

Smart Strategies for creating Jobs & Growth

Opportunities & Strategies in IT Enabled Services



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Agenda

Part I

- **Global IT Enabled Services Industry Overview**
 - Outlook for the Industry & its Vital Statistics
 - Its Socio-Economic Impact
 - Specific attributes of the Industry
- **Future Trends & Strategies for Growth**

Part II

- **A Regional Approach as a Strategy for Rapid Growth** – *The case of South Asia Region*

Global Outlook for Sourcing

- Worldwide technology products & services spend FY 2009 declined by 3% from its estimated USD 1.5 trillion
- Hardware markets were hit worse compared to software and services markets
- Asia leading the way in terms of recovery with the US following & EU lagging behind
- Global Sourcing Industry with strengthened Global Value Chains plays a critical enabler to the growth of many economies

2009: Technology and BPO Spending



Impact of Recession

- Overall Technology Spend declined by 3%
- BPO Spend increased by 2.4%

Source – NASSCOM Strategic Review 2010

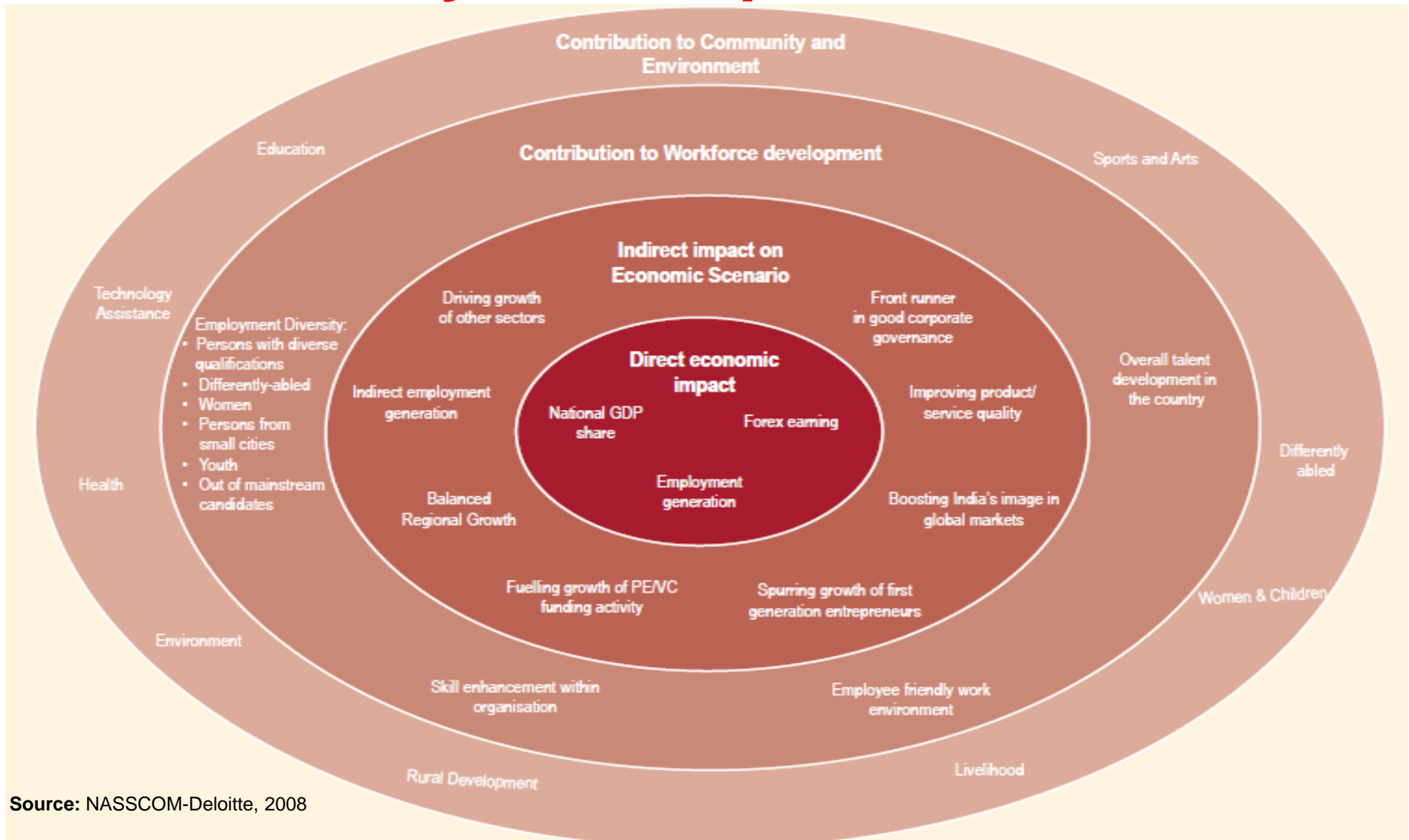
Vital Stats & Facts of the ITeS Sector...

- **Only 15%** of the potential global market estimated @ **\$475B** has been **tapped** – Plenty of business for all!!
- The IT/ITeS sector accounts for \$75B exports globally and **generates high FDI & Exports** e.g. In India 25%~ of all exports!
- The ITeS sector is **growing @ 30%+ pa** & **accounts for 20%+ of new jobs** created. **Mostly for youth & women**
- Re-engineering **public sector services** & outsourcing to private sector **will improve quality, access & governance**
- Impetus for **policy reforms**
- Brain drain to **Brain Gain**

Vital Stats & Facts of the ITeS Sector...

