

Indian captive BPOs face heat, many may shut shop

T K Rohit | TNN

Chennai: Is the boom story of captive business process outsourcing firms and knowledge process outsourcing firms coming to an end? Early indications are captives are feeling the heat, especially the ones that are small. Consider this: In 2008 and 2009, the number of overseas technology firms that opened captives in India were less than 15, compared to 76 captives in 2004.

A study by Zinnov management consulting found that in 2005 about 70 captives and in 2007, 48 captive IT firms set up shop in India. This number fell to just 15 in 2007.

Evalueserve says that a large number of captive BPOs/KPOs in India are under severe pressure. Evalueserve conducted a survey of over 100 captives and found that 61% of the firms have faced significant issues and many already have shut shop. Smaller captives (those with

less than 500 employees) have been the worst hit and many of the larger ones were also not found to be in good shape.

Manoj Madhusudanan, vice-president, Evalueserve, the author of the paper, 'Captives in India: Is the honeymoon over?' points out that many of the captives do not have the right management focus and right strategies in place. "Also, many do not have cost discipline and proper economies of scale," he told ToI. "Going forward, there are going to be fewer companies that are likely to start captives, though companies with bigger scale like HSBC, RBS, BNP Paribas and a few others have recently set up their operations in India."

Manoj says smaller captives with less than 500 employees are more than likely to face the heat and try to survive. Large captives with well defined strategy and excellent management focus are likely to survive this trend, he said.

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acquire companies, corporates are using that cash to acquire a unit of their client, which also makes strategic sense as it also gets them assured business and revenue stream. It also helps them to make inroads into client accounts," an IT analyst said. Not surprisingly, over the last one year, there have been a spate of acquisitions of captives by many companies, the recent one being Cognizant's acquisition of Switzerland-based captive arm of the UBS group for \$75 million. During

the end of 2008, Tata Consultancy Services acquired Citigroup Global Services Ltd, the BPO arm of Citigroup in India for \$505 million, while Wipro bought out the IT division of Citigroup, Citi Technology Services Ltd for \$127 million. In September this year, Mphasis Ltd signed an agreement to buy insurance major the captive arm of American International Group. Most of these sell-outs happened at a time when the acquired companies were facing a severe cash crunch.