

RESEARCH SUMMARY:

India: Comparison of Locations

By neolT

Which cities in India are most ideal for conducting ITO/BPO work and which are emerging as strong contenders?

Services globalization has turned the world into a global village, enabling the seamless delivery of IT and business processes across time zones. As a result, traditional and emerging globalization destinations such as India, the Philippines, China and Russia are developing Centers of Excellence. These Centers of Excellence epitomize the best of the four core evaluation criteria that companies look to optimize: cost, control, quality and risk.

neolT regularly conducts research on existing and emerging offshore and nearshore markets to assess the markets' viability as a destination for our clients.

This research report analyzes location attractiveness among the top cities in India to service ITO and BPO clients.

Key Topics Covered

- *Which Indian cities are the most attractive ITO/BPO destinations for services globalization?*
- *Which Indian cities will emerge as future ITO/BPO hotspots for developing Centers of Excellence (CoE)?*
- *How critical is city classification as part of a global sourcing strategy?*

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Preface

“India: City Competitiveness” is a perspective based on neoIT’s ongoing research on the impact of services globalization, conducted as part of a broader effort to help our clients understand globalization activities and how they are shaping business today. This research also builds on neoIT’s extensive knowledge and experience in truly understanding the drivers and inhibitors in the Indian ITO and BPO market.

This report is part of neoIT’s mission to help global leaders enable globalization.

Throughout 2004, neoIT conducted in-depth research on 27 cities in India. Four key competitiveness factors were evaluated: people, catalysts, infrastructure and financials. Multiple dimensions within these four key competitiveness areas were scored on a scale of 1 – 5. The total rating for each factor was determined by the sum of the individual ranking of each dimension. Weight was then assigned to each of the four factors to determine the ultimate competitiveness score for each city. The normalized score was calculated by assuming the highest score as 100. This normalized score indicated the Offshore City Competitiveness Index, the OCC Index, for the city.

Weight	Factor	Dimensions
25%	➔ People	Number, Quality, Education System
25%	➔ Infrastructure	Power, Telecom, STPI, Physical, Roads, Airports
30%	➔ Financial	Cost of Living, Real Estate Prices
20%	➔ Catalysts	Government Support, Supporting Industries, Social & Political Stability, Competing Companies, Development of City, Weather

neoIT adopted rating criteria for different factors and dimensions to determine the OCC Index.

1. Ratings were given for each dimension on the scale of (1-5). 1 being the least competitive and 5 being the most competitive.
2. Each rating is based on both qualitative and quantitative assessment.
3. For the People factor, the rating is the average of the number of people, the quality of people and education systems.
4. For Infrastructure, power, telecom, physical, roads, airports and the presence of STPI were considered equally important for the majority of services.
5. For Catalysts, government support, supporting industries, presence of similar companies, presence and the quality of the airport, social and political stability, weather and general development of the city (which includes city’s infrastructure, roads, healthcare, quality of life) were considered relevant for majority of services.
6. For Financial, the two broad parameters identified wer cost of living and real estate costs. These costs are assumed to be proxy for employee cost, physical infrastructure and other relevant operational cost in the city.

This perspective is independent and has not been commissioned or sponsored in any way by any business, government or other institution.

Introduction

Through client interaction, neoIT has observed that location selection precedes supplier selection in services globalization initiatives (offshore outsourcing). Earlier, countries competed for the location, but now competition is often at a granular level between various cities. Lately, we are more likely to observe competition between Bangalore and Manila than between a generic India and the Philippines.

In order to address this evolution in thinking, neoIT developed the **Offshore City Competitiveness Index** (OCC) to help in comparing different cities across the globe. The OCC Index is a measure of the relative competitiveness of each city as a preferred destination for ITO or BPO.

The index presents a current and future look at cities. Using a balanced interplay of critical due diligence elements of *Technical Infrastructure, People, Finance and Catalysts*, the index is an excellent aid to help decision makers zero-in on a particular city as they move operations overseas.