- Rural BPOs are slowly moving ITeS to lagging regions, making it **more inclusive**. Cost of Tier 1 cities & high attrition rates will force firms to do so.
- Improves **productivity, quality** (CMMI & Six Sigma etc.) & **HR practices** of firms. The sector has been one of the most innovative & adaptive
- **New economy skills** in the labor market benefiting all sectors
- Investment in **infrastructure & spillover growth** in support industries
- **Incubating entrepreneurs** & pioneered **venture capital** in most of the current ITeS destinations
- **Electrons & Data packets moving across borders are far less contentious** than physical assets

Socio-Economic contribution of the IT/ITES industry – A snapshot of India

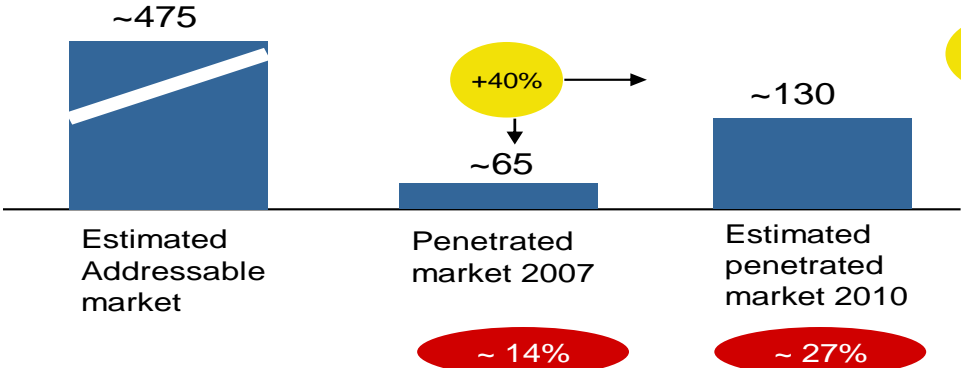


Market Segmentation IT & IT-Enabled Services

IT Services		IT Enabled Services
<i>Application services</i>	<i>Engineering Services</i>	<i>Business process services</i>
<p><i>Application development & maintenance</i></p> <p><i>System integration</i></p> <ul style="list-style-type: none"> •Analysis & Design •Development, Integration and testing •Package implementation <p><i>IT infrastructure services</i></p> <ul style="list-style-type: none"> •Help desks & Desktop support •Data center services •Mainframe support •Network operations <p><i>Consulting</i></p> <ul style="list-style-type: none"> •IT consulting •Network consulting 	<p><i>Manufacturing engineering</i></p> <ul style="list-style-type: none"> •Upstream product engineering •Downstream product engineering •Plant and process engineering <p><i>Software product development</i></p> <ul style="list-style-type: none"> •Product development/Gaming •System testing •Localization •Maintenance and support 	<p><i>Horizontal processes</i></p> <ul style="list-style-type: none"> •Contact Centers/CRM •HRM, BFSI & Admin •Supply chain <p><i>Vertical processes</i></p> <ul style="list-style-type: none"> •Banking & Insurance •Travel •Manufacturing •Telecommunications •Pharmaceuticals <p><i>Knowledge process outsourcing</i></p> <ul style="list-style-type: none"> •Business, financial, legal research •Animation •Other high-end processes

