NASSCOM® ATKEARNEY

# Location Roadmap for IT-BPO Growth

Assessment of 50 Leading cities

# Executive Summary

The IT–BPO sector has grown rapidly over last few years and the IT-BPO industry revenues (Software and Services) for 2008 are estimated to be over USD 50 billion. At the same time, growth has been focused on a few leading cities. Currently, of the total direct employment of about two million in the IT-BPO industry, over 90 per cent is captured by the seven leading locations of Bangalore, Mumbai, NCR, Hyderabad, Pune, Chennai and Kolkata. Apart from employment, these cities have realised significant benefits in terms of improved branding and visibility, consumption led economic growth, improvements in social infrastructure, etc.

Several other locations in the country are looking to realise the gains that have led to the transformation of cities like Bangalore, Hyderabad, Gurgaon and Noida, by attracting IT-BPO investments. At the same time, rapid growth has led to current IT-BPO hubs facing rising real estate costs, increased attrition and saturated infrastructure, forcing companies to look beyond these 'Leader' locations.

From a social perspective too, it is important to strive for a more balanced growth of IT-BPO services. This will lead to sharing of benefits across the country, lower migration across cities, while, reducing the burden on infrastructure of the current hubs. Industry too will benefit through access to a larger talent pool that will be available with increased awareness and proximity of employment opportunities in the sector.

The opportunity over the next decade is huge. The employment in the sector grew at over 25 per cent per annum over the last decade. Over the next decade, even a conservative 15 per cent growth rate of employment in IT-BPO industry will lead direct employment in the sector to about eight million by 2018, an increase of about six million. In addition, if a direct to indirect employment ratio of 1:3 is assumed, this translates to incremental indirect employment of 18 million.

We believe over the next decade, share of the sectoral employment in the top seven locations will decline to around 60-75 per cent with total direct employment in these locations will grow to about five to six million. Absorbing this growth will pose a significant challenge to the physical and social infrastructure in these locations. At the same time other locations have an opportunity to capture a share of about two to three million direct IT-BPO jobs that will be added in non-leading locations – this is more than the total current employment in the sector.

It is critical for various locations to pursue the right approach so that they best position themselves to exploit this opportunity. It is also important for the industry to be aware of the advantages and challenges offered by various locations. Accordingly, NASSCOM and A.T. Kearney have taken up this joint effort to:

- Assess the potential and attractiveness of 50 locations across the country for IT-BPO sector; and
- Develop a roadmap for sustainable and balanced development of the sector across these locations

## Approach for the study

The 50 locations considered fall in two broad categories:

1. Locations with currently significant levels of IT-BPO activity
2. Some locations, where current presence of IT-BPO may be low, but which have been identified by the states for future development of IT-BPO sector

The study recognises that there may be locations, not considered in the report, which currently have low levels of IT-BPO activity but may emerge as strong destinations over the next few years. We believe that the recommendations for the second category of cities above, will be quite relevant for such locations.

The study was conducted by collecting and analysing data about the 50 locations on over 100 metrics broken down into key parameters such as:

- Knowledge pool availability and skill set assessment
- Infrastructure
- Social and living environment
- Enabling business environment
- Government support
- Operating cost

Apart from secondary research, a key aspect of the study was significant primary interactions in each location with companies, educational institutions, government, etc.

## Key Findings

Our analysis indicates that, based on their stage of development for IT-BPO, the locations can be categorised into four groups, viz, Leader, Challenger, Follower and Aspirants (refer following table)

| ▲ LEADERS | | |
|---|---|---|
| • Bengaluru | • Kolkata | • Pune |
| • Chennai | • Mumbai | |
| • Hyderabad | • NCR[1] | |

| ◆ CHALLENGERS | | |
|---|---|---|
| • Ahmedabad[2] | • Jaipur | • Nagpur |
| • Bhubaneshwar | • Kochi | • Thiruvananthapuram |
| • Chandigarh[3] | • Lucknow | • Tiruchirapalli |
| • Coimbatore | • Madurai | • Vadodara |
| • Indore | • Mangalore | • Visakhapatnam |

| ● FOLLOWERS | | |
|---|---|---|
| • Aurangabad | • Hubli-Dharwad | • Puducherry |
| • Bhopal | • Kanpur | • Salem |
| • Goa | • Mysore | • Surat |
| • Gwalior | • Nashik | • Vijayawada |

| ★ ASPIRANTS | | |
|---|---|---|
| • Allahabad | • Ludhiana | • Siliguri |
| • Dehradun | • Patna | • Srinagar |
| • Durgapur | • Raipur | • Varanasi |
| • Gangtok | • Ranchi | |
| • Guwahati | • Shimla | |

1. National Capital Region (NCR) includes Delhi, Noida, Gurgaon and Faridabad
2. Ahmedabad includes Gandhinagar
3. Chandigarh includes Mohali and Panchkula

## Findings across assessment parameters

The key findings for various categories across assessment parameters are as follows:

***Knowledge pool availability and Skill set assessment***

- Leader cities are significantly ahead of the rest in terms of the availability and quality of employable workforce, in addition to the large size of incumbent talent pool
- The IT-BPO industry is facing a shortage of employable talent. There is a significant need to increase the quantity and quality of workforce in the country to meet the demand for IT-BPO and other sectors. It is also important to improve the curriculum and increase industry-academia collaboration to overcome this hurdle
- In terms of locational development, signs of reverse migration of talent to Challenger locations have been noticed. This is one major factor that could support the development of Challenger locations in future

***Infrastructure and Social environment***

- Rapidly improving infrastructure in many Challenger and Follower locations is narrowing the gap with the Leaders. However, Leaders, on an average, continue to be ahead on connectivity, hotel availability and power situation
- Leaders actually lag some cities in other categories on social and living environment parameters due to higher cost of living, higher pollution levels and rapidly improving recreation / retailing options in Non-leader locations, etc.

