

Review

Is India the panacea to the global crisis?: A multi-dimensional approach

Avik Ranjan Roy

Department Of Commerce, Burdwan University, west Bengal, India. E-mail: viomroy@yahoo.co.in. Tel: 9836285322/9433864529

Accepted 23 November, 2009

The need for flexibility in business and pricing models came out as the strongest requirement of (Chief Executive Officers') CEOs at the Dataquest-Nasscom roundtable discussion. Nasscom India Leadership Forum 2009 was one of the most eagerly anticipated events of the year, with the industry waiting for answers and insights from global leaders on how to survive the ongoing wrath of the downturn. As expected, the event and its participants displayed the much expected somberness that the world economy is going through at the moment. But a streak of hope came through the willingness and positivism that the IT industry displayed in being a part of the solution to the crisis rather than the problem itself.

Key words: Recession blues, pricing techniques, global solutions, Indian perspective, India's participation in fighting global economic crisis.

INTRODUCTION

While global leaders such as Narayanan Murthy, CK Prahlad, and Shashi Tharoor spoke words of encouragement and helped chart out a vision for India post the slowdown, the session spanning across three days focused on new business models and new geographies that could probably serve as an alternative to combat the recession. In one such session jointly organized by "Dataquest" and "Nasscom", global CEOs and heads of IT companies went onto discuss whether 'India can serve as a solution to the global economic crisis'. As the recession grips more economies and enterprises, it's the perfect time to adopt the open source business model. We explain why. In the technology landscape has been undergoing a massive transformation over the past couple of years. In the early 2000s, organizations were going after products and appliances irrationally, investing huge sums without any guarantees of a quantifiable ROI (return on investment). Today, awareness of technology has grown and organizations tend to demand a measurable ROI before adopting a new technology. Open source software has always been a good option to provide effective solutions within relatively low budgets. Not surprisingly, a number of organizations have started adopting open source software solutions. This trend has been boosted by the ongoing recession, with companies looking to cut costs. The Indian BPO Industry is definitely

the worst affected in the global economic meltdown or downfall but nevertheless it is the only hope in the current scenario. The ongoing discussion will definitely clarify the abstract of the Article.

How can we help?

The Indian IT-BPO services industry finds itself at a crossroad. On the one hand, the impact of global economic slowdown is becoming more acute with every quarter; and the recovery is nowhere in sight. On the other, the whole world, in its wisdom, believes that India can be the most important contributor to the solution to this crisis. How?

The realization that the world has sunk into an unprecedented economic recession did not just come about yesterday. For the last few quarters, ever since it began as what was then called the sub-prime crisis, before becoming credit crunch to finally become a full-fledged recession, we have known that this slowdown is different from all that we have seen. Initially, with every passing month, the speculated time of recovery was pushed forward by the analysis, meaning they believed the worst was yet to come. In the last few months, even that has stopped. The economists, businessmen, analysts

and even the policy makers globally now largely agree that it is difficult to predict when the situation will reverse.

With the consensus, the questions have changed. The most important question is no more: When is the recovery? It is how to live with the recession?

With the realization that the recession is here to stay, businesses in most developed markets have shifted gear. They are now looking for a plan B. That is different from what they were trying to do a couple of months back: working simultaneously on two plans: a tactical plan for the time being and a post-recovery strategy for the long-term. Now, there is one plan.

And that is good news - in the context of the present economic conditions, of course - for the IT services providers, especially those in Indian. In a way this realization that the recession will be there for some time and the look for a fairly sustainable plan B has somehow made their business less uncertain, as compared to, say, what it was a few months back.

"After Lehman, the situation was really bleak. We did not know where we were going. But today, the clients are realization that they need to run their business after all. And they are coming to us for helping them out," says Neeraj Bhargave, CEO, WNS Global Services, one of India's top pure play BPO firm.

