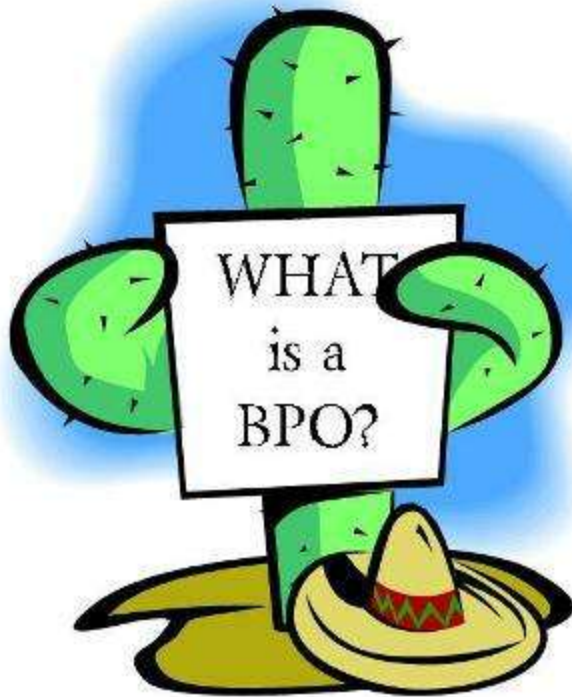




BPO Industry Evolution & Growth

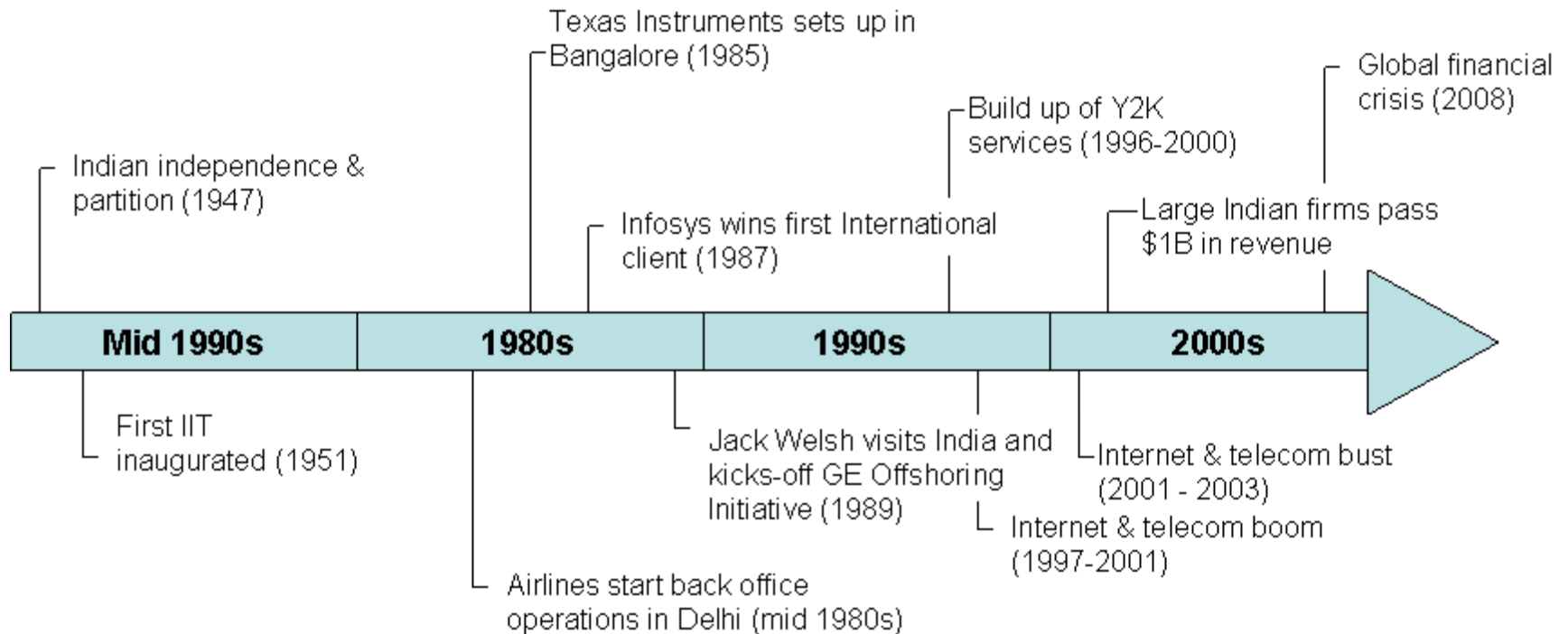


Introduction

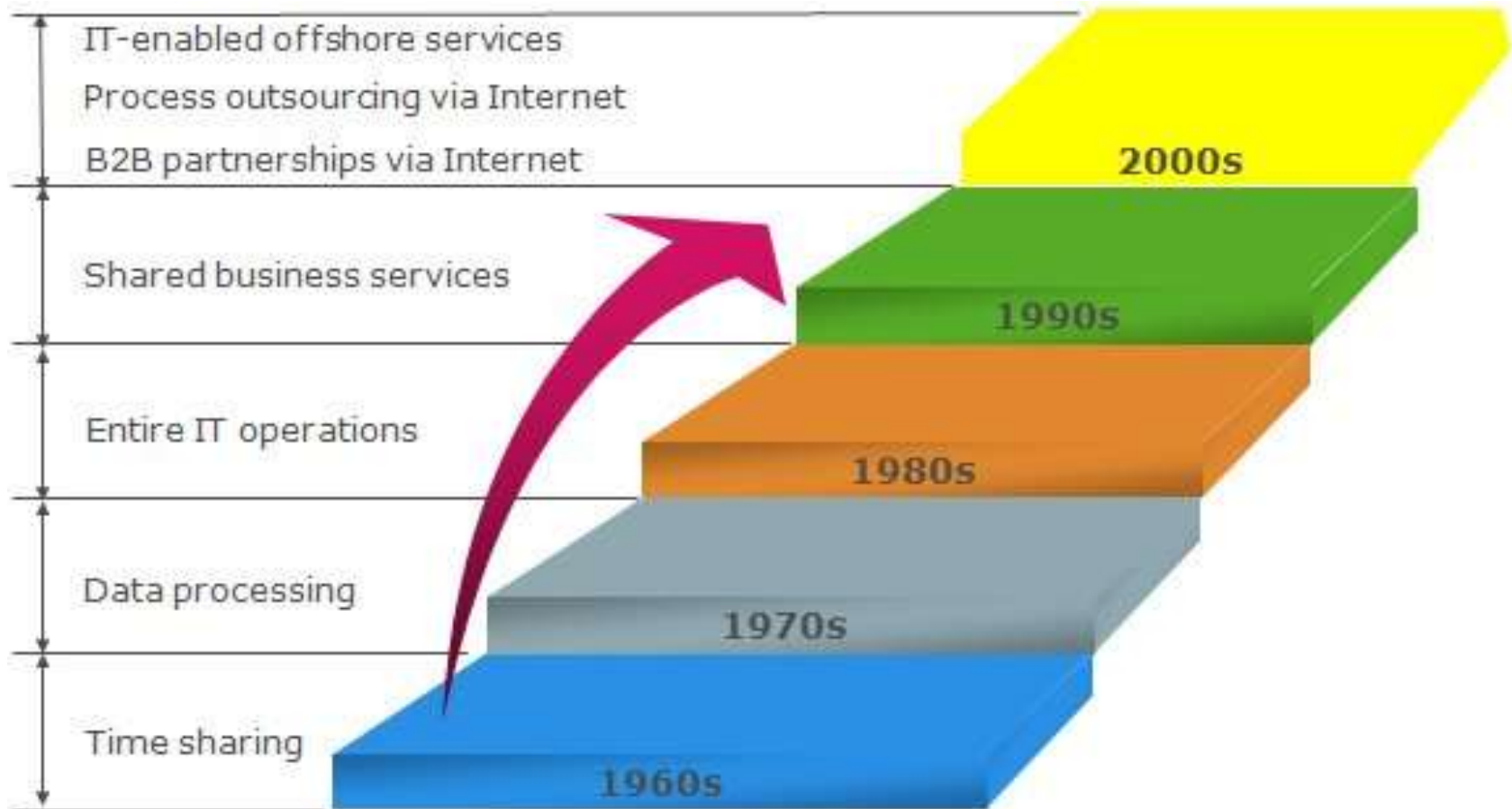
Introduction

- Business Process Outsourcing (BPO) is outsourcing of business functions generally performed by white collar and clerical employees to achieve various benefits such as cost savings, better quality and ability to focus on core competence.
- BPO involves outsourcing processes that are not core to a company, however, are essential for smooth operation of the company.
- The customer transfers the complete responsibility of these functions to the vendor who guarantees certain service quality standards.
- Such processes include customer service, payroll processing, inventory management, etc.

