

# Impact of the Global Meltdown on Employment in the IT-BPO Sector

Recent developments in the US financial markets have had a direct impact on other sectors and on countries across the world. Economies like India are slightly more insulated than others owing to the tight regulatory environments, however, export industries like IT and BPO which are globally integrated industries will surely see some impact. Notwithstanding this, we will still see growth, even though it maybe a slightly lower earlier years. This industry's foundation is human resources and growth, – linear or lateral, would necessarily mean more hiring. The impact of the slowdown may remain for a few quarters and the growth will be back.

To put things in perspective, the Indian IT-BPO industry currently employs 2 million individuals directly and indirect job creation is estimated at about 8-9 million.

If we were to take a look at this industry's contribution, it has taken over the responsibility of training and 'finishing' of the workforce – with 16-18 weeks of robust on the job training, even as India's education system reforms itself. On an average, top 10 companies hire in excess of 20,000-25,000 individuals in a year, from campuses in a staggered process, since no campus has the capability to absorb all these candidates at one go. These candidates are then trained to deliver at a global competence level. The industry then offers them a world class work environment, where they service global clients and work on cutting edge technology.

In recent times, there has been a lot of skepticism regarding employment, there are certain anecdotal stories but these are topical and client specific. It

is important to view these through an educated viewpoint. With the current economic downturn across the world, companies would tread cautiously. The industry will raise its entry bar. This is a combination of factors that include India's leadership edge in this space and as a corollary, this has raised the expectations of customers and employers, and hence we need to meet the standards, if not exceed them.

NASSCOM's preliminary research indicates that although there may be a slight impact on new hires, we will continue to hire. This is good news in the current times. We have noticed certain trends that are likely to guide and set the trends for fresh recruitment in the industry. These include lowering of attrition levels by 6-7 per cent; broadening of the manpower base – over the past five years the industry has grown from employing 4,30,114 in 2000-2001 to 2 million in 2007-08, thereby the percentage of new additions is tapering; and increase in productivity and utilisation levels – hires are now being made closer to deals.

In terms of upcoming trends, while there may be a few specific verticals like mortgage and financial services that are directly impacted, but others like healthcare and utilities continue to grow as per the projections. The drivers of hiring in the next few quarters will include factors like 'lack of technically equipped resources in the US'; 'changing demographics of the world'; 'transformation which is happening at a rapid pace' and 'shortening of time to market which calls for greater competencies, that India possesses'.

**Authored by Som Mittal for Business Today**

# Tamil Nadu: Making a Strong Pitch for the IT-BPO Industry

For many years it was New Delhi, Karnataka and Maharashtra that dominated the Indian IT-BPO landscape. That is until Tamil Nadu, staked its claim to the IT-BPO pie and is fast carving a place for itself as a preferred investment destination for the industry.

By providing sops such as 100 per cent additional FSI to IT parks, a wide range of investment and capital subsidies to IT companies setting up units in the state, facilitating SMEs to attend national/international trade shows by providing 30 per cent of the stall rent payable as subsidy and rolling out e-governance initiatives to deliver special services required by citizens, Tamil Nadu has been catalysing the growth of the IT-BPO industry on its turf.

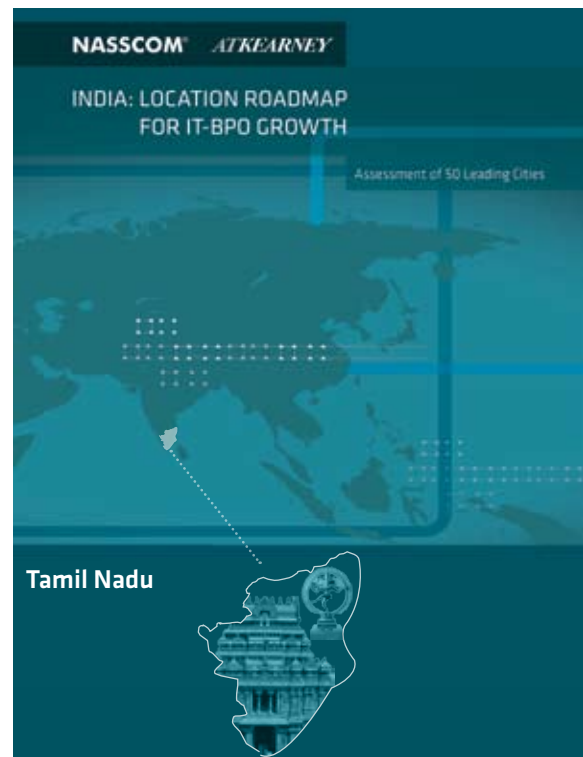
According to NASSCOM-AT Kearney's latest study, India: Location Roadmap for IT-BPO Growth, which assesses the IT-BPO business potential of 50 leading Indian cities, the state of Tamil Nadu is well suited for housing the sector. Talent remains a major edge for Tamil Nadu. Overall, around 2,37,000 people graduate from the state, creating a huge pool of talent that can be leveraged by IT and BPO companies.

While Chennai remains the leading IT-BPO location in Tamil Nadu, challenger destinations such as Coimbatore, Madurai and Tiruchirappalli (Trichy) are also being positioned as alternative IT-BPO hubs. The city of Salem, however, will require significant development support before it can become a viable IT-BPO investment destination.

