



India: Winning the Race for Contact Centre Dominance in Asia

Executive Summary

India's meteoric rise to *business process outsourcing (BPO)* dominance is a phenomenon hardly surprising given its attractive combination of low cost and high service quality enjoyed by an increasing number of firms that have outsourced to the country.

Focusing on the one segment of the overall BPO process where India is now a global leader, the **Contact Centre** market, this paper addresses the following major issues:

- ▶ Why India
- ▶ Why real estate matters
- ▶ Competing locations within India
- ▶ Delivery of real estate
- ▶ Implications for overseas players
- ▶ Looking ahead – will India remain competitive

A Contact Centre¹ is a central point in an enterprise from which all customer contacts are managed.

It typically includes one or more online Contact Centres but may also include other types of customer contact (including e-mail newsletters, postal mail catalogues, web site inquiries and chats, and the collection of information from customers).

A Contact Centre generally forms an integral part of an enterprise's overall customer relationship management (CRM) strategy.

Source: SearchCRM.com



¹Contact Centres are also referred to as customer interaction centres or e-contact centres, but for the purposes of this paper we will use the term "Contact Centre".

Why India?

A recent survey by management consultants A.T. Kearney examined trends in a total of 11 countries around the world and concluded that **India is a top-rated country, boasting the most highly skilled, lowest cost labour force. This is a powerful combination, particularly when its experience in offshore business processing is factored into the mix.**²

Among the many Fortune 500 firms with major Contact Centres in India are GE Capital, American Express, Standard Chartered Bank, AVIVA, Citibank, British Airways, Microsoft, Morgan Stanley, EDS, JP Morgan Chase, AOL Time Warner, Dell Computers, and Hewlett Packard.

While China has also attracted some BPO activity, the battle for supremacy in the Contact Centre industry in Asia has to date, boiled down to a 'head-to-head' between India and the Philippines.



A typical Contact Centre setup in India

WHY INDIA³

Productivity and Quality: India's large talent base is capable of supporting a diverse range of customer support and high-end processing activities. More than 1.7 million students graduate every year, with over 200,000 having professional qualifications.

Cost Advantage: India has a relatively low cost pool of English-speaking graduate talent with neutral accents and conversational skills. Manpower costs are estimated as 1/10 of United States (US) counterparts.

Stability and Redundancy: India's fairly high degree of geopolitical stability and ability to operate large centres in multiple cities reduces business continuity risks for operators. Privatisation of telecommunication services has resulted in multiple vendors, translating to greater redundancy and lower costs.

Government Support: There is a significant level of financial support mostly at the state level, including tax holidays and investment subsidies, as well as single-window support for all IT and BPO firms by respective state governments.

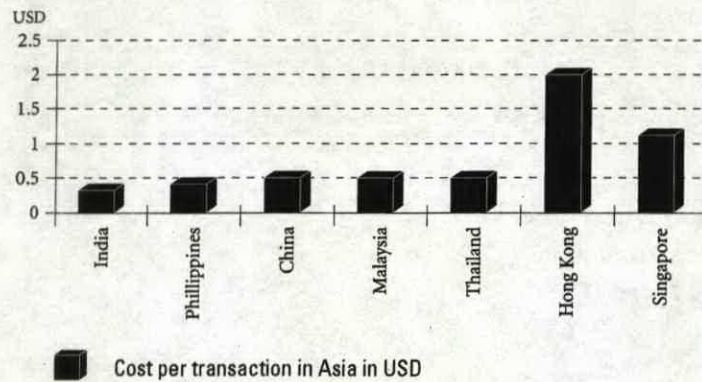
The key to India's success in attracting Contact Centre operations is its competitive cost structure, based largely on its low cost of labour. India has the lowest *cost per transaction*⁴ of any Contact Centre location in Asia (see Figure 1).

²Where To Locate - Selecting a Country for Offshore Business Processing, A.T. Kearney, 2003, pg.3

³For more information regarding the advantages offered by India, please refer to our earlier paper titled *Contact Centres in India - A Strategic Perspective*, Jones Lang LaSalle, October 2002.

⁴Cost per transaction is recurring cost such as rents, staff compensation & benefit and utility costs, etc.

