabad and Bangalore (known as the "Silicon Valley of India"). Once the dotcom party was over, investment in technology firms began to slow. Faced with an oversupply of well-educated technical-savvy labour, India's technology sector needed a shot in the arm. It found that shot in the provision of call centre services, or what the Indians term "IT-enabled services." Leveraging the low-cost, highly educated labour pool could allow Indians to capture a significant portion of the customer care market by pitching premium quality service at discount store prices.

In 2000, approximately 3,250 Indian agents engaged in offshore outsourcing activities. By 2005, this figure will grow at a compounded annual growth rate of 61% to reach 35,000. By comparison, the US outsourced agent population is expected to grow at 6% over the same time period.

<b>Table 1: US vs. India - outsourced agent positions</b>		
<b>Outsourced agent positions</b>	<b>India</b>	<b>US</b>
2000	3,250	288,000
2005	35,000	390,000
CAGR 2000 - 2005	61%	6%

Source: Datamonitor DATAMONITOR

### **India is home to a large well-educated labour market**

The effect of the Internet, combined with a push towards higher value-add applications, means that in many cases the average agent's job is becoming more complex. Agents who used to place outbound calls are now asked to manage and resolve complex customer queries and problems and to call upon a fuller range of communication skills. In many cases involving technical help desk services, agents need to have formal training in the sciences or engineering. The same holds true for sales lead generation projects involving high technology products or complex financial services. As the trend towards high value-add horizontal applications progresses, highly skilled agents will become less the exception and more the rule.

Indian call centres have access to over 200 million English-speakers and more importantly to a pool of 15 million Indian college graduates a year. It is not uncommon for a call centre in India to have 100% of agents holding graduate degrees. Additionally, most Indians hold the call centre industry in high esteem; therefore, being a call centre agent is a respectable position. Moreover in a country where graduate unemployment rates can reach as high as 20% in certain areas, Indian call centres (unlike their American counterparts) have no problem filling seats. It is also important to note that Indian call centres are not plagued with

the same retention problems that Western call centres face. Indian call centre turnover rates hover at around 10% or less, whereas, American call centres can have turnover as high as 90%.

Moreover, to support the needs of call centres, an auxiliary call centre training industry has arisen. Companies such as Fonet, work in conjunction with call centres to educate potential and new agents about the ins and outs of call centre operations. These centres are often very well equipped with the latest call centre technology, churning out classes of 10 –20 agents every 3 months.

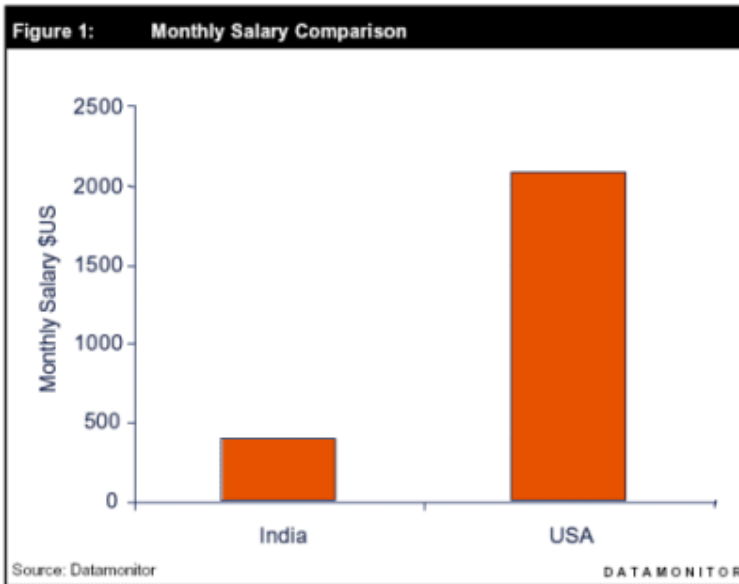
<b>Table 2: Profile of an average Indian call center agent</b>	
Age	23-27
Tenure at one call center	2 years
Sex	Male
Highest education	Four-year college degree
Source: Datamonitor	DATA MONITOR

### **India enjoys relatively lower labour costs compared to Western countries**

Perhaps more important than the large available and educated labour pool is its relatively low cost. Datamonitor research indicates that 67% of the costs born by call centres operating in the US can be directly linked to labour. This can reach as high as 72% when the centre employs well-educated agents in metropolitan areas. The UK has a similar cost structure as the US, while Canada spends about 62% on labour. Any reduction in labour cost will have a massive effect on overall expenditures.

In addition, these labour costs are cyclical with the economy, since they tend to escalate when unemployment decreases, healthcare costs increase (in the US), and new technologies emerge. In a field with such high turnover, hiring and retention costs have also increased over the past few years. Indian call centres, by contrast, spend only 33-40% of their budgets on labour. This figure includes training and other incentives.

American outsourcers pay an average of \$2,084 per month for full time employees. The average cost per agent in India, is \$400 per month. Outsourcers in the US have to pay more than five times as much, for often less dedicated and less well-educated labour. Figure 1 graphically illustrates the difference in monthly salaries for call centre agents in the US and India. Table 3 provides a cost comparison between a 150-agent call centre in India and one located in the US.