Agrees Pramod Bhasin, CEO of Gen-pact, India's top BPO company, "It is difficult to say when the economic recovery will actually happen, but our markets will revive towards Q4 (October - December, 2009). That is because this industry is part of the solution to the present crisis, as companies need to be more efficient and cost-effective."

Bhasin is just articulating what is today emerging as a general consensus. That the way out of the crisis is to aggressively drive efficiency. That will lead to more solace being sought in both technology and outsourcing.

It is important to note one point here: a major difference with the last slowdown of 2000, when technology took quite some time to come back. That is because that time around, the IT sector itself was held responsible for the bust and hence was looked with a lot of suspicion, even after recovery. This time, the crisis was caused by the misadventure by the financial services industry, so IT really stands for what it is: something that drives efficiency and productivity.

But all that is still on the supply side. It is difficult to believe a recovery will happen without demands picking up.

Interestingly, there too, a consensus is emerging that the two markets, India and China, hold the key to that elusive recovery of demands. It is not misplaced. In January, 2009, India added 15.26 mm mobile subscribers in a single monthly addition; at the time of the world's biggest recession! That is because in many areas, the basic need is driving demands in India (and China). Like telecom, there is still a boom period in many consumer sectors such as education, healthcare, insurance, and utilities. In infrastructure too, the government

spend ensure that the sector is seeing a lot of investment. It is only in areas which require discretionary spending by the consumers - such as apparels, white goods, etc - that have seen some sort of a slowdown. It is not surprising that the global businesses see these markets as something of a savior.

India plays another important role for many businesses. India is far more diverse and open than China. India's diversity makes it an ultimate destination of the emerging markets. It has one of the highest numbers of billionaires; yet it has one of the largest numbers of people below the poverty line. Hence, scope for business is maximum in India. It has more multiple languages and dialects. All this has made India a test-bed for new technologies and applications. Companies like Google and Cisco are already using India for this purpose. While its diversity makes for a great test-bed for creating robust and resilient solutions, its better integration with the world economy (as compared to say China) ensure that they are smoothly portable and can be expected to work in other areas of the world.

So, all the three-the off shoring prowess (call it the talent bases, if you like), its own huge market potential, and its unique characteristic of being a microcosm for the emerging world make India part of a solution.

Now the challenges are to devise the solution where the whole is larger than the sum of the parts. To be fair, this is something, which is not new as an idea. Most of the technology companies-including big names like IBM, Microsoft, Yahoo!, Cisco, Oracle, and Google - have, to some extent, been trying this out. Many other industries can also benefit from this useful combination but may not be in a state to do that by themselves.

The challenge, nay, the opportunity, before the Indian IT services industry is to help them in that. For that, it has to rediscover itself first.

Understanding changing needs

This sounds cliché. But guess how many service providers do it well! In a panel discussion organized jointly by Nasscom and Dataquest, in the sidelines of the Nasscom Leadership Summit 2009, panelists from BT, Standard Chartered, Credit Suisse and Southern Waters - all prolific users of India outsourcing - complained that India service providers are not flexible enough. Most of them agreed that Indian service providers are not flexible in terms of pricing. But, more importantly, a few said that Indian firms do not show interest in taking up new, untested areas, unless they get an outright assurance that it would be scaled up significantly in a definite time period.

At the time of a slowdown, many said they would like to speed up outsourcing to India, if the service providers realize that the time are different and the contract conditions cannot be the same as they were a year back.

All that requires a definite change of attitude, but some change in strategy too.

For example, two years back, most BPO companies got into new "high value" areas such as analytics and research, as knowledge process outsourcing of KPO became a buzzword. While most KPO firms were small start-ups, many established BPO firms also expanded aggressively into this. One such company was WNS Global Services. Today, its CEO, Neeraj Bhargava admits that traditional BPO such as transaction processing is back. "We are back in 2001-2002 levels; people want us to do more of traditional BPO and do it better. KPO, that requires more discretionary spending, has suffered, while demand for BPO is very high," he says.

Genpact, the BPO Company, that had started expanding in the IT services, too sees a similar issue. While IT demands have slowed down, the demand for traditional transaction processing has gone up. The company is adjusting its plans accordingly.

