

## Scaling new heights during challenging times

Looking at any major magazine today will tell you that America is going or gone into recession and predictions are afoot about a two to three year recovery before we are back. Obviously America's economy being dubbed the world's economy, this is pretty scary for some of us in the outsourcing business who feel the end is near. This combined with the much talked about the end of the labor arbitrage in 10 years presents a pretty gloomy picture.

While this looks gloomy, I am a firm believer that there is not only going to be a fast recovery of the economy but also that the Indian outsourcing scene here will gain and not loose from these challenging times.

Let me first address the case of America's recovery. There are multiple factors that will contribute to Americas fast recovery and the two most prominent reasons for them will be firstly because of large investments in the American infrastructure by non-Americans which will be boosted to protect the investment and secondly the reliance of everything being pegged to the American dollar.

Let's look at the first reason in a little more detail. It is common knowledge that the Chinese and people of other nationalities have very significant interests in US government bonds and trade deficit with China, India and the EU is significant and growing. The US financial market is also largely funded through foreign funds. These interests are going to ensure their investments are secure by ensuring a rally of the market. This is the only way to protect their interests.

The second obvious reason is the pegging against the dollar of not only every currency but also the trading of essential commodities in the world market the most significant of it being crude oil. The depreciating dollar has caused significant fluctuations in these currencies and commodities. There is bound to be corrections to this to ensure the survival of half of the world's economies. On the commodities front there is no appetite in the US or elsewhere to see crude trading at \$100+ a barrel.

Now looking at the effects on the Indian outsourcing scenario; I'd say the next 3-4 years is going to be tough for domestic US business but companies with global delivery platforms in India and China are going to see business as usual if not a surge in the deals that are closing. I feel that this presents us with a unique opportunity to refine, re-organize and re-define our value proposition to the world.

Even though recession is in full swing, the outsourcing business is booming with mature companies closing larger and longer term contracts. The obvious value proposition being American companies want to cut costs fast and across various departments are increasingly open towards off shoring processes that they felt were critical to the business and thus to be held internally.

The industry expects core offshored services like traditional Customer Support, Finance and Accounting, Human Resources, procurement services and Knowledge services to continue to grow. However the customized vertical specific processes will start taking a large share of the outsourced market. This trend will start emerging from the second half of this year when companies in the US are going to start moving more vertical specific processes offshore to compliment some of the traditional services that they would be already engaged in offshoring.

Just to look at the market size the maximum addressable opportunity for the Indian outsourcing industry is over \$200 Billion out of which less than 5% has been addressed so far. The big three mature industry verticals being Banking and Financial Markets, Insurance and Manufacturing take up close to 65% of the potential. However the emerging verticals that need to be watched and farmed are areas like Telecom, Pharma and life Sciences, Media and Publishing, Retail, Travel and Energy and Utilities. Majority of the work is going to remain in the back office processes however mid office and front office processes will slowly take up as much prominence together.

All this activity will mean a large amount of players will move from being diversified / small players to becoming specialists in their area of business. This will help them position and win the vertical specific process business.

However Indian players will have to overcome internal and external challenges in order to go after the vertical specific processes that will start becoming opportunities by mid of this year. One of the obvious internal challenges we face is the acute Talent Shortage we face. Our current strength in India is approximately 700,000 in outsourcing businesses. There will be a gap of over a million entry level positions which will open up to take care of organic growth in existing business lines and with these new opportunities. Additionally it's not just sheer numbers but the right skilling of these resources that is our core challenge. We need to remember it is not just training but finishing which will get these resources market ready. This will be a new human resource challenge where we cannot just fill seats with bodies but have appropriately right skilled individuals doing value added work. Last but not the least we need to develop an aggressive plan to develop Tier 2 and Tier 3 cities and towns to help in the labor arbitrage equation.

On the external challenges front changing buyer expectations are demanding that we evolve ourselves from a services organization to a solution company. Obviously there is a thin line between the two because we all have been talking the language for a couple of yours now, however most companies speak the solution language but ultimately sell a cost plus service. This will have to change significantly due to pressures on our business model which is the next challenge. The true Solution Company will be the one to offer technology choices within the discrete services that make up the end to end value chain.

Creating a sustainable model and value proposition has developed a new urgency considering the threat we face of the labor arbitrage going away in 10 years. The treat is very near and real considering the rising labor costs and the depreciating dollar. The solutions approach has to take up new meaning providing real tangible business benefits to our customer and just not fulfilling a need. There are very few companies where revenue generated is based on the business outcome for the customer and increasingly we need to align ourselves to the business outcome to be successful 2015 and beyond.

With the Indian outsourcing market at \$10 Billion now we are all set to hit the \$30 Billion mark by 2015 latest! On the whole the message for Indian companies is to move up the value chain in terms of solution (not service) offering, provide higher utilization and productivity from current professionals and rationalize labor costs.