The OCC Index also serves as a guide for cities to improve upon the key drivers necessary in the development of a top-tier services globalization destination.

Key Findings

Current trends indicate top supplier companies in India, as well as global companies are looking at alternative cities to develop additional development centers, including outside of India. While the competition from Chinese and Filipino cities is strong, there is healthy competition among the internal Indian cities to entice suppliers and clients alike. This increasing trend is sure to accelerate the emergence of multiple delivery centers within India and rapid development overall.

The striking note in this study is the mushrooming growth of cities, with strong leaders and hot challengers in ITO and BPO industries clearly separated from the rest of the crowd. Over the course of the study, we also witnessed a sudden spurt in activity among Tier II cities in India, increased government involvement in infrastructure development and facilitating policies, a narrowing gap between urban and semi-urban centers and the adoption of a “totality approach” towards the goal of attracting overseas clients and local talent.

Out of the 27 selected cities, Gurgaon was rated as the most competitive city followed by Bangalore, Pune, Hyderabad and Chennai. Figure 1 illustrates the OCC index for the 27 Indian cities evaluated.

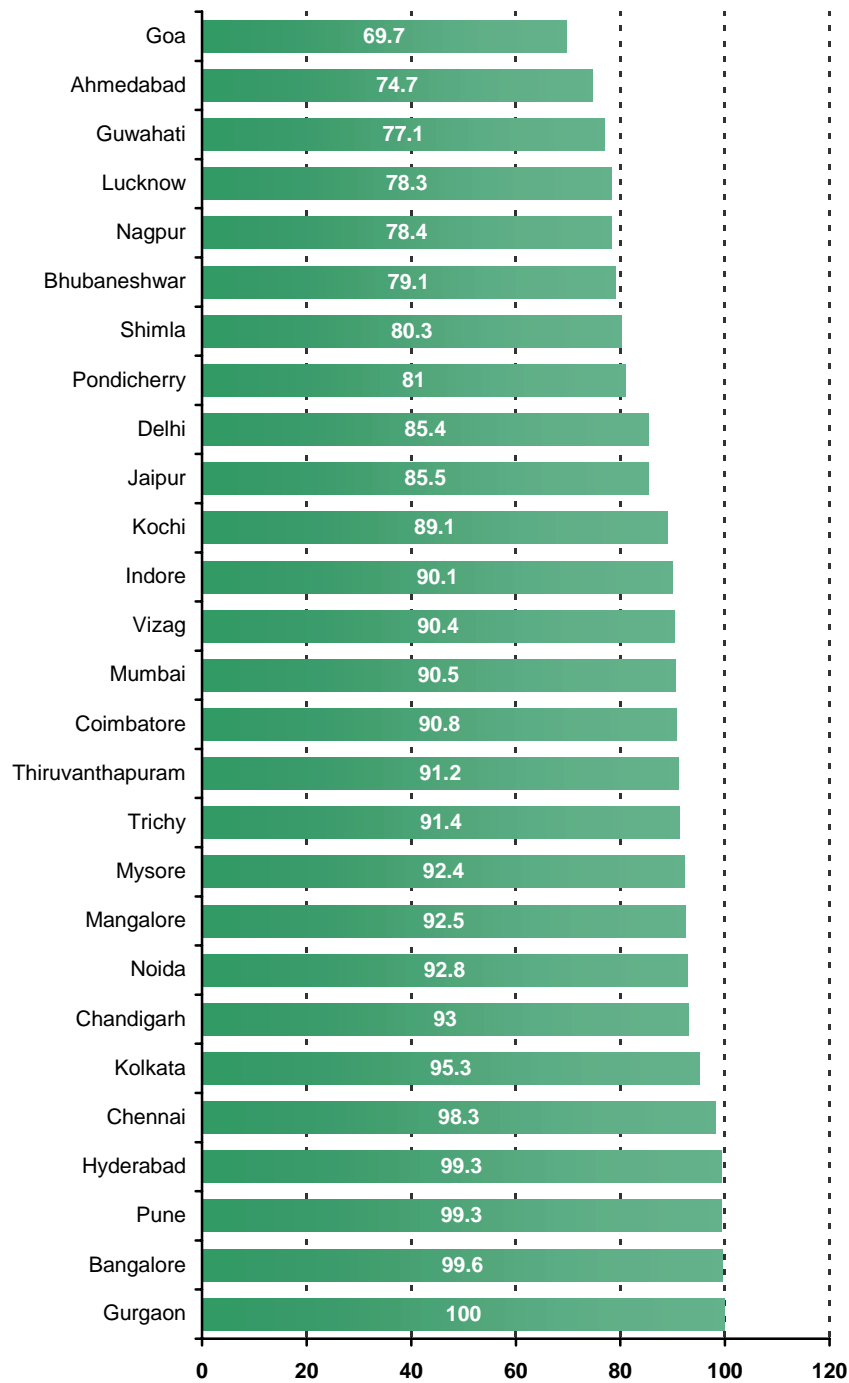


Figure 1: The OCC Index

The City Evolution Model

There are many factors that influence a city's ability to mature, but how did the cities in India evolve? Our analysis revealed three generations of maturity. The factors that contributed to each generation change are outlined in Figure 2 below.

Generation	Factors
I	People, Catalysts
II	Infrastructure, People, Catalysts
III	Financial, Infrastructure, People, Catalysts

Figure 2: Factors influencing the three generations of maturity in Indian cities.

Generation I

When the IT industry was in its infancy in India in the early 90's, the most attractive cities were those that clearly possessed manpower and other catalyst conditions (government support, political stability, strong city development) key to strong business growth. These cities were Mumbai, Bangalore, Delhi and Chennai.

Generation II

When the IT industry attracted attention and started its growth phase in the mid 90's, different cities began to compete with the leaders by building infrastructure relevant for development of the industry. The two cities that were able to significantly improve their competitiveness were Hyderabad and Chennai.

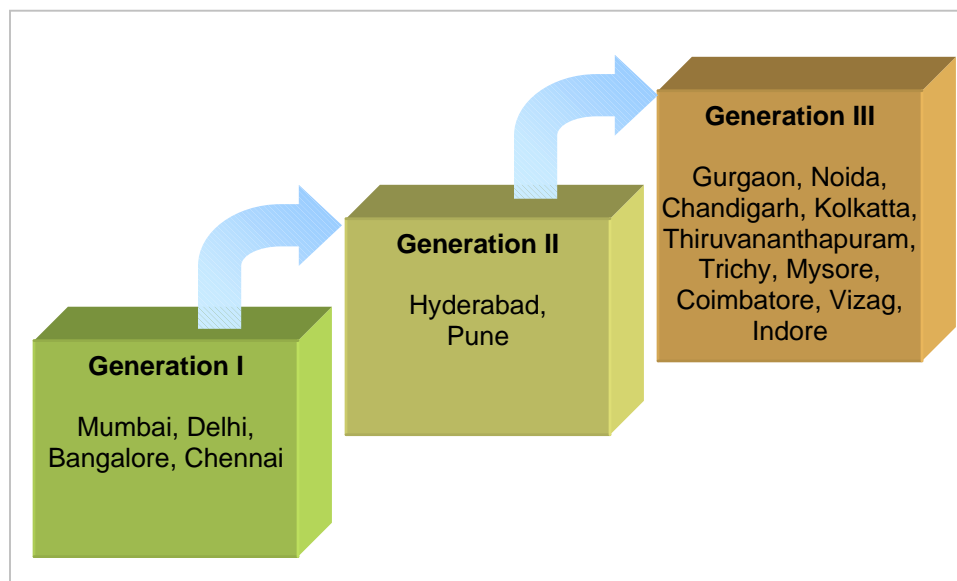


Figure 3: The evolution of Indian cities through the three generations of maturity.

