Backward & Forward Linkages
in the ITES/ BPO Industry

Sabith Ullah Khan

Abstract

Walk down the corridors of any college in Delhi, Bangalore or any of the metros and you will definitely find advertisements calling for executives to join in the "booming ITES industry" for a bright career. Talk to any graduate and ask him what is the easiest way to gain employment in India today and chances are he/she will point towards the ITES industry. After the software boom, this is probably the biggest wave, which has taken India by storm. The IT- Enabled Services Industry (ITES), would provide million jobs by 2008. As of now ITES industry accounts for almost 20 percent of India's total software exports[1]. The effect of this industry is not only as far as providing direct employment to the people working in this industry but also to millions of others who are indirectly benefited by the boom in this industry. **This paper firstly take a look at how the ITES industry is performing as of today and then moves on to examine how industries related to the ITES industry are being affected as a result of the boom in this segment. The segments investigated include real estate, transport, training, and recruitment.**

- It is expected that 33 million sq.ft of space absorption in India over the next five years would be from the ITES sector**. The total commercial office real estate opportunity could be of the order of 45-50 million sq.ft. The NCR region is expected to garner approximately 15- 18 percent of the market**.
- Wipro to hire 9000 in 2003-04; 3000 for BPO and 6000 for Software (.
- A Million people needed by 2008 to meet the demand for the ITES sector. Revenues up to $21 billion (NASSCOM-McKinsey report, 2002).
- ITES services are provided by college graduates in India as compared to high school graduates in other countries.
- The Americas will continue to lead in terms of ITES/BPO spending, with the US accounting for over 59 percent of total worldwide spend.
- Europe is the second largest market for ITES/BPO services, accounting for 22 percent of the market (IDC estimates).
- The region however with the maximum ITES/BPO growth is Asia Pacific, which accounts for 15 percent of the global BPO spend

The other hot growth markets within ITES/BPO are logistics, purchasing, engineering, marketing, sales, FOM, administration, legal, and finance/accounting.

What is ITES all about

ITES is the delegation of one or more information technology intensive operations to an external provider, who in turn administers and manages the selected business process upon defined parameters. These services are externally contracted out and donot include remote production or manufacturing units, or businesses on the Internet.

Some of the Vertical specific ITES include:

---

[1] NASSCOM's Handbook IT Enabled Services Background and reference resource, 2002, NASSCOM.

- Medical Transcription – The professsion involves transforming medical reports of patients from the dictated form to the written form, to be produced as hard copy or sent to storage in a computer system. This work is mainly outsourced from USA to India, and other countries due to cost and time savings.
- Online Education – Mainly helping in the administering and processing of information for providers of education online.
- Legal database processing- involves processing data for specialised professions like law. This could be done to make use of the abundant manpower in this field in India and the demand for their services elsewhere.

General ITES include:
- Contact - these include customer care order booking and allied services.
- Telemarketing/ Pre-sales- involves selling to people on the phone.
- Technical Support- large corporations like Dell need to provide technical support to their customers for any clarifications. This is a crucial part of their customer care initiative.
- Backoffice operations accounts, Financial Services.

Business Process Outsourcing

It refers to delegation of ITES business process to a third party who owns, administers and manages the business process according to specific parameters.

What is driving the ITES industry

The main reason companies outsource their operations are cost advantages, focus on core competence, improved quality, increased speed of transactions, and lack of manpower.
- **Cost cutting:** The services of a qualified accountant in USA would cost about

$ 35,000 per year whereas the same services could be procured from India at a cost of $ 3,000. This offers immense savings in cost.
- **Lack of manpower:** Another important reason why companies are outsourcing is the lack of qualified personnel to run the operations.
- **Focus on core competencies:** With companies focusing on their core competencies to increase efficiency without having to invest in people and technology. All those jobs which a company is not equipped to do can be outsourced. This helps companies become more profitable and leads to better service.