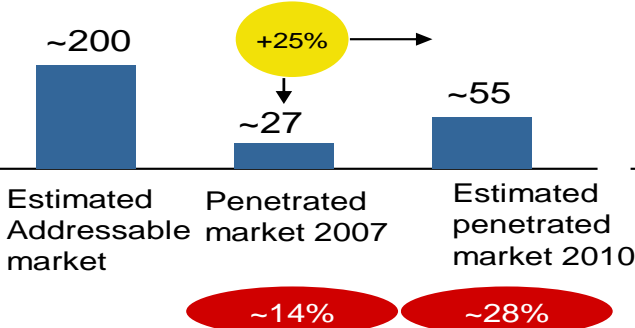
IT/ITeS Market Overview

Global IT/ITES market

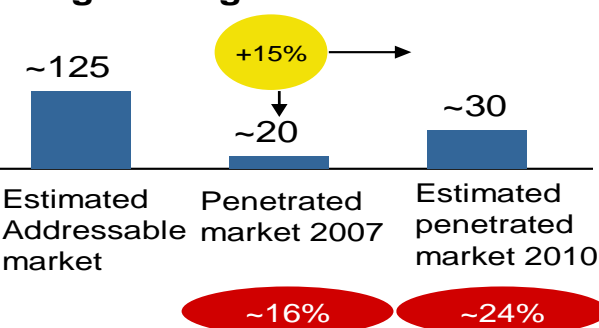


Percentage of addressable market
CAGR between 2007 and 2010

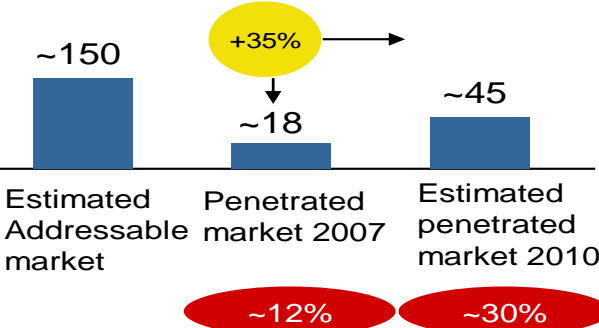
IT services



Engineering services

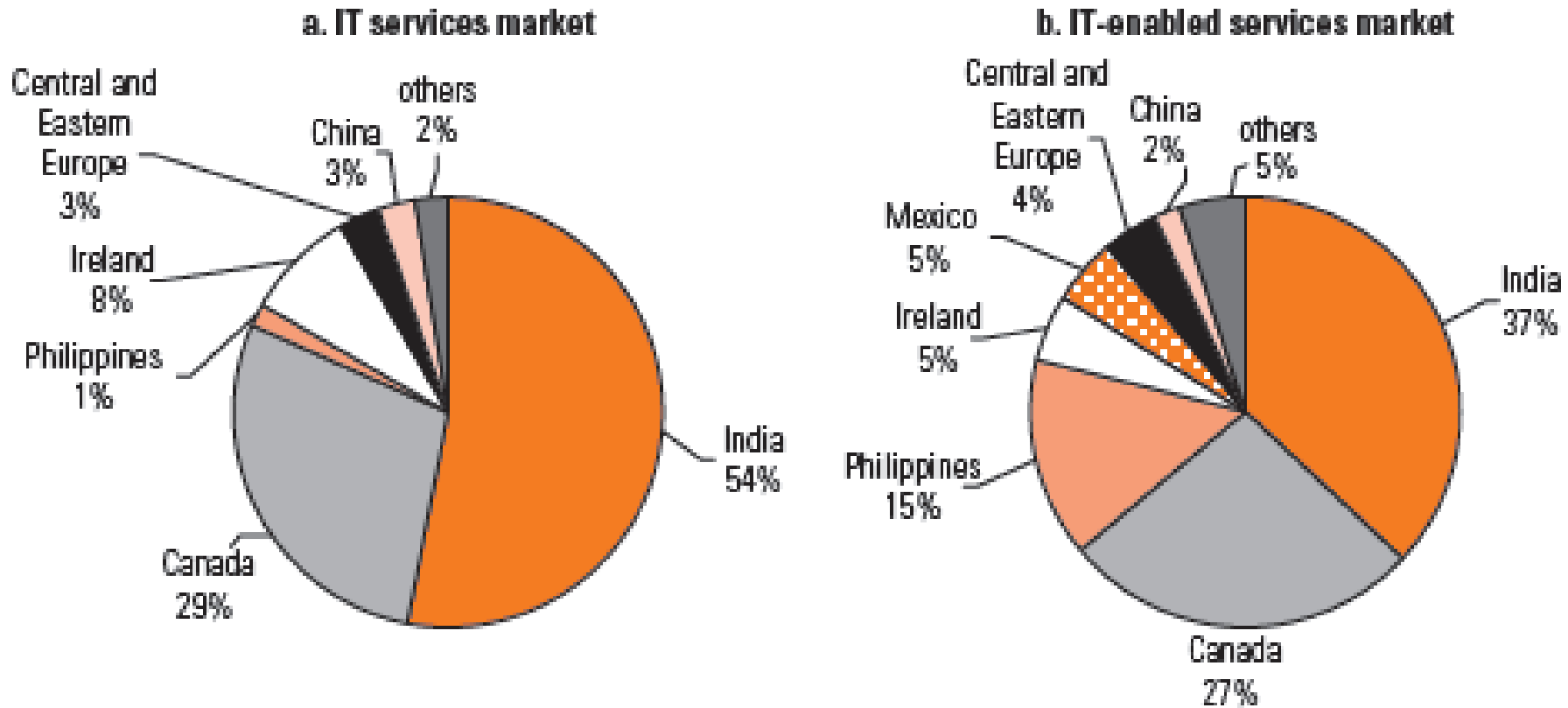


IT enabled services



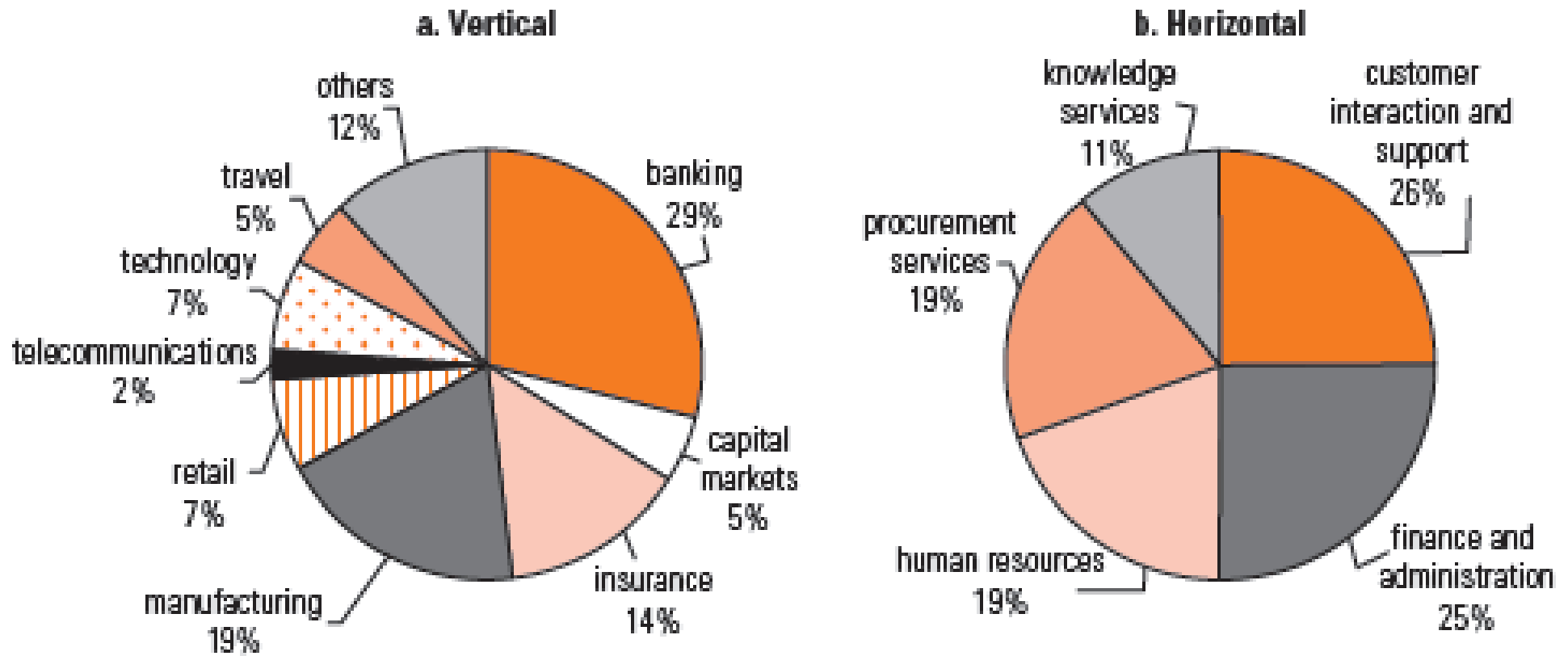
Source: McKinsey & Co. various estimates.

Global Distribution of Offshore IT Services and ITES Markets



Source: McKinsey & Co 2008; NASSCOM-Everest 2008; Tholons 2006.