Generation III

From 2000 onwards infrastructure was in place in many cities across India, so new criteria came into place. The financial impact to companies for cost of living expenses and real estate prices were key factors to competitiveness. New cities began to emerge as strong alternatives in Gurgaon, Noida, Chandigarh, Kolkata, Thiruvananthapuram, Trichy, Mysore, Vizag and Coimbatore.

BPO action began in late 90s and at that time Generation 1 and 2 cities were attractive: Hyderabad, Pune, Mumbai, Delhi, Chennai and Bangalore. Recently, attractiveness has made a shift toward Generation 3 cities.

For a comparison of different cities across generations refer to figure 5.

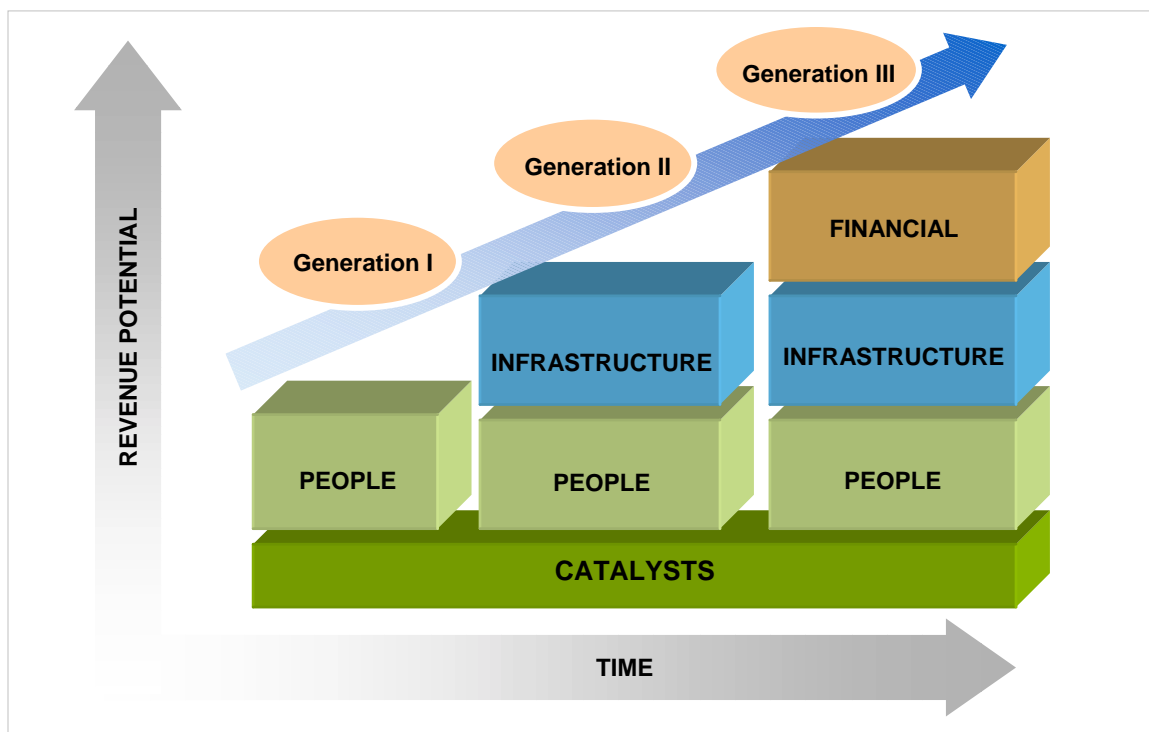


Figure 4: City Evolution Model

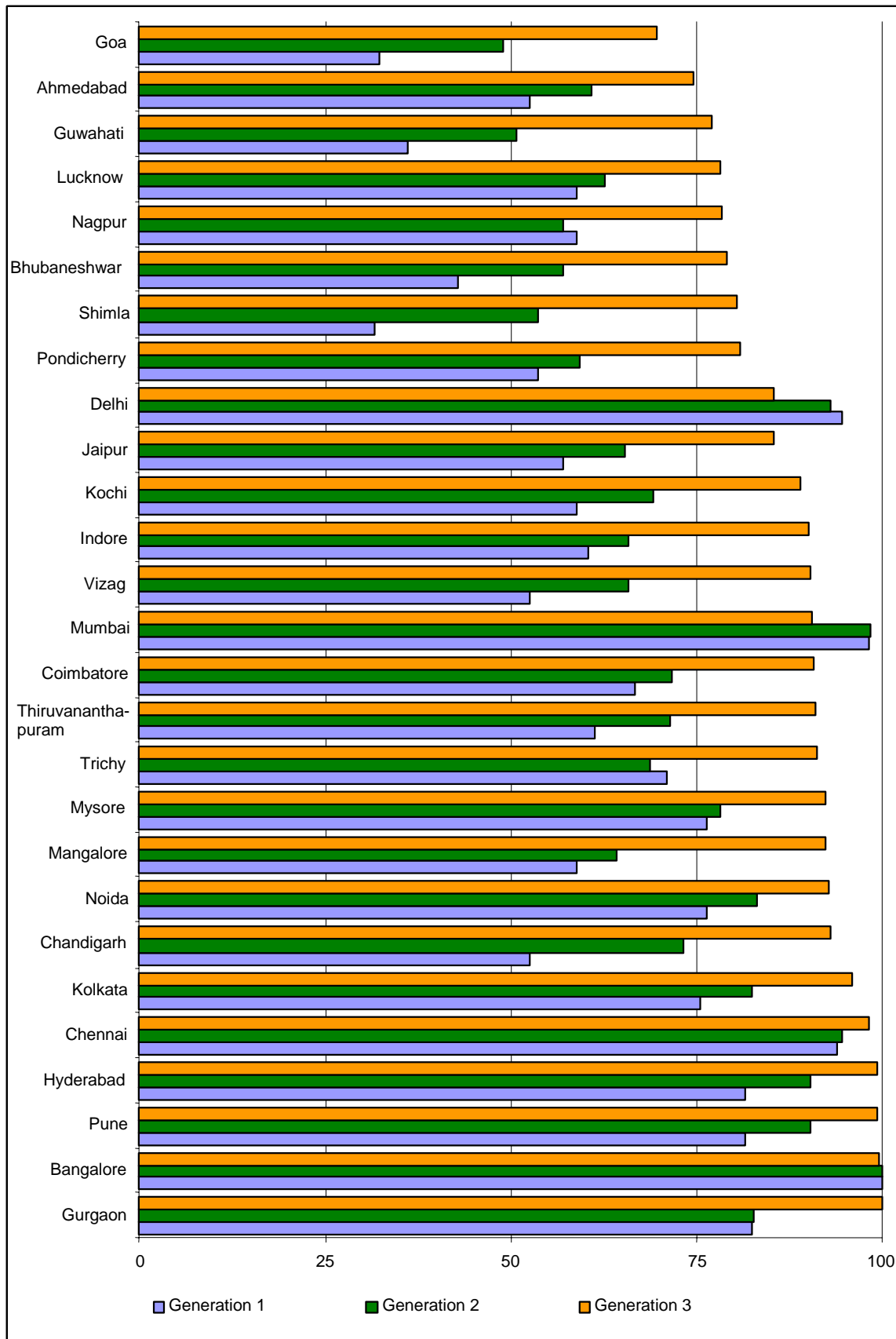


Figure 5: OCC Index across the three generations of maturity in Indian cities.

The Future Performance of Cities in India

A look at STPI revenues in the OCC Index brings up interesting findings for the future of the cities in India.