Fig. 1 - Comparison of Cost in Asia



Source: Jones Lang LaSalle, June 2003

Government policy has played a notable part in sustaining the industry's high growth. Categorised as export-oriented companies, **Contact Centres receive complete exemption from income tax.**

Foreign Direct Investment (FDI) in this sector benefits from special rules to minimise procedural delays. Imports of capital equipment are exempt from the statutory import tariffs. Besides these national benefits, individual state governments have established a plethora of incentives to attract Contact Centre operators (see Appendix 1 for details).

In addition, international perception towards India's workforce has improved substantially in the past three years. Today, India has become one of the most favourable Contact Centre destinations in the world, capable of handling complex outsourcing assignments apart from low-end customer service and back-office processing work.

Industry Snapshot

Contact Centres form part of what is generally referred to as the ITES (IT-enabled services) industry in India. The Contact Centre industry has been one of the fastest growing sectors of the Indian economy in recent years (see Table 1 and 2).

The industry is expected to grow at an annual rate of 54% in 2003-2004 and produce revenues of up to US\$3.4 billion. Current headcount is approximately 171,000, with an estimated 200 additional people recruited each day.

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Table 1 - The Indian Contact Centre industry (facts and figures)

Revenues 2002/03	Numbers of Contact Centre Agents 2002/03	Revenues 2003/04 (Estimated)	Numbers of Contact Centre Agents 2002/03 (Estimated)
US \$2,300 million	171,000	US \$3,400 million	250,000

Source: NASSCOM (2)

Table 2 - Share of business segments in employees and revenues in 2002 - 2003

Business Segment	No. of employees	Revenues (USD Million)
HR	1,600	35
Payment Services	9,500	190
Finance	21,000	450
Administration	25,000	350
Customer Care	54,000	700
Content Services	60,000	650
Total	171,100	2,375

Source: NASSCOM

Why Real Estate Matters

Despite forming a relatively modest proportion of total costs, **real estate decisions have a significant impact on operational issues, specifically - access to suitable labour, time-to-market, reduction of labour turnover, risk management, and expenses.** This makes it necessary to align a firm's real estate strategy with its overall business objectives and requirements.

Why Location Matters

Location has considerable influence over *access to labour*, the single most critical component of a Contact Centre's success, as illustrated in the models of Delhi and Bangalore with secondary hubs in Mumbai, Hyderabad, Chennai, and Pune (see Figure 2).

Delhi, including Gurgaon and Noida, provides access to a large talent pool for Contact Centre services spanning seven states in the North. Along with Mumbai, it has the highest number of graduates with neutral accents and conversational skills, making it the first choice location for large voice-based operations.

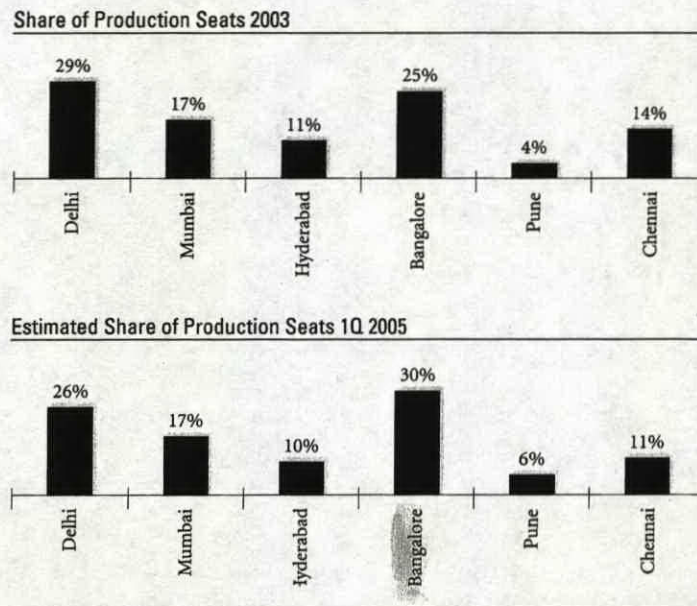
Bangalore, on the other hand, offers a low cost base and diverse skills. Its voice-based services market share is smaller than Delhi and Mumbai due to its vernacular accents. Real estate options across the city, and low transportation costs have, however, led to a growing preference for Bangalore as a Contact Centre location (second only to Delhi in terms of the number of *production seats*⁵).