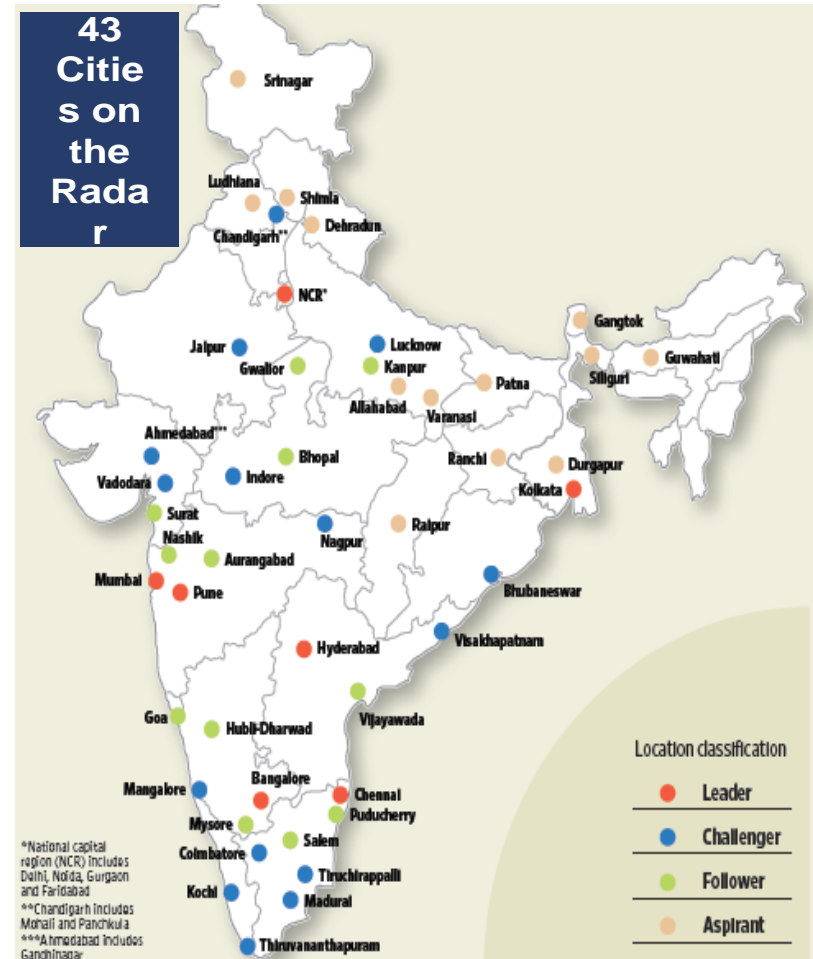
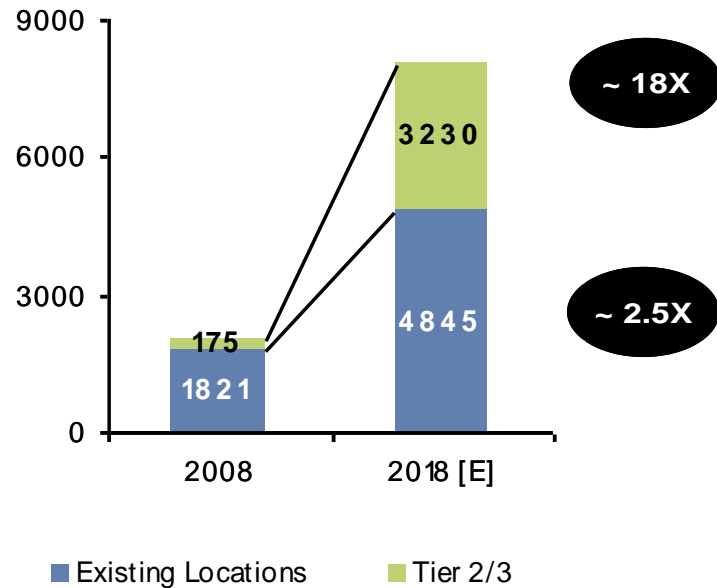
India's Addressable Market for Vertical (sectors) & Horizontal (domains) for ITES



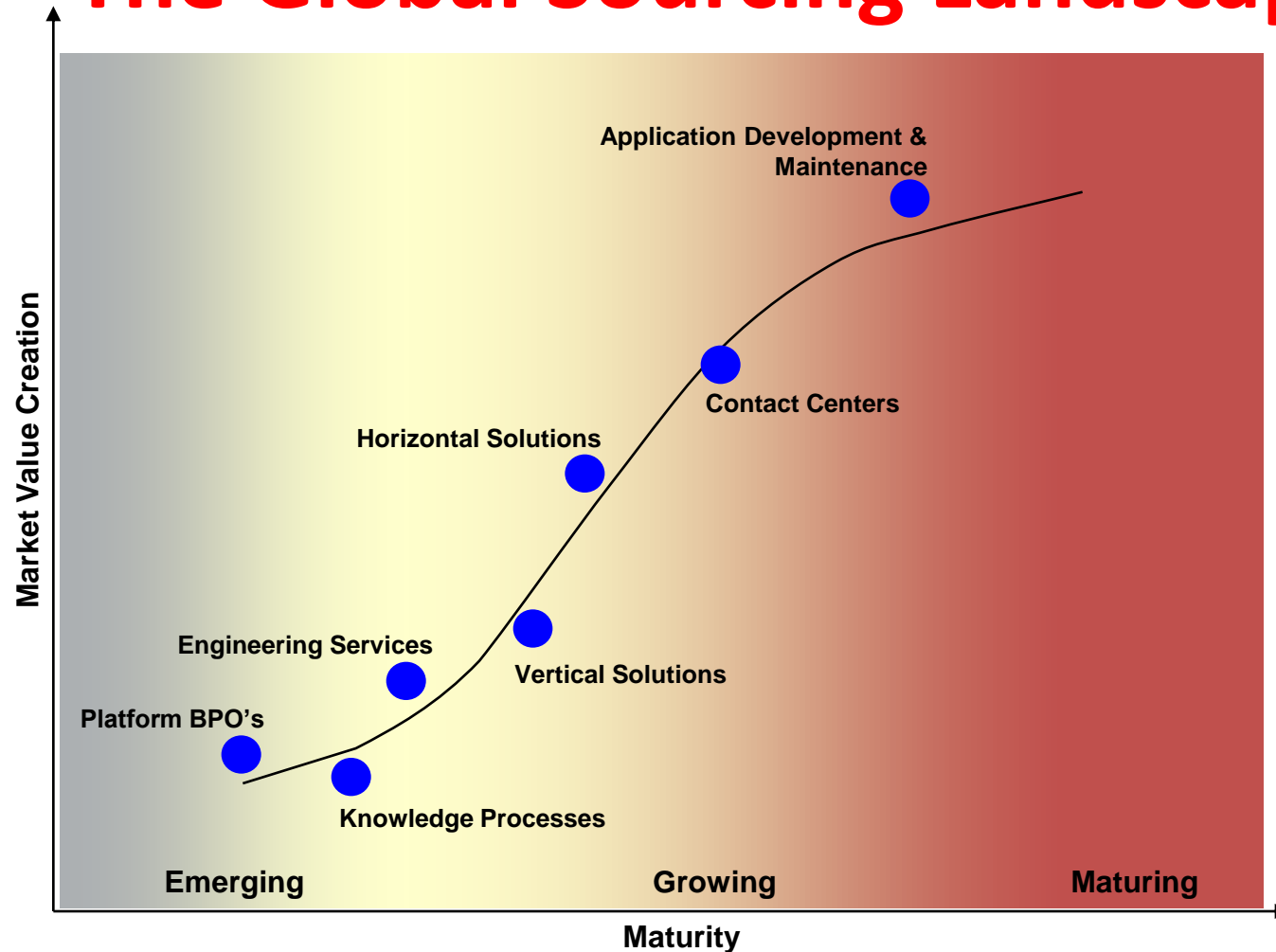
Advantage India! - Spread to Tier II Cities

