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October 05, 2004

When Worlds Collide

Big IT wants you to share your CRM business. But call center firms are moving in the other direction, too.

By Richard Mills, CFA

Courtesy of [Call Center Magazine](#)

Some months ago, IBM announced it was purchasing a 9,000-person call center named Daksh with operations in India and 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 exorbitant. According to investment banking firm Avendus, the price was roughly 15 times last year's earnings (or three times annual revenues). Clearly, IBM felt that owning (rather than just leasing) call center capacity was an absolute necessity for their long-term business strategy.

Earlier in the year, Accenture, another large IT company, hired a senior call center executive from contact center company, ICT Group. I spoke to the individual about his new job and he said he was hired to be "responsible for the world's single largest call center offshore initiative" involving 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 is a worldwide contact center organization with many service lines including managing tech support for clients like Microsoft. They have done such good IT support work that they have moved into full-blown IT consulting for many clients. In the Philippines, Sykes is hiring software developers by the hundreds to do software programming work for their blue-chip clients.

Convergys has hired ICT heavyweights to oversee the company's Information Management Group (IMG). Their 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

Business Process Outsourcing is another area of budding similarity for CRM and IT. BPO is considered the great frontier and the mother lode of outsourcing because it encompasses everything that can be imagined as possibly being outsourced. It is a very big field.

A quick look at the Accenture Web site and this direction is clear. There are now 18 categories of services they provide. Some of the new BPO subsidiaries that have been incorporated just over the past few years include: Accenture Finance Solutions, Accenture HR Services, Accenture Learning, Accenture Procurement Solutions, Accenture Business Services for Utilities, Accenture eDemocracy Services, Navitaire - a bewildering array of extensions to their core Accenture brand.

IBM's approach is to keep all BPO work under the same company name but their BPO focus in the booming Asia Pacific region is obvious by their hiring practices. As one example, recent full-page employment advertisements in the Philippines are used to hire large numbers of people required for their IBM outsourcing operations. The advertisements emphasize, "Previous experience in the areas of customer care, human resources, employee and payroll services..." Their requirements for IT skills were stated further down on the advertisement and gave the appearance of being almost an after-thought.

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. StarTek is probably the most bold. They go right out and call themselves a "Business Process Outsourcing" company.

So what is going on? Why do these companies want to be in each other's businesses? There seems to be two main reasons the CRM and IT companies are broadening their product lines into areas that are clearly outside their core expertise.

The first has to do with customer requirements. Large blue-chip clients no longer want to buy bits and pieces of service offerings from a jumble of separate suppliers. It is just too complicated and expensive to manage it all. They want to buy 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 Group and other major analysts, large outsourcing deals have been the main engine of growth and will continue to be so for this sector.

Escaping commoditization is another reason companies are expanding out to new frontiers. The most successful CRM and IT companies have become so large and their project management procedures so reliable that, to a large sophisticated client, their service offerings can be difficult to distinguish from those of competitors. In other words, they have become commodity providers. This situation has been apparent in the call center industry for the past few years. The IT companies, on the other hand, are not 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 or IBM, other than price?

In order to escape the dead-end of cost competition, everyone wants to move aggressively into new businesses. What is so great about BPO is that it is so new and industry standards for service levels and pricing are still being developed. Clients are less experienced and processes not as well defined. As a result, the sales process is more consultative in nature (rather 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 - as any salesman would appreciate.

Where will it all lead? It is very evident that both the large contact center companies and the IT Services organizations are expanding their product lines into BPO and each other's businesses. However, it is the IT companies that sign the largest deals. Announcements for billion dollar outsourcing contracts are becoming almost a bi-weekly occurrence.

Also, my information indicates that throughout the fast growing Asia Pacific region, it is almost always the IT companies that are looking to acquire call center capacity and seldom the other way around. If the past is an indicator of the future, then a lot of people from the call center industry might be calling themselves geeks over the next few years.

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