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Focus vs. Diversification: What's your BPO Strategy?

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From being in the right place at the right time...

- Indian BPOs or service outsourcing business are the fortunate beneficiaries of the global offshoring trend, driven by:
 - Low cost, i.e. Significant wage differentials
 - Skilled workforce, with English-based education
- Despite the current “limitless” opportunity, pure “wage arbitrage” will lose its attractiveness:
 - Ever-intensifying global competition
 - Greater customer knowledge
 - Rapid rise in wages/ high costs of retention/attrition
- The response of most companies has been to:
 - Keep adding new service offerings (diversification)
 - Jump onto new “hot” trends, such as “knowledge” services

...the challenge is in staying there!

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Do you have a Strategy?

Strategy: An adaptation that serves an important function in achieving evolutionary success...



BPO Strategies

- Does your company have a strategy?
 - How do we position/differentiate ourselves
 - What services should we offer?
 - To whom?
 - Type of clients
 - Vertical focus/specialization
 - Where will our clients be located?
 - Where should I create capacity? How much?
 - How will we achieve scale?
 - How much money do we need?
 - Where will this come from?
 - How will we market our services? ...build brand?
 - What kind of people do we need to hire?

What, or where do I want to be?

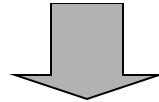


Two broad BPO Strategies

- One-Stop Shops/ Diversified (ICICI OneSource, WNS)
 - Wide variety of disparate services (horizontal diversification).
 - Cater to multiple domains (diversification across verticals), such as BFSI, telecom, retail, healthcare, etc.
 - Seek to build capacities across multiple locations (geographical diversification).
 - Business Model: Scale Driven: Leverage on ability to provide “complete” solutions to large clients.
- Niche Focus/ Specialised (Ugam solutions, TechBooks)
 - Specific verticals
 - Focused service across verticals
 - Focused on narrow target market
 - Business Model: Driven by domain knowledge & specialisation

...at two ends of the spectrum

Money (Pots of it)



The Factory Approach

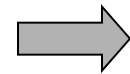
The BPO Factory

China

Philippines

India

Call Center	Finance & Accounting
Data Capture/ conversion	Human Resources
Market Research	Legal
Help desk	Transcription



Telecom



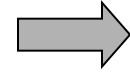
Healthcare



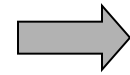
Insurance



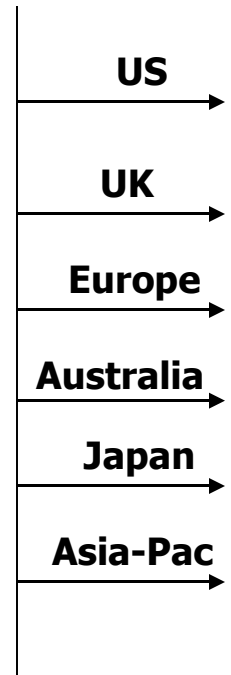
Technology



Travel



Banking/Finance



I am going for the big opportunity!

The Specialist Approach

- A Little bit of money
- High degree of knowledge about market & customers
- Relevant skill sets & human resources

The BPO Factory

- Focused team
- Multiple but complementary skills

Only one vertical
OR
Only one group of users with similar characteristic

Definable Market



Big Fish In a Small Pond



Are you thinking Strategically?

“Scale” model

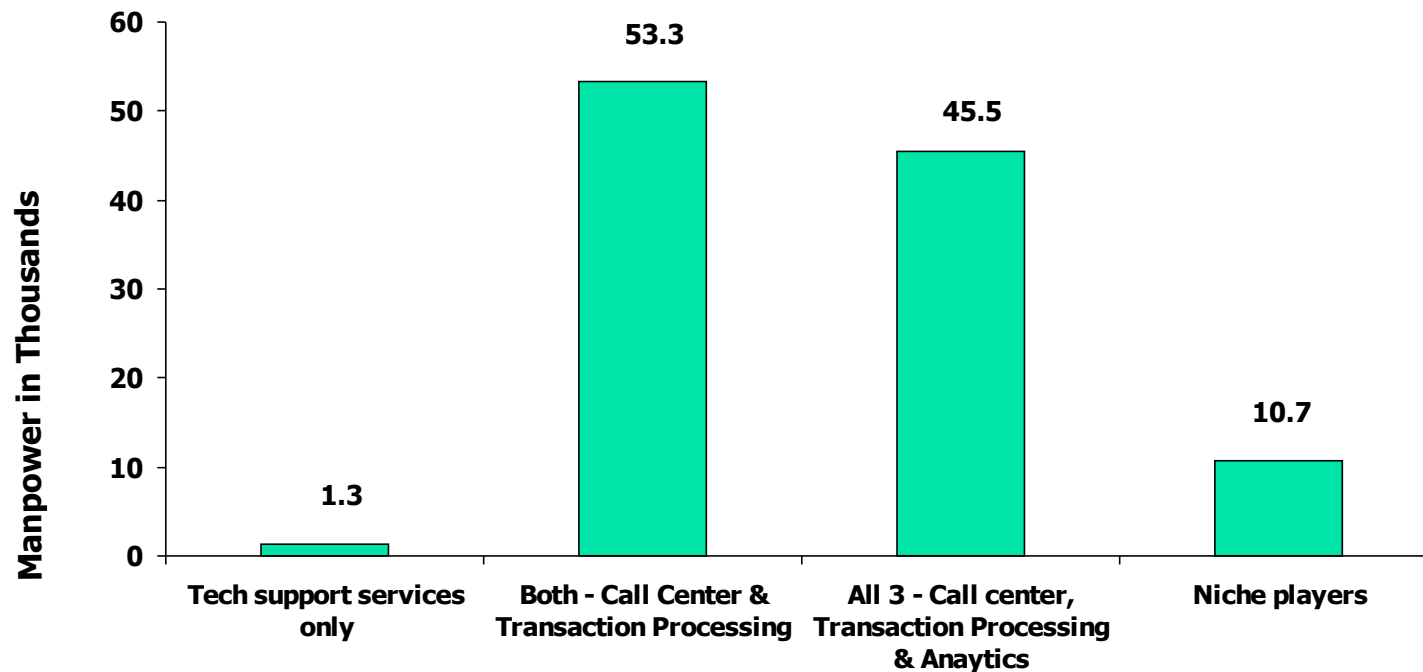
- **Be larger than the next guy**
 - ideally in the top 5
- **End-to-end solutions for large customers**
- **Build scale in each vertical and each service line**
 - leading to specialisation
- **Use scale & process knowhow to offer low prices, and bundled services**