Historic timeline of outsourcing in India



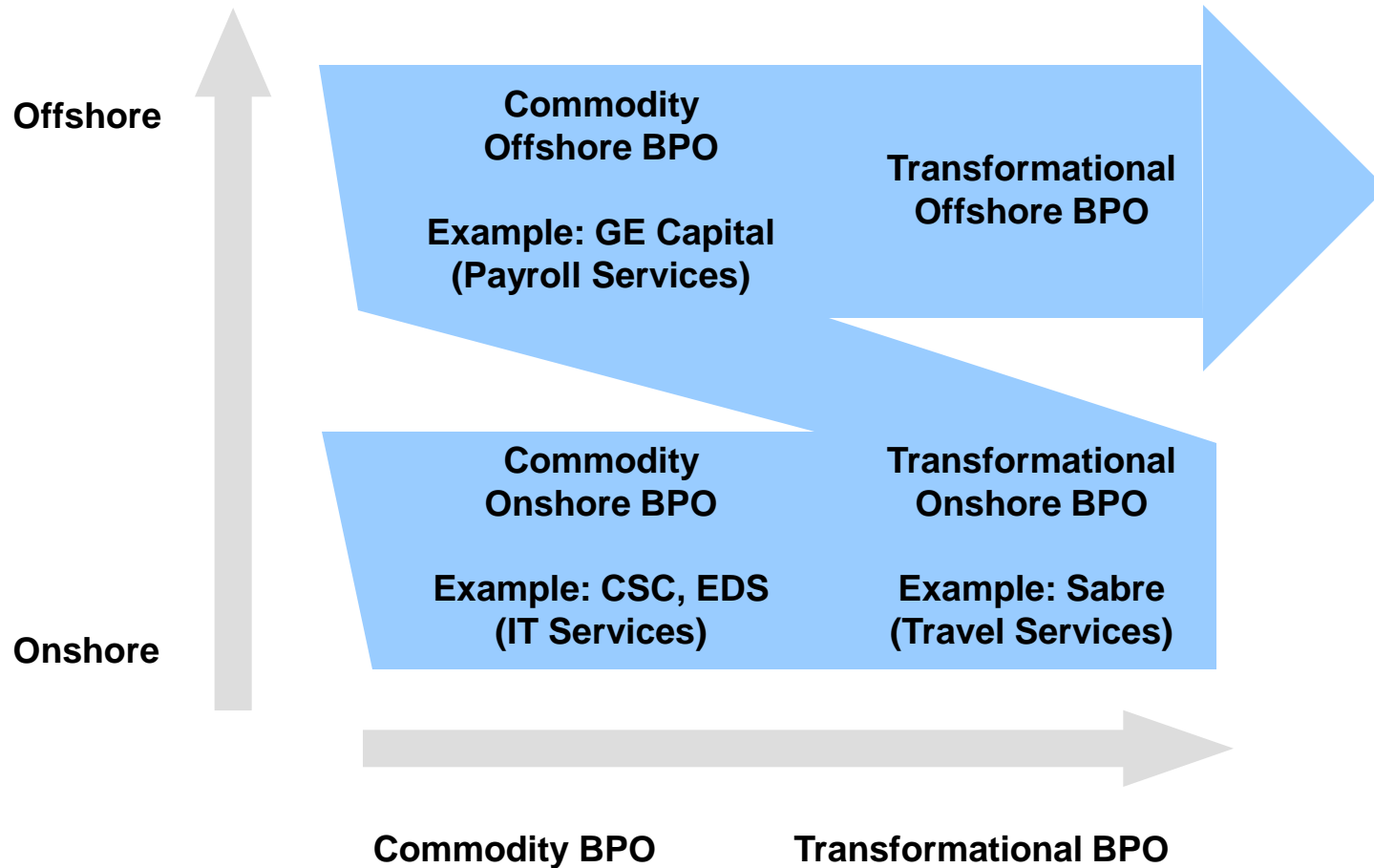
Evolution



History of Indian BPO

- **Airlines** - In the early 1980s several European airlines started using Delhi as a base for back office operations, British Airways being one among them. The BA captive was finally spun off as a separate organisation called WNS Global Services in 2002.
- **Amex** - In the second half of the 1980s, American Express consolidated its JAPAC back office operations into New Delhi and NCR region.
- **General Electric** - In the 1990s Pramod Bhasin, the India head of G.E. hired Raman Roy and several of his management from American Express to start this enterprise called GECIS (GE Capital International Services). In 2004 GECIS was spun off as a separate legal entity by GE, called Genpact. GE has retained a 40% stake and sold a 60% stake for \$500 million to two equity companies, Oak Hill Capital Partners and General Atlantic Partners.
- **Third party BPO's** - Until G.E most of the work was being done by "captives"- a term used for in house work being done for the parent organisation. In 2000 organisation called EXL started in Noida and Efunds started in Mumbai and Gurgaon, and Daksh in Gurgaon.
- **Entry of IT majors** - In 2002 Spectramind was bought by software major Wipro, and BPO by then had become mainstream like the IT Industry in India. The team that had setup Spectramind went on to start Quattro in 2006, a BPO specialising in high end BPO/KPO services. By 2002 all major Indian software organizations were into BPO, including Infosys (Progeon), Inforlinx, HCL, Satyam (Nipuna) and Patni. By 2003 Daksh was bought out by IBM, and later in 2006 Mphasis was acquired by EDS. Even international 3rd party BPO players like Convergys and Sitel had set up shop in India, swelling the BPO movement to India. Then service arms of organizations like Accenture, IBM, Hewlett Packard, Dell also set up shop in India.
- **Emergence of Rural BPOs** - Booming India Inc has led to skyrocketing real estate and infrastructure costs in Tier-1 cities. Increasing infrastructure costs, real estate costs, and salaries have raised BPO costs significantly and as a result Indian BPOs in Tier-1 cities are looking at Tier-2 and Tier-3 cities for operation.

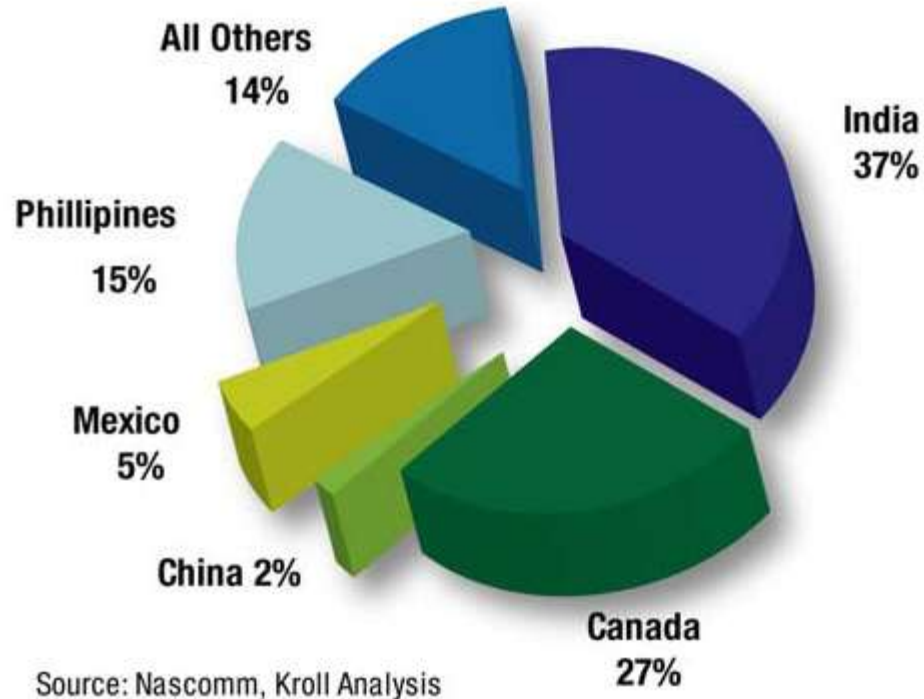
The Evolution of BPO Models



Possible BPO Structures

		Pros	Cons
Service Arrangement	Outsourced Service	<ul style="list-style-type: none"> • Can get going quickly • Lower client management overhead 	<ul style="list-style-type: none"> • Higher ongoing P&L cost vs. alternatives • Limited value creation potential for client • Less control
	Build Operate Transfer	<ul style="list-style-type: none"> • Eases entry into offshore operation with experienced partner • Lower long-term cost • Complete control 	<ul style="list-style-type: none"> • Limited value creation (captive) • No ownership Day 1 • Retention • Only 2nd tier partners
	Service Management	<ul style="list-style-type: none"> • Leverage partner's offshore infrastructure and experience • Ownership Day 1 • Lower costs (initial and long-term) 	<ul style="list-style-type: none"> • Limited value creation (captive)
Joint Venture			
	People & Investment	<ul style="list-style-type: none"> • Leverage partner's offshore infrastructure and experience 	<ul style="list-style-type: none"> • Value creation opportunity (if non-captive) • Exit issues