As India's most populous and cosmopolitan city, **Mumbai** is a major port and financial hub for the country. With its low telecommunication costs and extensive talent pool, it was the only hub for transcontinental fibre-optic cables till 2002. However, the high cost of living and operations prevents large-scale expansion of Contact Centres. Most development is clustered in the western suburbs, providing both cheap real estate and a robust rail transport network.

Beyond these three preferred locations, Hyderabad, Chennai, and Pune offer relatively low cost locations, with ample support from their respective investor-friendly governments.

Chennai⁶ possesses a large pool of human resource in technical disciplines, carving a niche for itself in BPO, specifically in the back-office processing domain. It has the fourth highest number of production seats in India with the help of a progressive and reformist state government.

Fig. 2 - Estimated share of production seats in 2003 and 2005



Source: Jones Lang LaSalle, June 2003

⁵Production seats are the number of employees providing Contact Centre services per shift.

⁶Chennai is the capital of the southern Indian state of Tamil Nadu.

Mumbai

Population: 16.4 million
 Workforce in Contact Centres:
 17,100
 Graduating Population: 195,000
 CPI: 553
 Gross Office Rent:
 USD 0.67 - 1.01 psf per month

Delhi

Population: 13 million
 Workforce in Contact Centres:
 28,575
 Graduating Population: 295,000
 CPI: 537
 Gross Office Rent:
 USD 0.58 - 0.90 psf per month

Hyderabad

Population: 5.5 million
 Workforce in Contact Centres:
 8,000
 Graduating Population: 130,000
 CPI: 462
 Gross Office Rent:
 USD 0.55 - 0.88 psf per month

Pune

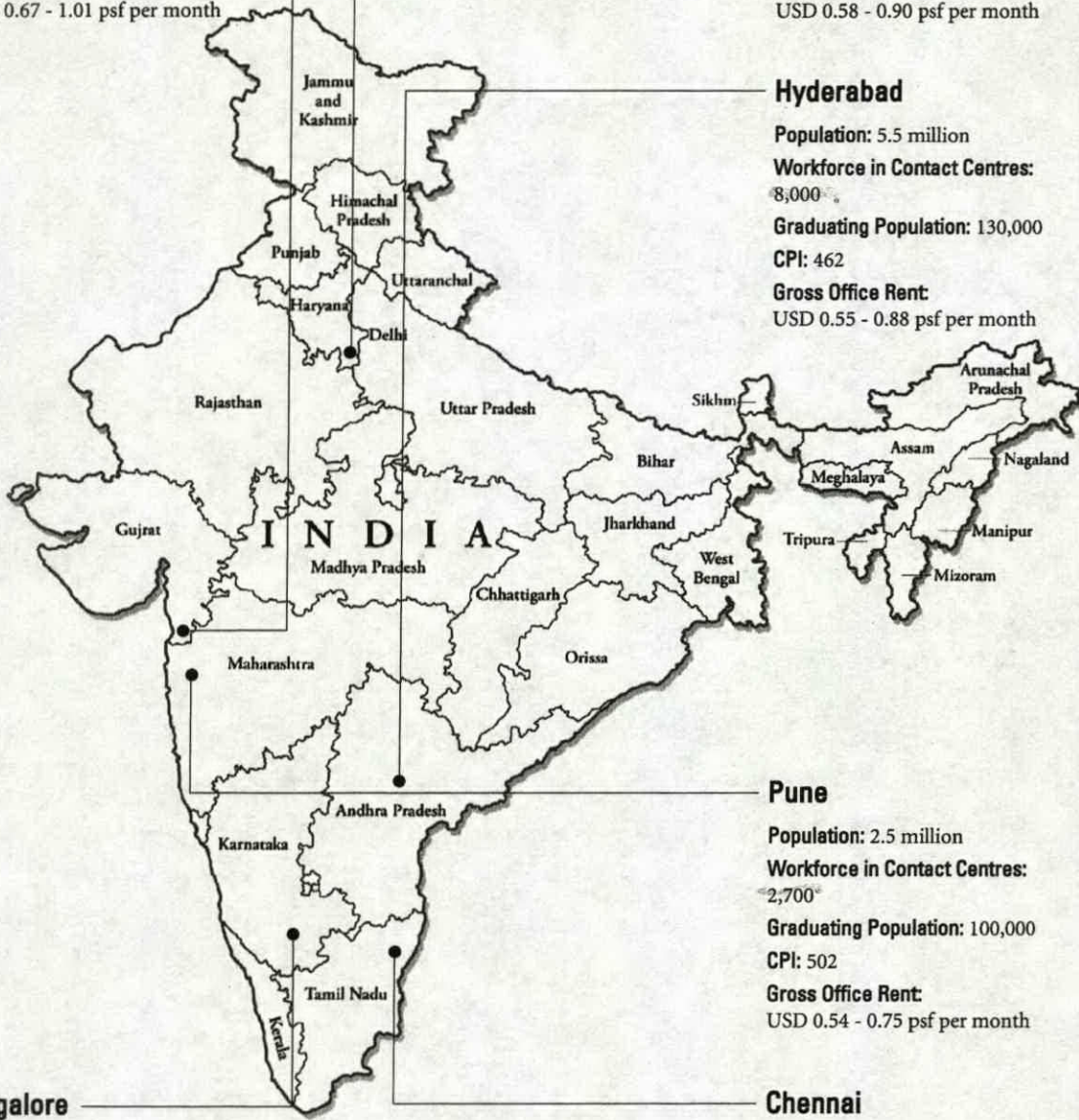
Population: 2.5 million
 Workforce in Contact Centres:
 2,700
 Graduating Population: 100,000
 CPI: 502
 Gross Office Rent:
 USD 0.54 - 0.75 psf per month

