

Internet

The Father Of Indian Outsourcing

By Ruth David, Electronically reprinted from May 29, 2007

MUMBAI, INDIA - In the days leading up to India's '90s outsourcing boom, one of its pioneers remembers starting presentations to prospective American clients by telling them, "You probably think I travel to the office on a bullock cart."

At a time when India is firmly established on the global map, that line seems outdated, slightly offensive even. But Raman Roy, CEO of outsourcing firm Quattro, says he often had to pinpoint India on a world map to global clients, who'd heard little of its business potential before the outsourcing industry changed the country's global standing.

The numbers tell the story. The software and services sector employs 1.6 million people, is hungrily looking for more to join the ranks, saw growth rates of above 30% for the last five years and exported products worth about \$24 billion last year, a fifth of India's total exports.

Roy, who set up outsourcing centers in India for both **American Express** and **General Electric** in the late 1990s, says the robust growth of software and services firms has brought about tremendous changes since. "People now know about India; the industry has gained acceptability," says 49-year-old Roy, who also founded the outsourcing firm Spectramind Services that was acquired by **Wipro** in 2002.

In a conversation with Forbes.com, Roy, who's often called the "father of the Indian BPO [business process outsourcing industry]" talks about the growth of his business baby, the biggest challenge to software services firms and how an industry has changed the way Indians live.

Forbes.com: You've been in this industry since its inception. What's changed?

Roy: There's an acceptance of India globally now. In the late '90s my favorite line at the beginning of a presentation was, "You probably think I come to the office on a bullock cart." People now know about India. There was a time when I sold it by pointing out the country on a world map, showing prospective clients pictures of popular historical monuments.

In the U.S., we were considered dangerous when software and services was a 300,000-strong industry because people saw what a potential threat we could be. Some of those fears have materialized in terms of the growth of Indian firms. But with our companies rapidly expanding abroad, now there's also a realization that outsourcing doesn't hurt the economy.

Indian businesses are far more self-confident today, so there's the ability to experiment and move up the value chain. And

they're willing to make large investments globally.

What's different on the domestic front?

When I was setting up the first call center for American Express and went to the government to take bandwidth for operating it, policymakers thought I was into espionage because no one had ever asked for that much bandwidth earlier.

When it came to call centers, we used dedicated lines we bought from service providers. And to route calls from abroad to India, we needed to put international links into public service phone numbers. That was illegal in India. Convincing the government that changing regulations like that one would not hurt its revenues took a lot of running around.

For the same call center, I went to meet bureaucrats after they sat on our application for months. A government official said he could approve a call center, but could not approve a center to handle "incoming and outgoing calls." So we had to print definitions of a call center from the Internet and take them to him to show him that's what a call center did.

There were laws that forbade employing women in jobs after 10 p.m. In each state that we planned on setting up call centers in, we

had to persuade its government to change that law.

After the initial hiccups, the government seems to have left your sector alone, and the backlash abroad is a tale of the past. What are the industry's challenges now?

The biggest challenge is the lack of talented manpower. High attrition rates [an average of 12% to 15%] are the first signs of what will become a big issue. The top five companies spend a combined \$1 billion per annum just on new hire training. Unless we upgrade our educational and training systems, we won't be able to meet the opportunities the industry is creating.

The lack of proper infrastructure is also a problem that we're facing across industries.

The U.S. still accounts for an overwhelming portion of the revenues of India's top outsourcers. How much is that likely to change in the next couple of years?

The U.S. accounts for 75% to 80% of revenues, but if you look at global statistics, about 56% of outsourcing comes from that country. So it is the largest market. Though Indian firms are now seeing plenty of opportunities in Europe as they shift toward services of a higher order.

The first phase was just arbitrage and substitution. But increasingly countries like China are turning to Indian outsourcers because they can't find people domestically. The impact beyond the U.S. is growing as

firms move to meet different outsourcing needs--in industries like health care, law and education. Growth depends on our ability to scale up effectively.

Indian software firms are not really known for innovation. Has it suffered because of the focus on services? Is there a move to change that now?

We're still evolving, but as Indian firms move up the services ladder innovation is becoming a requirement. Few companies have a nascent culture of innovation. Is the industry realizing that? Yes. Has it become a trend? No yet, but we're in the early stages of it.

You've started outsourcing units from scratch four times already, and all of them have been successes. What did you do right?

We listened to customers, and that's easy to talk about, but tough to do. We kept changing our models based on exactly what our customers wanted. In the early stages, getting the government to give us a hearing and change laws so we could operate was a big challenge, but now the shoe is on the other foot. If we raise issues, policymakers listen.

We also focused on our employees. In the initial period of call centers, mothers, grandmothers, uncles, aunts would come to meet me looking for assurances that it was OK for their daughters to leave the house at night to come to work. They were worried about what

the neighbors would think. I met all these people and talked their concerns through. Today, there are too many young women working to worry about neighbors any longer.

There was no spending power among the college graduates earlier [software firms hire about 70% of their employees straight out of college]. Now when you walk into malls these are the people spending all the money. Tech industry employees don't utilize their money for conspicuous consumption, BPO employees do. I'm not siding with either side, but we've made a fundamental change in spending habits, consumption, the way these people live.

On the global front, where is India's competition coming from?

A few years ago, countries like China, Philippines and Mexico were among the few on the outsourcing radar. Today, there are over a dozen attractive destinations--from Sri Lanka to Malaysia to a host of Eastern European nations. But I don't think there's a big threat, because the outsourcing pie is large and only growing.

Right now, more than half of what is outsourced comes to India. When outsourcing is spoken about, India is spoken about in the same breath. The big challenge is for us to continue to evolve as customers' needs change. We need to now focus on innovation. But the future's looking bright. It's an exciting time to be an Indian in India.

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