Global Offshore BPO Market Share by Major Players



Industry Structure

1st Wave

Company Owned Units Pioneered BPO in India

2nd Wave

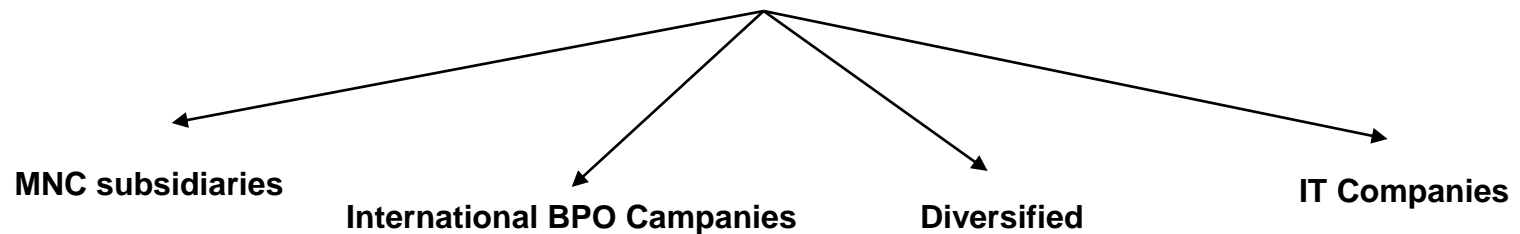
Venture Funded New Companies

3rd Wave

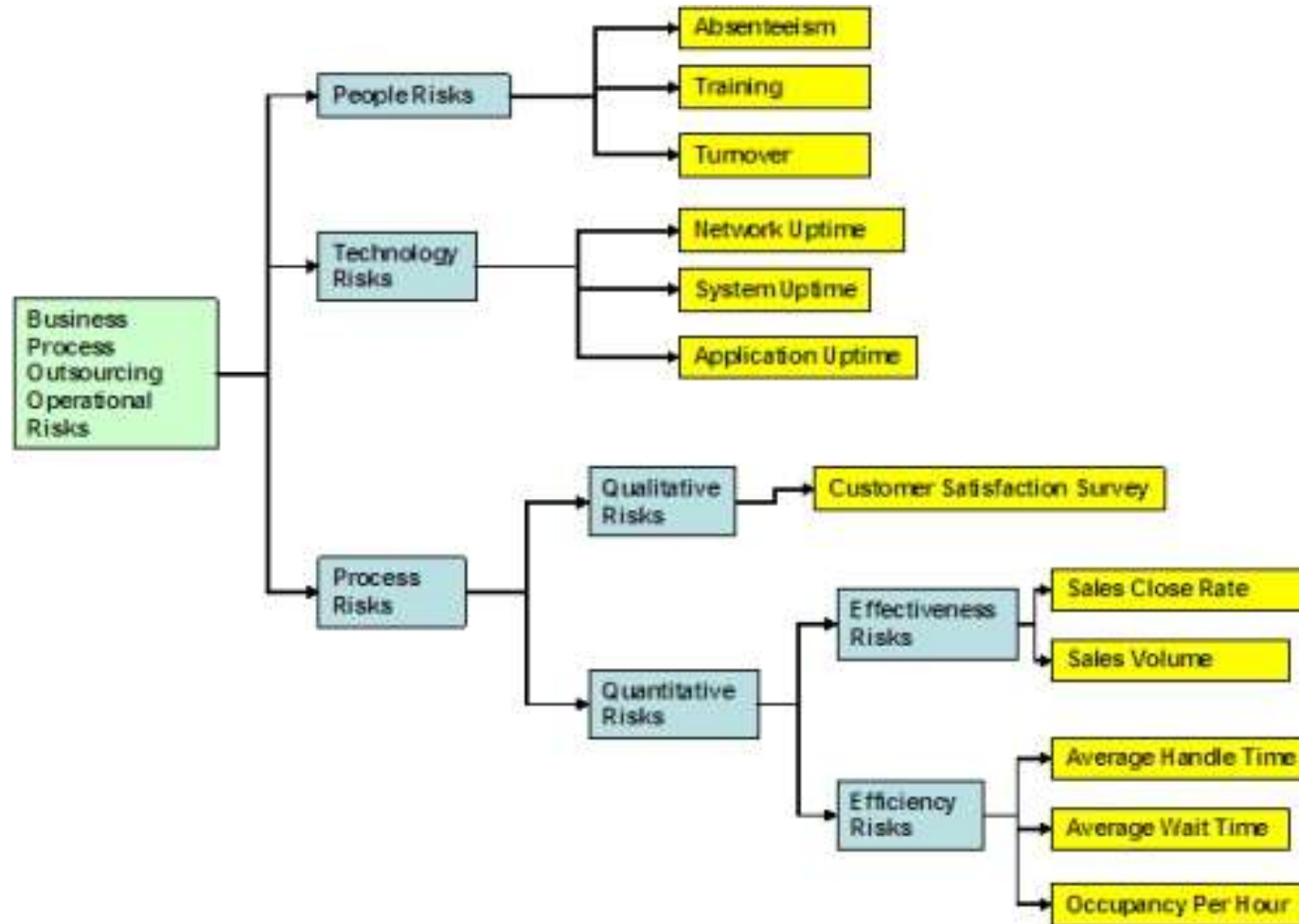
Leading IT Services Companies enter BPO

4th Wave

Domain / Industry Specialized BPO's



A Framework for Mitigating Operational Risk in BPO

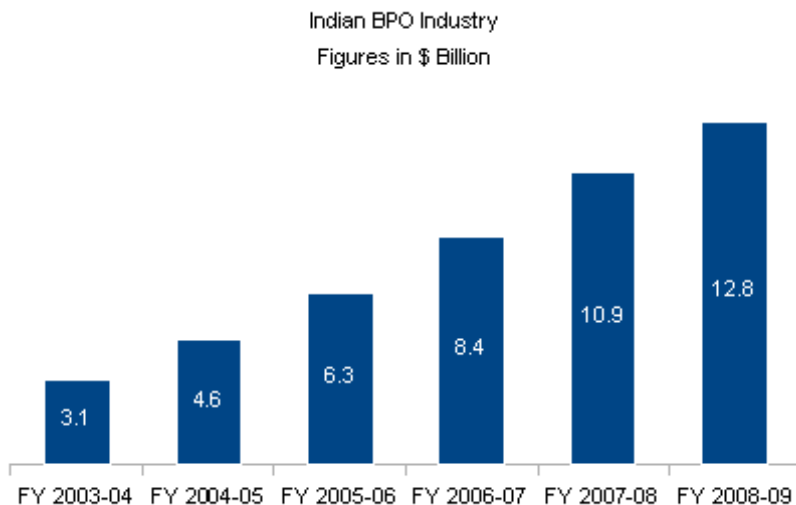




BPO Industry 2009

The BPO industry 2009: The year that was

- Over the last decade, the BPO industry has grown at a frenetic pace. However, the last two years have been challenging for several service providers due to the uncertain economic conditions.
- The Indian BPO industry that was growing at a rapid pace (CAGR of 30+%) from 2004-2008, experienced a slowdown for the year 2008-09 (with a growth rate of 17% per annum).
- Revenues from the Indian BPO industry were \$12.8 b in FY 2008-09.



- 2009 saw many BPOs expanding their operations.
- While some BPOs expanded their operations by setting up new centers and expanding their own branches others explored the acquisition option to grow their business.
- This is a result of the move towards a mix of multiple locations, on-shore, near-shore and offshore; as a means to serve customers better and de-risk operations.
- Several BPOs including Wipro, Convergys, Aegis BPO, WNS, FirstSource, Infosys and Zenta expanded operations within and outside India.