In IT service too, the traditional strength of India service providers have typically been application development and maintenance (ADM) and to some extent package implementation. Both these are areas that require discretionary spending. While ongoing projects many continue in these, most new contracts can come from areas like BPO and managed services.

The slowdown also presents an opportunity to acquire talent in the target markets, especially in the verticals that the firms sell to.

Confrontation doesn't help

When president Barack Obama of the US said in his budget that he plans to stop giving tax breaks to companies that ship jobs overseas, he was definitely appealing to the sentiment of his countrymen, where loss of jobs is the top-of-the-mind worry for an average American. This was evident from the fact that in the beginning of the speech he identified jobs being his prime attention area. The next day, Indian media was full with reactions from the Indian industry, some of which came as a mild warring - that without outsourcing, the American companies would lose their competitive edge! US, they said, were slipping towards protectionism.

"I do not think there are any serious protectionism tendencies," says Dr Nirvika Singh, professor of Economics at university of California, Santa Cruz.

"And if you are really afraid of it, you must find a way out," he says. "What stops Indian companies from buying US firms and saving/creating jobs in the US?" he asks.

"One of the things that Indian firms must do is to get into the stimulus plans announced by various governments around the world, including the US," says Ganesh Natarajan, CEO of Zensar and Chairman, Nasscom. "We must build the apps for the infrastructure that is being built," he says.

Dr. Singh of UCSC agrees. "What better way to achieve that than by acquiring American companies?" he asks. The agenda of the government is not protectionism. Protectionism is all about saving the interest of the local firms. Saving jobs is a national concern. If it is Indian companies, which create those jobs, they will be welcome, he explains.

While Indian companies may well do those acquisitions today out of necessity, post-recovery that will make them truly global companies.

Helping clients in their India strategy

While for most of those companies in the financial services, infrastructure and security it was more of consortium-based go-to-market kind of plans, a few others had innovative ideas about using India for innovation. One of the European retail companies, which have a skeleton presence in the Indian market, is exploring the possibility of solutions that can work in Indian and other emerging markets. It already works with a few IT and BPO firms, and is trying to create solution that may help it in creating markets.

In areas that have high potential but are largely services-based, the possibility of these kinds of alliances working successfully is higher. That includes education, financial services, retail, telecom, and selects areas in infrastructure services. But, above all, where it has the maximum potential is in the public services area. So much so that one of the biggest companies in this area in the world, UK-based Serco, actually acquired an Indian BPO service provider.

This, in turn, will help the Indian IT firms in tapping the domestic opportunity in all these areas. A big partnership with a large company will give them some headway to try experimenting with ideas, which could ultimately help them realize their elusive domestic dreams. That, however, is another story, for another day. An equally big, if not bigger, opportunity.

Is India the solution to the global crisis?

The need for flexibility in business and pricing models came out as the strongest requirement of (Chief Executive Officers') CEOs at the Dataquest-Nasscom roundtable discussion. Nasscom India Leadership Forum 2009 was one of the most eagerly anticipated events of the year, with the industry waiting for answers and insights from global leaders on how to survive the ongoing wrath of the downturn. As expected, the event and its participants displayed the much expected somberness that the world economy is going through at the moment. But a streak of hope came through the willingness and positivism that the IT industry displayed in being a part of the solution to the crisis rather than the

problem itself.

While global leaders such as Narayanan Murthy, CK Prahlad, and Shashi Tharoor spoke words of encouragement and helped chart out a vision for India post the slowdown, the session spanning across three days focused on new business models and new geographies that could probably serve as an alternative to combat the recession. In one such session jointly organized by Dataquest and Nasscom, global CEOs and heads of IT companies went onto discuss whether 'India can serve as a solution to the global economic crisis'.

