

Emerging Destinations for Indian IT/ITES industry

Discussion note presented by KPMG & NASSCOM

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Sourcing is viewed by most companies as a global activity and has now become a core part of the business strategies of large companies. In addition to the increasing number of back-office services, such as payroll, HR and customer care, companies are now outsourcing their core business processes. This, therefore, increases the pressure to identify the best talent at lowest possible cost anywhere in the world.

KPMG and NASSCOM jointly released a discussion note on 'Emerging Destinations for Indian IT/ITES Industry at an Emerging Companies Forum held in Hyderabad today. The note highlights the opportunities and provides key trends in emerging destinations like Central/ Eastern Europe, Latin America, Asia Pacific and North America. The note also points out how increasingly important and imperative it is for the India-centric IT/ITES companies to scale-up their delivery capabilities in these regions.

Pradeep Udhas, Partner-in-Charge, Global Sourcing, KPMG said, 'In comparison with strong and balanced presence of foreign companies in the new emerging locations, Indian companies are yet to reach the scale in globalization. As governments of emerging markets take steps to position their countries to take advantage of the growing IT sector, we are likely to witness the emergence of newer IT destinations'.

He further added, 'Indian companies could follow the hub-spoke model by setting up offshore centres in regions such as Central/Eastern Europe, North America, Asia Pacific and so on. These regions offer comprehensive and compelling value proposition, making it a win-win situation for both the Indian IT/ITES industry, as well as, for emerging global IT/ITES destinations'.

The outsourcing market is not new for India. And in recent times, some new emerging destinations are also aspiring to become IT destinations.

Central and Eastern Europe (CEE) - Near Saturation, Highly attractive Countries reviewed in this region include the Czech Republic, Hungary, Poland, Romania and Slovakia, (CEE5). Part of an extremely dynamic region, these countries are witnessing robust economic growth and investment. With the current literacy rate of 99 percent, this region has high number of graduates and technical graduates, thus offering quality workforce. The average age of the population is 37.5 years, which means that in about 10 years the region will witness an increased ageing population. This will effect skills availability and economic growth rates. The near saturation presence of foreign IT/ITES companies in this region indicates that Indian companies are on a back-foot

To sum up, the region is very attractive and is already seeing some significant investments from many Indian companies.

Latin America (LatAm) - High risk, high reward Countries reviewed here include Mexico, Brazil, Chile and Argentina (LatAm4). Number of European languages spoken in LatAm4 is very high. The language expertise allows these countries to service multi-lingual, non-English requirements for

Western Europe. Thus, makes the region one of the most suitable areas for non-English language voice and non-voice support in the world. With current literacy rate of 93 percent, the region produces almost a million graduates every year. The average age of the population is 28.4 years, thus adding many more young people as part of the working population. This augurs well for sustained economic growth in the region. The number of technical graduates is around 179,000. So the region needs to develop educational infrastructure in order to become a serious IT/ITES destination. Low English speaking and managerial skills still pose a challenge.

To sum up, LatAm is a high-risk, high-reward region with a large domestic market. Presence of Indian companies in this region is, however, conspicuously low in comparison with foreign IT/ITES companies.

Asia- Pacific (AsPac) - Smorgasbord of opportunities & risks Countries reviewed include China, Vietnam, Malaysia and the Philippines (AsPac4). This region is one of the most dynamic and fastest growing regions in the world. Although the average age in China is high at 32.7 years, other countries in this region have a young population varying between 22 to 26 years. Thus, the region will remain productive for a longer period of time, with a potential for sustained economic growth. Though the literacy rate is high at around 90 percent, acknowledging English language skills is still a challenge. The working hours in this region are the highest in the world, and the people are known for their hard working skills. The flip side is that, though, the working hours are considerably higher, the productivity in this region is lower than the U.S. and Europe.

The characteristics vary so significantly from country to country that strategizing for this region becomes a complex task. Though the expansion of the Indian footprint in this region has begun, it still has a long way to go.

North America (NorAm) - High costs, high productivity Canada is the only country reviewed in this region. This is the most convenient 'near-shore' destination for the U.S. market, where the cultural and linguistic affinity is absolute. The working age population in Canada is set to rise from 52 percent, at present, to 59 percent by 2025, although a large proportion of this population will be immigrants. The average age in the country is high at 38.9, though the skilled resources are available in plenty. The IT/ITES wage rates in Canada are lower than the nominal wage and offer great value proposition in terms of costs.

Canada is an important location for the IT world, but is unlikely to see significant growth as cost pressures are likely to rise. Destinations offering low-cost and younger working population are likely to score over Canada.

The note concludes that as global sourcing matures, interest across new sourcing destinations will continue to grow and national boundaries will become less and less relevant. Indian companies score lead points in areas such as project management, customer relationship management, transitioning and security & risk management. However, to provide end-to-end solutions and service emerging customer needs, Indian companies will need to focus on new emerging locations offering the requisite language, transaction processing, high-end programming and knowledge processing skills.

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