Source: Valuenotes

Significant events that impacted the BPO industry in 2009

Major acquisitions in the sector

Company	Acquired by	Deal Size	Reason / Industry / Horizontal
Mcamish Systems	Infosys	\$38 M	Insurance
ONSITE3	Integreon	\$9 M	Litigation & Compliance services
CCN Group	Aegis BPO	NA	Contact Center
UCMS Group	Aegis BPO	\$40.7M	Expand its operations in Australia
Smart Timex	Aegis BPO	80% stake	Expand its operations in Srilanka

Captives...attractive acquisition targets

Company	Acquired by	Deal Size	Reason / Industry / Horizontal
UBS India Service Centre	Cognizant	\$75 M	BPO Services
GE Money	Integreon	NA	Expand in Mexico services in Spanish to US. back office services to GE Money
Grail Research	Integreon	NA	Expand delivery center in China and South Africa.

Significant contracts

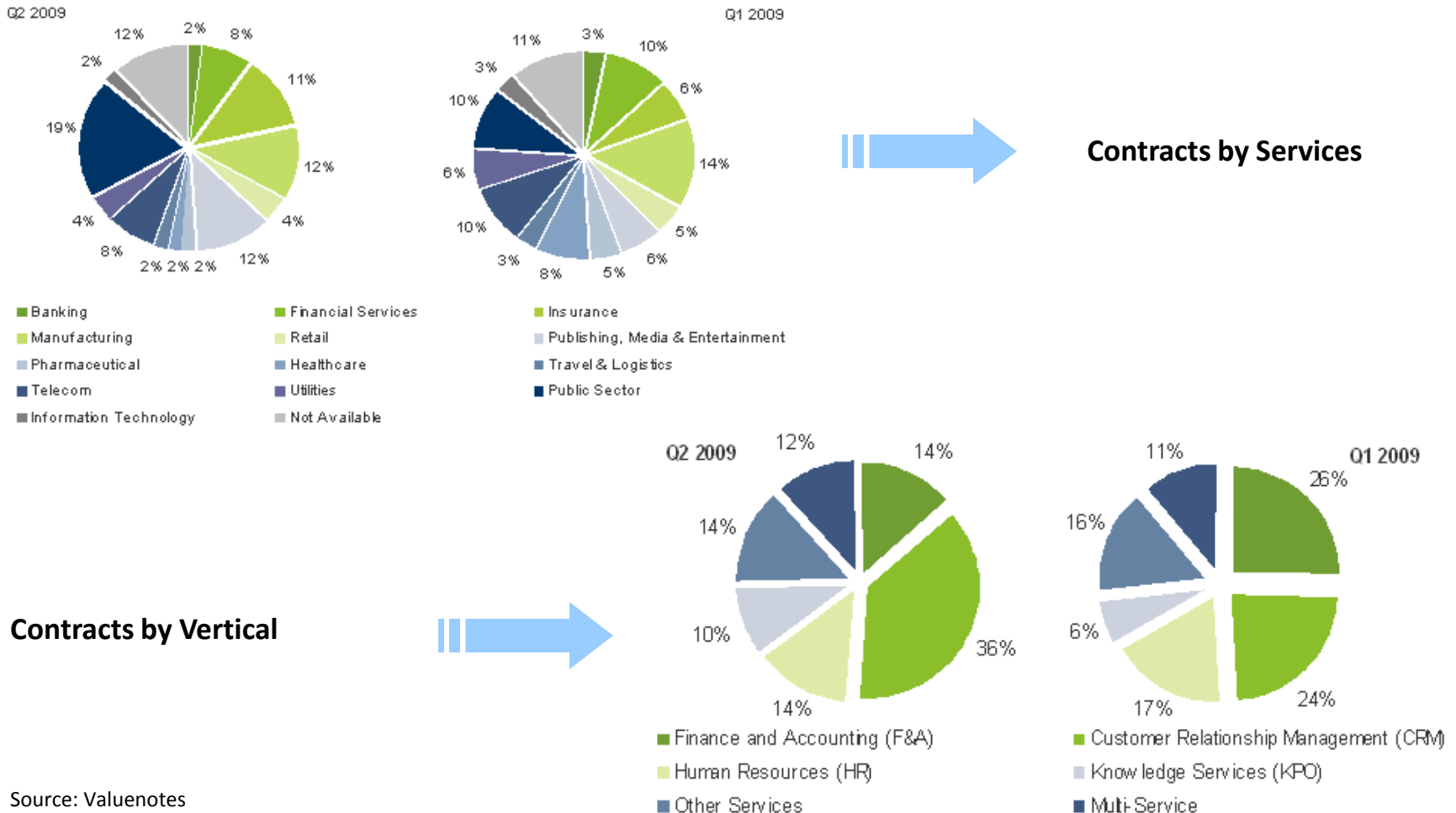
Company	Service Provider	Duration	Deal Size	Services
Healthcare provider	Intelenet	7	Around \$300 m	Back-office operations
Huntsman	Genpact	5	NA	Accounts payable services in Europe, NA, & Asia Pacific.
Idea Cellular	FirstSource	5	Rs.1450 m	Customer management interaction services
MTNL	Caretel	2	NA	Multi-lingual voice and data support to MTNL's customers.
Idea Cellular	Aditya Birla Minacs	5	INR 6 bn	Voice based services



Contracts Overview

Contracts Q1 & Q2 2009 by Services & Vertical

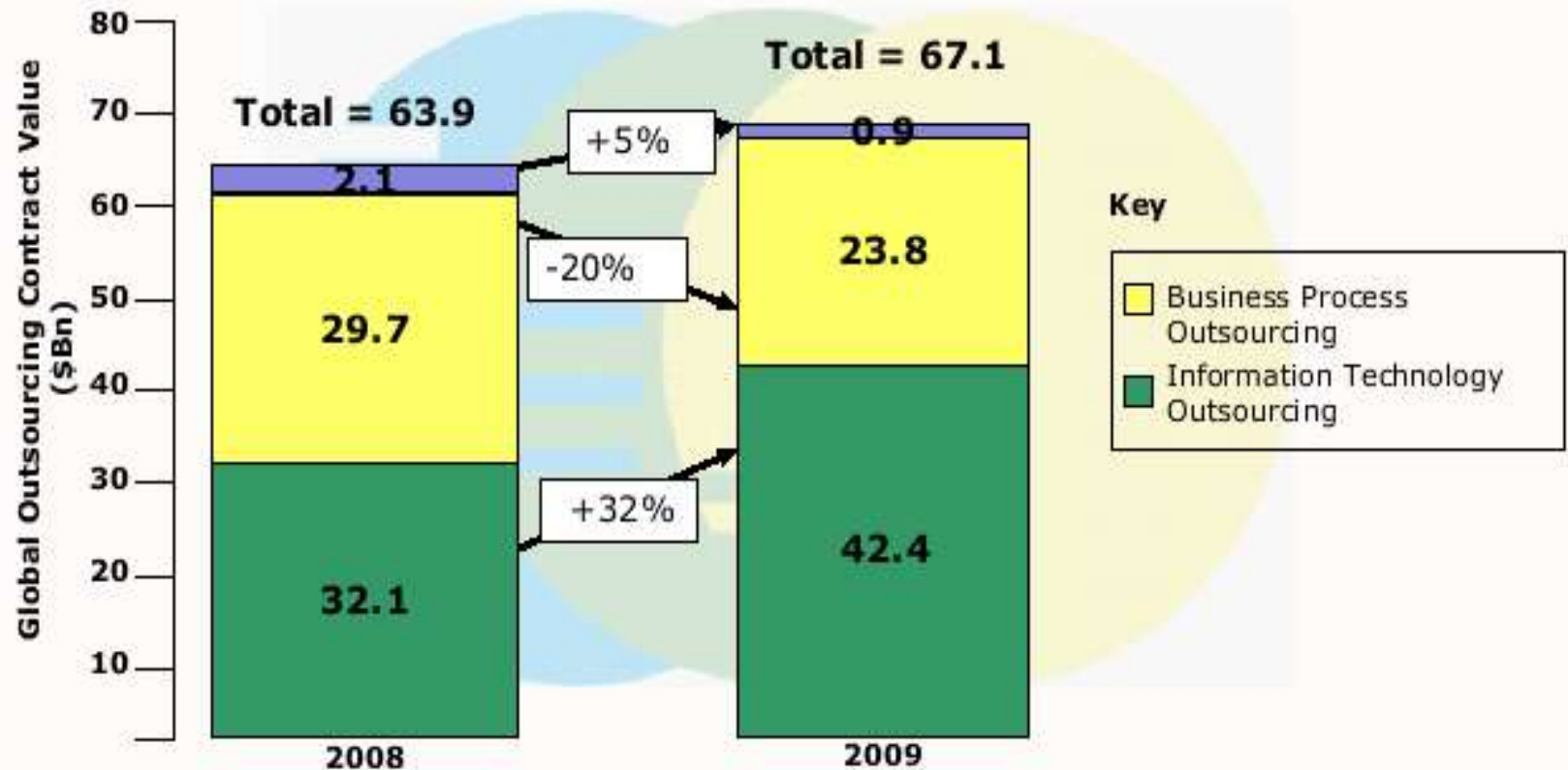
Outsourcing activity fell by 24% in the second quarter with just 51 BPO/KPO contracts recorded during the period, compared to 63 in Q1 2009



