

# Contact Center Outsourcing Trends in the Asia Pacific Market, 2008-2011

## Introduction

The New Year brings with it quite a bit of uncertainty for the contact center outsourcing and business process outsourcing (BPO) market in the Asia Pacific (APAC) region. The restructuring of the American financial services industry and the accompanying economic downturn is sure to have far-reaching effects on offshoring activity worldwide. As unemployment rates rise and industrial production declines, the first rumblings of a full blown recession are already being felt across the industry. With conflicting media reports claiming business as usual for the 'recession-proof' outsourcing industry on the one hand, and doomsday predictions of massive job cuts on the other, the truth almost certainly lies somewhere in between.

The Banking, Financial Services and Insurance (BFSI) sector accounts for a significant percentage of outsourcing business in APAC, second only to the Telecommunications vertical. Systemic changes and a flurry of merger and acquisition activity will have important consequences for the offshoring business. Budget cuts are inevitable, and this may lead to a slowdown in growth and increased pricing pressure in the short term. Since there will be continued pressure on the financial institutions to cut costs, it is likely that existing contracts will not be scaled back. However, new deals will be few and far between in this sector. The recession might also trigger consolidation amongst outsourcers, especially smaller players that were focused on BFSI.

The news isn't all bad. Outsourcing remains the primary tool that enterprises use to maintain growth in bad times. In a recession, the small to medium business (SMB) market struggles with tighter budgets while trying to compete with larger players – this sector should show considerable growth in terms of offshoring activity. While growth in certain service types like telemarketing might understandably be depressed, collections and customer service are expected to grow. Several outsourcers will be driven to push up the process value chain, thus acquiring new business while allowing their clients to further focus on their core business activities.

This insight will attempt to explore these issues across the disparate regions that make up the Asia Pacific outsourcing market. Countries within the region can be segmented into three different categories: emerging markets, growth markets and mature markets. Emerging markets include countries such as Indonesia, Thailand and Vietnam, while countries that are

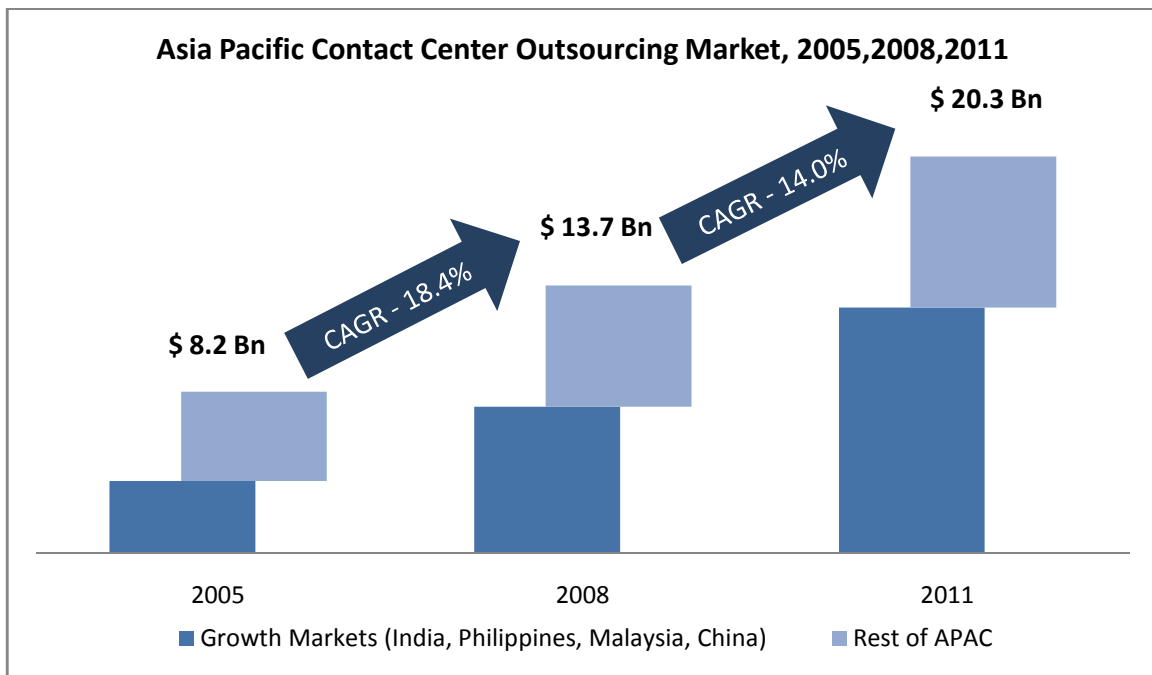
categorized as growth markets are India, China, Malaysia and The Philippines. Mature players in the region are Australia, New Zealand, Japan, Korea, Hong Kong, Taiwan and Singapore.