IT Enabled Services in India
The Growth Path

NASSCOM
www.nasscom.org
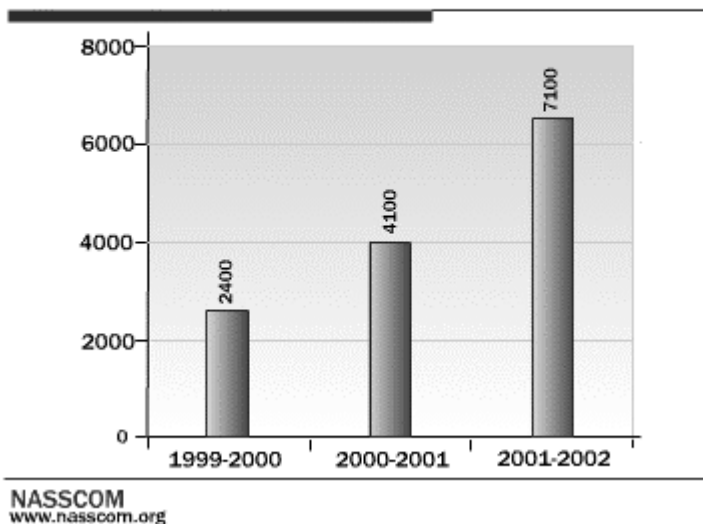
The Indian ITES market

The Indian market picked up from the mid 1990s when companies like GE Capital,
British Airways, American Express set up captive units for their customer service. The industry created about 35,000 jobs during 2001-02. By March 2002 there were about 100,000 people employed in the ITES segment. [2] A large number of Multinational companies including Dell, Standard Chartered, Covergys, HP Sitel have set up operations in India.

Table 2: Contribution of ITES as a part of the total IT exports.

Increased Contribution	By ITES in total exports	
	ITES services	IT Services(software)
1999-2000	14%	86%
2000-2001	14.5%	85.5%
2001-02	19%	81%
2002-03	24%	76%

Source: Nasscom handbook on ITES Background and Reference Resource.

The regions providing the most ITES/BPO business for India were the US and UK markets. A large number of *Fortune 100* companies are now exploring ITES/BPO from India. Within the ITES market, some of the new opportunity areas that emerged during 2002 were engineering design, biotech research, research outsourcing, customer analytics, market research, equity research. The ITES/BPO spread across India's key metros and beyond. At least nine cities witnessed high ITES/BPO business penetration, with NCR (the National Capital Region) drawing the largest number of players. Some of the other ITES/BPO hubs included Mumbai, Bangalore, Chennai, Kolkata, Hyderabad, Kochi, Ahmedabad and Pune.

---

[2] Nasscom, Nasscom's Handbook of ITES – Background and reference resource.

IT enabled services: market segmentation

Rs.crore	1999-2000		2000-01		2001-02		
	Emplo yment	Revenue	Employme nt	Revenue	Employm ent	Revenue	Growth Revenue (percent)
Call centers	8,600	400	16,000	850	33,800	1,790	94
Data conversion and back office work	15,000	950	19,000	1,350	35,000	2,850	111
Transcription	5,000	120	6,000	160	5,200	150	-6
Content development	15,000	820	27,000	1,600	30,000	2,100	31
Other services- e-education and Network consultancy	1,400	110	2,000	140	3,000	210	50
Total	45,000	2,400	70,000	4,100	107,200	7,100	70

Source: NASSCOM's Handbook IT Enabled Services Background and Reference Resource.

The above table indicates the growth potential of the ITES industry in India. While there is a tremendous scope for the expansion of call centers (about 94 percent),other segments are not so promising. The market for transcription has gone down in the last two to three years.

Concentration of ITES companies

City	No. of companies
NCR	74
Mumbai	41
Bangalore	26
Chennai	70
Kolkata	9
Hyderabad	8
Pune	6
Ahmedabad	4
Others	24
Total	209

Source: NASSCOM's Handbook ITES Background and Reference Resource, 2002.

The Indian advantage

The main advantage that India has over other countries is the skilled manpower that it produces. With over two million graduates passing out each year, there is a huge pool of skilled manpower waiting to be tapped. Of these two million hardly ten percent find jobs which are satisfying. The rest are a potential employee of the ITES industry. Some other factors which are in favour of India are:

- India has a good Telecom infrastructure, which is comparable with those in many countries. The bandwidth has increased and the telecom tariffs have come down substantially.
- Indian companies have specific capabilities in setting, measuring and monitoring quality targets.
- India is able to offer 24*7 service and reduction in turnaround times by leveraging timezone differences. India's geographic position makes it possible.
- Incentives like Tax holidays from the Government to encourage industry.
- Cost of employment is among the lowest in the world.
- The government of India has announced a special policy for Call [3].

The Challenge:

ITES sector in India is expected to employ 1000,000 people by
2008. This is about 5 times the present figure. This will create a huge pressure on
the organizations in terms of containing attritions in the primary towns. India will
be able to handle such pressure by tapping the employment opportunities in other
towns. The challenge would be to keep quality of manpower intact and further improve process capabilities.