In the figure below, the OCC Index of the city is plotted against the STPI revenues. As a result, we see four distinct groups of cities emerge: leaders, challengers, unknowns and laggards.

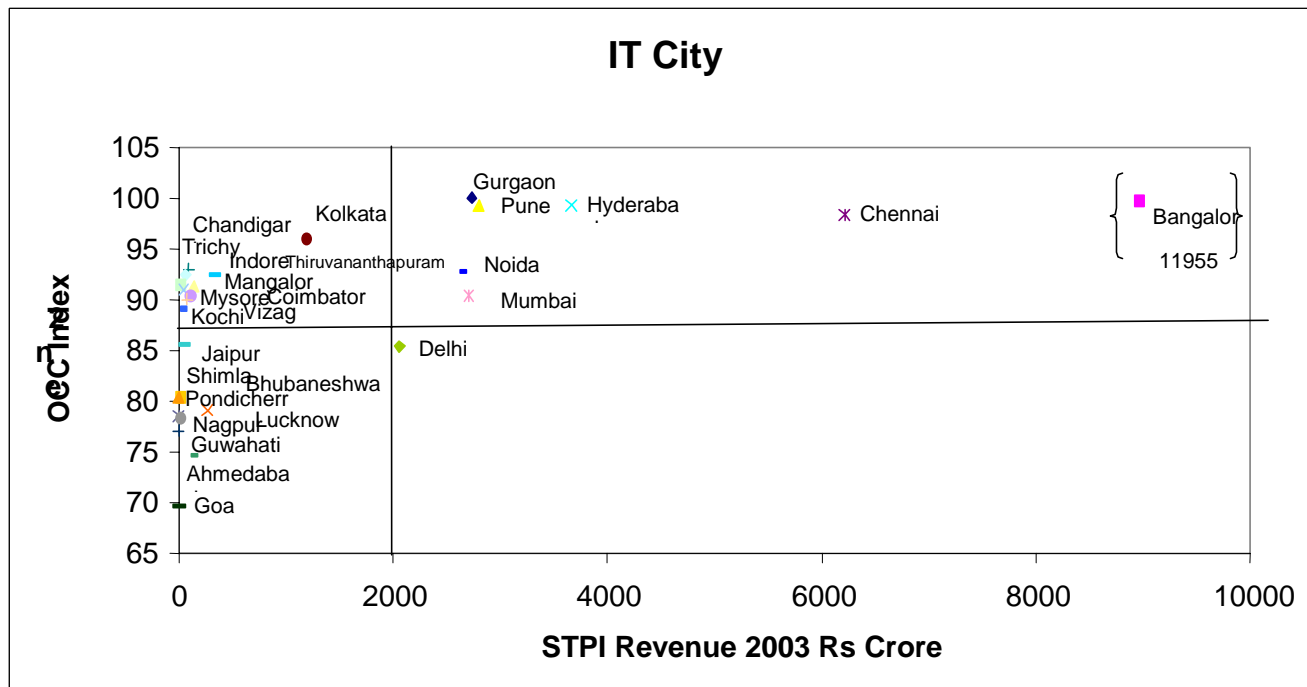


Figure 6: Comparing Indian cities by revenues and the OCC Index.

Leaders

The Leader cities have a high OCC Index and equally high performance. They include Bangalore, Hyderabad, Gurgaon, Chennai, Pune, Noida and Mumbai. Their current attractiveness is high, but they need to continue to work through infrastructure constraints and adopt policies and measures that will keep them competitive.

Challengers

The Challenger cities have a high OCC Index but their performance has not been great. They have clear potential and are likely to challenge the leaders in the near future. They include Kolkata, Thiruvananthapuram, Chandigarh, Indore, Coimbatore, Mysore, Mangalore, Trichy, Vizag & Kochi. These cities have all right things in place to emerge as an attractive choice however they need to package and market them properly.