Bangalore

Population: 5.7 million
 Workforce in Contact Centres:
 24,393
 Graduating Population: 300,000
 CPI: 445
 Gross Office Rent:
 USD 0.58 - 0.90 psf per month

Chennai

Population: 6.4 million
 Workforce in Contact Centres:
 13,312
 Graduating Population: 100,000
 CPI: 502
 Gross Office Rent:
 USD 0.67 - 0.95 psf per month



However, Chennai's vernacular accents discourage voice-based services, unless companies are willing to bear significant training costs to neutralise the accents.

Over the last five years, the **Hyderabad** government has concentrated on developing the physical infrastructure, providing fiscal and non-fiscal incentives, and actively promoting the development of high-quality real estate in collaboration with prominent developers and international investors. As a result, the city has witnessed balanced growth in diverse sectors like software, call centres, and back-office processing.

Another city to consider is **Pune**, with approximately 2,700 production seats at present. Its proximity to Mumbai gives it an excellent human resource catchment potential, good infrastructure, and relatively inexpensive real estate. Pune, like Bangalore, is a hub of higher education and host to prominent research organisations. It is also one of the most secure and stable cities, being relatively sheltered from political changes in state government. Its proximity to Mumbai at 240 kilometres and moderate climate has attracted many professionals from other parts of the country. It is a cheaper alternative to Mumbai for companies who wish to locate in the western region.

The basic locational decision facing Contact Centre operators is between the larger, more established cities like Delhi and Mumbai, which have the largest pools of labour, but suffer from higher labour and real estate costs and smaller cities with lower overall costs, but smaller labour pools.

We project that Bangalore will emerge with the largest concentration of Contact Centre seats in India by 2005. An increasing number of operators are adopting a

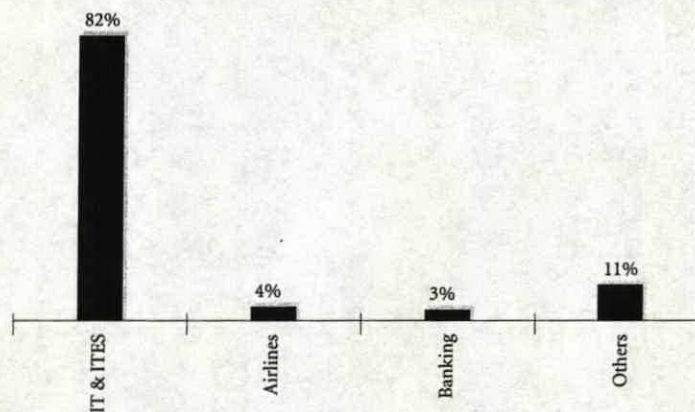
multi-city (hub and spoke) strategy to minimise risk and avoid reliance on a single labour market. This strategy may be applied within India, or between India and other countries, such as the Philippines, with the added advantage of minimising geo-political risks.