***Government support and Enabling business environment***

- Most states are supporting the growth of IT-BPO, however, there are perceived differences in focus, commitment and on the ground implementation by different governments
- Government support is seen to be the strongest in Challenger locations and has played a critical role in their development. Governments seeking to develop Follower and Aspirant locations could leverage the strategies adopted by the Challenger locations to jump start their growth. At the same time governments in Follower and Aspirant locations, seem to be more focused on IT compared to BPO. We believe that they have a greater chance of success in BPO, particularly in domestic BPO
- Leader cities have significantly better depth and breadth of overall business environment and opportunities. This advantage is likely to continue
- BPO companies, particularly domestic BPO, appear to have a higher propensity to move to Follower / Aspirant locations – primarily driven by lower costs and lower mobility of BPO workforce in comparison to IT

***Cost Structures***

- Non-leader cities typically have about 30 per cent lower operating costs as compared to Leader cities. However, on an average, the difference in costs between Challenger and Aspirant cities is only about five per cent
- Labour costs in Follower and Aspirant locations can be even lower for less complex / simpler work and small scale of operations
- Challenger locations, with similar cost structures as Followers and Aspirants, have an advantage on account of their better infrastructure, social and living environment
- At the same time, differentials in labour costs by location are minimal for most national / global top-Tier IT-BPO companies, as they have similar salary levels across locations

## Growth Imperatives for each Category

The locations studied faced varied challenges in terms of moving to the next level of development. This study indicates some initiatives that seem to be consistent across the locations in the category.

***Leader locations***

Despite their many advantages, these locations are rapidly saturating and are faced with problems of increased attrition, rising real estate and labour costs, deteriorating infrastructure, etc. Examples of initiatives that could be adopted to help these locations overcome these problems and become global powerhouses include:

- Develop and communicate clear long term positioning for the city
- Address key infrastructure issues e.g., create radial infrastructure / satellite cities around the leader locations

***Challenger locations***

For Challenger locations to make the transition to Leader locations in future, they need to clearly position their advantages to potential entrants and ramp-up quickly. Some specific initiatives include:

- Build an IT ecosystem focused on select areas to derive long term positioning
- Quickly scale up employment in the IT-BPO sector by supporting IT SEZs and attracting major national IT-BPO companies
- Focus on labour pool development
- Encourage reverse migration from leader locations

***Follower locations***

Follower locations have limited advantages over the Challenger locations in terms of operating costs, while compare unfavourably in terms of incumbent labour pool, out-turn of qualified candidates, social and living environment, etc. In order to catch up with the Challenger locations, some initiatives that can be undertaken include:

- Aggressively focus on establishing a core set of companies for IT-BPO – Identify niche positioning opportunities to enhance location attractiveness
- Improve infrastructure to levels of Challenger / Leader locations
- Enhance awareness of the sector amongst the educational institutions, with greater focus including that of the government, on BPO
- Increase the size of graduate pool, by setting up more technical institutes

***Aspirant locations***

Aspirant locations do not currently have the right ecosystem and critical mass in place to attract IT-BPO investments in any significant measure. Significant improvements have to be made on many fronts, including:

- Setting up Plug and Play facilities to facilitate smooth start up and running of operations
- Enhance awareness about BPO within the educational institutions, particularly domestic BPO, which could be the initial focus area to develop critical mass
- Supporting finishing schools to enhance soft skill development
- Improving connectivity, infrastructure and business environment

## Conclusion

Over the last decade, much of the growth of IT-BPO sector has been focused on a set of seven to ten locations, owing to various factors like infrastructure, access to a large talent pool, developed policies, etc. However, with maturing of the industry, it is important for IT-BPO growth to expand across more locations. A more balanced development across the country will evenly redistribute and even reduce migration of population to the top few locations and hence, spur development of a much larger subset of cities.

With continued growth in IT-BPO sector, the opportunity for many locations to transform themselves over the next decade is huge. While, Leader locations need to align the growth to available infrastructure, other locations need to enhance their attractiveness. Locations that are able to move quickly to address the issues and set in place the required enablers will be more successful in realising the potential.

Decongestion of growth at a macro level and enhancing the attractiveness at a location level will require each IT-BPO industry stakeholder to play a proactive role in creating the ecosystem for the sector:

- Develop the right vision for IT-BPO sector development at a location – take a holistic view of IT, international and domestic BPO, each of which offers a large opportunity
- Aggressive focus on enhancing the quantity of talent pool available at a location and address issues related to talent suitability, e.g., curriculum, finishing schools, faculty capabilities
- Enhance awareness of international and domestic BPO careers amongst the stakeholders – government, students, faculty and society
- Improve and develop physical infrastructure and urban environment – critical not just for IT-BPO companies to establish presence, but also to attract the workforce to move to and live in a city
- Visible and sustained government commitment and responsiveness to drive IT-BPO growth
- Long-term focus on improving the perception and overall business environment of the location to drive broad-based growth