Activity for outsourcing in the emerging markets is still restricted to domestic industry verticals, thus contributing low single digit percentages towards the overall revenue in the APAC outsourcing market. Maturing markets, such as Singapore, Taiwan, Hong Kong, and to a lesser degree Japan and Korea, are currently experiencing an offshoring trend to outsourcing hubs in the region, as a means to streamline their capital expenditure.

### State of the Market

The Asia Pacific Contact Center Outsourcing Market is estimated at US\$ 13.7 Billion in 2008. Majority of these revenues come from the markets of India, Philippines, Malaysia and China, together contributing more than 54% of the total market revenues.

The market continued to see a growing stream of outsourcing opportunity from the domestic segment in the region, an increase in offshoring from within the Asia Pacific region, and a steady growth on the offshoring business coming from North America and Europe. In 2008, as anticipated, Indian outsourcers continued to increase their presence in the Philippines in order to diversify, offer a multi-country delivery model and leverage on the talent pool of the Philippines. Key growth markets continued to be Malaysia, the Philippines, India, and China.



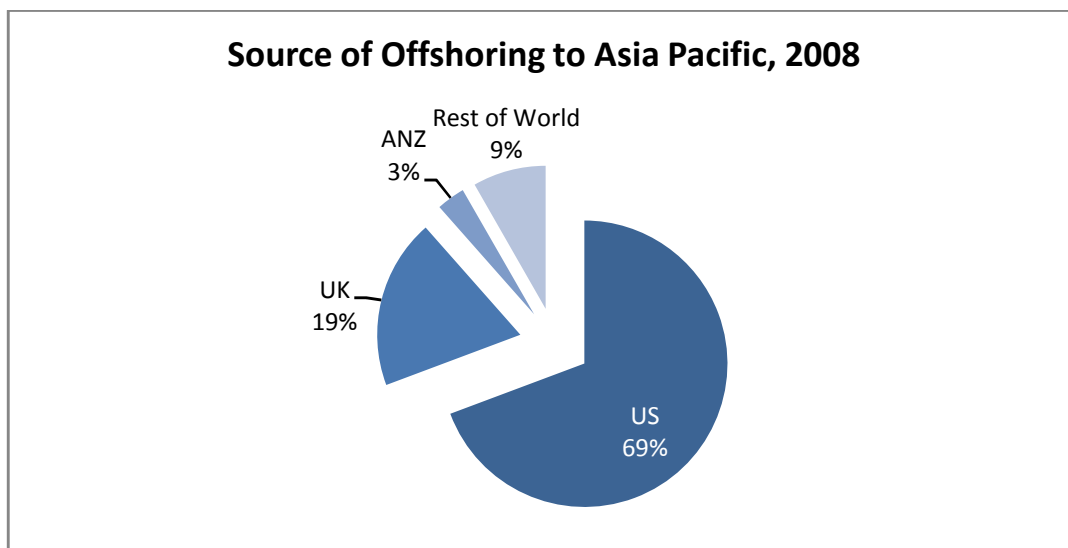
In 2007-2008, many offshore BPO players faced stiff challenges as Asian currencies appreciated against the US dollar, directly impacting the margins and profitability. As a consolation amidst the global economic crisis, the US dollar has strengthened again giving some relief to players in India and the Philippines.

In the current economic crisis, Frost & Sullivan expects growth to be steady on the back of existing contracts, and rising call volumes in certain sectors. Once the economic crisis begins to show some recovery and enterprises are assured that the economy has already hit the bottom, newer contracts can be expected. This, however, would only happen in the second half of 2009. Outsourcers have good opportunities to offer non-voice services to compliment and fulfil existing voice processes that are being currently handled.

## Key Trends in Asia Pacific Outsourcing Market

### *Short Term Decline in Offshoring Activity*

The larger industry verticals, namely Banking, Financial Services and Insurance (BFSI), Telecommunications, High Technology and Airlines are the front runners in offshoring their contact center operations to outsourcing hubs as a means to control their capital expense. Prerequisites for these conglomerates are a high volume of agents, diversity and scalability of the service offering and multi lingual capabilities. The effect of the financial crisis is already trickling down to other sectors like Retail, Travel and Hospitality and most verticals might see IT budgets slashed to cut expenses in the immediate term. However, continued pressure to curb costs may result in more processes being outsourced, so growth will be seen in the mid to long term.



