



EVALUESERVE
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Demand for Foreign Language Professionals in the Indian Offshoring Industry



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Evaluesserve Report

9 June 2005





Introduction

Indian IT, BPO and KPO companies, in a bid to tap emerging offshoring markets and to decrease their exposure to traditional offshoring-friendly markets such as the US and the UK, are now targeting markets in Continental Europe, Asia and Latin America. Consequently, the demand for foreign language professionals is increasing. By employing international talent as an intelligent and proficient language resource, companies are able to conduct complex and analytical work in several countries, breaking language and cultural barriers that existed earlier.

Hiring foreign talent in Indian offshoring firms creates a win-win situation for both the company and the hired professionals. International employees help Indian companies understand cultural sensitivities and the business environment in foreign regional markets. The experience of working abroad, particularly for young professionals, gives them an edge, enabling them to compete in the international market. Exposure to a fast-growing business economy is probably the main reason why young professionals are increasingly taking job offers in the Indian offshoring industry.

This report focuses on the importance of targeting non-English-speaking professionals, in order to serve emerging Continental European offshoring markets. It describes the main drivers, focussing on non-English-speaking markets in Europe as well as on key strategies to accomplish this objective. Most importantly, the report highlights the ripple or multiplier effect of hiring foreign-language professionals on generating jobs for English-speaking Indian professionals. Lastly, it looks at the factors that attract young professionals, who choose to work in the Indian offshoring industry.

The Offshoring Opportunity in Continental Europe

Adopting offshoring as a cost-reduction initiative or a strategic business solution is increasingly becoming an attractive option for leading firms worldwide. Offshoring from Continental Europe currently lags significantly behind the US and the UK, due to issues such as language barriers, data protection concerns, the general aversion to taking risks, and fewer non-resident Indians (NRIs). However, European firms are increasingly evaluating India as a potential offshore destination. This represents a substantial opportunity for India, which is already a popular offshore destination for English-speaking developed countries, to expand its capabilities to language-specific IT and BPO work in the near future.

The following are the key drivers for Indian IT and BPO firms to target the Continental Europe market:

High-risk Exposure to US and UK Economies

The US and the UK together account for nearly 80 percent of IT and BPO offshoring in India. Table 1 depicts the concentration of the revenue of Indian IT and BPO majors in these two markets. In Europe, the UK accounts for more than half of the revenue contributed to offshoring. Indian firms account for revenue contributed by the rest of the world.

Table 1: Geographic Exposure of Indian IT Services and BPO Companies as a Percentage of Total Revenue: FY 2004

INDIAN COMPANY	AMERICA	EUROPE	REST OF WORLD
INFOSYS	71.22%	19.23%	9.54%
WIPRO	52.49%	NA	47.51%
SATYAM	73.34%	13.71%	12.95%
MPHASIS	77.55%	13.73%	8.72%

Source: Annual reports, SEC Filings

The concentration of revenues from the US and the UK implies that Indian IT services and BPO companies have a very high-risk exposure to the economic, social and political conditions in these two economies. For example, election year in the US has made offshore outsourcing a major political issue¹. In the UK, offshoring continues to be perceived as the reason for job losses, causing backlash from employees. Indian IT and BPO companies can mitigate their exposure to US and UK markets by expanding into other major geographic regions such as Continental Europe and the Far East.

¹ "BPO: myths and reality" by Zia Sheikh September 1, 2004 < www..rediff.com >



Unexplored Markets in Continental Europe

Continental Europe represents a significant business opportunity for Indian IT and BPO firms. The following table highlights the low penetration of BPO contracts in Europe as compared to the US and the UK.

Table 2: Global BPO Contract Values Market Share by Region (2004)

REGION	SHARE OF GLOBAL BPO TCV ²
Europe (excluding UK)	29%
US	44%
UK	20%
ASIA	7%

Source: IDC

However, outsourcing is gaining ground in Continental Europe. In 2003, the UK accounted for 78 percent of the BPO total contract value (TCV) in Europe; and Switzerland, Benelux, Italy, Spain, the Nordics and Germany represented most of the remainder. During the first half of 2004, the UK's share of the BPO TCV dropped to 52 percent, with Germany, Switzerland and Benelux accounting for most of the remainder.³ The growth of outsourcing in Germany is particularly significant. According to Technology Partners International (TPI), by the end of 2004, Germany had 13 percent of the global outsourcing market, up from 3.4 percent in 2003, followed by the US with 42 percent and Britain with 17 percent.

