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The End of Call Center Entrepreneurship: And the Flowering of Offshore Outsourcing

Richard Mills
Jul. 8, 2005

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There have been few entrepreneurial ventures in business history as rewarding as the offshore call center. Within Asia, there are numerous tales of entrepreneurs who made tons of money for themselves by creating substantial value for their customers and employees.

A recent one is Ambergris Solutions Inc. in Manila. The company was started a few years ago by three young entrepreneurs with little money of their own and even less call center experience. They had a lot to learn about running a call center, and it took 18 money-losing months before they stumbled

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upon their first paying customer. But over the two and a half years that followed, their business grew explosively to almost 3,000 employees serving a roster of blue-chip clients. A couple of months ago, controlling interest of the thriving enterprise was sold to a large Canadian IT organization called Telus International in a deal valued at \$43.5 million. Many would agree this was an adequate paycheck for just a few years of work.

This story gives the impression that starting a call center in Asia is an easy path to fast riches. However, just a week or so after the announcement of the Ambergris deal, Gartner Inc. released an astonishing report that said, "As many as 70% of the top 15 Indian business process outsourcing start-ups will cease to exist in the coming months." Gartner added scathingly that, "despite the hype, only a small fraction of customer service outsourcing will be done at offshore locations."

Dropping Like Flies The two situations might seem contradictory, but they aren't. Margins in the call center sector have declined steadily over the past couple of years, as customers demand lower bill rates and agents insist on higher salaries. The result has been a squeezing out of the smaller (and often newer) operators, which are unable to spread their fixed costs over a larger base of revenue producing agents. Throughout India and the Philippines, there has already been significant rationalization (i.e. closings, buyouts, mergers, etc.) in the call center industry, and Gartner is probably right to say that more are to come.

The Telus purchase of Ambergris, like IBM's purchase of Daksh eServices Pvt. Ltd. in India and numerous others, shows that the call center sector is now exclusively a game for big-boys -- it has become a "mature industry," as they say in MBA School. The days when someone could start a little call center of his own and learn the business along the way are finished.

So what's a greedy young entrepreneur to do now?

The pioneering efforts of the call center sector have proved that the concept of offshore outsourcing can succeed exceedingly well. (Actually, manufacturing proved this years ago, but let's not go into that.) In most large companies, however, answering telephone inquiries is a microscopic part of their overall business. The big opportunities in business process outsourcing are still to be realized.

This fact is shown in the diversity of the services offered by the current batch of outsourcing entrepreneurs. Here are a few examples of companies operating just in the Manila area: XMG

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The large IT services firms and the call center companies are jumping on the business process outsourcing bandwagon too. CapGemini has large facilities in three locations in China providing accounting and human resources outsourcing services. IBM's non-IT outsourcing operations are quickly becoming larger than those of IT in the Philippines.

A quick look at the Web site of IT consulting giant Accenture Ltd. reveals an astounding diversity of services. Under "Outsourcing" in the "Services Offered" section, there are Accenture Finance Solutions, Accenture HR Services, Accenture Learning, Accenture Procurement Solutions, Accenture Business Services for Utilities, Accenture eDemocracy Services, Navitaire Inc. and Accenture Insurance Services. By comparison, only two IT-related services are listed in the entire section.

Two of the world's five largest call center companies don't even call themselves call center companies anymore. ClientLogic Corp. is now an "international business process outsourcing provider." StarTek Inc. says it's a "global provider of business process outsourcing services."

It's clear that the difference between outsourcing today and outsourcing yesterday is significant. Whereas before, just a few business segments were growing rapidly (say, call centers and IT), now there are multitudes in the same situation, with countless more sure to follow. Some business leaders I have spoken to have used the phrase "tipping point" to describe the current life-cycle stage of services outsourcing. One fellow I spoke to thought the phrase "business process outsourcing" wasn't descriptive enough to express the vast diversity of the current environment. He felt a better phrase was something along the lines of "everything-anyone-can-possibly-imagine-as-being-outsourced outsourcing."

So, we shouldn't be overly concerned about missing the gold rush in offshore call center outsourcing. The business process outsourcing mother lode is just around the corner, and the opportunities are wide open. Greedy entrepreneurs everywhere should rejoice.

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