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India's call-centres make move upmarket

By James Crabtree in Mumbai

An Indian call-centre usually conjures up the image of rows of young telephone operators talking politely to customers thousands of kilometres away – not dental workers.

Yet in one large outsourcing company outside Bangalore, this is what you find. Their desks sport models of molars, while teeth X-rays flash-up on computer screens, waiting to be checked against insurance claims filed to a big American healthcare group.

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India is the world's leading business process outsourcing (BPO) hub, part of a global industry worth $153bn in revenues last year, according to Nasscom, an Indian trade body. The health of the sector has also become increasingly important as much of the rest of India's economy stumbles, with outsourced services to businesses abroad set to grow 12 per cent yearly to $16bn in 2012.

But the industry is enduring growing pains too, as many recession-hit clients in North America and Europe trim spending and it faces a new generation of competition abroad. As a result, it is struggling to repeat the at least 20 per cent annual growth seen before the 2008 global financial crisis.

Some industry leaders admit their sector is also struggling to shed an image for low-value work. "India became the call-centre capital of the whole world but it was often built on a cost-saving agenda, not a quality agenda," says Partha Desarkar, head of Hinduja Global Solutions, the BPO arm of the Hinduja conglomerate. "This created a backlash."

To curb the amount of business they could lose to other countries, such as the Philippines, Indian companies like Hinduja are offering advanced services that require not just dental workers but nurses, accountants, lawyers and mathematicians.

"There has been a shakeout in the guys who thought this was an easy industry, and now the rest of us are moving upmarket," Mr Desarkar says.

Leading companies in the BPO sector include subsidiaries of India's IT giants, such as Tata Consultancy Services and Wipro. There are also numerous independent players, including Genpact, the market leader, which spun out of General Electric, the US conglomerate, in 2005 and announced revenues of about $1.6bn last year.

All offer traditional call-centre services, along with back-office outsourcing in areas ranging from tax and regulatory compliance to human resources. It is in the basic "voice" segment, however, that international competition has become most intense.

Rival outsourcing centres have sprung up in places such as eastern Europe and the Chinese city of Dalian, where Japanese-speaking locals serve customers in Tokyo or Osaka. But it is the rise of the Philippines, in particular, that has challenged India's dominance.

The Philippines last year became the world's leading call-centre hub with $7.6bn in voice service exports, compared to India's $7bn, according to Everest, a research group.

Employment in the sector has also outpaced India. More than 400,000 Filipinos now answer phone calls for western companies, including blue-chip US clients who prefer the country's American-friendly accents and deeper cultural affinity with the US.

Many Indian companies have also taken the battle to the competition by opening operations in Manila. Mumbai-based Aegis, one of India's largest BPO groups, is one of the biggest players in the Philippines, with more than 13,500 employees.

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"We do voice in the Philippines but we also do it in Guatemala, and in India too," says Mohit Thukral, senior vice-president at Genpact. "But the higher value capabilities like claims management or data analytics ... is really on the rise in India."

at a lower cost

- Noshir Kaka, McKinsey

It is these more complex “non-voice” services that the industry hopes will secure its future. Examples include preparing investment information for investment banks, running recruitment or procurement services, or providing outsourced legal advice.

“For a time we must have been hiring more lawyers than any other company in India”, says D Swaminathan, chief executive at Infosys BPO.

Data analytics is another priority, with BPO groups picking through the sales figures of western retailers, for instance, or using complex algorithms to look for patterns when their clients are mentioned on social media.

But before such high-value services can help the sector return to its high-growth heyday, analysts say there is one further challenge: becoming more productive.

Historically in the BPO sector there has been strong correlation between revenue and headcount, limiting the ability to improve margins. But Noshir Kaka, India managing director at McKinsey, the consultancy, says the industry can use clever software, process automation and high-end analytics to alter this pattern.

“These changes can begin to break the notion that offshoring simply means giving you access to skilled talent at a lower cost,” he says. “That to me is the single biggest opportunity, and if the industry can make this move to more ‘non-linear’ growth it will be a huge shift.”

Until then, India’s outsourcers will continue to look nervously over their shoulders.