Asia Case Research Centre
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Poon Kam Kai Series

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DAKSH AND IBM: BUSINESS PROCESS TRANSFORMATION IN INDIA - PART 1. THE FORMATIVE YEARS

It was 10 p.m. on a winter night in January 2004, almost bedtime for most residents of Gurgaon, an industrial and residential township located just outside Delhi, India. But not so for the employees of Daksh eServices (Daksh). Keeping time with the lunch hour of their customers across the globe, they enjoyed a break from work. Conversation at the cafeteria centred on media reports speculating on an initial public offering (IPO) by the four-year-old company. For the company hailed as the fastest growing start-up in the Indian business process outsourcing (BPO) industry, the future looked promising.

Launched in January 2000 by a group of friends who saw the potential in using e-mails as a medium to provide customer support for global clients, Daksh was an undisputed success story. Racing past projected targets, by the end of 2003 it had grown into a company that employed 5,800 people and had reported revenues of over US$30 million. Secure in their achievements, the founder members were sure that they would not sell out to a big company.

> *We can create better shareholder value by staying on our own. Imagine where would Infosys be if it was sold three years after it was formed.*
>
> - Sanjeev Aggarwal, CEO and founder member, Daksh[1]

While an IPO was definitely in the offing, top management stressed that the company had no definitive time frame set. Questions remained, however, about whether the timing was right and whether the company, as an independent BPO service provider, would be able to compete in a market flooded with larger global players.

[1] As quoted in "Back-Office at the Forefront" (6 June 2003) *Economic Times*.

Dr. Kavita Sethi prepared this case under the supervision of Prof. Ali Farhoomand for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

This is part of the FocusAsia Business Leaders Series. It is accompanied by a 30 minutes DVD featuring the company and its executives. To order a copy of the "Pavan Vaish and IBM Daksh" DVD, please visit www.acrc.org.hk

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The BPO Option

In many organisations around the world, outsourcing peripheral services (such as janitorial, security, cafeteria and landscaping) to locally available service providers was an established operating norm. Over the years, this trend had percolated to other business processes, which, though critical, were not part of an organisation's core competency. Outsourcing became the "generic term used when companies contracted out certain business functions to an external supplier, eliminating the need to maintain an internal staff necessary to perform that function."[2] However, it was only in the 1990s that the outsourcing focus shifted to offshore locations. This shift was primarily driven by large US businesses looking to beat the economic recession. As pressure to pare costs increased, outsourcing or offshoring processes to countries that offered a cost arbitrage emerged as a tailor-made solution.

Concurrently, use of information technology (IT) to take down the walls between functional silos, such as finance and human resources, led to a merger between outsourcing and business process management. The result: business process outsourcing (BPO), a US$700 billion industry by 2003.[3] Broadly speaking, BPO referred to the "delegation of one or more IT-intensive business processes to an external provider who in turn owned, administered and managed the selected processes, based on defined and measurable performance metrics."[4] Offshore outsourcing involved outsourcing of IT or business processes to a service provider outside the country where the work originated.[5] Although BPO was the acronym for business process outsourcing, as the industry grew, its usage typically referred to offshore outsourcing. Also included under the BPO umbrella were captive operations—the practice of running back office or other business processes by companies in their self-owned facilities at offshore locations [see **Appendix A** for BPO Governance Parameters: Captive Centres Vs. Third Party Service Providers]. The main drivers behind the industry were:

- Rapid business and technological changes which propelled the need to improve turnaround times.
- The internet's emergence as delivery and communication channel.
- Availability of resources in offshore locations to support rapid, high growth emerging industries, such as wireless, internet or other information technology-enabled services (ITeS).
- Savings resulting from cost and labour arbitrage.