Source: Valuenotes

Contracts Full Year 2009

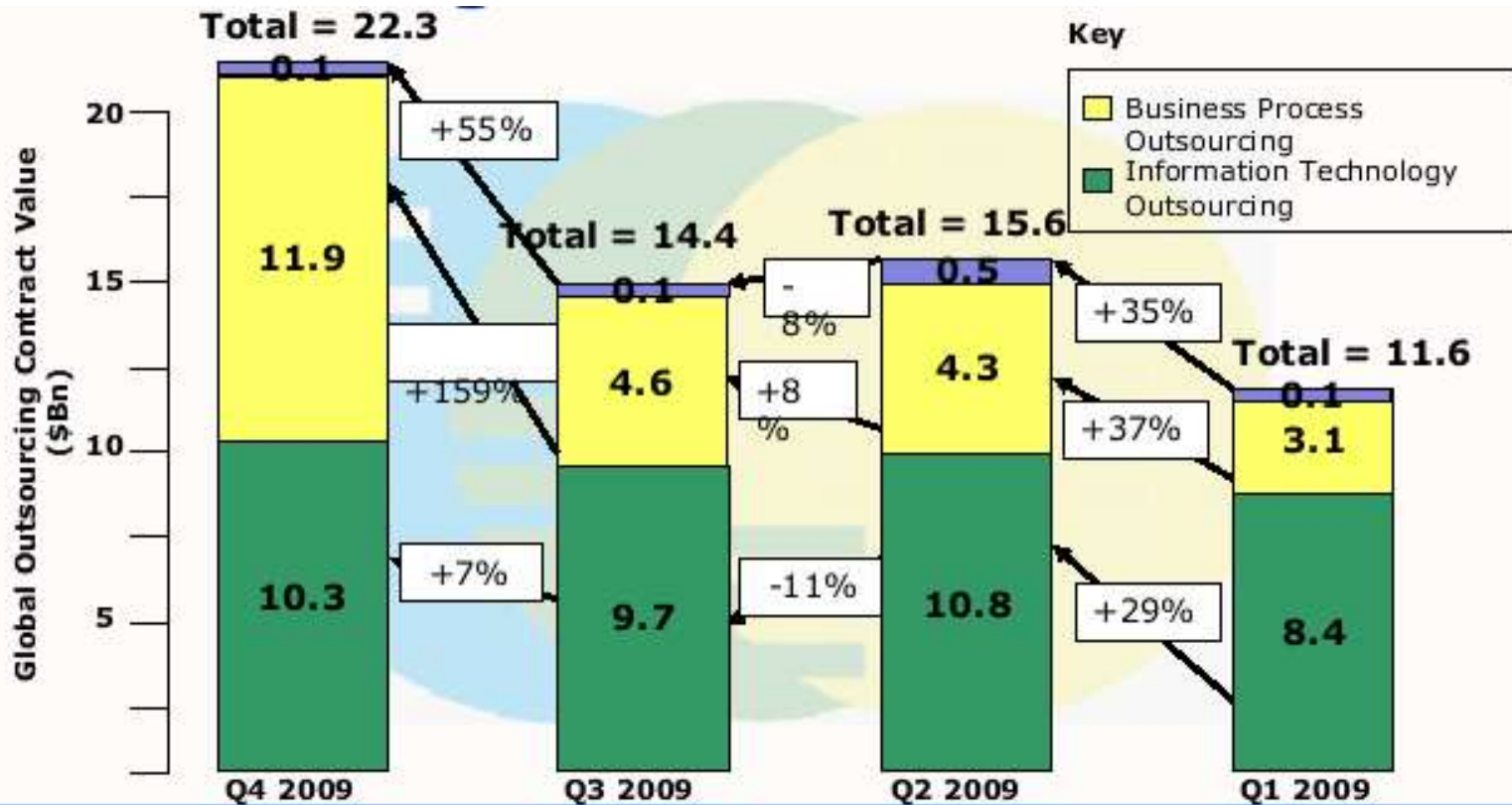
BPO accounted for 36% of Contract Value in 2009



Source: NelsonHall 2010

Growth

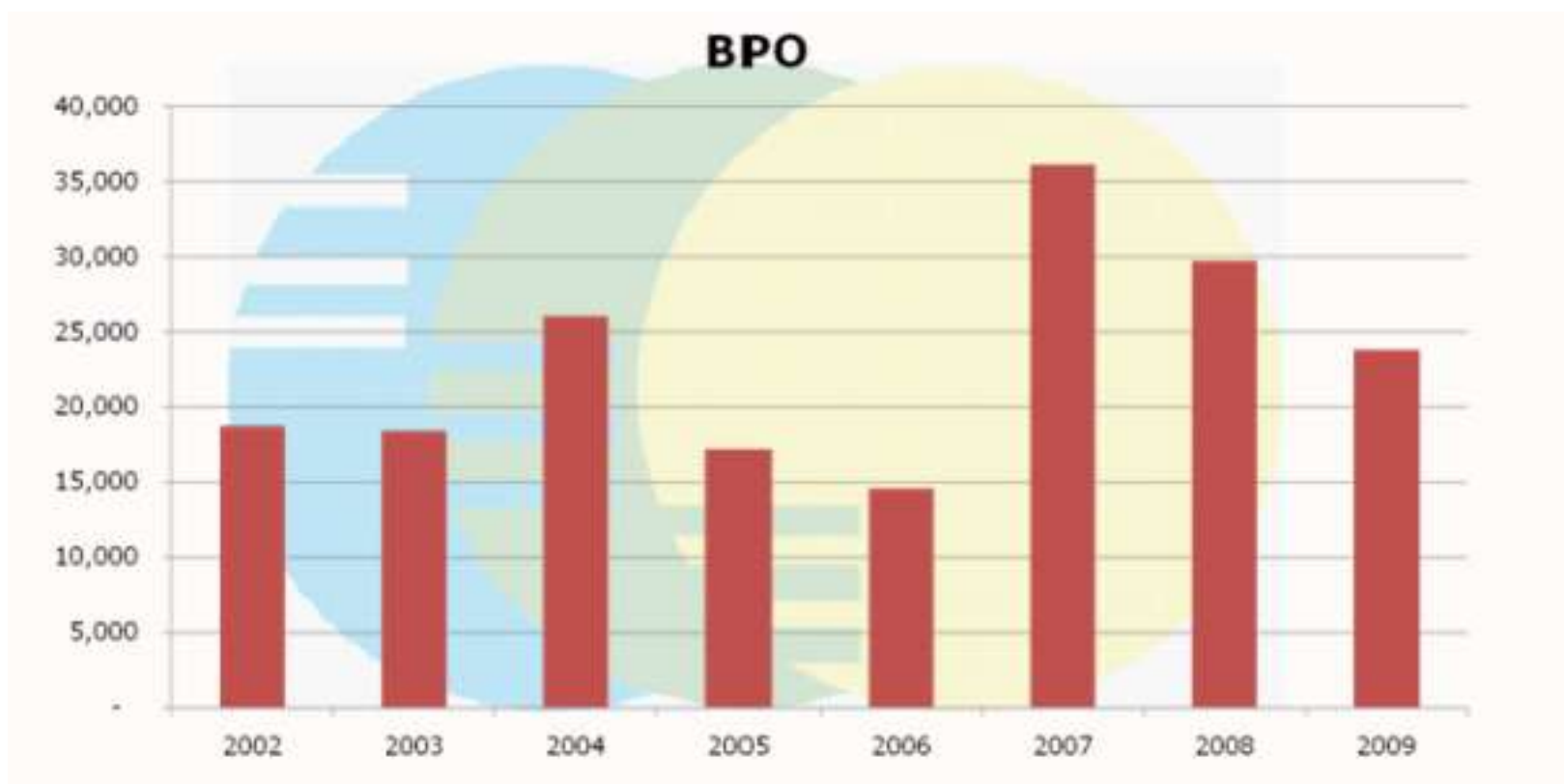
BPO TCV steadily increased as 2009 progressed



