


How BPOs are managing the slowdown

User Rating:  / 0

Poor Best

[Strategy - IT & Outsourcing](#)

Written by Amrish Jha

Friday, 01 May 2009 00:00

READ ALSO

- [Indians Bank's Cater To Larger Customer Com...](#)
- [The present crises cannot and should not be c...](#)
- [Auto sales up in February, but industry remai...](#)

The US financial crisis and the subsequent global slowdown has hit international BPO companies hard. Many small and medium ones have ceased to exist and others are evolving strategies to sail through the slowdown

Business process outsourcing (BPO) in India was having a good time until recently.

In 2007-8, according to NASSCOM, BPO revenues were close to US\$ 11 billion, registering a growth of 30 percent over the previous year. The party seems to have run out of steam after the financial crisis hit the shores of the US, the principal market for the Indian BPO companies. Companies working with the US banking and financial

sector (BFSI), the major constituent of the Indian BPO business, have been the worst hit. The magnitude of the financial crisis has been so enormous that it engulfed almost all other sectors of the US. Consequently, BPO companies working with these other sectors have also started seeing adverse effects.

While the big players like Wipro, Infosys and Genpact retain their optimism for the longer term, they are quietly working on strategies to cope with the current slowdown. In contrast, small and medium players have faced the brunt of it. Many of them have already ceased operations and many others are trying to survive by resorting to various means. However, they are still finding the going difficult. This piece is an attempt to look into what BPO players are doing to sail through the current slowdown.

Effects on the BPO sector

“Companies do not have enough business. They do not have enough money on the balance sheet. They are firing people,” says Rajeev, a BPO professional, who has been lucky enough to get a job after being laid off by a small BPO company, Cyber Futuristics. He was one among 30 people to be laid off at the same time. “When we cannot survive, how can you people survive?” This is what the management told them while laying them off.

Rajeev’s case is not a one-off. Many small and medium BPO companies have done the same. They are not only seeing their sales going down, but they are facing pressure on their margins as well. They have been forced to cut on their operating costs as their US-based clients are reluctant to pay higher prices like earlier. They cannot complain, being aware that many people in the US are out of jobs and really short of money. For instance, Revons IT Solutions, a 15-employee Chennai-based BPO company working on the publishing works and back-end office operations outsourced from the US, has seen its volumes going down considerably. A director working with Revons confirms that revenues of the company have gone down significantly. He admits that around 10 employees have been laid off so far to cut costs.

The depreciation of the rupee against the dollar has come as some relief in these tough times. Sales of companies have gone down, but revenues in rupee terms have not, as Aijaz Khan, who runs a small BPO company in Lucknow, points out. He says, “Earlier we used to get anything between Rs 36 and 40 for one dollar. Right now we are getting around Rs 50. Therefore, we have not seen the revenues going down considerably though sales and margins are down.”

Bigger players have also faced the heat, but are better equipped to deal with the situation arising out of the slowdown. A forecast by NASSCOM reveals the possibility of a 3 to 4 percent decline in growth in this sector in 2009-10. Domestic BPOs like Cameo Corporate Services, a Chennai-based company, are in a better position – probably a reflection of the fact that the Indian economy is not as badly hit by slowdown as the countries in the West and Japan are. But they are also not expected to grow at rates any better than previous years, which also demonstrate that Indian companies are trading cautiously, if ambitiously.

Measures to counter the slowdown

When financial crisis hit the US, BPO players thought it to be another opportunity to increase their business. This turned out to be a gross underestimation of the problem as the crisis blew entire investment banks off the US landscape. Ajai Bhatnagar of BPO Consultants, an advisory firm for global outsourcing, says, “Investment banking is the key to BFSI segment, which is the bread and butter of both IT and BPO sectors in India. This is in a complete mess in the US.”

So what can international BPOs do, and what are they doing to ride the slowdown? Once reality struck BPO companies, as Bhatnagar says, they hurried to find means to cut down on costs. For the BPO sector this was a new situation. Till the slowdown appeared, it was used to a growth rate of around 30 percent year-on-year basis for the last many years. To begin with, the reaction was knee-jerk and the first method most BPOs have adopted is to lay off employees. The big ones have not resorted to retrenchment, but they have almost frozen new intakes as compared to before the slowdown. Many BPOs, which include some of the big names, have increased their working hours, and frozen pay hikes and other perks. Infosys BPO, one of the largest, has, according to newspaper reports, terminated the services of over 600 contract workers in February. It has also accelerated the process of redeployment of staff in an effort to prune variable costs. BPOs have suddenly become aware of even the most trivial measures to cut costs. They are asking employees to switch off monitors not in use, to keep optimum lighting at the workplace, reduce expenditure on stationery and food items, and cut down on travel costs.

BPOs working on international projects have started reducing their margins, which used to be as high as 20 percent. They cannot let their clients leave at this stage, even when they are not ready to pay the higher prices they were paying earlier. With these BPOs now willing to work on reduced margins, they have suddenly started seeing value in the domestic market, where the margin is generally between 8 to 10 percent. International BPOs like TCL, Infosys and HCL have already started increasing their exposure in the domestic market.