Prime processes for BPO were those that could be easily standardised, had easily measurable service levels and, in many cases, involved high volume transactions. Early success areas included logistics, human resources and payroll, transaction processing, and customer service. By definition, such services were less tightly integrated with other business processes and therefore easy to outsource. The US was the dominant global customer, with two-thirds of the outsourcing spending originating from large Fortune 500 companies. When it came to allocating offshore work, India emerged as the forerunner, followed by China, Malaysia and the Philippines. Other contenders were eastern European countries like Russia and Poland, and Mexico in the Americas.

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[2] Office of the Senator Joseph I. Lieberman, (11 May 2004) "Offshore Outsourcing And America's Competitive Edge: Losing Out In The High Technology R&D And Services Sectors", http://lieberman.senate.gov/documents/whitepapers/Offshoring.pdf (Accessed 24 February 2009)
[3] "Outsourcing Comes of Age" (9 April 2004) *Economic Times*.
[4] Rutkowski, Therese (April 2003) "Let's Make A Deal.(the use of outsourcing)", Insurance Networking News: Executive Strategies for Technology Management.
[5] "Business Process Outsourcing—The New Growth Sector" (2003) *India Infoline Sector Studies*.

The advantages and disadvantages of going offshore resulted in an emergent paradox. As summarised in **Table 1**, factors that resulted in pay offs also had a flip side. For example, the characteristic of cost arbitrage, especially labour arbitrage, saw a loss of jobs to lower cost countries. Although this represented simple economics, what was not so simple was the resultant socio-political dynamics. In a similar vein, although BPO companies provided new opportunities for graduates from non-professional educational streams in developing countries, a combination of factors—like late working hours and the mechanical act of attending hundreds of calls per night with an induced accent—led to high levels of stress in the relatively young workforce.

Factor	Advantage	Disadvantage
Cost arbitrage	- Significant savings in labour costs	- Additional up-front and maintenance costs because of offshore distances and infrastructure problems in offshoring country - Unemployment in outsourcing country - Geopolitical risks
Time zone differences	- Reduction in turnaround time - 24/7 operations	- Social problems in offshoring country due to odd hours and monotonous nature of work
Corporate and cultural differences	- Untapped potential in offshore locations - Global perspective	- Employee acclimatisation for both parties Communication, language and accent issues - Contract jurisdiction in case of litigation issues

Table 1: Advantages and Disadvantages of Going Offshore

The US Backlash

Having caught the political eye, offshoring had ballooned into a major issue, especially in the US. Amidst all the controversy, there appeared to be a lack of alignment of interests between American businessmen and politicians. On one hand, politicians, who had an eye on the electorate, played on local sentiments and continually fuelled the debate on offshoring. Quoting published reports they claimed that nearly 3.3 million US jobs and US$136 billion in wages would be transferred to cheaper offshore locations by 2015, with the number of US services jobs transferred accelerating annually by 30–40%.[6]

On the other hand, business leaders came out in support of free trade and against protectionism—the underlying issues of offshore outsourcing. Torchbearers maintained that in the long term companies that saved money through offshore outsourcing would generate more jobs domestically. Moreover, when businesses saved money, consumers would also benefit through lower prices. They felt that offshore outsourcing was part of a larger ecosystem and any bans imposed would hurt the US economy over the long run. According to a much-cited McKinsey study, outsourcing delivered large and measurable results to the US economy as it reduced costs for IT and other services by as much as 60%. In addition, profits repatriated to the US from offshore locations allowed US companies to focus on core

[6] McCarthy, John C. (November 2002) "3.3 Million US Services to Go Offshore", *Forrester Research.*

competencies domestically. According to the report, for every dollar outsourced, the value generated was US$1.47, of which US$1.12–1.14 went back to the outsourcing country, and 33 cents went to the country doing the work.[7] But because of the public outcry, US states proposed more than 60 anti-offshore bills in 2003. These resulted in laws that barred offshoring activities by US federal government departments. In response to the ban, Kiran Karnik, president of the National Association of Software and Service Companies (NASSCOM), the premier body for the offshoring industry in India, said:

> *Such laws will not have any significant impact on India, since the total business coming to India from government outsourcing is only around 1%; however the protectionist nature of the laws conveys a very negative signal and is questionable in today's networked global economy.*[8]

Despite the much-publicised debate, it was evident that there was no going back—BPO was there to stay.