Source: NelsonHall 2010

Level of TCV

BPO maintains average level of TCV in 2009



Source: NelsonHall 2010

Contract - Trends

BPO Strengthens outside North America

Region	Total Outsourcing Contract Value 2008 (\$Bn)	Total Outsourcing Contract Value 2009 (\$Bn)	Change (%)
North America	33.2	17.6	-47
Europe	26.8	43.8	+63
Asia-Pacific	0.7	1.8	+155
Growth Economies	3.5	4.0	+13

IT Outsourcing	Contract Value (\$Bn) 2008	Contract Value (\$Bn) 2009	Change (%)
North America	10.1	9.1	-11
Europe	18.6	28.6	+54
Asia-Pacific	0.6	1.6	+162
Growth Economies	2.9	3.2	+11

BPO	Contract Value (\$Bn) 2008	Contract Value (\$Bn) 2009	Change (%)
North America	21.0	7.9	-62
Europe	8.0	14.8	+86
Asia-Pacific	0.1	0.25	+119
Growth Economies	0.6	0.8	+32

Source: NelsonHall 2010



BPO Contract Activity by Sector & Process

Financial Services regains dominance

Financial Services Regains Dominance in Commercial Sector BPO

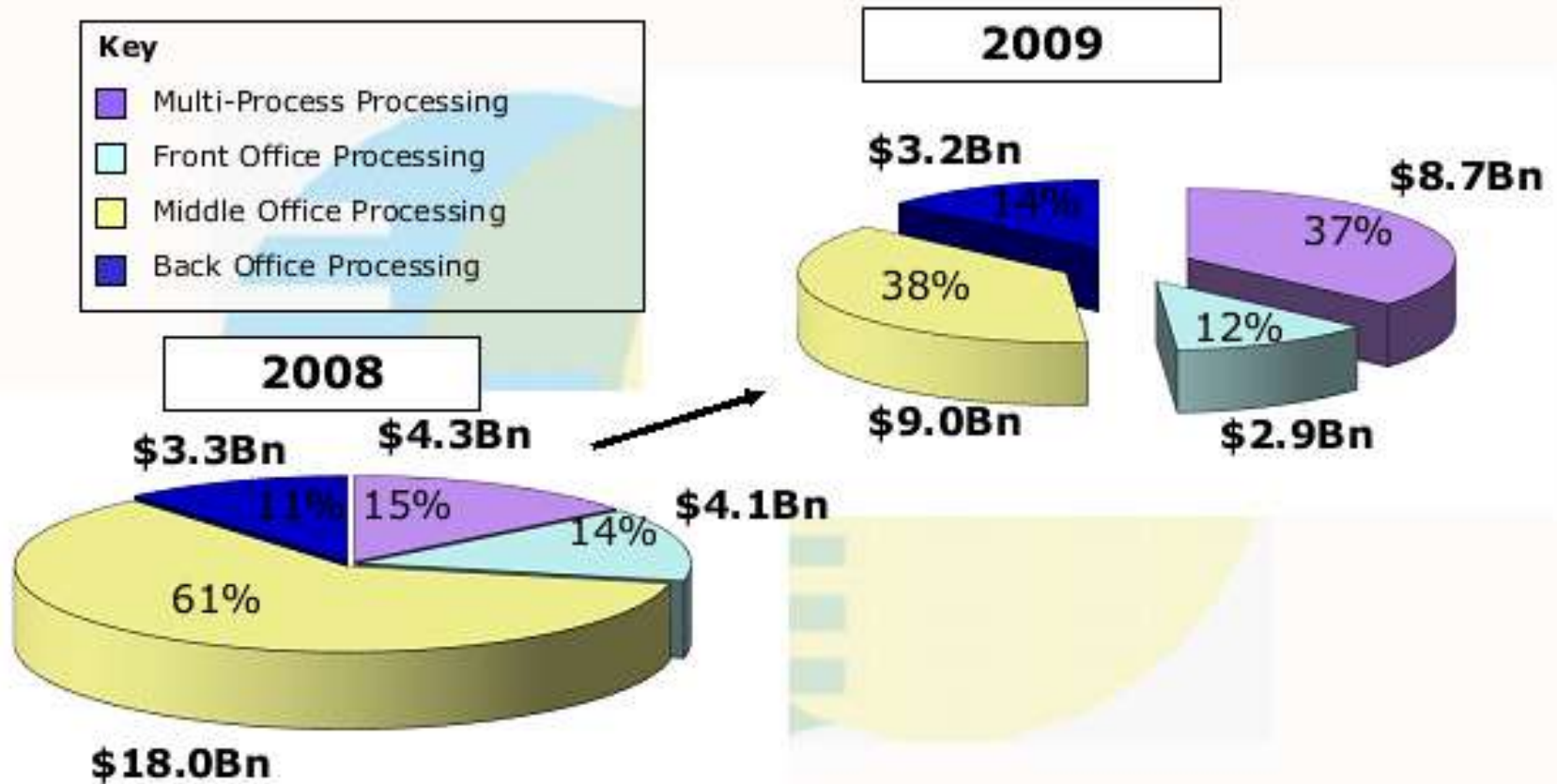
Global Sector Breakdown	BPO Contract Value (\$Bn) 2008	BPO Contract Value (\$Bn) 2009
Government	14.1	13.7
Financial Services	4.2	4.7
Manufacturing	5.3	2.0
Telecoms & Media	2.1	1.3
Transportation	0.6	0.8
Healthcare	0.6	0.7
Retail	1.4	0.4
Energy & Utilities	0.8	0.2

Europe Sector Breakdown	BPO Contract Value (\$Bn) 2008	BPO Contract Value (\$Bn) 2009
Government	3.0	1.09
Financial services	2.2	2.7
Telecoms & media	1.4	0.4
Manufacturing	0.2	0.4
Transportation	<0.1	0.15
Retail	0.1	0.1
Energy & utilities	0.7	0.1

North America: Sector Breakdown	BPO Contract Value (\$Bn) 2008	BPO Contract Value (\$Bn) 2009
Government	1.09	2.5
Financial Services	1.8	1.8
Manufacturing	4.9	1.4
Telecoms & media	0.8	0.7
Healthcare	0.5	0.6
Transportation	0.5	0.4
Retail	1.3	0.3
Energy & utilities	0.1	0.1

Source: NelsonHall 2010

Multi-Process BPO driven by Government



Source: NelsonHall 2010

BPO Contract Activity by Service

Global Sector Breakdown	BPO Contract Value (\$Bn) 2008	BPO Contract Value (\$Bn) 2009
Multi-process	4.3	8.7
CMS/Doc mgt	4.1	2.9
Industry-specific	18.0	9.0
HR Outsourcing	2.3	2.3
F&A Outsourcing	0.8	0.7
Procurement	0.1	0.2

Europe Service Line Breakdown	BPO Contract Value (\$Bn) 2008	BPO Contract Value (\$Bn) 2009
Multi-process	1.6	8.4
CMS/doc mgt	1.0	0.5
Industry-specific	4.8	4.9
HR Outsourcing	0.2	0.5
F&A Outsourcing	0.2	0.4
Procurement	0.1	< 0.1

North America: Service Line Breakdown	BPO Contract Value (\$Bn) 2008	BPO Contract Value (\$Bn) 2009
Multi-process	2.7	0.3
CMS/Doc mgt	3.1	2.2
Industry-specific	1.27	3.5
HR Outsourcing	2.1	1.6
F&A Outsourcing	0.5	0.3
Procurement	0.01	0.1

Source: NelsonHall 2010

BPO Market Shares 2008 & 2009

Vendor	Global BPO Contract Value (\$Bn) 2008	Market Share (%)
Lockheed Martin	6.8	23
Genpact	2.8	9
HP	1.7	6
Capita	1.4	5
eaga	1.4	5
ACS	1.3	4
WNS	1.1	4
Alliance Data	1.0	3
Serco	0.8	3
TeleTech	0.7	2
Convergys	0.7	2
BT	0.6	2

