

Corporate Insights

Big IT Wants Call Center Capacity

Opinion: From his overseas perch in the Philippines, Richard Mills of executive search firm Boyden World Corp. examines the trend of IT service providers buying up call center capacity.

Richard Mills, Boyden World Corp.

A couple of months ago, IBM announced that it was purchasing a 9,000-person call center named Daksh with operations in India and the Philippines. The acquisition is interesting for two reasons. First, IBM previously had no significant call center capacity and with this one purchase has become a major player in the booming offshore industry. Second, the price IBM paid was considered by most people to be irrationally exuberant. According to investment banking firm Avendus, the price was roughly 15 times last year's earnings (or three times annual revenues). Clearly, IBM felt that owning (rather than just leasing) call center capacity was an absolute necessity for its long-term business strategy.

Earlier in the year, Accenture hired a senior call center executive away from the contact center company ICT Group. When I spoke to this executive about his new job, he said he was hired to be "responsible for the world's single largest call center offshore initiative," which involves 6,000 call center seats. Apparently, Accenture is moving into the call center business in a big way as well.

Traveling in the opposite direction, the large call centers are moving into the IT services business, although in a somewhat less grandiose manner. Sykes is a worldwide contact center organization with many service lines including managing tech support for clients like Microsoft and Intel. It has done such good IT support work that it has moved into full-blown IT outsourcing. In the Philippines, Sykes is hiring software developers by the hundreds to do software programming work for its blue-chip clients.

Convergys, another large contact center organization, has hired ICT heavyweights to oversee the company's Information Management Group. Its objective is to focus on developing the company's "higher-value service offerings" in the IT and business process outsourcing (BPO) spheres.



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Richard's extensive career in executive search includes 3 years working throughout Asia and 5 years in North America serving multinational corporations for both local and international staff requirements. Of the many international projects he worked on in the Asia Pacific region, one was particularly noteworthy as it became the largest technology recruiting venture in Korean history and the cover story of ComputerWorld Magazine.

Richard began his career in the financial services industry working as a floor trader and specialist in financial derivatives with a prominent Canadian investment dealer. He left to build his own software company based in Toronto. The company gained recognition as one of the top three niche vendors in Toronto. After selling his interests, Richard joined a large Canadian contract engineering company and eventually became head of its IT Department. He was responsible for a complete overhaul and roll-out of new technology for all company offices across the country.

Richard is a founder and past Prize Committee Chairperson of a large charitable Dream Home Lottery corporation. During his involvement, it was the largest fund raising event of its kind in the country. Mr. Mills is also a former president of the largest district of Crohn's Foundation of Canada. He has a B.Sc (Honours) from the University of Waterloo and a Chartered Financial Analyst (CFA) designation from the AIMR.

Meeting in the Middle

Another area of budding togetherness for IT and contact center services, BPO is considered the mother lode of outsourcing because it encompasses everything that can be imagined as being outsourced. It is a very big field.

A quick look at the Accenture Web site makes that company's direction clear. It now provides 18 categories of services. Some of the new BPO subsidiaries that have been incorporated over just the past few years are Accenture Finance Solutions, Accenture HR Services, Accenture Learning, Accenture Procurement Solutions, Accenture Business Services for Utilities, Accenture eDemocracy Services and Navitaire -- a bewildering number of extensions to the core Accenture brand.

IBM's approach is to keep all BPO work under a single company umbrella, but its BPO focus in the booming Asia-Pacific region is obvious by its hiring practices. As one example, recent full-page employment advertisements in the Philippines are being used to hire boatloads of people required for IBM's outsourcing operations. The advertisements emphasize the need for "previous experience in the areas of customer care, human resources, employee and payroll services." Requirements for IT skills are stated farther down on the page, giving the appearance of being an afterthought.

On the call center side, Convergys is promoting services like billing and employee care (payroll, benefits and other human resource services). Sykes says it delivers "total solutions" to "complement" its CRM services. The large call center StarTek is probably the most bold. It comes right out and calls itself a BPO company.

So what is going on? Why does everyone want to be in each other's business?

There seem to be two main reasons these companies are broadening their product lines into areas that are clearly outside their core expertise. The first has to do with customer requirements. Large blue-chip clients no longer want to buy bits and pieces of service offerings from a jumble of separate suppliers. It's just too complicated and expensive to manage it all. They want to buy a broad range of outsourcing services from a few suppliers (or even just one).

This trend has been happening in the IT sector for some time now. According to Gartner Inc. and most of the major analysts, large outsourcing deals have been the "main engine of growth" over the past couple of years, and this trend is expected to continue.

Escaping commoditization is another reason companies are expanding to new frontiers. The most successful IT companies have become so large and their project management procedures so reliable that, to a large and sophisticated client, their service offerings can be difficult to distinguish from those of competitors. In other words, they have become commodity providers -- not that much different from farmers selling pork bellies. This situation has been apparent in the call center industry for some time. The IT companies, on the other hand, aren't used to thinking of themselves in such a manner and probably don't like it very much. But what unique selling feature could there possibly be among high-quality companies like Accenture, EDS, HP, CSC or IBM, other than price?

In order to escape this dead end, everyone wants to move aggressively into new businesses. BPO seems exciting because it's new to everybody and industry standards for service levels and pricing are not yet well developed. As a result, the sales process is more consultative in nature (rather than just a discussion of price) and there is much more value to add. In such an environment, the opportunities for higher margins are greatly enhanced -- as any salesman would appreciate.

Where Will It All Lead?

It is very evident that both the large contact center companies and the IT services organizations will continue to expand their product lines into BPO and each other's businesses. However, it's the IT companies and not the call centers that sign the big outsourcing deals -- anyone who reads the business journals knows this. Announcements for billion-dollar outsourcing contracts are becoming almost a biweekly occurrence for the IT professional services companies.

As well, my information indicates that throughout the fast-growing Asia-Pacific region, it is almost always the IT companies that are looking to acquire call center capacity (i.e., buy call center

companies) and seldom the other way around. If the past is an indicator of the future, then a lot of people from the call center industry might soon be calling themselves geeks.

This article has appeared previously in Computerworld magazine and is being circulated to members for their interest.

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