Unknowns

The Unknowns are cities with a low OCC Index but high performance. These cities are clearly in the declining stage and their future attractiveness is questionable. Delhi, while

once attractive is now Unknown because of increasing infrastructure constraints and the rise of satellite towns like Gurgaon and Noida.

Laggards

The Laggards cities have a low OCC Index as well as a low performance rating. They clearly have lagged behind in the race and are unlikely to challenge the leaders in the near future. Jaipur, Shimla, Bhubaneshwar, Nagpur, Pondicherry, Guwahati, Goa and Ahmedabad make up the Laggard category. These cities need to critically evaluate their competitive factors and adopt concrete actionable plans to compete with other attractive cities in the short and medium term before they are permanently left behind.

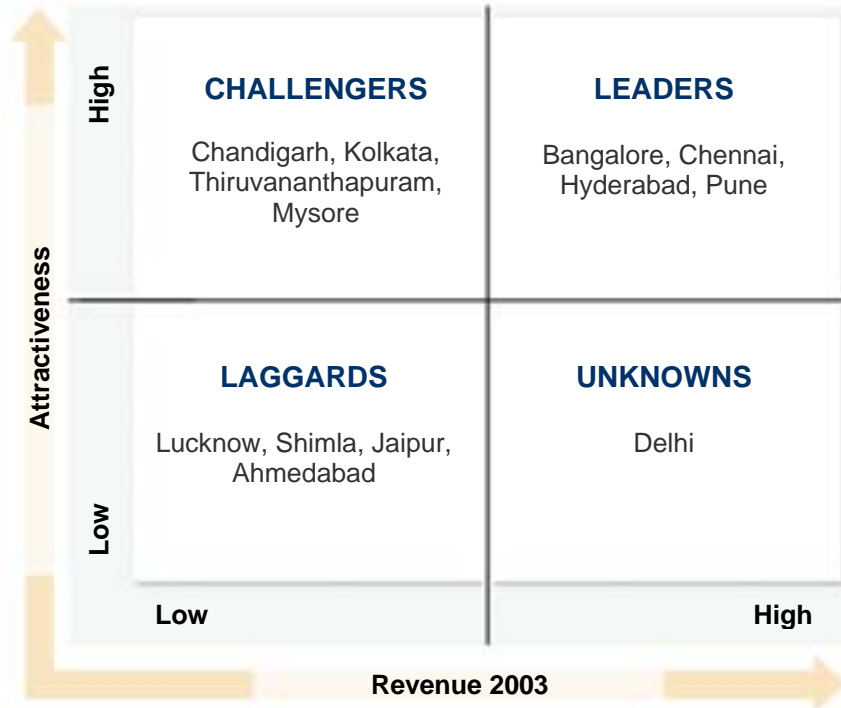


Figure 7: The four groups of cities compared by revenues and the OCC Index.

So the key question that arises is, “What can a city do to become a leader”? Obtaining an answer to this question requires a very detailed evaluation of the existing state and mapping the problem areas to the path to improvement. By using the four areas of the OCC model, cities can gain tremendous insight and create a map for improvement.

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Conclusions

The OCC Index, apart from serving as a framework for global companies looking offshore to assess city destinations, also seeks to help policy makers and city planners increase the competitiveness of cities.

neoIT observes that the overall competitiveness level in India is witnessing an upward growth and the gap between the top destination and others is narrowing. It is also pertinent to note that new destinations are emerging, challenging established offshore destinations.

Competition is always good for the industry and the same should be true for competition between Indian cities to become a preferred IT/BPO destination. However, it should be noted that there is increasing competition from cities in other countries and cities should look for a global benchmark for global competitiveness. This OCC Index can act as a framework for comparing competitiveness of key cities across the world.

More information about the offshore outsourcing industry can be found within neoIT's research center at www.neoOffshore.com. For more details about neoIT's offshore advisory and management services, please contact:

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