Outsourcers in countries such as The Philippines, Malaysia and China have gained significant traction for offshoring, given the multi-lingual/multi-dialect workforce they have in employment. However, the lack of highly technical agents and supervisors has meant that business has been lost to Australia and India, countries renowned for having their superior technical skill set.

USA continues to be the leading source for offshore work being delivered in the Asia Pacific, with almost 70 percent of all offshore contact center outsourcing work being delivered for US customers. While there a slight slowdown is expected in the near term, the US will continue to be top market for outsourcing players to target for growth opportunities. Australia and New Zealand enterprises have begun offshoring activities within the region, which is expected to see some growth in the forecast period.

One common trend that has been consistent over the years is the preference that American corporations have towards Philippines-based outsourcers. Contributing factors for this include the high volume of agents that speak Americanized English and Spanish, and the fact that most outsourcers based in the country originate from the USA. This relationship with the USA will hurt growth in the Filipino market in the short term. However, reliable, well-established destinations like The Philippines and India will attract the most new business as offshoring to these locations represents less of a risk for enterprises when compared to the newer emerging markets like Indonesia or Vietnam.

China's growing outsourcing hub has garnered a lot of interest from Korea and Japan. The country boasts a high volume of agents that can speak these languages, coupled with lower operational cost that other countries do not enjoy. With little to no interest from English speaking countries, China is expected to make significant gains in the mid to long term.

### ***The Move from Pure Play to BPO***

A substantial number of corporations are now looking at outsourcers to offer more than just inbound and outbound services. Other services which include financial, accounting and human resource functions are being sought after by companies as a means to maintain lean costs. Thus outsourcers that offer a one stop voice and data solution have enjoyed repeat business from existing customers as well as new customer accounts. Not surprisingly, outsourcers that have the capability to offer BPO services are generally larger organizations. Thus, pure play outsourcers have suffered loss of revenue over the past few years due to plummeting demand from customers that only require voice services.

Australia has been offering BPO services for the better part of the decade, making it the benchmark for other countries looking at moving towards this direction. However, the high labour and operational cost that has plagued the Australian market has limited domestic demand. It is unlikely that home-grown Australian outsourcers such as Salmat, UCMS, and Stellar will see strong demand from US, UK or even Asian customers in this respect.

Amongst the growth markets, India seems to be better poised at moving up the process value chain. The strategy of most Indian outsourcers to shift their focus to offering more data services to foreign clientele is paying off. However, rather than compete, some Indian and Philippine outsourcing communities currently work hand in hand to offer a complete solution to foreign clients. A typical arrangement would involve an outsourcer from The Philippines being responsible for the voice services, while its Indian counterpart oversees data services. Larger outsourcers such as Teletech, Sitel, Convergys and IBM Daksh, which have operations in both countries, have successfully segregated the different services accordingly. These large players will prove to have a decisive advantage if there is a movement, especially from Western clients, to consolidate multiple outsourcing partner relationships that overlap functionally. New customers will also be more aware of spend management issues when sourcing partners for a multi-shoring engagement. Local players in both countries, with the help of the respective Call Center Associations have been working together over the past few years to build a partnership in order to capitalize on the growing demand for a rationalized solution.

Malaysia was seeing good response from US and European clientele seeking BPO services, with outsourcers such as Symphony House, Scicom and VADS offering one stop solutions at competitive prices. Malaysia is emerging as an attractive destination for offshoring work from the region, markets such as Australia and Singapore, and also from North America, Europe and the Middle East. While Malaysia needs to develop its labour pool to make itself more competitive in the offshoring landscape, the efforts of the Malaysian Government and MDeC (Multimedia Development Corporation) have been instrumental in positioning Malaysia as a Shared Services and Offshoring hub. This, in turn translates to creating more buzz for employment in contact centres, which will allow Malaysian outsourcers to be able to accommodate more demand from customers in the mid term. The efforts undertaken by the Malaysian government are already bearing fruit – global player TeleTech is expected to expand operations in the country.

China, a fairly new player in the offshore outsourcing market, has started off in the right direction by offering both voice and data services to its customer base. However, the lack of proficiency in English has curtailed its growth in the international arena. Currently catering primarily to Northern Asia, it is possible for China to be a formidable player in the offshore BPO

space, but only if incentives and drives are undertaken by the government and associations to promote English proficiency amongst the agent base. That being said, growth in the market is currently being driven by surging domestic demand, and this trend is expected to continue. China is also definitely expected to emerge as a key player for non-voice business process outsourcing services.

