

BPO sector likely to grow faster than IT services

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Acquisitions by Indian outsourcing companies are continuing unabated, driven by an increasing need to both deepen and broaden their capabilities in their search for growth and scale.

A key driver of this activity is a little noticed long-term trend that should become more obvious as the years roll by: that of the business process outsourcing (BPO) sector growing faster than information technology (IT) services outsourcing.

Aegis Ltd has notched up 18 acquisitions in the past few years, spending a total of \$300-400 million, while Genpact acquired Headstrong for \$550 million a few weeks ago.

On Tuesday, ExlService Holdings Inc., listed and headquartered in the US, said it had agreed to acquire another US-based company Outsourcing Partners International (OPI), which provides finance and accounting (F&A) outsourcing services, for \$91 million.

Another BPO firm, Firstsource Solutions Ltd, announced a joint venture with Sri Lanka's flagship telecom service provider, Dialog Axiata Plc.

Gaurav Gupta, managing partner at consulting firm Ev-

erest Group, points out that unlike IT services, the BPO sector was not hit as hard by the downturn of 2008-09.

"IT services has now bounced back strongly and is growing much faster than BPO as a short-term trend. In the long-term, however, especially given that the IT services market is very well penetrated, it is BPO which will outpace growth."

Rohit Kapoor, president and chief executive of Ex-

lServices, agrees. "A data point that we have considered suggests that worldwide IT outsourcing spend is growing at 4% while BPO is growing or will grow at 6-8%. Look at the actual IT spend of companies. That is growing at only around 2%, reflecting their actual growth."

Kapoor added that on an average, for every \$1 billion spent on IT, a company would spend \$4-5 billion on BPO.

"It (BPO) is a much larger market and it is not that well-penetrated. So the long-term road ahead is clear," he said.

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ents are becoming more demanding and looking as much to solve business problems as to reduce costs. This calls for a deeper industry domain knowledge as well as global capability—the other key factors driving acquisition activity in the space.

Take Exl's acquisition of OPI. Exl has a finance and accounting (F&A) practice that contributes about 15% to its total revenue of about \$250 million.

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OPI has a strong F&A practice, and post acquisition, Exl will see contribution from this jump to 35% of its projected \$347-350 million annual revenue. It will end up with strong practices in insurance and F&A,

about \$150 million and \$125 million, respectively, in revenue.

From an IT services perspective, the banking, financial services and insurance vertical was the first to bounce back from the slowdown and has led growth for Indian IT companies.

"Growth and profitability—that is what they (BPOs) are looking for," said Everest's

Gupta.

When Genpact acquired Headstrong, it was more than an augmentation of its existing services. It was about a BPO company making a play for IT services. While Genpact clearly sees value here in adding to its top line, a larger question is whether there is a trend towards integrated services.

Firstsource is as much a "pure play" BPO company as any, and for Matthew Vallance, its chief executive and managing director, IT is about the platform and not about offering IT services to his clients.

Gupta says integrated work orders are still limited. Even if companies have an integrated vendor, IT outsourcing and BPO get conceptualized, ordered and implemented separately. A chief executive officer, of course, may see value down the line in negotiating prices.

For Aparup Sengupta, global chief executive and managing director of Aegis, part of the Essar Group, a diversified capability model does work. The company's acquisitions approach, he says, is now being followed by others in the industry.

He also notes that in the BPO space, distinctions such as between voice and data, IT outsourcing and BPO, and integrated and stand-alone players, often blur.

"It is about the complete transaction rating, the closeness to the customer, and the total customer experience," Sengupta said.

"It is with this kind of approach that we have cracked really large deals, and are on the way to a billion dollars in revenue," he added.