

## **Big shakeout in Indian call centre outsourcing market predicted within two years**

### **More bad news for the Indian BPO market as Datamonitor predicts shakeouts, consolidation and closures across the sub-continent and questions the real cost savings of going to India anyway**

Newcomers to the Indian outsourcing market are using aggressive strategies, such as significantly discounting services, to grab a piece of the \$400million market. However, a new report by independent market analyst Datamonitor, says this is resulting in shrinking margins and questions as to who will survive the inevitable shakeout.

The report, "Indian Contact Center Outsourcing: Surviving the Shakeout," which focuses particularly on the competitive dynamics of this constantly evolving marketplace, states that in two to three years, the industry will witness a shakeout, driven largely by consulting companies exiting the contact centre outsourcing market, and spinning off their contact centre operations, or turning over management of their customer care offering to other third-party outsourcers.

Datamonitor predicts that in five years time, the highly fragmented Indian outsourcing marketplace of today will be dominated by large Indian IT conglomerates, smaller Indian specialists and large Western multi-national companies (MNCs) using India as a base for the business process outsourcing (BPO) practices.

During the dot com boom, the labour seller's market caused both contact centre agent salaries and attrition rates in Western locations to skyrocket. Enter Indian outsourcers. Indian agents earn an estimated \$2700 a year, 60 per cent less than average Western agents salaries. Indian contact centres have access to more than 250million English-speakers and more importantly a pool of 15million Indian college graduates a year. Indian contact centre staff turnover rates hover at around 25 per cent or less compared to 90 per cent in American contact centres for example. In addition to auxiliary training provided to all agents, call centres in the region are also well equipped with the latest technology. India's location of 4-5 hours ahead of Western Europe and 10-13 hours ahead of North America makes it an ideal location. In fact, most outsourced Indian contact centres currently operate during the evening in order to handle the load of European and American calls, 78 per cent from the US, and 18 per cent from Europe. However over the past year, attrition rates in India have risen to 30 per cent.

According to Datamonitor estimates, there are currently more than 250 contact centres and 51,000 agent positions in India devoted to offshore outsourcing. As additional capacity is needed, the number of contact centres and agent positions will grow at a compound annual growth rate (CAGR) of nine per cent and 19 per cent respectively to reach 387 contact centres and 121,000 agent positions by 2007.

Financial services (53 per cent), followed by technology (27 per cent) then retail (6 per cent) are currently the top three industries that outsource traffic to Indian contact centres. Currently, the majority of traffic being outsourced to India is service related. Customer service and helpdesk activities combined account for 61 per cent of total outsourced traffic. It is unsurprising that with the technical aptitude of Indian workers, helpdesk activity as a proportion of total activity in India is significantly larger than Western markets, where helpdesk activities typically account for less than 10 per cent of total traffic.

However Datamonitor expects the growth in both outsourcing contact centres and agent positions to begin to slow in 2005 as a result of an inevitable industry vendor shakeout that will be the consequence of current oversupply and shrinking margins ensuing from downward competitive pressures on pricing.

Indian outsourcers, as well as the Indian government have done a remarkable job getting the message out about the benefits of outsourcing to India. So well, in fact, that to the delight of the government and the chagrin of local Indian outsourcers, an increasing number of Western companies are taking advantage of the benefits that India offers, not through outsourcing, but through direct capital investment or via strong partnerships with onshore outsourcing service providers which resell Indian capacity. In a matter of a few months, what used to be an Indian contact centre market dominated by third party outsourcers, has seen the rush of Western MNCs locating their own facilities in India.

Seeking to shorten their time to market, they have engaged in the poaching of agents from the local outsourcers, resulting in climbing attrition rates and agent salaries for outsourcers. In addition, multinational consulting companies, such as Accenture, with BPO dollar signs in their eyes have begun to set up their own centres in India, increasing the number of India-based centres competing for Indian labour and Western contracts.

To make matters worse for Indian outsourcers, the Indian outsourcing bubble is showing signs of contraction with some vendors shutting down operations and others being acquired by large Indian IT companies. Many prominent Indian business families ploughed investment into building contact centres in Indian hot spots, only to now be faced with under utilization.

Brian Huff, lead analyst of Datamonitor's call centre research programme comments: "Over the past year, Indian outsourcers, Spectramind, TCS and TransWorks have all been acquired by larger IT firms. Onshore outsourcers with an Indian presence or Indian vendors that are divisions of larger IT companies provide a greater sense of viability than stand-alone vendors without access to capital pools large enough to maintain survival during the Indian offshore outsourcing price wars. To effectively compete against multinational outsourcers, Indian outsourcers must establish a global operational presence. Those without the resources to expand their global reach must become vertical specialists. A multinational onshore vendor, such as TeleTech, with centres in the US, Canada, Mexico and India is much better positioned than an offshore vendor with operations located solely in India to win a contract from a large bank, such as Citigroup, looking to offer 24-hour customer service to its global customer base."

Datamonitor's report, "Indian Contact Centre Outsourcing: Surviving the Shakeout," forecasts the Indian outsourced contact centre market, given by all call centres and agent positions. It provides key data segmentation and analysis of activity outsourced to India by business function, communication media and vertical market. The report gives competitive analysis of key Indian outsourcing players, including profiles of leading Indian outsourcers, such as Wipro, Infosys and GTL/Global. Actionable recommendations for both outsourcers and technology vendors pitching to outsourcers are included.