

FINANCIAL POST

Contract with India: Welcome to a world of outsourcing

Outsourcing moves up to key services

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Infosys Technologies, a technology-services company in Bangalore, India, depends on the West for much of its business

BANGALORE -- Vish Ramamurti is home again. Sixteen years after leaving India to pursue a better life in the United States, the 37-year-old electrical engineer has returned to Bangalore. There were many reasons for his reverse migration: ageing parents, homesickness and a desire to teach his children his native language. But the real driver was job opportunity.

Last July, Mr. Ramamurti joined Wipro Ltd. in Bangalore as a general manager while his wife accepted a transfer with her semiconductor firm. Their combined pay is

close to the salaries they made in Austin, Tex.

"I'm not going to say we are completely comfortable with this place," said Mr. Ramamurti, who is still adjusting to the long hours and his new Indian colleagues, "who talk about very personal things at work."

Still, Bangalore has its advantages. Mr. Ramamurti dodges cows and crater-like potholes to reach the office, but his home is a luxurious 2,500-square-foot condo staffed by a full-time cook, driver, nanny and two maids.

India's IT software and services engineers are climbing their way up the economic food chain. Between 2007 to 2008, the outsourcing industry grew 30%, reaching \$39.5-billion in export revenues and employing more than 1.2 million people.

No longer a ghetto of low-level software jobs and call centres, Indian corporate behemoths such as Wipro, Tata Consultancy Services (TCS) and Infosys Technologies Ltd. have transformed outsourcing to include such critical services as market research and analytics, copy editing, patent generation, the drafting of legal documents and engineering plans.

While software programming and call centres still flourish here, Indian companies are running entire IT departments, designing Erikson and Nokia phones and monitoring water and wastewater facilities such as Thames Water Utilities Ltd. Even new government services are being offered.

The states of New Mexico, Nebraska and Mississippi are outsourcing their unemployment and taxation payment processes, Mexico has off-loaded its social-security services and Bahrain has launched e-visas to a new division of TCS.

India became the darling of IT outsourcing because it offered cheap services. But the next generation of outsourcing no longer relies entirely on wages as salaries continue to climb.

"Five years ago, outsourcing was a dirty word," says Debashis Ghosh, vice-president and general manager for Global Delivery TCS India North. Although TCS has worked with a handful of multinationals since the 1970s, including General Electric Co., most Fortune 500 companies have kept mum about their outsourcing deals. "But the word is getting out," he says.

"Companies are more open because outsourcing is widely deployed and because they are facing the challenge of finding the right set of people to sustain growth," says S. (Kris) Gopalakrishnan, chairman of Infosys. More mid-sized and small firms are jumping on board, and revenues are more diversified with a greater amount of work coming from Europe and Asia than the U.S.

As a result, a second tier of Indian outsourcing firms has emerged, including Evalueserve, Integreon Managed Solutions Inc., and Mindcrest India Private Ltd. Fuelled by an army of lawyers, architects and business graduates, they focus on outsourcing knowledge, what's known as knowledge processing outsourcing (KPO). The firms call this "climbing the value chain."

If your company isn't outsourcing today, it soon will be. "CEOs are now asking their CIOs why they aren't looking into it," says Mr. Ghosh. "Suddenly, India is a good brand to be associated with. It means you know how to leverage talent and globalize."

Wipro, which counts Nortel as a long-time client, recently added Delta Airlines, AGL Resources and Credit Suisse. Azim Premji, the high-profile chairman of Wipro, says 45% of his company's revenues are generated from new value-added services. In one example, Wipro helped consolidate the claim processes for a Midwest U.S. insurance company. Before outsourcing to India, the insurance firm had 400 claim officers spread across different branches. Some were underemployed, others were filing for overtime, says Charan Bhalla, vice-president at Wipro. After Wipro stepped in, the claims were processed 20% faster, and the payouts, which varied from branch to branch, were standardized.

While Wipro, TCS and Infosys handle only Fortune 500 firms, companies such as Evalueserve are staking out the mid-sized and small companies. At its offices in the New Delhi suburb of Gurgaon, Canadian bankers and dealers are commissioning investor reports and research. Evalueserve has one intellectual-property team that drafts the specifications and compliance for patents for new products and inventions, and a legal team that writes non-disclosure

agreements and confidentiality clauses. No niche is too small. "We are like a small consulting shop without the consultant," says Sanjoy Choudhury, assistant vice-president.

The mushrooming services are creating a new world order. Rather than charging a fee for a service, outsourcing firms are experimenting with transaction-based pricing models. AC Nielsen recently signed a US\$1.2-billion contract with TCS. In addition to running the IT platform and back-end financial and human resources, TCS will handle some of Nielsen's analytics and data references. "It's still early days, and everyone is going one step at a time," says Mr. Ghosh.

Taking on more operations is a great way to extract more revenue from a single client, but it's also changing the way Indian firms work. "As we seek new partners to work with us around the world, we started thinking, 'Why do we need to do everything in India?' " says Mr. Ghosh. "As we go up the value chain we are going global."

Outsourcers are insourcing. TCS has 155 offices outside India. Five years ago, it had 300 non-Indians on the payroll; today they represent 1.1% of the 111,407-strong workforce. Wipro has 46 offices overseas -- including a new one in Toronto -- and is scoping for new centres in the United Kingdom, Germany, and the United States.

By opening offices in Europe and the United States, the Indian firms have telegraphed a new sensitivity to cries that outsourcing creates job losses. But the strategy is also helping businesses cope with outsourcing: Sales staff have multiple languages. They also help alleviate the fear factor. "A lot of clients still don't feel comfortable sending their work to India," says Mr. Ghosh. New clients want six to 12 months to test outsourcing by going through a local office, he says. India's western outposts will serve as security blankets for jittery new clients.

Globalization and outsourcing still have detractors, but the new order has solved one problem: the Indian brain drain. According to a report by Evalueserve, between 1964 and 2001, 35% of the top engineers left India. Today, less than half that -- 16% -- leave.

Sheetal Ranganathan, 31, who has a master's in biotechnology and an MBA from Xavier School of Management in India, considered moving to the West until she joined Evalueserve in Delhi. Today, she manages a 60-person team pumping out life-science research reports for the biotech industry and venture-capital firms.

"If I hadn't gotten something so interesting [that] paid so well, I would have looked for greener pastures abroad," she says.

OUTSOURCING BY DEFINITION

Indian companies are leveraging their IT services to offer a new range of outsourcing services.

WHAT IS BPO?

Business processing services (BPO). While the traditional BPO accounts are the call centres and back-end financing and accounting-support services, a whole new range of services is mushrooming.

The BPO market has been growing at a rate of more than 35% over the past three years. Worldwide BPO revenues are estimated to be US\$26-billion to US\$29-billion. India's share of those revenues is now US\$11-billion and is expected to grow to US\$30-billion by 2012, according to a NASSCOM-Everest India study.

WHAT IS KPO?

Knowledge processing outsourcing (KPO) The new wave of BPO services. Includes marketing research and analytics, copy editing, patent generation, drafting legal documents and engineering plans, accounting and claims processing.

Everyone from lawyers to private-equity firms is now jumping on the KPO bandwagon.