The panel comprised CEOs and heads of companies namely David Awcock, group head technology, Standard Chartered; Les Dawson, CEO, Southern Waters; Divyesh Vithlani, MD and CTO, APAC, Credit Suisse; Samantha, BT; Arun Gupta, CTO, Shoppers Stop; and Ganesh Natarajan, chairman, Nasscom and CEO, Zensar Technologies. The session was chaired by Prasanto Kumar Roy, chief editor and president, ICT publications, Cybermedia.

All the global companies represented on the panel had operational hubs and a large workforce in India and have been actively outsourcing to a number of reputed Indian service providers.

Low hanging fruits

Roy kick-started the discussion by inviting comments on whether outsourcing itself was a part of the solution to the economic crisis and whether India's reputation as an outsourcing hub gave it an edge. It is conventional wisdom that during a slowdown companies become cost competitive and therefore will need to outsource. On the other hand, outsourcing has not increased or witnessed sudden support of growth despite current economic slump. Companies are instead focusing more on the 'low hanging fruits' and curbing internal costs. Organizations that have not been outsourcing will be forced to work out a lot of modalities such as people and processes, if they have plans to start outsourcing in this milieu. So the big question is whether companies will increase outsourcing going forward.

To this, Ganesh Natarajan of Zensar presented some quick statistics that gave a picture of the potential size of the global outsourcing industry and India's share in it. According to him, out of the global outsourcing market of \$500 bn, India's share would be about \$47 bn this year. As per the projection for 2020, the market itself is expected to grow to \$1.7 bn and India has a good chance to grab about \$250 - 400 bn of that market. Natarajan emphasized on the need for innovation, new services and business models, and robust processes for India to significantly increase its market share and actually be a part of the solution to the global crisis. He also highlighted an interesting point on how India can try and fit into all the economic stimulus plans across the world by developing world class technology solutions in India and

implementing it in countries such as the US, UK and Japan, and help create jobs.

Flexibility is key

Samantha Cowell of BT said that about six months ago, customers were very positive about long term outsourcing deals. Now, however, it is a real challenge because of the high level of uncertainty which is turn is demanding a greater level of flexibility. This essentially means that companies don't want long terms contracts but want the benefits of outsourcing and transformation. This demands that customers and vendors work together to come up with flexible commercial models. The true challenge was in matching the needs and expectation of global players with that of the different expectations of the India outsourcing market. BT is amidst discussion with its R&D teams and certain partners capable of absorbing the business risk while continuing to expand BT's offerings and support its business imperatives.

Divyesh Vithlani of Credit Suisse said that flexibility is going to be the key watchword for India to continue to be a viable provider of outsourced services, talent services or products. "There is no single operating model or a single provider or city that can service our needs. So flexibility is the key and I believe Indian service providers are willing to offer flexible business models to customers," he said. Credit Suisse partnered with Wipro for setting up its India operations as the vendor provided the flexibility of operating out of their campus and offered to work on a wide variety of models such as captive, co-managed and outsourced.

In addition, Wipro allowed Credit Suisse the use of third party resources on its site which was a first for any large vendor in the country. Vithlani also pointed out strongly that multiyear contract would not exist going forward. "Therefore, flexibility which allows organizations to act quickly and numbly to market pressures is going to be in demand," HR added.

Cost competitiveness

While the need to re-look at business models, renegotiate with providers and bring in flexibility into the business came out as a strong point in the discussion, there was a lot of debate on whether companies would scale up outsourcing in areas where they are not cost competitive. Les Dawson, CEO, Southern Waters strongly negated the theory that companies would seriously explore outsourcing due to the current economic scenario. "They would not want to take more risks in their business specially during such times," he said. He said that the present economic scenario will not serve as a special stimulus for companies to outsource. He also added that India will no longer be able to work on a cost arbitrage model as a lot of new geographies are able to compete and match the cost competitiveness. "The only way to

attract more work to India is to achieve the flexibility in price and volume," he added.

Elaborating more on the failure of the cost arbitrage system, David Awcock, group head technology, Standard Chartered pointed out that too many companies are still wedded to the model of cost arbitrage and need to innovate and deliver around services, products, and domain skills. He also pointed out the challenges due to the widening gap between the technology solutions provided by vendors and the value generation from them.