Advantage India

As the BPO industry moved up a steep growth curve, India emerged as the world's leading offshore destination.[9]

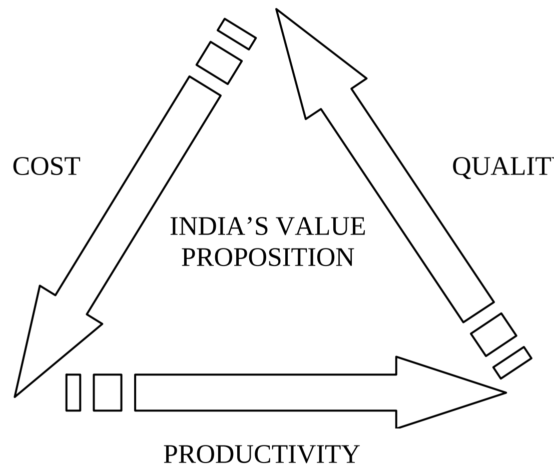
> *As global corporations evaluate destinations of high quality, low cost as well as scalable operations around the world, India, China and the Philippines have become the forerunners as ideal locations for migration. … India is uniquely positioned to be the beneficiary. This is because of its education system, which produces two million graduates every year. This is further supplemented by the fact that India's brand equity overseas has already been established through the Indian IT services sector.*
>
> - Sanjeev Aggarwal, CEO, Daksh[10]

In an annual A.T. Kearney survey based on a country's financial structure, labour force and business environment, the 2004 offshore location attractiveness index [see **Exhibit 1**] winner was India. However, the picture was not always as rosy. The offshoring model depended on India's telecom and power infrastructure, considered one of the poorest by any standard in 2000. Other challenges included the lack of in-depth domain knowledge, specifically about legal, regulatory and compliance structures prevalent in the outsourcing countries. The lack of proven credentials, established through client references, also made things difficult for potential BPO service providers.

However, India hosted some inherent advantages that led to its ascendancy in the BPO industry. Apart from providing cost arbitrage, it had the advantage of a strong English-language legacy. Over a third of its college graduates spoke fluent English. This manpower rated high in qualifications, capabilities and quality of work ethics, but earned a great deal less than counterparts in America and western Europe. Additionally, India's time zone advantage of being four to five hours ahead of western Europe and 10–13 hours ahead of North America made it an ideal location to offer 24/7 services [see **Figure 1** for Indian BPO industry drivers]. Seeing the potential offered by the sector, Indian companies quickly incorporated capabilities and systems for setting and monitoring quality targets and

[7] Farrell, D. (August 2003) "Offshoring: Is it a Win-Win Game?", *McKinsey Global Institute*.
[8] As quoted in, "Will US Curbs Hit Outsourcing?" (12 March 2003) *Economic Times*.
[9] "Six-Industry Survey" (2003) A.T. Kearney Inc.
[10] "Behind the Scenes" (7 August 2002) *Hindustan Times*, New Delhi.

certifications. The government also played its part by offering comprehensive tax incentives and addressing bandwidth issues.



Cost	Productivity	Quality
- 40–60% cost reduction for offshored processes - Labour cost arbitrage, the reason for cost savings likely to exist for 20–30 years	- Faster turnaround time: Time zone difference - 24/7 service - Learning curve effect, given increased activity across companies and increased experience within company	- Established methodologies and processes being adopted for better performance - Well-defined quantifiable metrics for quality and processes - Access to a highly qualified skill pool

Figure 1: BPO Drivers—The India Advantage[11]

Multinationals like Swissair, GE and American Express set the ball rolling by establishing captive offshore units in India. Seeing their success, local start-up BPOs like Daksh and Spectramind widened the playing field. The sector also witnessed the entry of global BPO majors such as Convergys and Sykes who set up 100% subsidiaries, and others such as Zenta who entered the market using the joint venture route. Back office operations, content development and customer interaction services were amongst the most preferred works outsourced to India.