After Chennai, it is Coimbatore that will hold aloft the banner of the IT-BPO industry in Tamil Nadu for the following reasons:

- Coimbatore has adequate talent (28,000 graduates and 10,000 engineers per annum) for the IT-BPO sector, even though the infrastructure and social and living environment needs to improve.
- The location is well suited for being an IT hub and potentially attractive for non-voice BPO operations and domestic voice operations in the native language, Tamil. For the IT sector, it has a good talent pool of engineers and the capability to attract people from other locations.

Besides Coimbatore, the Government of Tamil Nadu is also looking at building Madurai, a major tourist



draw in the state. Madurai's advantages lie in the fact that the availability of talent for the IT and BPO sector is good in the city, even though the quality of manpower, especially for BPOs is an issue. Madurai's IT landscape is dominated by majors such as Honeywell, HCL, TCS etc.; Many small to mid-sized firms are also thriving in the city. Madurai and its neighbouring regions produce 15,000 graduates, though English proficiency among students is quite poor. The location has numerous engineering colleges and produces around 9,000 graduates every year. IT firms have been recruiting steadily from Madurai and look to increase their presence due to the good quality of talent. Madurai however, still needs to work on its local and international connectivity as well as other basic infrastructure before it can become a viable IT-BPO city.

Trichy, meanwhile, is already a sourcing hub for IT-BPO companies. Further improving its recreational facilities will help the city attract and retain talent. The size of the graduate pool in Trichy is enabling small and mid-sized BPO companies to set up operations in the city. Trichy produces 7,500 graduates, though it has the potential to draw talent from other locations across the country as well.

## Developing Talent for the Software Product Business

The interesting aspect of the software product business is that by its very nature it offers non-linear growth in revenues in comparison to the growth attained by the addition of a number of FTEs (Full time employees). According to NASSCOM's Software Product Study 2008, while the maximum revenues generated per FTE in IT services has a limit, the revenues per FTE in the product business can go as high as USD 1 million per FTE. Currently, the global average revenue per FTE in the software products business is USD 270- to 3,00,000. However, the Indian average revenue per FTE in software products ranges from USD 66-70,000. A potential therefore exists to increase the revenue per FTE to the global average over the next few years.

Due to the non-linear model, revenues of USD 9.5-12 billion can be generated by bringing an additional 26-31,000 engineers to Indian software product companies. While at the moment, entry level talent is readily available, domain and niche experts are conspicuous by their absence. A key priority for the Indian software products industry is to not just increase the number of FTEs in the team, but acquire high quality people with the right skill sets.

The NASSCOM Study shows that while the talent base in functional areas such as application development and testing is large, specific expertise in segments such as UI (User Interface) design, architecture, product marketing, release and configuration and product management is extremely limited.

The fact is that domain experts bring value to software product companies by providing industry-specific knowledge, rich experience, leadership

capabilities, alongside perspectives on customer challenges. Software product firms must therefore draw domain experts by providing them attractive career growth and a conducive work environment.

The Software Product Study also indicates the following:

- There is a gap between the total product development talent available in 2008 and the incremental talent needed by the sector in 2015.
- The need for talent in functional areas such as application development, systems programming, database programming and network programming will rise, though meeting this slightly less complex and entry-level requirement will not pose too much difficulty.
- The paucity of talent, in areas such as UI design will become acute over the next 5-6 years. Attracting fresh design school graduates to the technology business will remain a big challenge.
- The huge gap between the total product quality assurance talent and total programme management/product planning talent available currently and the incremental talent required in these areas by 2015 will persist.
- In the area of release management, a niche skill, Indian software product businesses will face tough competition in attracting talent.
- While India has a significant installed base of release management expertise in the area of IT services, these professionals do not have experience in managing product launches and

releases, managing subsequent product releases, patches, updates, platform interoperability, etc.

The NASSCOM Study also indicates that as of now, Indian product development talent is to be found in IT companies including MNC R&D Centres, indigenous product engineering service providers and software product businesses.

Clearly, both MNCs and Product Engineering Services providers have played an important role in nurturing and developing product expertise in India. While the MNC subsidiaries were the first to build product development talent, to fuel the growth of their R&D activities, Product Engineering Services providers have been constantly honing the expertise of their product development talent, in an effort to create higher value for customers. A number of these companies have additionally sets up Centres of Excellence (CoEs), which have provided a robust platform for building deep domain expertise.

The NASSCOM Software Product Study also shows that:

- Currently there are around 1,40,000 professionals working in the software product development space in India. Of this, while 68,600 are engaged with MNC centres, around 53,200 are working with service providers and 19,000 with Indian software product companies.
- A large part of the talent is now geared to deliver across the products development life cycle.

- While a portion of the talent is working in development, quality assurance and support functions, a small number is getting involved in the product concept and design phases.

At the end of the day, it is becoming clear that India has the talent pool which can be harnessed to create IP in the software product arena, provided relevant training and grooming is provided. At the same time, software product companies must collaborate with engineering colleges and work closely with academia to develop curricula for courses such as Object Oriented Development and C++. By cultivating engineering institutes as Centres of Excellence, the industry can also bridge the gap between academic education and the requirements of the software product industry. In order to widen the talent pool, the sector can also harness the power and experience of Indian expatriates across industries who are working with the R&D centres of MNCs (in the product management and technical architect functions) or setting up their own ventures in the country. Expatriate talent in Mumbai, Bangalore and Delhi/NCR can be hired by software product companies to expand their base of high quality expertise.

This base can be supplemented by the stream of fresh talent emerging from India's top engineering and technology institutions, that is suitable for the software product development business.