“Niche” model

- **Be the “best” in selected area**
- **Differentiate on domain knowledge and high-end skills**
- **Build scale in selected vertical or service line**
- **Move towards premium pricing... by demonstrating quality, knowledge & process innovation specific to domain**

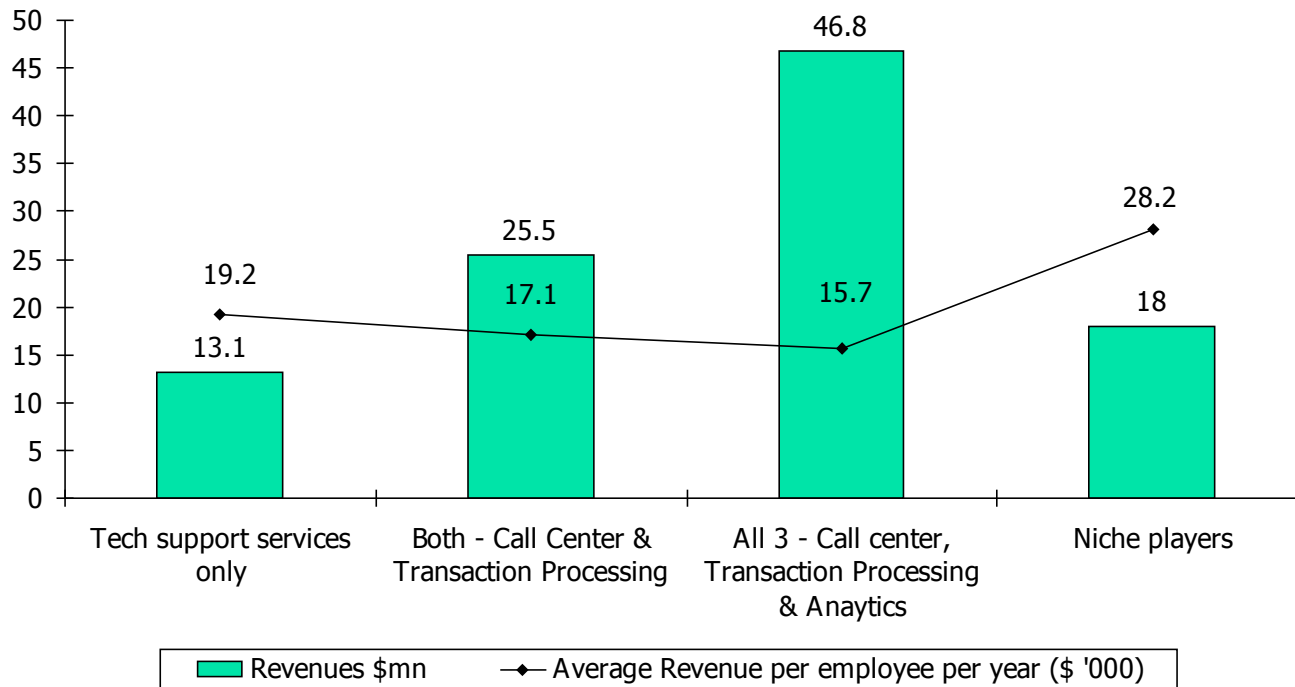
...Or just drifting?

Diversified, Multi-Service BPOs Employ 88% Of Indian BPO Manpower



But, was that planned?
And is that where you really want to be?

Niche players earn more per employee



But among diversified players, larger players earn much more than smaller peers!