The emergence of Tier 2/3 Cities [Employment Distribution '000]⁹⁻¹⁰

~40% of Delivery to happen out of Tier 2 Cities by 2018



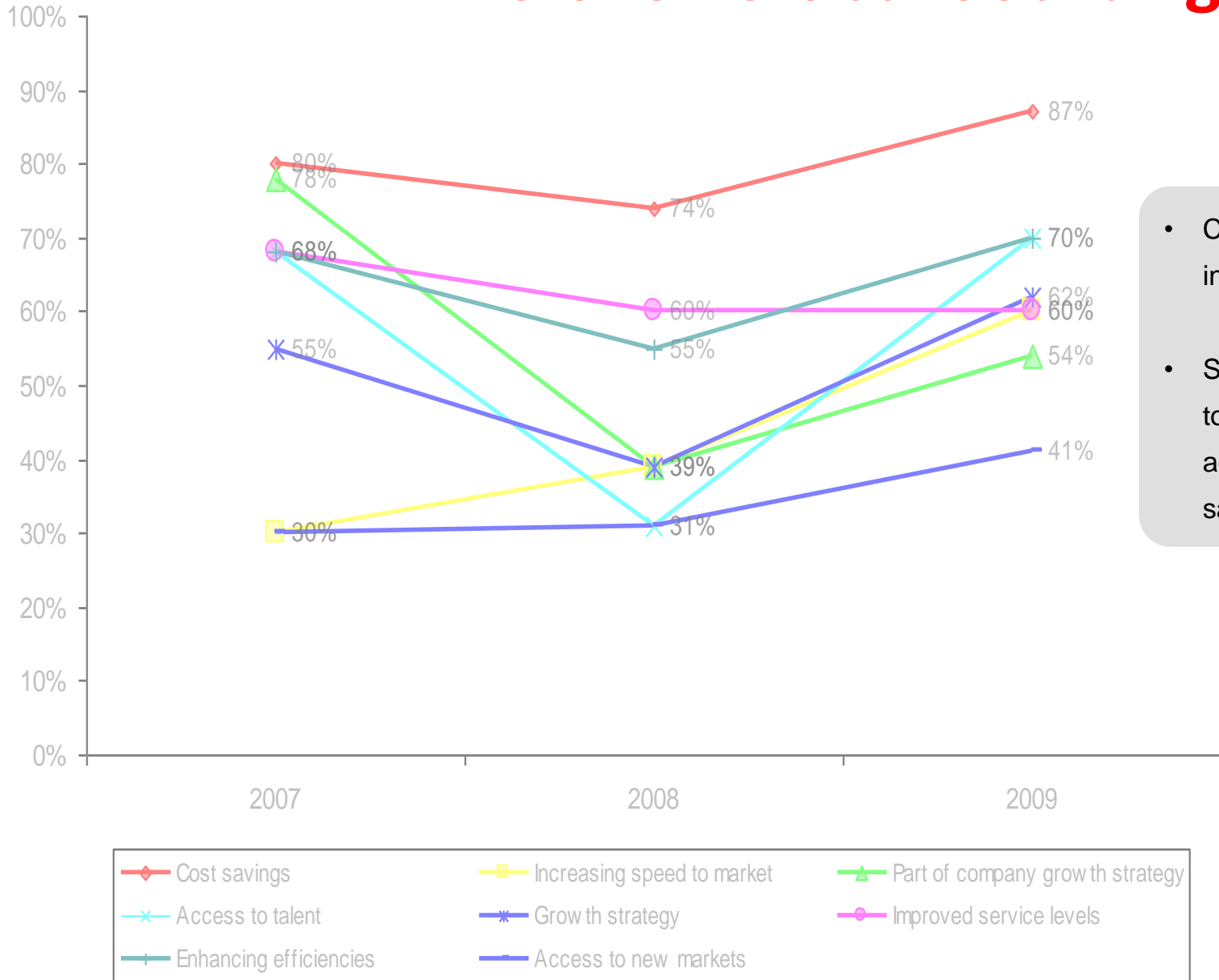
The Global Sourcing Landscape is Maturing



- Commoditization of IT and Contact Center Services
- Emerging Niche vertical Offerings
- Knowledge processes going offshore
- R&D Offshoring and Platform based BPOs emerge

The ability to service niche sourcing areas brings an opportunity for emerging locations

Drivers for Global Sourcing



- Customers becoming increasingly demanding
- Service providers expected to re-engineer processes in addition to providing cost savings

Location Drivers & Destination Attractiveness Index

• **People & skills availability**

- **Remote service sector experience, skills & quality ratings**
- **Labor force availability**
- **Education, Culture exposure & language**
- **Attrition risk**

• **Financial attractiveness**

- **Compensation costs**
- **Infrastructure costs**
- **Tax and regulatory costs**