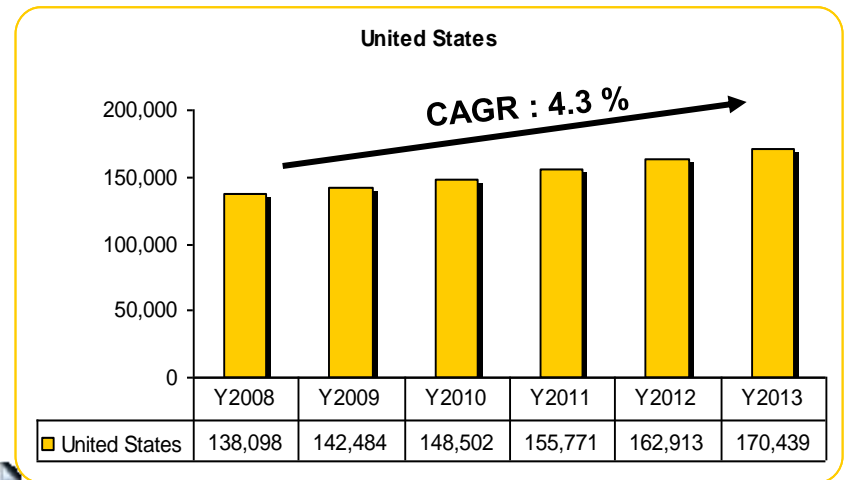
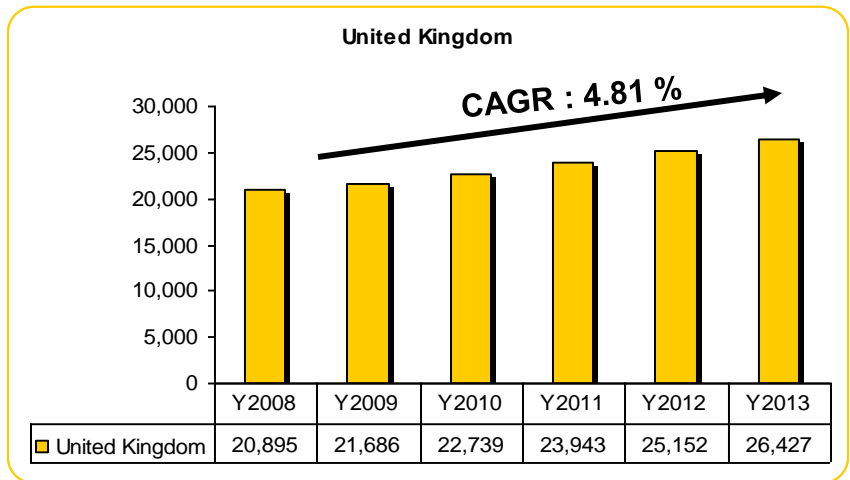
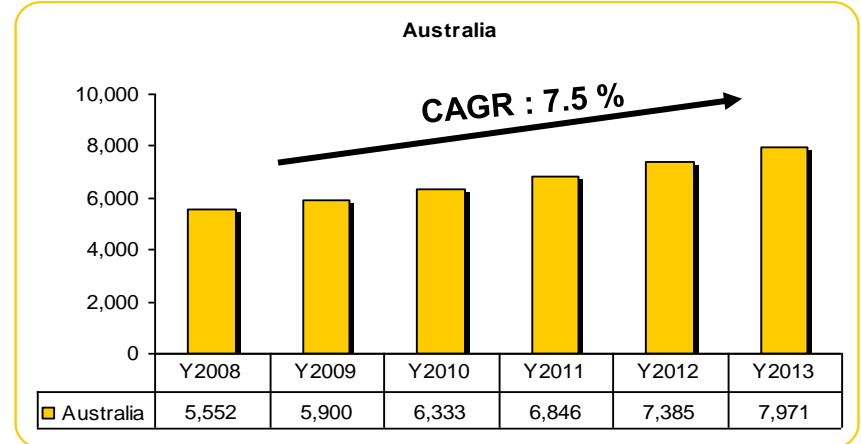
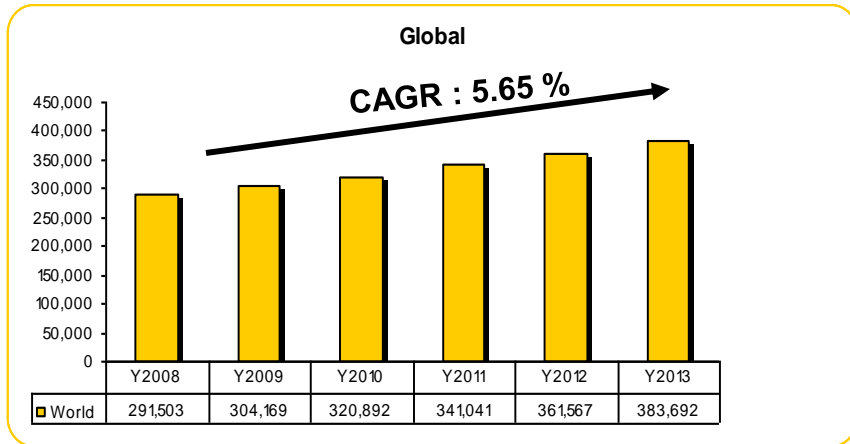
Vendor	Global BPO Contract Value (\$Bn) 2009	Market Share (%)
IBM	8.5	36
Serco	1.8	8
Capita	1.1	5
First Data	1.0	4
Convergys	0.9	4
CGSL	0.9	4
ACS	0.9	4
HP	0.6	3
Ceridian	0.5	2
Cognizant	0.4	2
CSC	0.4	2
Mouchel	0.4	2
Aditya Birla Minacs	0.4	2