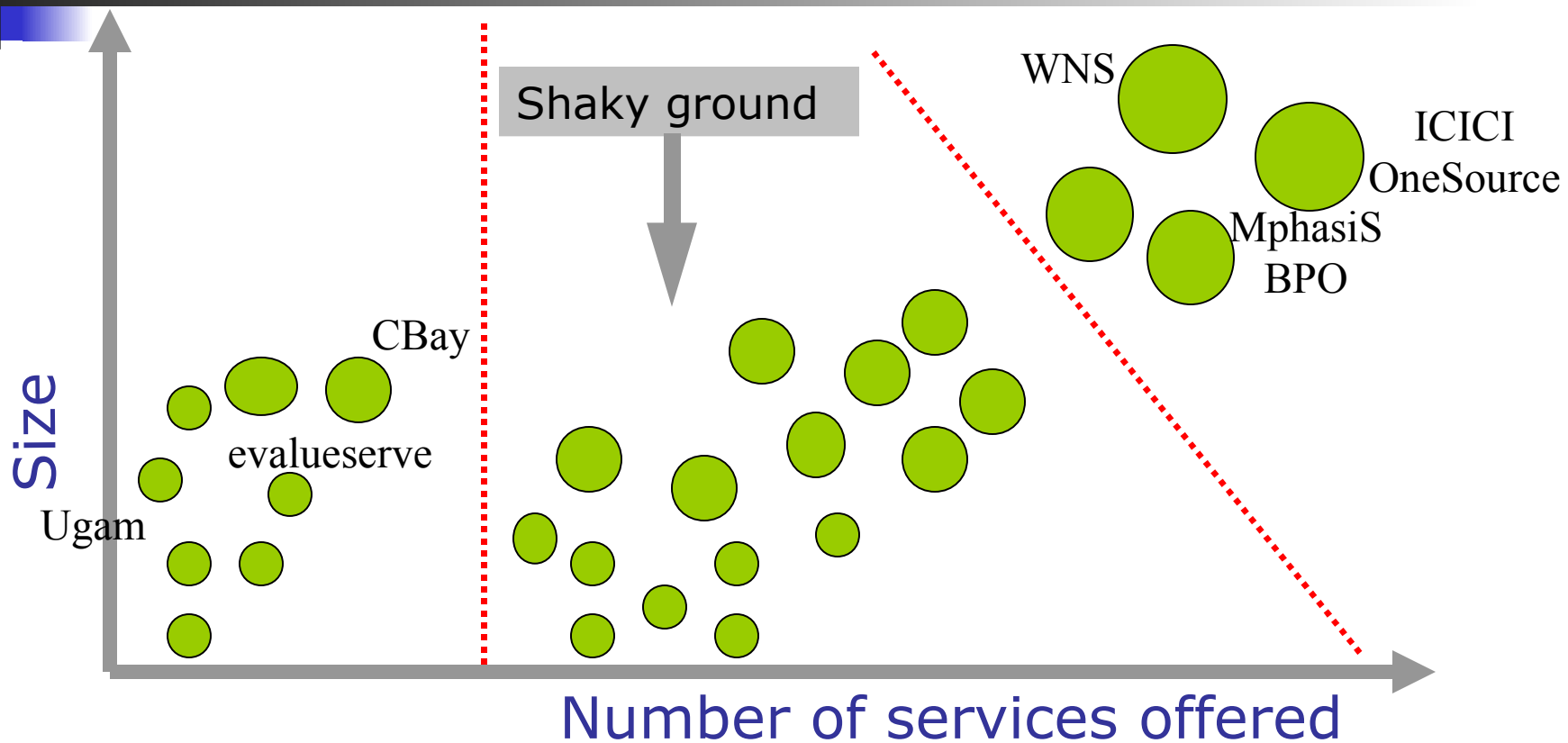


Pros & Cons

	Diversified	Niche
Scale	Very important	Only within niche
Cash Needs	Very high	Moderate
Customers	Diversified, less targeted => higher marketing costs	Better targeting => lower costs
Price positioning	Across the board, but premium for composite service delivery	Move towards higher-value with specialisation
People Resources	Skills	Knowledge
Market cycles	Better able to handle downside in any single business	All eggs in one basket
Ability to retain talent	Low: Repetitive work	High: Stimulating work
Pay-off	Very large for the Leaders	Moderate, even for leaders

What is your competitive advantage?

Size, Scale & Specialization



You cannot be in between !

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About ValueNotes' Outsourcing Practice

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The **ValueNotes Outsourcing Practice** uses a comprehensive, analytical framework providing fresh insights into the fast emerging and yet, complex outsourcing space.

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- Cost analysis of India vs. China – Telecom software
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- Global Insurance Outsourcing – India Perspective: Overview, Trends, Insights and key Vendor Profiles
- R&D Outsourcing – The India Edge: Key Insights and Success Factors
- Detailed profiles of 50 leading players in the Indian Business Process Outsourcing industry
- ValueNotes Outsourcing News - a continuous stream of useful statistics, insights, analysis and opinion.
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