• **Business & Country Environment**

- **Govt. support, Enabling policies (IPR, e-Transactions laws etc.)**
- **Telecom & Labour Regulations**
- **Political stability & Security**

• **Infrastructure**

- **Power, Real Estate &**
- **Data, Road & Air Connectivity**
- **Logistics & other support services**
- **Social infrastructure**

Industry Trends

“Everything as a Service”

- **New entrants & existing industries** will increasingly **outsource more functions**
- Greater specialization, **sophistication & innovative business models**
 - Software as a Service (SaaS), Cloud Computing, Shared Services, combining to offer subscription based services etc.
 - Platform Based BPO Solutions across verticals
- **More work** will be delivered **from tier 2 or 3 cities**
- **more outsourcing of core areas like R&D** hitherto considered a firm’s core competency & IP

A Phenomenal Growth Story still unfolding

- Global GDP expected to grow by 3.1% in 2010 & by 4.2% in 2011
 - **Developing economies to grow thrice as fast as developed economies** although US continues to be the dominant market
- **Growth will continue to be strong** with more firms outsourcing more functions and demand exceeding pre-crisis levels
 - **BPO spending in 2010 expected to grow**— increasingly driven by F&A, Procurement and HR
 - Vertical based BPOs however remain the largest segment
- **Government IT spend to increase** across the globe
- **Cost arbitrage** between Bangalore/Manila & a US tier 2 city still remains less by a factor of 4



Part II

Smart Strategies for creating Jobs & Growth

***Can Regional Collaboration in South Asia
& the ITeS sector growth feed each other?***

The dynamics may be similar for other regions of the world

- **South Asia Region (SAR) Today – Least integrated region**
 - Intra regional trade @ 5% of total trade at a paltry \$5B compared to EAR @50B
 - Opportunity cost of not Collaborating estimated @ \$15B
 - Mainly Bi-lateral collaboration... but ‘green shoots’ of change
 - Is it India’s size or history of conflicts the issue? ...Counter: China in ASEAN & the EU
- **A new vision for SAR**
 - **Stable, peaceful**, its people with well paid jobs & environmentally & socially sustainable with its growth story shared equitably across geographies, especially the border regions
- **Can Regional Collaboration (RC) drive growth in ITeS?.... & Similarly can the ITeS sector be the catalyst for RC?**
 - Increasing socio-economic significance & rapid growth in the sector, driven by **Private sector** for commercial imperatives
 - Does the ITeS sector have **unique attributes that can transcend the road blocks** that shackled other sectors?

Can Regional Collaboration in SAR drive growth in ITeS?

- Opportunity to Leverage India's success & make SAR the '**Region of Choice**' for Offshoring /Nearshoring-***Regional Market***
- Working in **country silos** is **duplicating effort**, wasting scarce resources, **neglects the rich experience** available in the region
- SAR governments want to **outsource public services..**
 - **Common regional systems** can reduce costs & lead times
- **Exploit niche strengths** of each nation. Smaller countries will have the **critical mass to attract the MNCs** more successfully as a region

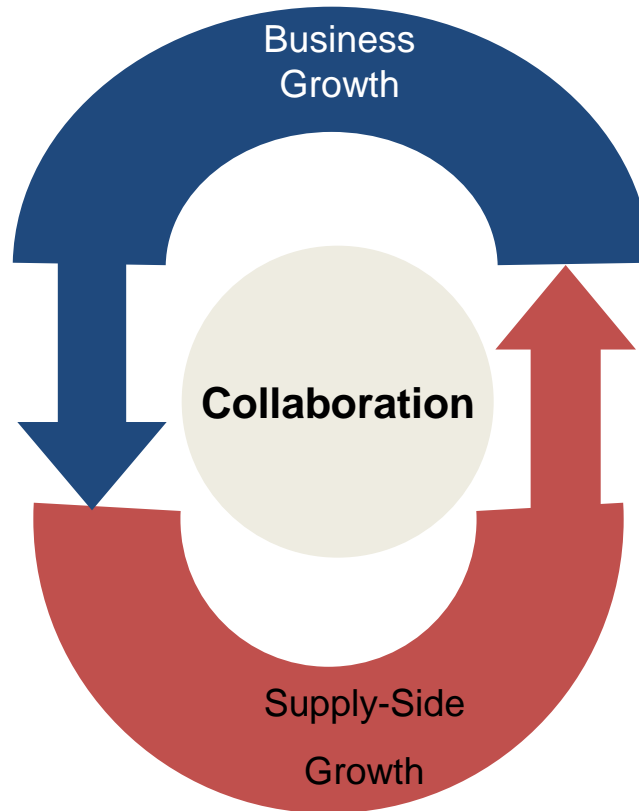
Can Regional Collaboration in SAR drive growth in ITeS?

- **Shared solutions for common problems**
 - Collaborating on common elements in the industry value chain makes commercial sense
- Disaster Recovery /**Business continuity** requirements **drives co-location**
- Analytical studies in ITeS thus far have addressed issues in country silos & **not explored synergies across SAR**
- Visit our regional discussion & knowledge sharing forum with Govt. & Industry stakeholders – **WIKI:**
<http://southasiancooperation.wikidot.com/sarchome>

Benefits of Collaboration

Business Growth

- Exploring common business opportunities for **work to be delivered from multiple countries**
- **Subcontracting** of work from one country to another
- **Joint business promotion**
- Tapping the **Regional & Domestic ITES markets**
- Arriving at a set of **Common business delivery standards** for the region
- Exploring business opportunities within region for **development of cluster services** for ITES including telecom, real estate infrastructure, and training



Supply-Side Growth

- **SAR Venture Fund with SAARC FUND** - incentives for entrepreneurs to pursue multi-country business opportunities
- Development of **common regional standards** for
 - Curricula
 - Training
 - Assessment/Accreditation
- Development of **shared infrastructure** such as telecom, data centers & real estate
- Development of **regional infrastructure**
- **Enabling policy framework** that facilitates free movement of ITES-BPO personnel in the region