Talent trouble

Delving deeper into the challenges to scaling up outsourcing India, he said that there is a serious talent problem in the country. "though talent has attract all global companies, what we find today is a problem with the quality of talent. The employee churns does not allow us to develop employee centric models and makes it a challenge to build IP within our workforce. The key to India's success is creating this intellectual property and leveraging it in the right manner," explained David.

Arun Gupta of Shoppers Stop shared his positive experiences and stated that suppliers are flexible and willing to go that extra mile in exploring innovation business models to absorb business risks. And this flexibility among service providers is visible not just in the discounting but also the business models. Service providers are now willing to build pricing models that are directly related to the business outcomes. He also said that companies similar to Shoppers Stop are categorizing their sourcing needs according to tactical and strategic functions and are willing to experiment with new solution providers for non-critical business needs.

Natarajan pointed out that service providers will be forced to become flexible and innovative if they are not already, so that they are not left behind. Stating Zensar's example, he said that almost 40% of Zensar's success story was due to innovation. "We recently launched a concept called 'Impact Sourcing' which emerged from conversations with customers. Under this model we have asked customers to outsource processes to us and we guarantee a value improvement within ten months," said Natarajan. He also highlighted that Nasscom has been mentoring 800 smaller companies to make the industry more innovation. "We have found in innovative. "We have found in innovation forums that all large and small companies are competing to demonstrate innovation. We will see over the next few years small companies as well as large companies becoming increasingly flexible and adaptive," he added.

Innovation to lead

While Vithlani did not share Ganesh's optimism as far as the flexibility of service providers was concerned he said that there was a need to look out for the new generation

of entrepreneurs who will force innovation to take place. "I have seen a lot of flexibility in paper commitments but am waiting for them to be realized in a practical delivery manner. The larger companies have not succeeded in building the domain expertise and moving up the value chain with us," he adds.

Cowell made an interesting point on the structural barrier that prohibits Indian companies from being truly innovative. "There is no true innovation. The reason is they don't operate as single companies. They have a BPO and an IT services arm and much more. In order to get true innovation, they need to work together to develop breakthrough solutions. It is almost impossible to get that in India," she explained. She too agreed that the small companies who do not have structural barriers would drive innovation.

Roy asked the panel a final question on the role India will play in solving the global crisis. All panel members where they agreed that India serves as the perfect testbed for new services and products before rolling them out into other developing markets such as Africa. "As cost of operating is very low in India, the products that we develop here are tested locally before rolling them out in higher cost locations or developed markets. The challenges are strictly in the financial markets space as this industry is not very well developed here. So we have limited opportunity to do that," said Awcock.

The discussion concluded with the focus on domestic growth and opportunities within the country. "There is a huge scope for inclusive innovation in areas such as telemedicine, education, etc and scaling it by taking it to other markets such as China, Egypt and Africa," Natarajan concluded.

The need for flexibility in business models and pricing models came out as the strongest requirement of CIOs. While global CIOs were keen to continue outsourcing to India, they expressed the challenges around innovation, domain knowledge and human resources as the key areas demanding major improvements.

OPEN SOURCE

A panacea for the recession

As the recession grips more economies and enterprises, it's the perfect time to adopt the open source business model. We explain why. In the technology landscape has been undergoing a massive transformation over the past couple of years. In the early 2000s, organizations were going after products and appliances irrationally, investing huge sums without any guarantees of a quantifiable ROI (return on investment). Today, awareness of technology has grown and organizations tend to demand a measurable ROI before adopting a new technology. Open source software has always been a good option to provide effective solutions within relatively low budgets. Not surprisingly, a number of organizations have started

adopting open source software solutions. This trend has been boosted by the ongoing recession, with companies looking to cut costs.

Open sources can mean big bucks!

