

Win in the flat world

INTERVIEW:

Infosys BPO to Focus on Knowledge Services - Exec

- Romit Guha

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BANGALORE (Dow Jones) – Infosys BPO Ltd. will focus on rapidly expanding its research-based services, which have higher billing rates and operating margins, rather than its main offering of call center-like operations, a fiercely competitive business in India, a senior executive said.

The business process outsourcing unit of India's largest software exporter by revenue, Infosys Technologies Ltd. (500209.BY), currently gets about 10% of its revenue from knowledge process outsourcing, or KPO, services.

"It (the KPO business) does come at higher price points. Typically, for a KPO offering, the pricing is at least two times that of a pure play BPO offering," Joydeep Mukherjee, vice-president & head of knowledge services at Infosys BPO, told Dow Jones Newswires in a recent interview.

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Indian BPO firms are increasingly focusing on the KPO business to tap into a global market that is poised grow 45% a year to \$17 billion by 2010, of which \$12 billion is likely to be outsourced to India, according to National Association of Software and Services Companies, which represents over 1,100 Indian software firms.

Infosys BPO offers five services in its KPO business – analytics, financial planning and analysis, digital publishing, legal process outsourcing and research.

"We hope (revenue from the KPO business) will be at least 15% of total revenue in the next two years to three years. We are aiming for at least 100% on-year revenue growth over the next two to three years," Mukherjee said.

Infosys BPO's revenue for the third quarter ended Dec. 31 was \$64 million.

On fears of a U.S. slowdown limiting the pace of growth in the KPO business, Mukherjee said that though he did see "some slowdown in securitization work six months back, it has picked up now."

Securitization is a structured finance process in which assets, receivables or financial instruments are acquired, classified into pools, and offered as collateral for third-party investment.

It is common in the lending industry, where it is applied to lenders' claims on mortgages, home equity loans, student loans and other debts.

"As of now, there has been no effect on the knowledge services space," he added. "We had targeted about 40 clients by the end of March, but we should be thereabouts – at about 38," said Mukherjee.

At present, the KPO group services about 35 clients, of which 30 were signed in the last 12 months, he added.

Mukherjee expects analytics and legal process outsourcing services to grow the fastest among knowledge services, especially in the U.S., the U.K. and Australia.

The higher billing rates, which research-based services generate, also help mitigate the pressure a stronger rupee puts on the revenue and operating margins of Indian software exporters.

Infosys BPO currently has an operating margin of around 20%.

"This (KPO) is expected to be a higher margin business, which will drive the margins of the overall business higher. But at this point we are investing heavily within the business - in technology, manpower, sales," said Mukherjee.

Infosys BPO started offering knowledge-based services around four-and-a-half years ago and currently employs about 900 people globally in this division. This is likely to increase by about 70%-80% in the next two years.

Pricing War a Challenge

One of the major challenges facing the KPO industry in India is that BPO firms chase the quantity of deals rather than the quality of deals, and charge the same prices as a BPO offering, said Mukherjee.

But the company doesn't fear losing out on deals to competitors who are undercutting prices, as it is getting its required rates, "at this point, mainly because of the (Infosys) brand," said Mukherjee.

"Eventually it will be a complete solution targeted at a particular vertical. We will not be worried about rates then," he said.

The company currently works on the needs of a specific client. But it is also moving towards offering services needed by industries such as retail or banking and capital markets.

This will allow any company in that particular industry to use these services, helping it expand its client base and broaden its revenue source.

The company's knowledge services, in line with the trend in Infosys BPO, is also moving towards a model, which delinks billing rates from the number of employees involved in a project to one based on the outcome of the project, Mukherjee said.

This allows a company to reduce the number of employees used for a project, and increase margins, helpful in a situation when wages are rising, said analysts.

The company is also open to servicing KPO clients out of its locations in Mexico, China and the Czech Republic, Mukherjee said.