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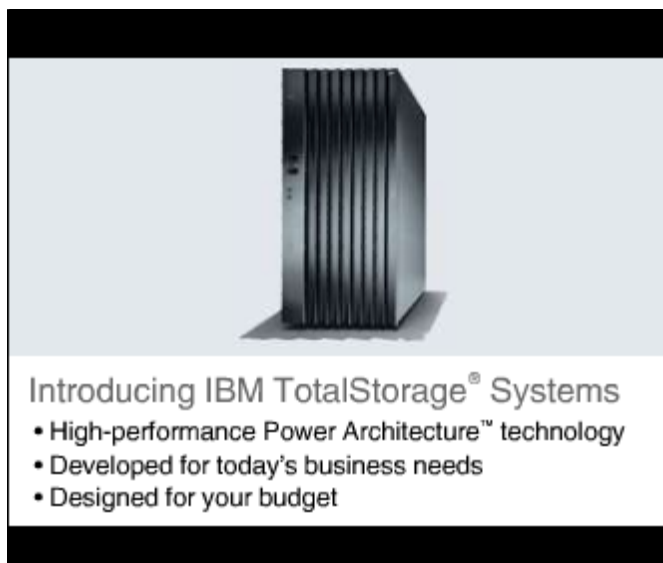
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Big IT Wants Call Center Capacity

Opinion by Richard Mills, Boyden World Corp.

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(COMPUTERWORLD) - A couple of months ago, IBM announced that it was purchasing Daksh e-Services, a 9,000-person call center 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 Daksh's earnings last year (or three times annual revenue). Clearly, IBM felt that owning (rather than just leasing) call center capacity was an absolute necessity for its long-term business strategy.



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Earlier in the year, Accenture hired a senior call center executive away from contact center company ICT Group. When I spoke with 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 Enterprises is a worldwide contact-center organization with many service lines, including managing technical support for clients such as 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.

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's 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 based on its hiring practices. For example, full-page employment advertisements in the Philippines are being used to hire the 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 them the appearance of being an afterthought.

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

So, what's going on? Why does everyone want to be in one another's business?

There seem to be two main reasons these companies are broadening their product lines into areas that are clearly outside their core areas of expertise. The first has to do with customer requirements. Large blue-chip clients no longer want to buy bits and pieces of services offerings from a jumble of separate suppliers. It's just too complicated and expensive to manage it all. They want to purchase 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 and most of the other major analyst companies, 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 firms have become so large and their project management procedures so reliable that, to a large and sophisticated client, their services 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 aren't 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 -- something any salesman would appreciate.

Where Will It All Lead?

It's 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 IT professional services companies.

In addition, my information indicates that throughout the fast-growing Asia-Pacific region, it's 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 in the call center industry might soon be calling themselves geeks.

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