### ***Increased Interest from the SMB Market***

Traditionally, the demand for outsourced services comes from multinational corporations with operations across the region. However, increasing interest from Small and Medium Businesses (SMB) has been observed across the different countries in APAC. In the face of a recession, these smaller players will find it increasingly difficult to compete with the behemoths in their fields, and will look to outsource processes to limit expense and tighten budgets. This is also in line with the realization that customer care is not solely the responsibility of larger organizations, and the only way to increase market share is to keep customers satisfied.

This trend was more evident in maturing countries such as Australia, where contact centres have been in existence, ahead of the other nations in the region. While other options such as hosted contact centres are present, outsourcing provides SMBs an effective means of having a fully operational contact center, without the hassle of staffing costs and pressures. As outbound activity picked up in the past year, smaller organizations have turned to outsourcers to meet their telemarketing, as well as inbound needs. In the recent past, adoption from SMBs have shown significant increase, and all major players, which include Salmat, UCMS, Stellar, EDS, Teletech, Sitel, and Teleperformance are optimistic that the SMB market will continue to be a growing revenue stream for them.

India also saw some traction from the SMB market, as did China, but the percentage still remained relatively small, while Malaysia and The Philippines had even less take up from this segment. One common thread between the Asian countries was the type of transaction required, i.e. telemarketing and collection activity. Prior estimates forecasted a surge in SMB demand 2-3 years from now; this might well be revised down with the downturn and an increased pressure to cut costs across the board.

### ***Transaction Trends***

While all outsourcers offer both inbound and outbound transactions, there is a sharp contrast in the frequency with which these channels are used. Mature markets, represented by Australia, saw helpdesk and technical support comprising most of the services requested by customers. In

addition to this inbound traffic, the other markets also saw a steady flow of telemarketing and collection activity.

The underlying difference between the two market segments was the passing of the DO-NOT-CALL (DNC) legislation which took effect in Australia in 2006. DNC limits a contact centre's freedom to make unsolicited calls to customers. As other countries adopt similar legislation, the contribution of the telemarketing service type may be hampered over time. However, a continued influx of outbound activity in Australia suggests that companies may have found a loophole, which they exploited. The cause of this increased activity remains unclear, but it is unlikely that the trend will continue, as stricter laws may be enacted as a means of ensuring additional consumer protection. Outbound services however, had more success in the domestic markets, as was observed in the markets of India, China and Malaysia.

In the immediate term, the typically anti-cyclical collections service type will see growth. This will be driven by the turmoil in the BFSI sector and the subprime lending crisis in the USA. Customer service will also see slow to moderate growth while telemarketing will be hampered by reduced consumer confidence and rising prices.

## Technology Trends

**Automation and Self Service:** The outsourced contact center landscape witnessed a movement from agent presence to automation. 2008 saw increased use of self service applications, such as IVR and speech technologies as part of the inbound portfolio. These self service applications had better traction in maturing markets where it was culturally acceptable to eschew person to person interaction in the interest of efficiency and time management. Australia led the market in the use of self service applications, driven by increasing labour costs and a dwindling high quality workforce. IVR player Holly Connects and speech giant, Nuance Communications experienced a good year in 2008, with strong growth for the demand in self service applications.

Malaysia, India, the Philippines and China also experienced an increasing demand for IVR and speech technologies. However, the price premium associated with these products often put them out of reach of the SMB sector. As development of robust and accurate speech engines for regional language variations and dialects is still in progress in these countries, adoption at a domestic level remains low. Indian speech developer, Talisma, has made considerable headway in the development of various Indian dialects, and is currently working with multiple IVR vendors to offer a total solution for companies tapping the domestic Indian market.

**IP Migration and Unified Communications:** Most outsourcers in the region have acknowledged the business benefits of an Internet Protocol (IP) platform and are in the process of migrating. Pricing pressure brought on by the current scenario may push back any plans for upgradation. However, beyond the short term, outsourcers will have to start adopting hybridization strategies to move towards full IP as prices decrease and the feature set grows. Australia has been earmarked by vendors as a frontrunner for higher IP adoption. The Philippines will also see relatively heightened adoption in order to meet global customer requirements.

Unified Communications in the Contact Center is emerging as a key theme in the industry. In the context of the outsourcing industry, outsourcers are looking for tools that can make the agents more productive and hence cost-effective, and improve overall customer satisfaction ratings – a key performance indicator for all players. Unified Communications can play a key role in these two aspects by delivering solutions that can enable agents to get access to client expert resources outside the contact center, or even supervisors and other experts in other delivery centers to resolve customer queries at the first call. While the talk of extending the contact center into the enterprise has been around for quite some time, with UC this can become a reality. Such solutions are still in their early stages of adoption, but are expected to see traction from the outsourcing sector.