Recording a growth of 54% in 2003, the Indian ITeS-BPO industry clocked revenues of US$2.3 billion and employed over 170,000 people [see **Exhibit 2**]. Despite the scorching pace of growth, it accounted for only 2% of the global outsourcing market. Analysts predicted that the industry would continue its exponential growth rate to reach projected revenues of US$3.6 billion by year-end 2004.[12] These predictions were based not only on India's abundant manpower pool and sustained cost advantages, but also on the ability of Indian vendors to scale operations and broaden their services portfolio.

[11] Burney, P. (11 May 2004) "Outsourcing – Your Friend or Foe?", http://www.mlogica.com/pdf/Outsourcing -Your Friend or Foe.pdf (Accessed 24 February 2009)
[12] "Business Process Outsourcing—The New Growth Sector" (2003) *India Infoline Sector Studies*.

Pioneering a Business: Daksh.com

The history of Daksh dated back to 1999 when two young men, Sanjeev Aggarwal and Pavan Vaish, saw a report published in USA that stated, "67% of online transactions are being abandoned due to inadequate customer support".[13] The report emphasised that the generalised approach, based on automated response set-ups and FAQ-based models, had failed to measure up to customer expectations. Seeing the potential in using e-mails as a medium to provide customer support for global clients, the two quit their high-profiled jobs with US multinationals and launched a company called VCare (soon to be renamed Daksh.com). Two other like-minded friends, M.J. Aravind and Venkatesh Tadanki, joined the duo. In January 2000, with seed capital from a US-based angel investor, Ashish Gupta, the four set up Daksh.com, which later evolved as Daksh eServices Private Ltd.[14]

> *…. most websites and ebusinesses are not in a position to have in-house customer care setups due to operational and financial constraints. Daksh.com plans to fill this void in websites' operations.*
>
> - M.J. Aravind, vice-president (operations), Daksh[15]

The zeal behind the start-up was evident, the passion unmistakable—all they needed were funds. Armed with the knowledge that a market existed, the founders set about the business of solicitating funds [see **Exhibit 3** for excerpts from presentations to prospective venture capitalists]. The founding vision included establishing a "Smart Internet Call Centre" in Gurgaon, India. Riding on the existing telecom infrastructure, the centre proposed the use of high speed leased line circuits to the internet with 100% uptime and low latency (using a satellite/fibre hybrid networks) connected to the customer's email servers. The centre would also have 100% ancillary services like power backup, air-conditioning and service clusters.

The big break came when Donald Peck, head of CDC Group's India division, decided to invest US$2 million in the start-up.[16] With finances in hand, the next step was to acquire a customer. Targeting web-centric industries where e-mail response had a direct correlation with revenue growth, potential customers included e-tailers, direct marketers, internet information service providers, airlines, and banking and financial services among others.

Selling the premise that all customer complaints and queries should be tackled individually by giving satisfactory advice and technical support, Daksh bagged its first customer, Bigstep.com, in March 2000. However, the kairotic point was when Amazon.com signed Daksh to provide support to its customers. Looking at it from Amazon's point of view, Jeff Bezos, Amazon's CEO, took a leap of faith, one with three evident risks: to outsource customer service, a critical component of Amazon's customer experience management; to outsource to a then-alien land, India; and to choose Daksh, a nascent company without proven credentials. The deal, nevertheless, went ahead and Amazon acquired a 10% stake in Daksh. In October 2000, Daksh went live with Amazon at its facilities in Gurgaon, with a staff of 100.