Traditionally, BPOs have been focusing on the US market alone. With the US in crisis, they have woken up to the reality that there is a world outside it as well. Revons IT, for example, is concentrating on marketing in Europe and Australia to get new clients, though its efforts have not paid much dividends yet. Unfortunately, the timing of these efforts seems quite inappropriate. Bhatnagar says that they are not going to pay dividends as the whole world has slowed down, including Europe, Japan and Australia. Persistent efforts on this front may only bear results once the slowdown is over.

Viswanath R. Rao, Executive Vice-President of Operations, Hinduja Global Solutions, says the company is focusing on consolidation; something even Bhatnagar says will be a trend for some time in the BPO sector. Smaller players, especially those catering specifically to the BFSI in the US, are showing signs of willingness to be acquired as they know that they may perish forever if they stay put. Bigger players like Aegis, Wipro and HCL have already either acquired or are planning to acquire some of the companies under pressure. BPOs are also trying to deepen relationships with existing clients, rather than looking for new ones, which are anyway nowhere on the horizon. Even smaller players like Aijaz Khan’s Lucknow-

Revenue Streams of BPOs

Segment	Share (%)
BFSI (banking/finance)	40.4
Hi-tech/telecom	19.0
Manufacturing	15.0
Retail	8.0
Airlines and transportation	3.4
Construction and utilities	3.5
Health care	2.5
Media, publishing and entertainment	3.3
Others	4.7

Source: NASSCOM

based BPO have shown a willingness to cooperate with clients over longer payment cycles. Enterprises outsourcing jobs to India are also keen to deepen these relationships.

Companies are spreading their footprint in areas like consultative selling. This is, however, easier for bigger companies, than for small and medium-sized BPOs. Bhatnagar of BPO Consultants says that closures in the small and medium-sized BPOs in recent months have been because of their inherent problems rather than the slowdown as such. "People had started these businesses only in lure of the dollar, with no other commercial will or reason. This downturn will certainly separate the wheat from chaff and a lot of consolidation will take place."

Domestic BPOs are expected to remain unscathed. However, they are also not likely to add to their growth rate. Indian companies might not have been as badly hit as their American counterparts, but they are also looking to cut costs. After all, hardly any sector is showing robust growth. In such a scenario BPOs based in smaller towns, semi-urban and rural areas are expected to make gains. The slowdown, for instance, has brought cheers to rural BPO DesiCrew, as Saloni Malhotra, CEO of the company, says. This outfit, which gets works outsourced from the Indian mobile, Internet and insurance companies, has seen slightly more positive impact during the slowdown.

Future

The Indian BPO sector has hit a rough patch, and growth rate as expected in 2008-9 will be much below as what was seen in 2007-8. Even big players like Genpact expect its revenue growth to reduce from 26 percent in 2007-8 to between 10 and 15 percent in 2008-9. EXL Service expects its growth to slacken from 19.5 percent last year to 5 to 8 percent this year.

However, a few factors are still loaded in favor of the BPOs. The rupee's marked depreciation against dollar has offset loss in sales volumes to some extent, something even Aijaz Khan pointed out. Attrition rate has also started showing signs of slowing down considerably. Inorganic expansion is what many big players are looking for at this stage. With many BPOs in bad shape, Bhatnagar says inorganic expansion has become cheaper, a good news for the industry. No wonder we have been hearing of BPOs with cash in hand on a buying spree despite the slowdown. Costs of raising capital through banks have fallen. With inflation falling to almost zero, rates are going to be cut further. This will help the BPOs in the post-slowdown phase, when they will look to give a real push to their business to cover for lost time.

What has hit the BPO industry most severely is the fact that nearly one-third of its revenues originate from the BFSI vertical – an area worst affected during the slowdown. This segment is still not showing signs of real improvements though governments all over the world are trying to revive it through stimulus packages. The economic situation in the US and other countries are, however, bound to improve sooner or later as effects of so many stimulus packages will ultimately be visible. Smaller and medium-sized BPOs also realize this and are probably counting on it. They are trying to hang on for as long as possible. Perhaps the best bet for them is to merge with bigger players. And for the bigger players these can prove value-additions at fairly cheaper prices. Bhatnagar says that BPO companies should start working with the international clients to benchmark processes and become more efficient, something on the lines of Infosys, which is expected to maintain an impressive 25 percent year-on-year growth despite the slowdown.

NASSCOM is quite optimistic about the BPO sector in the long run. According to its recent report – Strategic Review 2009 – the sector will rebound from 2010 onwards. The report highlights that the BPO industry will ultimately benefit from the short-term cutbacks in spending by US companies on technology. Bhatnagar also prophesies that BPOs that survive these tough years and prune themselves to be nimble entities will thrive and grow with a big bang. Perhaps this is what is inspiring many small and medium BPO players to hang on by a thread.

What International BPOs are Doing

- Laying off staff
- Redeployment of staff
- Increasing work hours
- Deepening existing relationship with clients
- Consolidation of business through inorganic means
- Cooperating with clients over delayed payment cycle
- Focus on marketing to find new clients outside the US
- Turning towards domestic outsourcing opportunities
- Pruning themselves to adopt more efficient means of working
- Trying not to shut down (even when they have no work) and somehow to reap benefits post slowdown