

# THE NORDIC REGION

## The Indian IT-BPO Industry's Gateway to Fortress Europe

The Nordic region – constituted by Denmark, Sweden, Finland, Norway and Iceland is emerging as a potential playground for India's IT-BPO industry. There are several factors that make the Nordic bunch a high opportunity market, with significant business avenues for IT and outsourcing services providers.

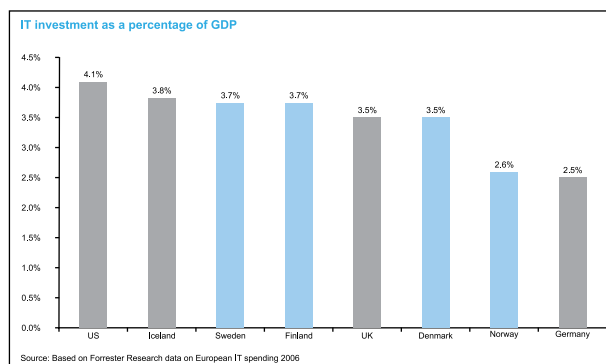
A recent study by PricewaterhouseCoopers (PwC) reveals, that the Nordic region is witnessing high ICT adoption and R&D investments and is gradually opening up to offshoring as a means of sustaining organisational competitiveness.

The report underscores the need for Indian IT-BPO companies to explore this market and use it as an entry point to fortress Europe.

According to PwC, the following reasons make the Nordic region a preferred investment destination:

- The Nordic industry is characterised by a deregulated environment and the presence of large international companies such as IBM, CSC, Logica and Accenture, leading to a competitive and quality conscious market

- Like most developed economies, the Nordic region suffers from a low rate of population growth and an ageing population
- Nordic industry is characterised by the presence of a large number of small and medium-sized enterprises with revenues less than USD 8 billion
- The Nordics is an extraordinarily technology-savvy region, supported by modern telecom infrastructure, strong IP protection laws, and citizens here enjoy some of the highest telephone, mobile phone and internet penetration rates, globally
- The IT services market in the Nordics is estimated to be USD 10-12 billion and is growing at the rate of 5 per cent CAGR
- IT spend in Nordic enterprises is around 3-4 per cent. Nordic enterprises spend close to 50 per cent of their IT budgets on services. A higher proportion of spend is on software products, further providing an evidence of the maturity of the market to commoditised products and standardised interfaces



India's relation with the Nordic region has traditionally been cordial and in the recent years, there has been a stepping up of trade relations between the two sides in areas such as ship building, offshore oil and gas exploration, IT and other knowledge-based services. Currently however, Indian IT services companies have a limited presence in this market, with a total estimated revenue from this region at around USD 500 million.

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## Embracing outsourcing

What is possibly the most positive aspect of the Nordic economies is their focus on outsourcing, which is a stabilised and mature activity. Here are some additional statistics:

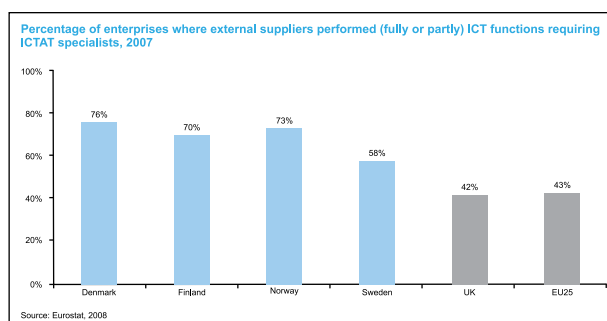
- More than 70 per cent Nordic enterprises have used external suppliers to perform ICT functions requiring specialists. PwC says that the Indian IT-BPO companies – traditionally providing IT services to the UK, France and Germany – need to take a note of this trend
- The outsourcing wave, which began and was catalysed by large companies, has now also been embraced by the SMEs in the Nordic region
- Though India has been a destination of choice along with the East European countries, the overall exposure to offshoring has been low, with less than USD 1 billion worth of IT services offshored to low-cost destinations

## Nordic countries as an entry point to Europe

The PwC study states that the Indian IT-BPOs can use the Nordic countries, which are more outward looking with lesser trade barriers and open markets than other European nations, as a gateway to Europe. By acquiring their first reference sites in these countries, Indian companies can launch a stronger and more credible foray into Europe.

The fact is that the Nordic countries, like most developed economies, will face severe manpower shortages (on account of their ageing population and low output of science and engineering graduates). Competition from emerging market multinationals, shorter product lifecycles, increasing R&D costs and a need for differentiation, is going to be their biggest challenge in the future and it is here, that the Indian IT-BPO industry can play a role.

India, with its large technically qualified manpower, global expertise in project delivery and low-cost advantage, is best placed to



partner with Nordic companies to mitigate these concerns.

## Strategies for success

PwC says Indian IT-BPOs will have to take the following steps in order to succeed in the Nordic region:

- Adapt to the Nordic constraints. Quality, functionality and eco-friendliness will be the key determinants of sales
- Target manufacturing, telecom, public sector and banking and financial services
- Address the needs of mid-market companies, that are large consumers of IT services in the Nordic region
- Focus on Engineering Services and Remote Infrastructure Management (RIM), besides application management and packaged product implementation
- Target non-voice-based transaction services of Nordic companies. Many Nordic companies are also looking to establish SSCs either as captive units or with a vendor

Indian players will have to look at the Nordic business services market as part of their larger pan European strategy. Indian IT-BPOs should consider either partnering with companies, or acquiring companies, in either the Nordics or Eastern Europe, in order to circumvent the constraints placed by the EU directives on data protection. At the same time, Indian companies should gain access to multi-lingual workforce. Indian vendors can look at large ticket acquisitions as a viable strategy to establish themselves in this market.

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**Table: Planned destinations for ICT offshoring, 2007-09**

Breakdown of planned destinations for international sourcing of ICT functions by Nordic enterprises, 2007-09				
(In %)	Denmark	Finland	Norway	Sweden
EU States	77%	66%	86%	71%
China	0%	5%	-	-
India	13%	12%	-	22%
Other countries	10%	17%	14%	7%

Source: International Sourcing: Moving Business Functions Abroad. Issued by: Statistics Denmark, June 2008