Source: NelsonHall 2010



Market Segmentation

Forecast Geography Wise



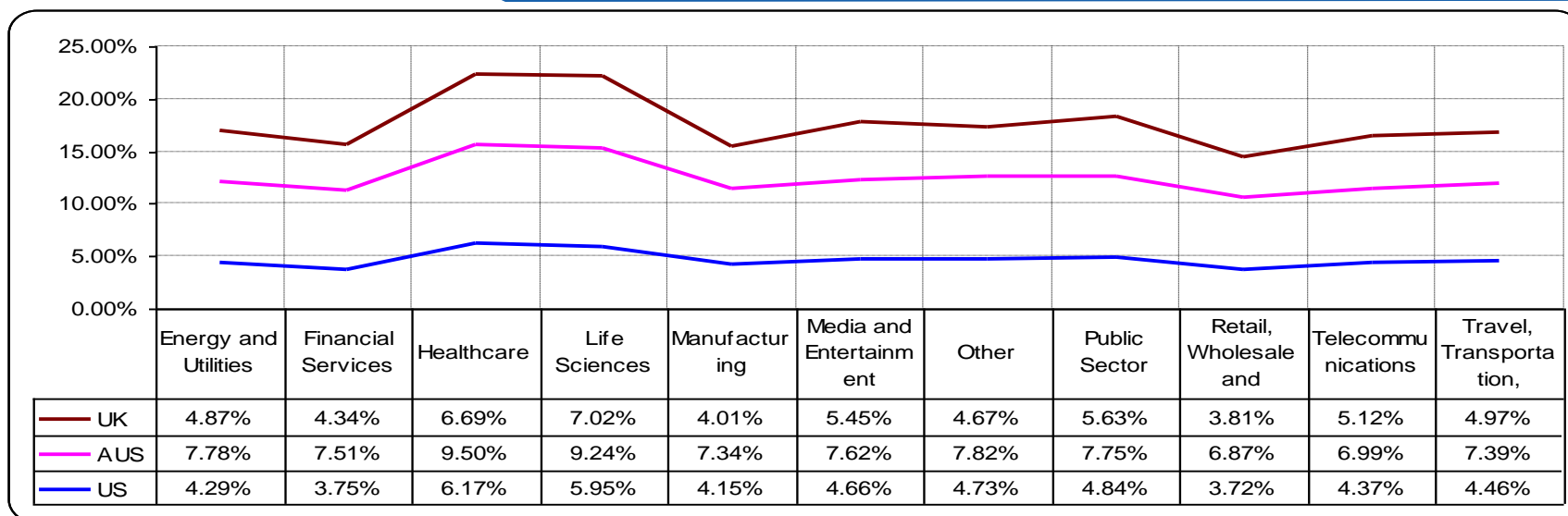
Source : Data Monitor Report



BPO Market

All figures in \$m

Forecast Vertical Wise

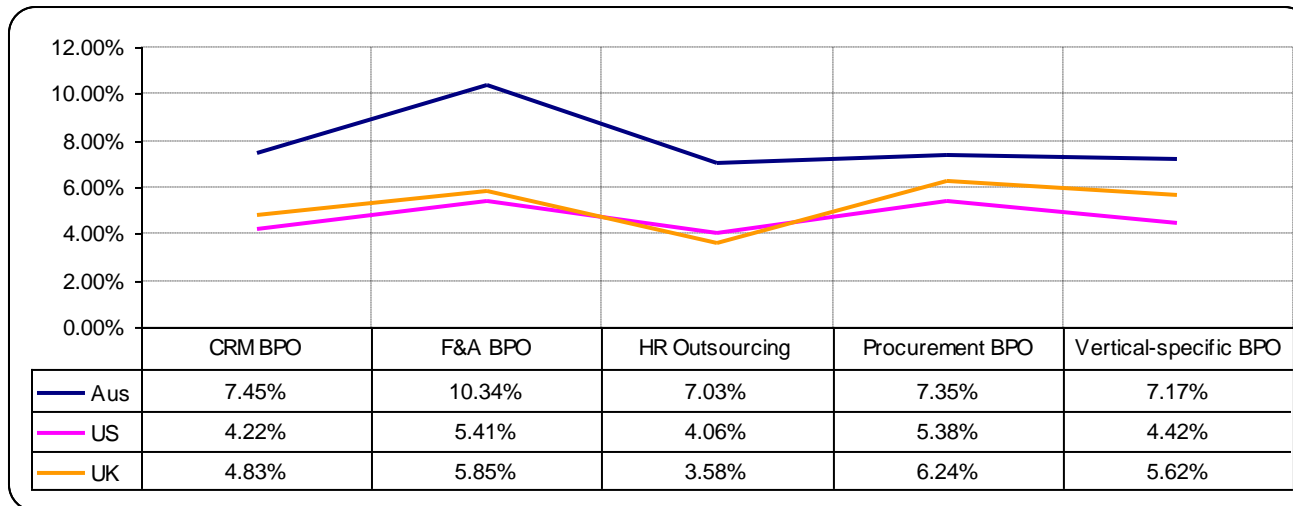


Vertical	Y2008	Y2009	Y2010	Y2011	Y2012	Y2013	CAGR
Energy and Utilities	24,769	25,708	27,048	28,861	30,595	32,449	5.55%
Financial Services	80,600	83,861	88,128	92,894	97,763	102,962	5.02%
Healthcare	14,214	15,106	16,235	17,550	18,917	20,409	7.50%
Life Sciences	5,677	6,032	6,482	7,004	7,547	8,141	7.48%
Manufacturing	42,613	44,292	46,590	49,546	52,505	55,695	5.50%
Media and Entertainment	5,323	5,575	5,900	6,289	6,698	7,142	6.06%
Other	3,010	3,153	3,334	3,546	3,772	4,018	5.95%
Public Sector	37,518	39,150	41,416	44,379	47,264	50,366	6.07%
Retail, Wholesale and Distribution	25,903	27,016	28,431	30,089	31,865	33,798	5.47%
Telecommunications	39,083	40,886	43,182	45,840	48,668	51,733	5.77%
Travel, Transportation, Logistics and Hospitality	12,794	13,390	14,146	15,043	15,974	16,979	5.82%
Grand Total	291,503	304,169	320,892	341,041	361,567	383,692	5.65%

Source : Data Monitor Report

All figures in \$m

Forecast Function Wise



Function	Y2008	Y2009	Y2010	Y2011	Y2012	Y2013	CAGR
CRM BPO	124,660	130,741	138,111	146,151	155,291	165,312	5.81%
F&A BPO	20,106	21,650	23,324	25,158	27,155	29,334	7.85%
HR Outsourcing	92,016	94,041	98,085	105,049	110,931	117,143	4.95%
Procurement BPO	2,327	2,458	2,602	2,761	2,932	3,115	6.00%
Vertical-specific BPO	52,394	55,280	58,770	61,923	65,258	68,788	5.60%
Grand Total	291,503	304,169	320,892	341,041	361,567	383,692	5.65%

Source : Data Monitor Report

All figures in \$m



The NASSCOM-McKinsey Perspective 2020

High Potential Verticals / Horizontals

- The NASSCOM-McKinsey Perspective 2020 report additionally indicates the following about the high potential verticals in the future:
- The addressable markets for BPO in the public sector/government and defense segment are expected to grow to USD 52-60 billion by 2020
- There will be increasing government spend on social security, medical care, national security, immigration policy, disaster readiness and public services delivery through the Internet
- Healthcare is expected to emerge as another key opportunity, worth USD 58-65 billion by 2020
- Ageing populations across the world will create a pool of above working-age people that will require greater healthcare provisions. As a result, healthcare spending will rise dramatically

High Potential Verticals / Horizontals

- **Procurement BPO:**
 - According to a recent India BPO study by NASSCOM and Everest Research, the global procurement BPO business is expected to touch USD 15-20 billion by 2012, creating a significant untapped potential for the Indian BPO industry.
 - Indian companies have already begun to foray into this market. with a range of transactional procurement, spend, category management and strategy procurement services, causing revenues from this segment to rise to USD 180-200 million
- **Legal Process Outsourcing:**
 - Similarly, the legal processing market is also expected to emerge as a viable option for Indian BPOs. A number of leading BPO players in the country have already added Legal Process Outsourcing services into their portfolios.
 - A recent study by Forrester Research shows that the current annual value of legal outsourcing, which is worth USD 80 million, is expected to go up to USD 4 billion and generate over 79,000 jobs in India by 2015.
 - According to the NASSCOM-McKinsey Study, within the BPO industry, companies need to identify specific areas of opportunity and build innovation ecosystems around them. The study recommends that the sector focuses on at least three areas – Clinical Research Outsourcing (CRO), mobile applications, and energy efficiency and climate change. The report suggests that innovation can increase the total addressable market in 2020 by over USD 200 billion



Indian BPO Market

Indian BPO Market: Overview

- BPO export revenues expected to touch USD 50 billion in current fiscal
- For 2010-11, IT and BPO exports is estimated to grow at an annual 13-15 per cent to touch \$56-57 billion
- Industry direct employment expected to grow by 4 per cent and cross 2.3 million with over 90,000 jobs added in FY09-10
- The slowdown peters out and the world economy recovers boosting demand for outsourcing
- Phenomenal momentum displayed in new areas such as engineering services and product development



Going Forward...

Resetting the Expectations of the Indian BPO Industry

Going niche

It is becoming apparent today that a sliver-centric approach is becoming key for the BPO sector, with companies building a strong and unmatched value proposition for themselves in specific, focused niche segments.

Taking the path of innovation

According to the NASSCOM-McKinsey Study, within the BPO industry, companies need to identify specific areas of opportunity and build innovation ecosystems around them. The study recommends that the sector focuses on at least three areas – Clinical Research Outsourcing (CRO), mobile applications, and energy efficiency and climate change. The report suggests that innovation can increase the total addressable market in 2020 by over USD 200 billion.

Deepening relationships with existing customers

Customer loyalty will hold the industry in good stead and help companies tide over these tough, painful times. In order to retain existing customers and engage with them on a long-term basis, BPOs will have to win them by delivering value over and above what they are accustomed to.

Foraying into new geographies

With globalisation remaining the name of the game, companies will need to move to newer outsourcing destinations such as Poland, Ireland, the Philippines and Scotland. Widening geographic spread is expected to take some of the heat off competing nations such as Brazil, Egypt and China, which are emerging as hot destinations for outsourcing.

Tapping new verticals

By identifying untapped customer segments like PSUs and defense, healthcare, media and utilities, the BPO industry can evolve new growth catalysts and drive up to 80 per cent of incremental growth. By year 2020, these will emerge as key verticals as current verticals shrink

Growing role of M&As

The global economic slowdown it appears is providing Indian BPOs with a golden chance to spread their wings, globalise further and acquire specific domain strengths through Mergers and Acquisitions (M&As). Changing business models, standardising services and transforming to win. Keeping in view the prevailing economic conditions, BPO players will need to evolve new and innovative business models, based on gain sharing and outcome-based pricing. Clearly, 80 per cent of incremental growth cannot be captured solely through the current “offshore and low-cost” proposition and there is need for new business models



A recent NASSCOM-Everest Research Report shows that the outsourcing needs of buyers are changing with companies focusing on value drivers (lower prices, smaller-sized projects, savings and speedy implementation); minimising risks; re-evaluating the sourcing model (re-thinking captive versus supplier mix, evolving risk-reward relationships with vendors and opting for outcome-based pricing) and examining whether they ought to outsource work currently done in-house owing to sentiments on lay-offs.

Understanding this altering landscape, the Indian BPO industry now needs to broaden its horizon and look for fresh and alternative paths of growth.

Going forward, it is going to be a value game...



HCL