Real Estate Delivery

Contact Centres have accounted for the vast majority of demand for office space in major Indian cities in recent years. In the first six months of 2003, office space taken up by Contact Centres accounted for 82% of the total absorption of office space in Delhi (see Figure 3). The corresponding figures for Mumbai and Bangalore are 51% and 80%, respectively (see Figure 4 and 5).

In response to this demand, landlords and investors are changing building specifications and transaction terms to include larger and more efficient floor plates, international service standards, and more tenant-focused transaction terms.

Fig. 3 - Space absorption by industry in Delhi - 1H-2003 (including Gurgaon and Noida)



Leasing activities concentrated in suburban areas (Gurgaon at the southern part of Delhi, and Noida at eastern Delhi). Approximately 455,000 sq ft of office space was taken up by companies in the IT & ITES segments over the first six months of 2003.

Source: Jones Lang LaSalle Research

With a **growing preference for leased terms** instead of purchased premises, landlords are now offering flexible leasing options on contiguous space to allow phased take-up within the leased premises. This allows better cost control and close alignment of procurement with the business growth, thereby reducing business risks.

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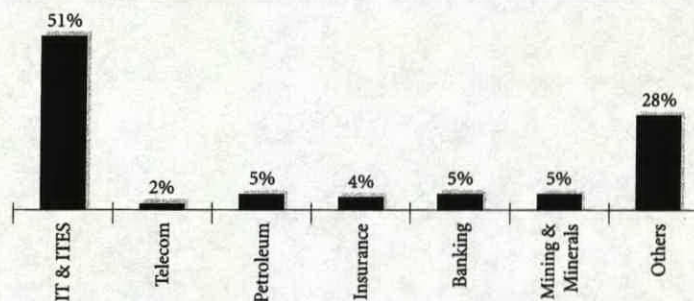
To attract tenants, developers are also becoming more open to phased payment of deposits for the incremental space, and extended rent-free periods (during fit-out periods). Plug-and-play facilities for temporary accommodation will be provided to allow companies to establish recruitment and training services before they shift into the permanent facility which, in most cases, is built-to-suit specifications. The time frame for completion of such 'built-to-suit' properties is between 8-10 months for up to 100,000 sq ft of space, and interim facilities are leased for this duration.

There is a preference for freestanding, **custom-built property** for better control over specifications and operational exclusivity. Tenants may also prefer to have the flexibility

of providing and maintaining building services.

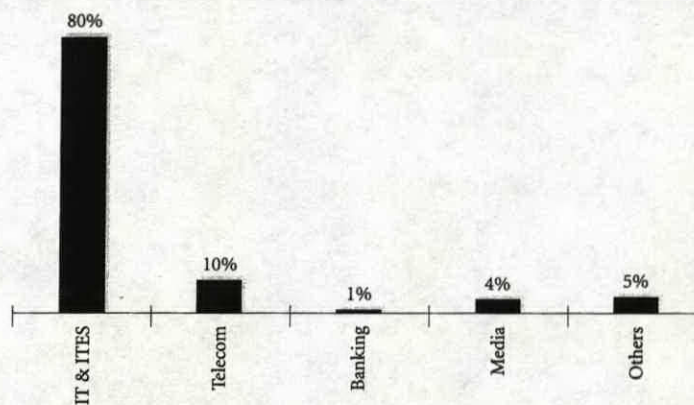
As the need for functional convenience in labour-intensive production zones is higher than for conventional enterprises, it is imperative to have regular and efficient floor plates, which are conducive to efficient segregation of processes while allowing easy supervision. Contemporary buildings are designed with floor plates between 15,000 – 30,000 sq ft.

Fig. 4 - Space absorption by industry in Mumbai - 1H-2003



Most of the space absorbed was in the western suburbs of Malad, followed by Powai in the east. Total absorption from the IT and ITES sectors was 644,870 sq ft in the first six months of 2003.

Fig. 5 - Space absorption by industry in Bangalore - 1H-2003



A large proportion of office space absorbed in 1H03 was in the secondary business districts (south-east quadrant of the city), followed by International Technology Park in the peripheral location of Whitefield. IT and ITES accounted for the majority or 821,000 sq ft of total absorption in the first six months of 2003.