[13] The Yankee Group, 1999.
[14] Daksh is a Sanskrit command used in army training which means "attention, alertness, vigilance and utter preparedness to act immediately and with supreme urgency." Daksh is another name for Hindu Trinity's Lord Vishnu, the preserver of the universe.
[15] As quoted in, "Daksh.com Enters Electronic Customer Support Segment" (8 February 2000) *Financial Express*.
[16] The investment was made through Nandi Investments Ltd, the Mauritius-based venture fund, and the investment company CDC Group Plc. (formerly known as the Commonwealth Development Corporation).

Cashing in on the BPO Boom

With a vision "To help eBusinesses build exceptional customer relationships by leveraging India's high quality, cost effective intellectual capital"[17], Daksh's founders set steep targets for themselves. As early as September 2000, CEO Sanjeev Aggarwal said:

> *By 2001, we would have expanded to a 1500-man organization and set up a presence in New York and London. We are striving to achieve revenues of over US$40 million and a size of a 2,500- man organization by 2002.*[18]

Giving reality to the rhetoric, Daksh bagged business from a number of major dotcom companies within a year of operation. When financial results for its first year of operation were announced, Daksh had notched a profit of US$100,000 on a turnover of US$2.33 million. In an environment where there were only a handful of third party players and captive players ruled the roost, this was indeed a sizable achievement. Especially so, as the company had received very little media coverage and the Daksh brand was virtually unheard of.

The business model Daksh used [as shown in **Figure 2**] was based on the following tenets:

- **Single channel of delivery:** The company focused only on web-based services and did not offer any voice services. As Pavan Vaish, executive vice-president, recalled, "We'd also decided we wouldn't be everything to everyone and would focus only on web-based customer service, e-mail and chat."[19] In addition, adopting a "lift and shift" paradigm meant that the company did not upfront process improvements to clients.

- **Single City Implementation:** Concentrating only on its facilities at Gurgaon, Daksh succeeded in conserving management bandwidth, lowering operational complexity and effectively managing costs.

- **Functional Organisation Structure:** Emphasising speed of delivery, Daksh adopted a flat organisation structure. The lean top management team drew salaries at 50% of the market rate. Cost control measures that did not interfere with operational excellence were implemented wherever possible. For instance, everyone, including the founder members, flew economy class.

- **Strong People Practices:** At the time, no industry expertise existed for internet-based customer care. The only management resources that were available were those from existing captive players, which were very expensive. Daksh decided to build its team from the ground up. The resultant people-centric culture with distributed ownership was a distinctive feature that set Daksh apart from its counterparts. Besides offering all the early employees stock options, there was also a considerable focus on training and empowerment.

- **Establishing Reference-able Deals:** Realising that third party BPO offshoring to India was in its infancy, it was very important for Daksh to make existing customers reference-able. According to the values preached down the line, the starting point for acquiring more customers "was doing a successful job of the ones you already had". The founders

[17] (October 2001) "Exclusive customer care, the Daksh way", Express computer, National.
[18] As quoted in: "India: Daksh.com Targets $40m by 2002", (11 September 2000) *Business Line*, Chennai.
[19] As quoted in, "Back to the Future" (28 December 2003) *Economic Times*.

talked "not of outsourcing but of co-sourcing"[20]. A dedicated team would go to the client site to learn the procedures and understand the culture. On the team's return, they became the client's champion for managing the entire work. As an example, one Daksh employee was exclusively reporting to Bill Price, Amazon's vice-president, customer service. The co-sourcing concept apparently worked. In Bill Price's words: "Daksh's Gurgaon centre is virtually a part of our operation."[21]