**Table 3: US vs. India – Labor cost comparison**

	India	US
Average per agent labor cost per month	\$400	\$2,084
Labor costs as a percentage of total costs	33%	67%
Total costs assuming 150 agents	\$2,181,818	\$5,598,805
<b>Annual cost savings for Indian operations</b>	<b>\$3,416,987</b>	-

Source: Datamonitor

The government has also been responsible for the creation of technology parks. These parks provide firms with low rental costs compared to the West, though by Indian standards the \$1-\$3 per square foot is expensive. While the parks are probably most suitable for technology outsourcers because of their IT infrastructure and ability to provide companies with an easy way to access tax incentives, technology parks are also located in suburbs that are rich with well-educated labour. The government's dedication to ample and relatively high quality telecommunication lines in these parks provides yet another benefit.

In addition, the government is expected to repeal several regulations that have been restrictive to Indian call centres, including:

- Restriction on multi-point to multi-point communications. Currently in India call centres are only allowed to engage in point to multi-point communications. This means that even though a call centre operation may have several call centres networked together, an international call must come in through one designated call centre, then be distributed from there into the network to the call centre that is most appropriate to handle the interaction. The Indian government is expected to relax this restriction within the next year. The effect will be that international calls will be directly routed to the appropriate call centre upon hitting India's network, shortening the customer's time to service.
- Prohibition of simultaneous domestic and international servicing. Indian call

centres cannot operate domestic and international activity in the same call centre. This restriction results from the disjoint between the control of domestic and international telephony networks in India. The eventual privatization of the international network is expected to lead to the repeal of this restriction.

Finally, to address bandwidth issues, the government has initiated a massive telephony infrastructure project that involves the laying of fibre optics around the country. The primary location of this project in the first phase is within the country's major technology hubs (e.g. Bangalore, New Delhi). Once that stage is completed, the company will work to connect these hubs together. India is currently laying 230,000 kilometres of fibre optics. More than 100,000 additional kilometres are expected to be added by the end of the year.

Despite the advantages of outsourcing to India there are also risks inherent in outsourcing customer care to India.

**The unreliable telecommunication infrastructure causes valid concerns over continuity of service.**

The current underdeveloped system requires companies to invest significant resources in both traditional telephony systems as well as high bandwidth capacity. Most outsourcers in India currently specialize in non-voice methods of contact, such as email and web chat: written English presents less of a problem than spoken English. This makes bandwidth and Internet access the first priority. However, clients are increasingly trusting Indian outsourcers with voice calls. Telephony infrastructure will also become important.

Telecommunications is still a regulated industry in India, with VSNL (Videsh Sanchar Nigam Limited), the partial government entity, responsible for international calls. Indian outsourcers must negotiate with VSNL to ensure dedicated lines that will not be subjected to the same types of breakdowns and static common in India. Placing facilities in technology parks helps, but does not always ensure the same quality and level of service which is more or less guaranteed in the US, UK or Canada. In addition, there are only a limited number of these safe havens and growth in the industry may outpace capacity. Agent positions dedicated to outsourcing in India are expected to double from 2001 to 2002, and if the current infrastructure cannot handle emails and web inquiries, outsourcing bureaus may face difficulties.

To help remedy this problem, the Indian government has announced that the monopoly held by VSNL will end by March 2002, permitting the licensing of an unlimited number of private service providers. The end of VSNL's monopoly will lead to greater competition, which will ultimately bring down the telephony costs for call centres.

One of the hottest topics today in telephony services is VoIP. Technology vendors are trying to stay one step ahead and offer this technology because VoIP can reduce the communication costs for companies. However, it is currently illegal for Indian call centres to conduct voice communications over VoIP.

**Indiscernible accents create barriers**

Indians speak English more rapidly than the average American. Consequently, one of the biggest concerns of American companies about outsourcing customer care to India is the ability of American consumers to understand Indian accents. This concern is less prevalent in European countries where consumers are more accustomed to dealing with different accents.

Not only must Indian call centre agents be able to communicate discernibly, with minimal accents, but they must also understand dialectic differences between English-speaking countries. For example, understanding that the word *cheers* has different meanings for

American and British customers is necessary. In addition, general knowledge of the company for which agents are answering calls or web inquiries is important.

Indian outsourcers are very aware of this concern. One of the main focuses of agent training is on accent neutralization. Classes are given to Indian agents that focus on pronunciation and enunciation. Some Indian outsourcers go as far as to train agents to speak in particular Western accents. Indian outsourcer, Global Tele-Systems, has its agents sit in front of a large screen and watch American shows such as *Friends* in order to improve accents and cultural knowledge.

## Conclusions

In some ways the Indian outsourcing boom can be likened to the dotcom boom of the late 20th century. Just as having a .com after a business was de rigueur, so it is now in India to own a call centre. Investors see call centres as a safe way to invest their money in the technology sector, avoiding the risks of investing in software and Internet firms. The result has been a glut of building in the call centre industry. Moreover, the industry is weakened by the lack of experience of new call centre managers. These unqualified managers damage the legitimacy of the industry by pitching themselves solely on cheap labour, assuming that bargain prices, not quality service, will win them business.

Nevertheless, there are plenty of legitimate players in the Indian outsourcing market. These are the guys that recognize that one should not strive to compete on price when a company's customers are at stake. These are the guys that know that demonstrating the ability to service, sell, and/or market to a company's clients better than that company can is what will win them business.

Finally, there is truth to the hype coming out of India. The country does offer highly educated labour at lower costs. Under the leadership of a well-qualified Indian call centre manager who has the client's business in mind, Western companies can improve the quality of their customer experience at a lower cost. However because of the cultural, political, and regulatory obstacles, only companies with significant capital and scale should even attempt to build Greenfield call centres in India.

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Research commissioned by OverC undertaken by Datamonitor