The revenues of Red Hat grew by 14% during the last economic bust in 2001 - 2002, which then increased to 38 and 58% in 2003 and 2004, respectively, demonstrating the increased usage of open source software during the economic crunch. Novell also showed interest in playing a significant role in the open source software market in November, 2003 by acquiring SUES Linux for \$210 million. Last year, Sun Microsystems acquired MySQL AB, the developer of the world's most popular and fastest growing database, for \$1 billion. Writing open source software enables a company to gain access to the open community, which in turn helps in accelerating the pace at which an idea matures.

John Roberts, CEO and founder of Sugar CRM, started his company in 2004 with a commercial open source concept. In one of his interviews given to Sramana Mitra, [www.sramanamitra.com/2008/12/11/5178/] in December, 2008, he said, "I convinced two strong engineers at Epiphany to join me. We all resigned together and started SugarCRM without any angel or VC (venture capitalist) money. It was the three of us, each in his house with headphones on, writing and designing code and posting it up on Source Forge. We did that for three months. And soon enough, people all over the world started downloading the code." Early this year, SugarCRM joined hands with Tata Communications to make its software accessible to the Indian industry.

A matter of generating revenues

But how do open source software companies make money? There are a variety of business models to generate revenues from open source software:

- 1) Releasing commercial extension/plugin to open source software
- 2) Offering free community-based editions and paid commercial editions with more functionality and features
- 3) Using free and open source to gain media attention, and attract users who might become potential customers for other commercial products
- 4) Offering paid technical support along with free community-based support
- 5.) Making the software available via the Internet like on-demand applications, and offering paid subscriptions for online accounts and services

The point about paid technical support is particularly relevant in these times. A recent survey by IDC, a global market intelligence firm, suggests: "The economic slow-

down in the United States may actually boost demand for open source services. If organizations adopt more open source software as part a strategy to reduce software costs, the demands for related services should increase." Many service providers have switched from expensive proprietary system management software to open source software like Open NMS, Zenoss, Hyperic, Groundworks, Nagios, etc, so that they can cut down the technology cost overheads of their customers.

Finally, the SaaS (Software as a Service) business model has proved successful. SaaS delivers non-intrusive and hassle-free cloud-based products via a subscription-based model with no one-time cost involved-an organization can pay as per software usage. The key to success for a SaaS player is obviously best technology usage, application features, and more importantly, an optimized pricing model. Coming up with a competitive pricing model because very difficult if the technology is built over expensive hardware or proprietary software licenses. This challenger providers a great opportunity to utilize open source software as SaaS-ready solutions. The success enjoyed by companies like SugarCRM, Zoho (a Chennai-based offshoot of Advent Net) and Zimbra (acquired by Yahoo! In 2007 for \$350 million), follows the same concept-enabling organizations to reduce their IT expenditure and increase flexibility by leveraging open source software. Zoho prepared a cost saving chart that compared its services with those offered by its competitor, Sales Force, highlighting the difference in cost between the two (Figure 1).

According to Springboard Research, the Indian SaaS market is set to reach \$165 million by 2010, due to a compound annual growth rate (CAGR) of 77% from 2006 - 2010. We might see greater demand for software available under SaaS model running over private clouds or corporate networks than public clouds due to data security and compliance regulations, but small and medium-sized companies can utilize the software over public clouds to boost their performance at a much lower cost. The increasing demands for such models provide a huge opportunity for service providers to make a shift from traditional delivery models to avant-garde technology models. The economy might be having a tough time, but if the play their cards right, open source companies might never have had it so good.

REFERENCES

- Gibson GV (2004) Retail Management Functional Principles and Practices: p.2, 10, 13, 51-59, 61-75, 79-93, 133-196, 211-232.
 Raghunathan, Prabina VR (2005) Stock-exchanges, Investments-&-Derivatives. Publisher: Tatamazgraw Hill, pp.1-15, 21-31.
 Magazines: Money Today, May (2008), capital market, May 05-18,2008, Business World, 24th September (2008) Business Outlook, 5th Oct,2007.