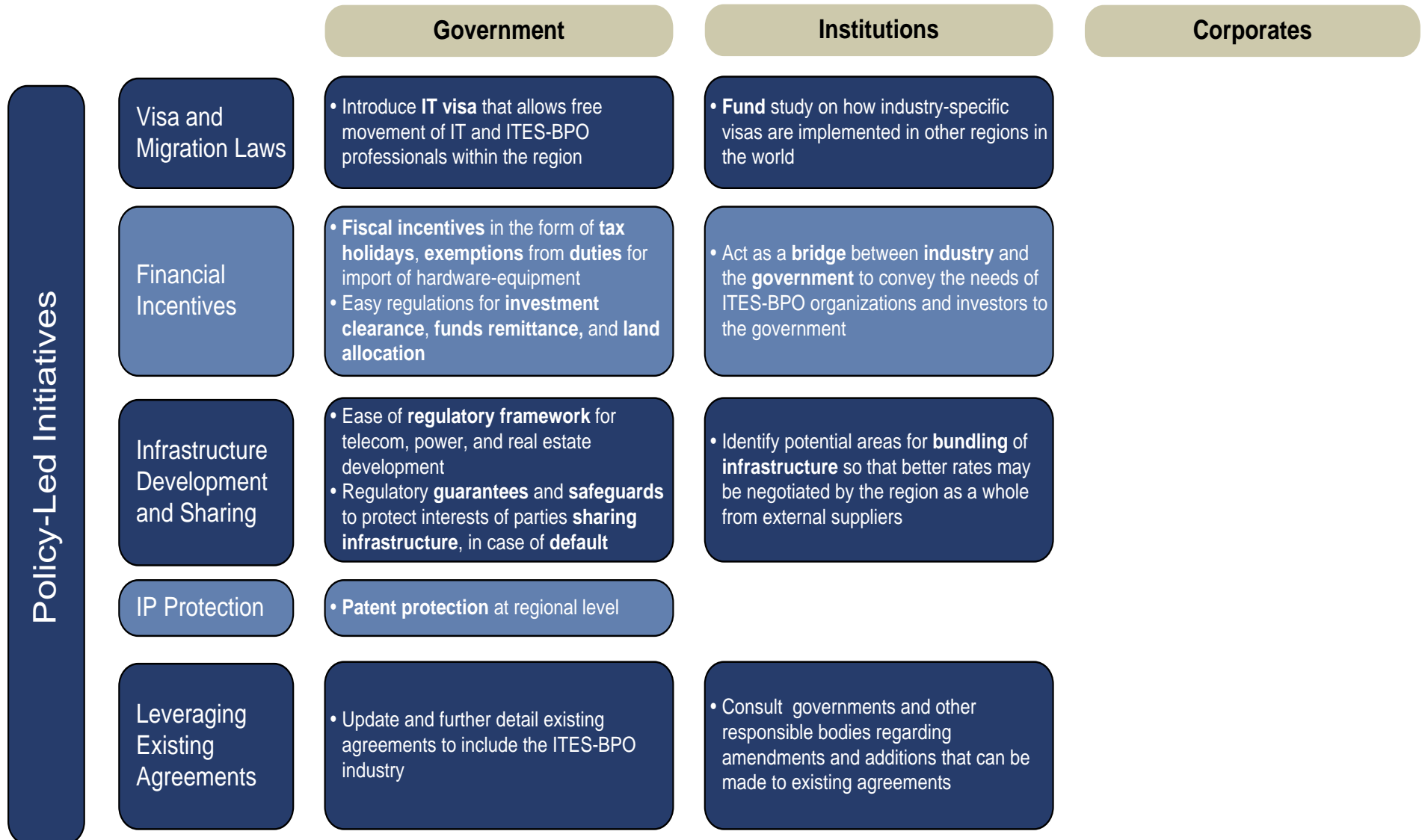
Role of Stakeholders & Core themes of Collaboration (1 of 3)

		Government	Institutions	Corporates
Human Capital Development	Training for Entry Level Talent	<ul style="list-style-type: none"> • Create conducive investment policy regime for regional training vendors • Align secondary school curricula to needs of the ITES-BPO industry 	<ul style="list-style-type: none"> • Identify skill gaps in individual countries • Identify partners for trainings • Fund country-level education and assessment initiatives 	<ul style="list-style-type: none"> • Communicate talent requirements in terms of skills and volume to government through country-level associations
	Executive Training	<ul style="list-style-type: none"> • Create attractive investment regime for international training/education institutions to open local branches 	<ul style="list-style-type: none"> • Identify world-class organizations in the South Asian countries that can provide on-the-job training 	<ul style="list-style-type: none"> • Communicate mid/senior management talent requirements in terms of skills and volume to government through country-level associations
	Internship and Employment	<ul style="list-style-type: none"> • Ease visa and migration laws • Ease repatriation of salaries into regional countries 	<ul style="list-style-type: none"> • Identify global and regional employers willing to employ regional candidates 	<ul style="list-style-type: none"> • Encourage employment of candidates from region since it builds the employer brand
	Common Assessment Test	<ul style="list-style-type: none"> • Provide government infrastructure for running test • Provide student subsidies for the test • Link employment schemes to test • Align education to test results 	<ul style="list-style-type: none"> • Project manage implementation of the test • Identify organizations willing to employ on the basis of test • Subsidize government spending on test on per-candidate basis 	<ul style="list-style-type: none"> • Provide feedback on quality of talent qualifying on the test • Replace internal testing procedures with the test
	Accreditation	<ul style="list-style-type: none"> • Assess quality of the government-run educational infrastructure using accreditation framework 	<ul style="list-style-type: none"> • Project manage accreditation process • Fund creation of accreditation mechanism 	<ul style="list-style-type: none"> • Provide feedback on quality of talent emerging from accredited institutions

Role of Stakeholders & Core themes of Collaboration(2 of 3)