Impact of ITES on the real estate industry

" Most of the BPO companies rent about 50,000 sq.ft to about 100,000 sq.ft of floor space. This is quite a large amount of space compared to others companies who donot need so much of space" says Jai Deep Singh of India Property Research. Large multi national corporations (MNCs') like Converges and GE have in a way set the trend for moving out of Delhi to Gurgaon and Noida, he points out. The existence of Udyog Vihar in Gurgaon is an indication of the impact of the IT and ITES industries in the region surrounding Delhi. The overall impact of ITES on the real estate industry has been a positive one. The transition of the real estate market and the tastes of the MNCs' came with the shifting of ITES industries to Noida and Gurgaon.

Transition of the Real estate market:

With the shifting out of industries in late 1999, most of the industries in Delhi were moved out to fringes. The MNCs' who came in during that period realised that the property rates in outskirts were

---

[3] In the month of May 2002, the Government of India has accepted NASSCOM's recommendations and removed certain procedural bottlenecks that were hampering the growth of the Indian call industry.
The Government of India has allowed total income tax exemption on the export of IT initiative enabled outsourcing services under Sections 10A/10B of the Income Tax Act.
- Foreign Direct Investment (FDI) for 100 percent of the equity has been permitted in BPO companies - Duty-free imports of capital goods are permitted (under the Export Promotion of Capital Goods scheme) for BPO companies
- The Government has promoted several Software Technology Parks (STPs) which provide ready-to-plug IT and telecom infrastructure. (source : http://www.tatatelecom.com/outsourcing/Scenario/support.asp)

substantially less as compared to that in Connaught Place and commercial business district. The opportunities afforded that new areas like Noida and Gurgaon invite the industries. In this sense, the Haryana government was pro-active and invited many major players along with many builders to develop Gurgaon and similarly the Uttar Pradesh government was pro-active with Noida and hence we see that many ITES Multinational companies set shop here due to greater availability of Floor plate and also cheaper rentals. Gurgaon's real estate market has really picked up in the last five to six years as a result of the setting up of call / other industries. It was the Software companies, which moved into Gurgaon and then the ITES industries. Examples abound of companies like Siemens and Convergys, which have occupied over 50,000 and 1,95,000 sq.ft respectively.

Table 3: Floor space occupancy during 2002-03.

Company	Occupancy in square feet
Convergys	1,95,000
EDS	25,000
Hewitt	98,000

The dynamics of real estate market in National Capital Region

The forces of demand supply operate here as in any other market. The initial demand for office space from the MNCs' led many builders to construct property and rent it out. The sudden deluge of the builders over a period of two to three years dropped the prices of property in Gurgaon, Haryana. There was too much property out for renting out with little demand. This brought the prices of rental property down drastically. The prices nevertheless have stabilised now and there is expected to be a steady growth in the real estate market in the near future as a direct result of the growth of the ITES industry. In fact, the year 2002 witnessed a total leasing volume of 1.5 million square feet[4] of office space in the NCR. The bulk of the fresh demand was from the Information and Communication Technologies (ICT) companies (approximately 75 percent) and followed by banking, insurance and financial services."

The factors which favored the growth of the Noida, Gurgaon as for locating ITES industry were proximity to the airport, cheap rental rates, and also good infrastructure, business friendly government policies, like a tax free holiday. Since real estate is all about location, the location of Gurgaon and Noida seems most appropriate in every way. There is a good supply of manpower too from all parts of North India, which makes it most suitable to locate this industry in the NCR region. One more reason for the spurt of the ITES industry in this area is the mobility of the people of Delhi and North India.

Table 4: Variaton of office space rentals over the years

City	1995	1996	1997	1998	1999	2000	2001	2002	2003
Delhi	58	66	61	55	55	57	57.50	58	65
Gurgaon	NA	NA	NA	57	45	65	75	80	75
Noida	NA	NA	NA	NA	NA	40	40	40	45

Property rental rates in Rs/ sq.ft. **Note: The rates given are average rates and indicative**.
Source: Indiaproperties.com research team.

The trend over the past seven to eight years has been positive. We cannot attribute the appreciation in property rates only to the ITES industry, but pointers like the amount of floor plate area occupied. clearly indicate that this industry has been a key consumer of office space. *A call center typically needs about*

---

[4] Soni Varun, Past forward, *The Hindustan Times,* August 1, 2003.

