



# Articles

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# India Outsourcing - The New Outsourcing Hotspots

The Indian outsourcing industry is expanding beyond Bangalore to smaller cities and towns in order to retain its competitive edge.

Outsource2india, a pioneer in outsourcing is located in Bangalore, the silicon valley of India. Outsource2india provides a range of technology-driven and cost-effective services which include call center services, data entry services, engineering services, finance and accounting services, creative design, web analytics services, healthcare BPO, photo editing services, Software Development, Research and Analysis services and a host of other additional services.

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Outsourcing in India has experienced explosive growth with overseas companies getting everything from their customer support work to teleradiology done here. However, with the growth and the maturing of the industry have come several concerns. One of them involves the cost factor and whether outsourcing to India is still profitable. Salaries of Indian professionals are rising and overseas customers are unsure whether the cost savings are attractive enough to send work overseas. Along with this concern is the alarming growth in the current Indian outsourcing Mecca, Bangalore, along with cities like Mumbai. These cities dominate the outsourcing industry in the country. There is so much work pouring into these cities, that there is concern over their capacity in terms of infrastructure, costs, attrition rates, resources, etc, to cater to this growth.

Take a look at some of these facts that reflect the spiraling growth in the Indian outsourcing industry.

- "On an average, 40 companies continue to set up operations in India every month" (India hot destination for US firms, Anil Urs, Times News Network, September 22, 2004)

- "Bangalore continues to attract 50% of the US investment followed by Chennai at 20% and the rest is shared between Mumbai, Pune, Kolkota, and Gurgaon." (India hot destination for US firms, Anil Urs, Times News Network, September 22, 2004)

- "With hectic construction activity, builders are adopting new construction methods in completing the facilities and time lines have shrunk to 10-15 months from the conventional 18 months." (India hot destination for US firms, Anil Urs, Times News Network, September 22, 2004)

- "The first half of the year witnessed hectic activity with total space take-up for the office segment at about 4.5m sq feet in five major cities."(India hot destination for US firms, Anil Urs, Times News Network, September 22, 2004)

- "Bangalore, considered the Mecca of "domestic and overseas IT firms in the last few years, accounts for 36 percent of India's software exports that touched \$12.5 billion in the fiscal year 2004-2005." (Karnataka plans to promote smaller cities as IT hubs, [www.newindpress.com](http://www.newindpress.com), August 14, 2004)

- "According to STPI (Software Technology Parks of India), in Mumbai, one company sets

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up operations every 3 days." (Outsourcing Widens Geographical Coverage in India)

- "India is already emerging as a leading ITES- BPO hub with one of every four global giants, outsourcing their software requirements to India" (Outsourcing Backlash unlikely to Impact India in a Big Way, [www.financialexpress.com](http://www.financialexpress.com), Posted online: March 15, 2004)

- "Bangalore remains at the top with software exports totaling \$4.2 billion last year, registering a 46% growth rate (the national average was 28%). There were 168 new investments the previous year, 110 of them foreign direct investments (FDIs). This year, 62 companies have invested in Bangalore, 50 of which are FDIs." (System Error In India's Silicon Valley, Sudha Ramachandran, Asia Times Online, September 2004)

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## How is the Indian Outsourcing Industry coping with this growth?

Despite what seems to be an alarming situation there are alternatives that are already being explored and that have enormous potential in the future. Even though Bangalore and cities like Delhi and Mumbai have dominated the outsourcing space there is no dearth of talent and expertise in other towns and cities. Instead of restricting the industry to these areas there is an expansion to smaller places, where overseas customers can avail of equally good resources and expertise.

## The current scenario

Rising competition, an overload on existing infrastructure, and high attrition rates are some of the reasons why the Indian government and NASSCOM are promoting smaller Indian towns and cities. Cost effectiveness, however, is not the only reason why there is this shift towards other places, as companies have realized that these locations have less competition for good graduates and the "attrition rate is as low as 5 percent as compared to the 30 percent attrition rate in Delhi". ("Karnataka plans to promote smaller cities as IT hubs", [www.newindpress.com](http://www.newindpress.com), August 14, 2004).

NASSCOM predicts that about 30 percent of India's outsourcing revenues will be going to smaller cities within a few years. In fact, there are already several successful instances of business operations in smaller cities, but not too many people are aware of them General Electric Capital International Services (GECIS), a subsidiary of the US company, recently opened a customer support center in Jaipur, a tremendously popular tourist location.

EXL Service Inc, a US incorporated BPO company, is currently hiring 300 people per month. Part of its recruitment strategy involves hiring from smaller cities. It has already opened company-owned recruitment centers in Chandigarh and Lucknow and is in the process of setting up the third one in Kolkata.

First Source has four facilities across Mumbai and Bangalore. Besides recruiting from these cities it has also hired employees from Mysore, Mangalore, Hubli, Goa, and Pune. The current recruitment rate is about 200 people per month and about 5-7 percent are from non-metros.