Source: Jones Lang LaSalle Research



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A Design for a Successful Sole Sourcing Approach

By Peter Bendor-Samuel, CEO, *Everest Group*, Todd Furniss, COO, *Everest Group*, Eric Simonson, *Everest Group*



[Everest Group](#) has prepared a white paper on the appropriate use of sole source outsourcing. This is an excerpt from that white paper. In [Part 1](#), we discuss why and how to sole source. [Part 2](#) covers a brief history, then

discusses how sole source approaches can derail. To read the full text of the white paper, click [here](#).

Although a poorly managed sole source approach can fail to meet the buyer's expectations, organizations that take time to develop and lead a thoughtful approach can attain the desired benefits of a sole source approach. Five factors create a successful sole source approach to outsourcing. Several of these factors are important in multi-supplier approaches, too, but you should take additional importance and increased opportunity in a sole source situation.

1. Develop the Relationship

The significant costs associated with entering into an outsourcing relationship dictate that the buyer and supplier nurture and maintain a healthy relationship that will endure. A healthy relationship displays many attributes, including:

- Mutual respect
- Desire to align interests as best as possible
- Commitment and ability to work out differences
- Trust in the other party's intentions

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In short, in an outsourcing context, suppliers should be much more than mere vendors. Accordingly, one objective of a sole source approach should be to advance the relationship as much as possible; this is an especially rich opportunity in a sole source situation because the buyer and supplier can spend increased amounts of time together.

For example, a sole source situation provides an opportunity to foster intensive collaboration between the buyer and supplier, with the buyer seeking a solution based upon real insight from the supplier - not an "off-the-shelf" solution. These customized solutions demand mutual transparency and information exchange between the buyer and supplier. Through these interactions, the relationship grows with the buyer gaining more trust in the single supplier and seeking that supplier's insights. In a sole source situation, both parties can arrange the available time and design the process used to develop the solution to provide opportunities to strengthen the relationship beyond what is possible in a multi-supplier approach.

Additionally, the approach to negotiations provides an opportunity to lay the foundation for an enduring relationship. The parties should adopt a solution development and negotiation philosophy that builds a relationship between supplier and buyer, versus a positional-based spec and bid process that tends to agitate differences. Using an "interest-based" approach to negotiating helps focus the relationship on the most important principles and identify common interests, which increases the chance that the relationship will endure over time. The ability of a buyer and supplier to work more closely together in a sole source approach often better facilitates this process than would a multi-supplier outsourcing approach.

2. Engage Senior Leadership

Senior executives from both buyer and supplier must view the engagement as a broad problem-solving endeavor versus a mere review and supplier evaluation. Successful sole sourcing is built upon trust and goodwill. While rank-and-file employees might carry the day-to-day activities between buyer and supplier, sole sourcing relies more extensively on trust at the highest levels of the organizations.

This is important for several reasons. Specific solutions often are highly tailored to the individual buyer's needs, including the actual services delivered and the commercial terms of the arrangement. As a result, these decisions require not only the authority and buy-in from the highest levels of both the supplier and buyer - but also meaningful engagement in the details of the agreement. The natural tendency of

senior management to delegate the accountability for the process to lower levels within the organization often spells trouble.

Also, without senior management setting a strong course and accepting accountability for the decisions, lower-level managers tend to evolve sole sourcing processes into an unending benchmarking exercise "to see if we are getting a fair deal." This typically leads to murky conclusions that do not reflect the limits of benchmarking and a breakdown in the much-needed trust between the two organizations.

3. Involve the Board

Different companies have different internal governance guidelines for reporting programs of particular sizes, scope, or impact. Depending on the size and impact of the transaction, the Board of Directors might need to be informed and educated about the outsourcing project in order to understand, agree to, and, if necessary, sign off on the sole source approach. Preferably, this should be done at the earliest stages of the process.

It is often not enough to have senior executive knowledge and buy-in for a sole source arrangement to work. Such acceptance must permeate to the board level due to the significant economic impact under consideration.

By their very nature, sole source approaches are easy to criticize for lacking options - ranging from supplier to scope, solutions, and pricing. These approaches may also be criticized internally for lack of objectivity, appearing that the organization not only eschewed an outside opinion but relied solely on preconceived needs and expectations in determining the outcome of the solution remedy. In short, a sole source approach often appears to offer only one choice. However, this conclusion does not acknowledge the intense time and concerted effort that can be spent with a single supplier designing a solution tailored to a buyer's specific needs. Such customization typically works through a range of alternative solutions to identify which creates the greatest mutual benefit.