		Government	Institutions	Corporates
Investment Promotion	Marketing Activities	<ul style="list-style-type: none">• Make government infrastructure available for running promotional seminars and info-share events	<ul style="list-style-type: none">• Drive marketing and promotional campaigns• Conduct conferences for ITES-BPO professionals from the region• Identify regional business development agents• Fund promotional activities	<ul style="list-style-type: none">• Leading corporates in a particular sector should nominate representatives to act as regional ambassadors
	Joint Ventures and Investment	<ul style="list-style-type: none">• Create favorable policy regime that allows free flow of funds• Attract venture capitalists and other global investors• Provide fiscal and nonfiscal incentives to regional infrastructure development	<ul style="list-style-type: none">• Facilitate contact and dialogue between organizations in similar spheres of work• Replicate successful models of socially oriented ITES-BPO• Act as the bridge between potential investors and the governments	<ul style="list-style-type: none">• Seek partners in other countries in the region for complementary work• Seek opportunities for direct investments in regional companies• Set-up greenfield projects and captive centers
	Subcontracting		<ul style="list-style-type: none">• Facilitate contact and dialogue between organizations in similar spheres of work• Identify opportunities for regional MNCs to outsource specific processes based on individual country competencies	<ul style="list-style-type: none">• Identify opportunities to subcontract work to regional companies

Role of Stakeholders & Core themes of Collaboration(3 of 3)



Core Objectives of a Regional Initiative

- To develop **knowledge partnerships** across South Asian ITES Industry Associations, local public and private sector institutions involved in industry development & promotion.
- This will facilitate:
 - **transfer of regional good practices on enabling policies & business environment reforms** leading to **successful enterprises** offering **well paid employment** in the South Asia
 - **encourage (Incentivize) cross border collaborative** behavior in the ITES sector and related sectors in its value chain leading to centers of excellence for common infrastructure and services for the region

Emerging contours of a Regional Initiative....

- **SAR ITES Venture Fund -Matching Grants** to encourage/lower perceived risks associated with regional collaboration :
 - regional JVs/partnerships, intra- regional infrastructure, standard skills assessment, common accreditation process, joint promotional activity, Diaspora & venture capital mobilization, common support services/ industry clusters, etc.
- **Institutional Capacity Building:**
 - **A small regional secretariat** affiliated to existing body such as SAARC Chamber to champion the regional cause,
 - **Enabling policies & Reforms-** A conducive business environment: model frameworks, Intellectual Property Rights (IPR), e-transaction legislation, Labor reforms, ITeS cross border investment barriers etc.

Developing a Roadmap for Regional Collaboration in ITES

A prioritized set of time bound activities & responsibilities

The SAR Venture Fund

Year 1

- **Focus Areas:**
 - Setting up of the **regional body for collaboration**
 - **Training and assessment** for ITES-BPO
 - **Niche segment identification**
 - SAR Venture Fund
- Plan and implement first phase of **common assessment test**
- Promote **entrepreneurship**
- Identification of **niche segments** and areas of growth for the **countries**
- Interaction among country-level associations on discussing **complementary work opportunities**
- Promote **subcontracting** of work in niche segments
- **Internal promotion** of ITES-BPO in countries

Year 2

- **Focus Areas:**
 - Business-to-business collaboration through **joint ventures**
 - **Investment promotion**
 - **Infrastructure development**
 - **Short-term talent development programs**
- **Conduct seminars/conferences** to engage companies from different countries in conversation on both **investment and joint-venture promotion**
- Conduct **regional promotional events** to attract **VCs**
- **Rollout accreditation framework** in line with results from common assessment test
- Develop **finishing/training school curricula** to bridge short-term gaps

Year 3

- **Focus Areas:**
 - **Regional investment promotion**
 - Common **infrastructure development**
 - Increased **government-to-government contact and policy-related initiatives**
- **Joint promotion** of the region through events to attract **fresh clients** from outsourcing countries and to attract **private equity** firm funding
- Development of common infrastructure in areas such as **power, telecom, and real estate**
- Leveraging of existing **bilateral and multilateral agreements** for ITES-BPO
- Initiation of regional policies such as **IT-ITES visas, and so forth**

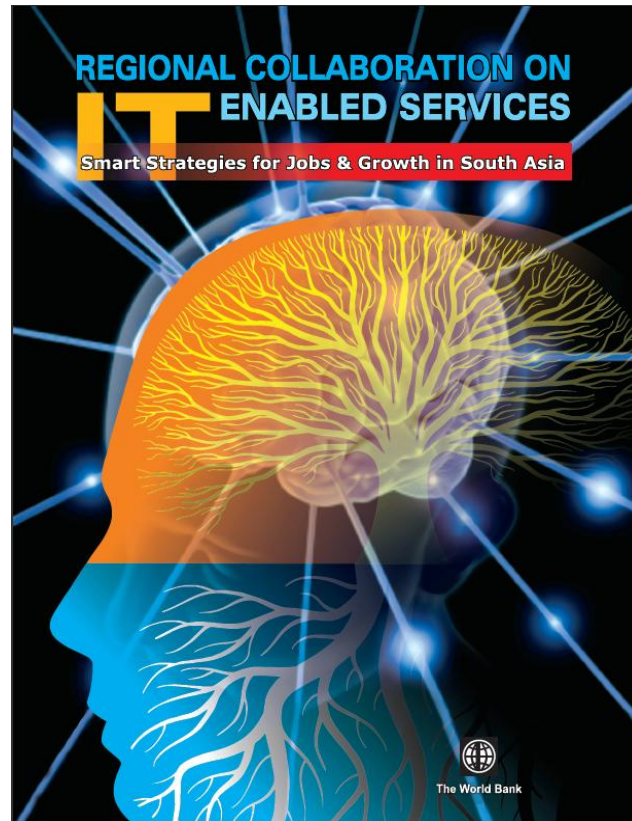
Year 4

- **Focus Areas:**
 - **Long-term sustainable strategies** for education, business development, and industry growth
 - Creation of **free trade agreements** and **regional work permits**

Summary Points

- The IT/ITeS industry is **poised for growth** despite the global financial crisis
- The IT/ITeS sector has been a **catalyst for innovation, rapid socio-economic change**, leading to Jobs & Growth
- Its unique attributes have **impacted all sectors, countries & regions**
- Regional Collaboration can be a **Win-Win for All**
 - The Industry is supply constrained –**Enough for All!**
 - Help keep costs down(**economies of scale**)& **reduce lead times** with **regional Centers of Excellence (RCoEs)** and service providers
 - **Exploit niche strengths** of each nation
 - Smaller countries **together have the critical mass** to attract the MNCs
- **This is a journey....** Need to make a modest start- Potentially rich rewards despite the challenges





Thank You

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