## Where is everyone going?

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The metro cities, Delhi, Mumbai, and Bangalore, are still the dominant players, but there is an exploration of less congested locations like Jaipur, Cochin, and Pune. Experienced professionals, less competition, loyal employees, cost effectiveness, and ample space are some of the reasons why smaller towns and cities are attracting attention. The Karnataka government (the state of which Bangalore is the capital) is promoting several other areas in the state to encourage investment from both overseas as well as domestic firms.

Smaller cities like Mangalore, Mysore, and Hubli are being promoted as preferred destinations for software development and outsourcing companies. These three places already have technology parks. In addition to these, the state government also plans three more technology parks in Gulberga, Belgaum, and Bellari, over the next couple of years.

However, the already IT savvy state is not the only area in India where efforts are on to attract business. Here are some other up coming outsourcing "magnets" which have much to offer investors.

**Kochi (Cochin):** This southern coastal city, located in the state of Kerala, has a population of 1.6 million and has one of India's largest sea ports. It has relatively cheap real estate, good power supply, good schools, and a privately run airport. There are 25 colleges, which produce a large pool of talented English speaking individuals.

Wipro, India's second largest IT company, has bought 10 hectares of land in the \$100 million Infopark in Kochi. It is also building a \$22 million campus that will eventually employ 5,000 workers in its software development and BPO operations.

Chennai, the capital of Karnataka's neighboring state, Tamil Nadu, is not a new player in the outsourcing industry. Some of Chennai's plus points include high connectivity, land availability, and a low attrition rate of 7-13% (compared to 50-100 % in cities like Bangalore, Mumbai, and Hyderabad). India's IT sector has grown at 28% annually, while Chennai growth has been 60%! Much of this success can be attributed to the Electronic Corp of Tamil Nadu (Elcot), which is the state government's main agency for promoting IT investments in Chennai.

Tamil Nadu has an IT friendly government and was the first state in the country to come out with an IT policy in 2002. It has set up IT parks and made space available for expansion. Infrastructure facilities in the state capital of Chennai are among the best in India. Being one of the best connected states, with an optic fiber network of more than 14,000 kilometers, it definitely holds an enormous amount of attraction for investors. Wipro is expanding its Chennai and Coimbatore centers by 85 and 25 acres respectively.

Kolkata (Calcutta), the capital of the state of West Bengal, is gradually attracting investment with its intellectual talent and low costs. Currently the revenue generated by the West Bengal IT industry is miniscule, accounting for 2.2% of India's total, whereas Karnataka accounts for a third of the total.

However, the communist government in the state, is playing an important role in Kolkata's transformation. By offering generous incentives to investors like low electricity tariffs and declaring IT as an essential industry, the government is increasing Kolkata's value. Infrastructure is improving rapidly and a state that was known for its poor power supply until the 1980s is today one of the few power surplus states in the country.

Pune, in the state of Maharashtra, is another city, which like Chennai, is not new to the outsourcing industry. The city is close to Mumbai, the country's financial and commercial

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capital, has a large pool of skilled IT professionals, improved infrastructure, and low attrition rates.

Pune is also home to one of the new infrastructural trends taking place in a few Indian cities; Township projects. These involve housing units, spaces for work, commercial purposes, and leisure, 'green' areas, and recreational areas like golf courses and artificial lakes. A number of these are being built on the outskirts of cities like Bangalore, Pune, Chennai, and Hyderabad. These townships usually cover several hundred acres in area and the developer holds responsibility for infrastructure within them.

Magarpatta City, is a 400 acre township being developed outside Pune. It has been planned to accommodate 20,000 housing units, 4m square feet of office space and 120 acres of greenery. The first phase, out of the planned four, is complete. BPO companies like Aviva, Avaya, and EXL are already operating out of the 1m sq feet office space that has been developed in the first phase.

A similar township, the Mahindra City, is being planned on the outskirts of Chennai. A 1400 acre area, where basic development like water, sewage, and telecommunications have already been developed, plans to attract players from the BPO and IT industries as well as apparel, auto ancillary, and other light industries.

## The impact this shift will have and what the future holds

There are several other cities that are being explored. Nagpur, Lucknow, Allahabad, Varanasi, larger cities in Kerala, Punjab, Tamil Nadu, Karnataka, and the North East are all bustling centers which have a large stream of educated English speaking people.

So are Bangalore and outsourcing to India no longer profitable? Not at all. The outsourcing industry is expanding beyond the cities that gave birth to it to encapsulate a much larger pool of talented professionals. According to an article in the September 27, 2004 issue of Newsweek, "India's Mini Bangalores", experts believe that, "As the outsourcing pie continues to grow, megacities will get the big deals while smaller cities snatch more modest but still lucrative contracts.

Instead of these smaller cities taking away from Bangalore, for there is more than enough business to go around, it will allow Bangalore and other burdened cities to improve and scale up to deal with growth since currently most if not all the work comes here. If there is a more even growth with other cities and towns sharing in contributing to IT and BPO revenues India will retain its competitive edge.

## Outsourcing to Outsource2india

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