Many Boards of Directors have limited experience with sole sourcing approaches. Therefore, when a Board is presented for the first time with a sole source situation for which it has little to no background, the typical reaction is to question the legitimacy of the approach. Concerns can range from whether management considered all options to whether it is the most cost-effective solution for the buyer organization. This typically results in additional fact gathering and potential redesign of the process to attain proposals from additional suppliers.

The inevitable impact is the buyer must invest additional time, effort, and resources in the outsourcing procurement process. While the Board might eventually come to the same conclusion it was originally presented (i.e., that sole sourcing is a viable approach for the given situation), quite frequently the buyer spends more time and money than if the organization had pursued a multi-vendor approach.

Avoid this outcome by taking any proposed sole source approach to the Board early in the process or before the process begins to attain buy-in and provide an opportunity for the Board to influence - or at least feel integrally involved in - the design of the process.

4. Compare to Ensure Value

The parties must adopt a sophisticated external comparative analysis process to ensure fairness of value sharing. It is essential that the buyer be intimately involved in the development and on-going refinement of the scope of the services to be delivered. To do so, the buyer must know what it is seeking from the supplier's services, and how such services will help the buyer achieve its goals. Working in tandem, both buyer and supplier must confer on and set specific targets for the supplier, which require the buyer to complete analyses that would not be required if the buyer had alternative solutions for comparison.

By comparing each component of the potential solution, the supplier is effectively continuing to "compete" for the deal. The possibility of pulling some or all of the services out of the scope of the agreement provides tension to ensure the supplier provides the best possible solution at a fair price. The buyer must set out unequivocally from the beginning that if goals are not achieved, the process may become multi-supplier at any time.

5. Be Specific - More Specific Than Seems Necessary

The buyer must specify the process by which the problem-solving, analysis, and solution evaluation are to take place. This requires the buyer to take ownership of the engagement process with the goal of setting specific milestones and end goals. This allows the buyer to maintain control of the decision and problem-solving involved in reaching the deal, thereby avoiding having a deal on the table with significant questions surrounding the validity and competitiveness of the solution. Additionally, the buyer's objective in specifying the process is to build a framework by which both parties will be aware of prescribed milestones and goals, and ultimately realize when they have achieved a fair deal - with its

defined tenets.

In addition to setting the timing and objectives for the process, buyers should set guidelines for the level of detail for the scope and metrics used to measure the success of the relationship. Although most companies believe that they provide these inputs to the supplier, they often don't give them the level of detail and thought that is actually required.

The scope targets must define which processes are indeed in-scope. This should be the buyer's decision, although the supplier can offer alternatives through appropriate mechanisms. Additionally, the buyer must dictate the level of precision the supplier must use to establish its roles and responsibilities in the outsourced process for the proposed pricing. For example, requiring a supplier to develop a responsibility matrix for the proposed solution can help quickly delineate the critical responsibilities of both the buyer and supplier, thereby allowing the buyer to understand which activities it would retain or lose and the financial impact of each.

Additionally, the buyer must insist that the supplier's proposal detail the metrics used to measure the success of the proposed solution. Forcing the two parties to discuss and agree upon the specific metrics provides clarity that bypasses any pleasant, but non-accountable rhetoric.

A sole source approach will not be the best solution for every organization; however, it can be a viable approach in the right situation. Buyers must weigh many factors, including the supplier's ability to meet the buyer's specific needs - either with an off-the-shelf service or a custom-tailored solution. Other factors include existence and strength of current relationships, the scope of the required services, the ability of the supplier to adapt and provide new services over time, and acceptance of sole sourcing across the organization.

Lessons from the Outsourcing Journal:

- If the buyer selects a sole source approach, the chance of success is increased by
 1. Using the sole source environment to begin building or deepening the buyer-supplier relationship
 2. Engaging senior leadership
 3. Involving the Board early in the process
 4. Comparing the supplier's solution to external measures
 5. Being specific about what is expected of the supplier during the process
- Carefully designing and executing a sole source process can capture the desired benefits:

1. A more streamlined process to contract signing
2. A quicker realization of benefits
3. A stronger relationship

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