100,000 Sq.ft or more space, which is quite a substantial amount. The amount of space that such companies require is much more than what any other company would need. This is the reason we could use to attribute the impact of ITES industry on the real estate industry.

Residential housing market on the upswing:

The current estimates point that India faces a shortage of over 20 million dwelling units. This backlog is on the increase. As a basic need, the housing sector is expected to witness a boom, especially given the flexible loan schemes available. The housing sector grew by about 13 percent in December 2002. **It is interesting to study if there has been any impact of the ITES industry on the residential housing segment in NCR**. "The property rates in areas surrounding Delhi – Gurgaon, Noida are quite attractive and most of the old timers of Delhi have shifted to these places after selling or renting out their property in Delhi for cost benefits", says Dr.Kiran Wadhwa, Chief Economist, HUDCO.

The infrastructure that the new areas offer is topnotch and much better than that available in the Delhi region. The fact that many employees of the Call / BPO companies prefer to stay close to their place of work is also one more reason why the residential properties have grown in the region. This might not be a substantial proportion of the residential properties in the region, nevertheless it has contributed its part to the whole.

The employees in the ITES industry in Gurgaon and Noida are from different parts of North India, including Chandigarh, Jaipur, Lucknow, Kanpur etc. Most of the paying guest accomodations and rental properties are given to the thousands of employees who come from outside to work. "Infact, about 90 percent of the people in Sector 3 of Noida are South Indians", says Alok of India property research.

Training and Recruitment agencies:

The ITES is a manpower intensive industry and it is based on either language skills or Data processing abilities. Call s need to train their employees to speak in a neutral accent and also to handle specific processes in a defined way (process training).

"The training business is a commodity business, and with the growth of the call centre / BPO industry the demand for training has only gone up" says Rohit Agarwal of The Learning Curve. Most of the training institutes provide training in soft skills and hence help aspirants land jobs in the call. "The ITES industry being a manpower intensive industry and this is an immense opportunity for training to come in and fill this demand," he adds.

Kinds of training for call center industry

"There are two varieties of training offered- one is voice and accent and the other being soft skills training. Since most of the clients of call centers are American, an emphasis on the American accent becomes paramount. Understanding their culture, their way of speaking helps the call centre executives sell in a better way," says Akshay Datt of The Learning Curve.

The team leads in a call center may undergo programmes like leadership development . The agents take programmes in stress management programmes, customer service and similar programmes to help them do well professionally.

Outsourcing or in-house training:

Many companies outsource their training work (which in itself is a huge industry). The number of people employed in the training industry has gone up, so have the number of training institutes. The amount of outsourcing of training work depends on the policy of the company. Large Multi-national companies outsource as much as 80 percent of their training work. EXL services outsources about 20- 30 % of the training work (according to sources in the company). Most Indian companies do about 60- 70 percent of

the training work in-house. The newer companies prefer to outsource work rather than train their employees themselves.

Going by the head count estimates, we could arrive at the number of trainers that the training institutes employ. **Assuming that a trainer can handle a batch of 20 trainees for 2 weeks on a regular basis; it means a single trainer can handle about 150 candidates per month. For a large call centre like GE, it could mean that about 100 trainers would be needed, on this assumption.** Many institutes have come up just because of the call. There are about 30 well known Call training institutes in New Delhi, Noida and Gurgaon and hundreds of Recruitment agencies(though documenting their number seems impossible). This is an unorganised segment right now and both big and small players are into it.

There are some call centers which do complete in house training of their employees. A senior employee of a Delhi based call centre says that it largely depends on the policy of the call center whether to outsource the process of training or do complete in-house training. " It is only for process training that we send our employees abroad" he adds. The training business has definitely caught on with Call , as about 20 trainers are employed in this call centre. The skills for which training is imparted is generally Accent neutralisation and softskills training. "It is similar to an Engineer being trained in his field of work. Even though he is professionally qualified, an Engineer needs to be trained for his work. On job training is something vital to the performance in a call centre " he points out.

Recruitment agencies- their growth

Considering that call employ a large work force – EXL services around 6000 employees, with about 100 new recruitments per month; and a high attrition rate, recruitment is big business in the ITES industry.