The trend of offshoring to low-cost destinations is still in its nascent stage in most of Continental Europe, with the penetration of Indian BPO and KPO companies being much lower, as compared to the US and the UK markets. This is primarily due to relatively high unemployment rates, local cultural barriers, less formalised business processes, and high transition costs because of local social systems. However, European firms have increasingly begun evaluating offshoring as a strategic option to stay competitive in global markets.

Margins

Given the differences in language, culture and business processes across countries in Europe, BPO vendors require specialised knowledge and skill sets to provide high level of customization. Although business acquisition and transition costs are relatively higher, Indian IT and BPO firms will be able to charge premium prices for their services because of high prices charged by local vendors and little competition from offshore vendors.

Strategy for Addressing Continental European Offshoring Markets

Local Sales Force

In view of the importance of cultural sensitivity and an understanding of the local business environment, it is imperative for Indian IT and BPO firms to establish a local sales force, in order to capture the Continental European market. A local sales executive, who understands the local way of conducting business, can boost clients' confidence sufficiently to send processes to an offshore location. Indian firms should hire strategically oriented local sales force with a clear understanding of cross-cultural differences and prior experience in selling similar projects. Further, a strong local network and knowledge of the local decision circle are vital elements for success in expanding clients' portfolios.

Importance of Language Skills

A vital element in providing localised and customised services is the availability of appropriate language skills at the offshore operations centre. In a typical process being offshored from Continental Europe, about a third is language-sensitive, while the remaining portion can be handled by English-speaking Indian professionals. The Indian firms' interest in capturing a larger share of the European market is evident in the increasingly high demand for French and German-speaking professionals in India. Other languages that have recently acquired popularity are Russian, Spanish, Dutch, Czech, Italian, Korean and Indonesian.

Knowledge and Insight about Local Business Environment is Crucial

For many offshored processes, knowledge of the foreign language alone is not sufficient, and a thorough understanding of a local market is required to effectively transition the process offshore. Therefore, fostering

² Total Contract Value

³ NelsonHall



sensitivity to local culture and business environment is of utmost importance. Sensitivity to a culture is of considerable significance in the offshoring of higher-end processes such as underwriting, legal consultancy and business research. In such a scenario, the demand for foreign language professionals, who not only possess language skills but also understand the dynamics of the local business environment, is of paramount importance.

Demand for Foreign-language Professionals and the Ripple Effect

Evalueserve estimates that the Indian offshoring industry will require 160,000 foreign-language professionals by 2010, in order to address the potential offshore market for language-sensitive work, estimated at USD 14.4 billion by 2010. While the IT industry will cater to nearly 50 percent of this demand, the BPO and KPO segments are expected to account for the remaining 50 percent. According to Evalueserve estimates, not more than 40,000 Indians with foreign language specialisation will qualify to meet this requirement, thereby creating a substantial supply-side constraint. Therefore, India will require to source around 120,000 international multilingual professionals by 2010, in order to meet this need.

This demand for language-sensitive work will have a positive impact on the Indian economy, since it is expected to create a ripple or multiplier effect on job creation for English-speaking Indian professionals. For every one job created for foreign language professionals, two new jobs will be created for Indian English-speaking professionals. Therefore, additional 3,20,000 jobs for English-speaking Indian professionals will be created by 2010, to fulfil the demand for language-sensitive work.

Interestingly, several international multilingual professionals have now begun to consider India as an attractive destination for short- to medium-term job opportunities. Professionals, especially from Continental Europe, are relocating to India to work with offshore IT and BPO companies. The biggest driver for this migration is the experience of working in one of the fastest growing economies in the world. Working with Indian IT and BPO firms provides these professionals with valuable exposure to a high-growth business model, as well as an insight into the Indian cultural and business environment. This experience significantly enhances their resumes and gives them a competitive edge for future employment in their home markets. Delhi-based consultancy firm Egon Sehnder gets about 20 resumes a month from foreign executives looking for jobs in India, and last year, CNN reported that Monster.com India listed as many as 3,000 foreigners seeking work in India⁴.

⁴ *India Today*, The Foreign Hands, Malini Goyal, June 28, 2004