**Agent Performance Optimization:** Analytics tools such as quality monitoring and performance management suites are seeing increased traction in the outsourcing landscape. Agent performance optimization (APO) is especially important as outsourcers strive to differentiate themselves competitively and demonstrate maximum cost savings for their clients. Sadly, the price points for analytics tools are still fairly high, and so far, utilization has been seen mostly in Australia. Still, as prices continue to slide in the wake of vendor competition and discounts given, it is expected that adoption of these tools will grow. There is a case to be made for employing these tools in spite of their added cost even in a down economy – the myopic goal of immediate cost savings may easily be achieved through reducing headcount, but optimum use of existing personnel is guaranteed to yield rich dividends in the future.

### Growth Opportunities for Outsourcers in 2009-2010

The full impact of the economic slowdown will be felt by the outsourcing industry in the coming year or two. Outsourcers must be nimble enough to react to these incipient conditions and rethink business strategies if they are to maintain growth in the face of a slowing global economy. A few short term growth opportunities are presented below:

**Flesh-out Existing Client Relationships:** Since clients will no doubt face pressure to cut costs, existing contracts are unlikely to be in jeopardy. However, with new deals expected to dry up in the short term, particularly in certain sectors, outsourcers must attempt to delve deeper into existing accounts and leverage current relationships to maximize contract value.

**Climb The Process Value Chain:** In recent years, pure play vendors have seen their margins diminish rapidly with the advent of new market entrants and an increasingly commoditized offering. The large outsourcers were the first to differentiate themselves by offering data services and other business process outsourcing (BPO) services, a practice that has been widely adopted across the growth markets. To continue to thrive in difficult times, outsourcers must ascend the process value chain once again and expand their offerings to include specialized knowledge processes like patent and copyright related services, business intelligence and analytics.

**Pursue Domestic Markets:** With offshoring activity expected to decline in the near term, outsourcers must look to domestic markets for growth. Markets like India represent a huge potential opportunity where nascent domestic demand, particularly in the SMB segment, has yet to be met.

**New Service Launches:** Given the high degree of investment in contact center technology and infrastructure, outsourcers can potentially look at launching hosted contact center services to target their existing customers who have internal contact centers as well as the domestic SMB market opportunity, especially in India, Australia, and the Philippines. This would help monetize their investments in technology, and potentially drive more business for their BPO services.

**Consolidate:** The recent merger of the India-based Aegis BPO with the Filipino outsourcer PeopleSupport might be the first deal in a series of mergers and acquisitions in the APAC region. Smaller players, especially those catering specifically to BFSI in the USA and elsewhere, may represent a valuable asset for larger outsourcers. The restructuring and rationalization of financial institutions worldwide may have to be mirrored in the outsourcing business as enterprises will move to consolidate multi-provider, multi-sourced relationships which have previously been the norm.

**Maximize Efficiency through Self Service, APO:** Now, more than ever, it is important for outsourcers to demonstrate cost reduction without compromising on business values or quality of service. Pressure on prices and margins may be on its way; outsourcers must be prepared to adapt by offering intelligent automation through voice portals and by employing agent performance optimization tools to ensure optimum utilization of the current workforce.

## Conclusion

Given that the offshore outsourcing markets were in their infancy during the last global slowdown in 2001, this could very well be termed the first recession that the industry has had to deal with. With no precedent to fall back on, it is difficult to predict how the customers, the vendors and indeed the outsourcers will react to the challenges ahead. Famed economist and Nobel laureate Amartya Sen recently commented that he did not believe that the current economic scenario would have any permanent impact on the outsourcing industry. That being said, in the short term perhaps outsourcers will draw some comfort from the strong possibility that the outsourcing business will outperform most if not all of their customers' businesses.

Frost & Sullivan believes that Asia Pacific region will continue to dominate in the offshore outsourcing landscape for voice as well as non-voice business process outsourcing. With established markets such as India and the Philippines, and emerging destinations such as Malaysia, China, and in the foreseeable future Vietnam, Asia Pacific contact center outsourcing market is set to grow at a compound annual growth rate (CAGR) of 14.0 percent from 2008-2011. Domestic opportunity in India and China will also get attention from the currently offshore-centric players. Consolidation of players and geographic expansion within and outside the region is also expected to continue in the forecast period. By 2011, the opportunity in Asia Pacific for contact center outsourcing services is expected to cross \$20.0 billion.

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