

Looking beyond a US recession

A recession in the US economy may shakeout smaller, generic service providers from India's services export sector

/Sreejiraj Eluvangal

India exported around US\$ 25 billion (Rs 1,050 crore) worth of software and services to the US last year, about 61% of its total exports in this segment. Now, as the US economy braces for a slowdown or even a recession through 2009, the impact can be painful for certain classes of outsourced service providers. While specialized and niche offerings, in the BPO, KPO and IT outsourcing fields, may continue to do well, the recession may force out some of the smaller, non-specialized players.

"Personally I feel that this is going to be recession and not a temporary slowdown," says Kulindra Srivastava, VP at ExpertServ Solutions, a Gurgaon-based provider of credit check, verification and activation services of mobile subscribers for the US market. With all the revenues of the three-year-old, 300-strong firm coming from the US market, Kulindra keeps a sharp eye on the world's largest economy.

Kulindra, who sees the going tough for the US economy for the next two to three years, accepts that the slowdown in consumer spend-



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ing during the last one year has left its impact on the growth of his business in Gurgaon. "Definitely, the slowdown is evident in new acquisitions of customers," he points out, adding that ExpertServ, concerned with back-office processing work, rather than active customer acquisition or conversion, has been less affected than many others. He points to two segments within the outsourced services industries that will find the going tougher than others—startups and telemarketers. "The overall scenario, as understood by me, is that the BPO's that are into performance-based processes will be affected to a very large extent. In fact, many of them have already shut down. The younger players will have a difficult time in the current scenario," he says.

Rajiv Mathur, CEO of Opus ABS, a 30-employee, outsourced service provider to small and medium communication service providers, agrees. "The biggest impact will be on those companies that are engaged in marketing," he says. "When the economy is contracting, people may not enter into new deals, and these companies then get impacted because they get paid by their performance," he adds.

A combination of factors such as the US slowdown and a strong dollar, clubbed with increasing consolidation, has seen many smaller companies and entrepreneurs shut shop, observes Sam Chopra, president of the Business Process Industry Association of India (BPIAI). "We have approached the government through various forums to make them recognize and understand the complexity of the situation," he says. "Due to non-timely actions, a cash cow may well get slaughtered," he adds.

However, not everybody is that pessimistic. Tim Bond has had a ringside view of the voice BPO market. He is the managing director of Launch Offshore, which helps BPO firms to hire speakers of different languages from across the globe, and has one hand on the pulse of the voice services market. He believes despite heavy pressure on US corporations to cut costs, the work coming to India will continue to do so.

"The voice market used to be outbound [telemarketing], but that has changed now. It is now customer service," he says. "US companies have customers who need to be serviced. If they go from India to Sri Lanka, they won't get services any cheaper. So, the downturn will not mean that companies will layoff people in India. Existing deals will not be cut back, but there may be some pricing pressure," Bond adds.

Besides customer service, there are other niche areas that face very little impact from a mild US recession. One of them is legal outsourcing. Kunoor Chopra, president and CEO of LawScribe Inc, which employs around 125 legal and technical experts at its Gurgaon office to help US law firms deal with their workflow says, "Companies may not have as much money as before, but they still have litigation needs." She expects the industry and her firm to keep growing at a rate of 60-100% in the coming two to three years.

Kunoor points out that unlike telemarketing or customer service, the oldest branches of the Indian BPO industry; emerging and niche outsourcing services like legal and supply-chain management are in their early stages and offer both growth and entrepreneurship opportunities. "We market

ourselves as an efficiency tool, and recession or not, companies need to be efficient. We help US law firms carry out legal processing work for a fraction of what it would cost them to do it locally," points out the California-based Chopra, herself a lawyer from the US. She, however, hurries to add that even the niche financial services BPOs, such as outsourced investment research providers and more mainstream BPOs such as customer support will feel the pinch. "If you are in the mainstream BPO market, the dollar fluctuations and pricing pressures can completely wipe out your profits. So, there is a risk to the financial sector BPOs and low margin players," she adds.

Though at first look, a slowdown or recession in the US, which accounts for 61% of India's IT and BPO exports, may seem very negative for the health of the industry, the cloud is not without its silver lining. While the winding down of economic activity will negatively impact service providers who depend too much on US corporate expansionary, marketing or investment activities; the cost pressures may also encourage new US companies to look at outsourcing for the first time.

Kulindra of ExpertServ points out that a tougher economy may put some US companies out of business and end in loss of revenue for Indian firms that service them, but can also have beneficial impact. "If the client is not able to survive this slowdown, we may have a situation where the client goes bankrupt and we lose a chunk of business," he says. "Other than that perspective, the outsourcing option will be seen as a major tool of reducing cost and being able to keep on running the business," he adds.

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