It might also be considered "high volume" work by many in the industry, simply because of the number of people being employed per month. Nahid, of NeoVistas says, " The call centre industry hasn't effected my business directly. I do placements only for senior positions in non-ITES companies. Companies like Accenture are recruiting about 200 people by the end of this year and they have added about 1500 people this year on the whole" he adds. Clearly, there is a different segment of recruitment agencies who cater only to the call centre industry, and the "new comers" in the recruitment industry are the ones who profit from the growth of ITES industry. The established players, who donot have much to gain from the recruitment of call centre executives donot venture into placements for this industry. With high attrition rates of about 45 percent, recruitment is big business; but not for all. Many companies work only in this segment and have tieups with Call centres. With such tieups it becomes easier for them to place people in the industry. **Assuming that the call centers alone are to recruit about a million people by the end of 2008 [5], and each recruitment earns a recruitment agent about Rs 6000 to Rs 10,000; this Industry could generate about Rs 1000 crores only for the recruitment industry .**

Not all companies employ the services of the recruitment agencies. Some of them place advertisements on the Internet or make use Newspaper advertisements to attract suitable manpower. I-energizer, the Delhi based call centre is planning to start a new unit in the days to come and this means that a few hundred recruitments are in the offing. This particular company undertakes the recruitment work on its own, so essentially it varies depending on the policy of call .

Transport industry:

Each BPO Company needs transportation round the clock and provision of this service is a big industry. The linkages from the transport industry could reach quite a long way; but the immediate effect, which is seen, is the growth of the number of the cars and the drivers employed. A call centre may require between 50 to 200 cars for dropping and picking up its employees depending on its size.

---

[5] NASSCOM- Mc-Kinsey report, 2002, NASSCOM

Companies like Mahindra and Mahindra have acknowledged that the ITES industry has impacted their business. Says Rajesh Jejurikar, vice-president, marketing, automotive sector, Mahindra & Mahindra: "Call centers offer an opportunity for our Maxx and Tourister range which, according to guestimates, is probably around 400 to 500 vehicles per annum." says a senior Toyota official: "Call centre transportation is a decent niche and Delhi, with a 50 to 100 unit order book, is the biggest slice in the pie[6].

For utility vehicle makers, that has meant bulk business in what's fast turning into a lucrative niche. In fact, the specialised requirement has spun off a new industry segment in transport vendors catering only to call centers and ITES companies.

"The number of cars/ vans employed for the transport of personnel in a BPO company can be substantial, considering the fact that the industry is growing by leaps and bounds. A call centre with about 500 strength can employ about 20 drivers, not to mention the contracting out of this essential service to the Taxi service personnel " says an employee of a reputed call centre in Noida. In the coming years, the demand for these services is bound to increase with more cars being hired, and consequently more cars being bought. This could have a significant impact on the Automobile industry itself. The number of people being employed and reaching a stage where they can afford to buy a car, albeit on a loan itself would contribute to a large number of customers for the cars.

The call executives and the managers at the call center feel that the present system of ferrying people in cars and taxis would not work for long. Most of the people agree that a mass rapid transit system is the need of the hour.

Conclusion:

The industry is poised to grow at a tremendous rate (The Nasscom Netscribes ITES/BPO Super nine Research Report). At present there are 278 ITES companies in India with 53 in the National Capital Region (New Delhi, Noida, Gurgaon). Bangalore has 35 companies. There are certain challenges that the Indian companies must rise up to face, among which the chief are: the need to maintain quality of manpower, to establish credentials, to build a strong client portfolio. This would then enable the Indian companies to keep their competitive advantage and maintain the global lead in this segment.

The industries studied in this paper – real estate, training, recruitment and transport are being influenced directly by the ITES industry and for good. This paper sought to take a look at to what extent this influence was prevalent. Each of these industries today is growing partly because of the contribution of the ITES industry. This significant contribution of the ITES industry must be recognised and steps taken to ensure that it grows in the years to come and provide more employment opportunities and greater revenues; which would ultimately impact our economy positively.

Interviews

Akshay Aggarwal , The Learning Curve
Dr. Kiran Wadhwa, HUDCO, Chief economist
Varun Soni, *The Hindustan Times*
NASSCOM , Mukta
I energizer, Call Centre, Rajiv Khatri
Nahid, Recruitment Agent
Indiaproperties.com, John (Delhi)
Chestertorn Meghraj, Jai deep Singh Dang
Arun mehta, Holisitic IT Institute

---

[6] http://economictimes.indiatimes.com/cms.dll/articleshow?artid=23597397