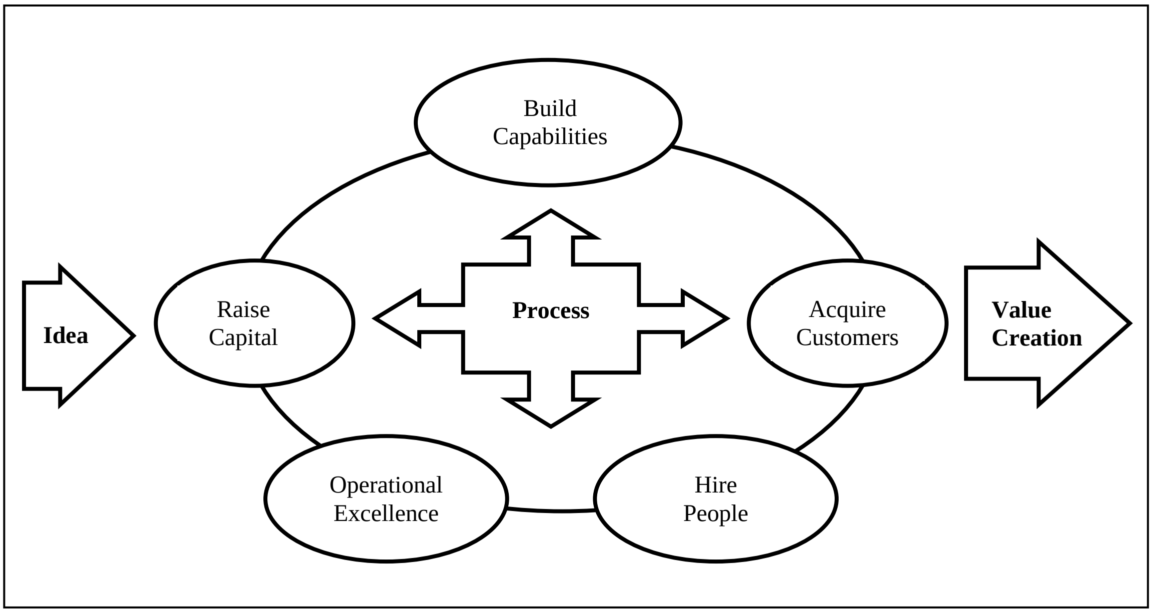


Figure 2: Business Model For Success — Daksh eServices [22]

- **Funding Paradigm:** Sustained funding through enabling yet non-interfering investors was another key factor to Daksh's success. In its second round of funding in April 2001, with an estimated market value of US$30 million, the company divested around 20% stake to Citigroup to raise US$6 million. Management proposed using the incepted funds for a new support centre, voice-enabled infrastructure and a market entry into Europe.

- **Sales Model:** Venture capital and angel investor contacts were leveraged to open doors. The minimal sales team included one US-based salesperson who was aided by management visits from India. Targeting e-commerce players offering billing rates between US$12–20 per person per hour, the founders also resisted the temptation to sign low return deals, such as that with Webhelp for US$6 per hour.

Successfully cashing in on the BPO boom, Daksh's first quarter revenues for 2001 grew close to US$2 million. The company expected to touch the US$15 million for the by the end of the year. By October 2001, 18 months after commencing operations, employee strength had crossed the 1,000 mark. In recognition of its achievements, Daksh was awarded the Frost & Sullivan market engineering award for customer service leadership 2001 in the Indian outsourced call centre market. Commenting on the occasion, Sanjeev Aggarwal said:

[20] As quoted in, "Back Office to the World", (May 2001) *The Economist*.
[21] As quoted in, "Back Office to the World", (May 2001) *The Economist*.
[22] Internal Company Presentations.

> *This is a testimony to our better co-sourcing model that revolves around building dedicated customer service centres for Fortune 500 customers, enabling seamless integration with our partners.*[23]

Repositioning for Growth

As it turned out, the web-based customer service opportunity was not as large as predicted by industry analysts. In contrast, there was a tremendous scope for expansion in the voice segment. Tuning in to market requirements, in October 2001 Daksh added voice capability to complete its service offering. Committed to providing outstanding quality to all its clients, the company initiated a corporate restructuring exercise, creating independent strategic business units, each focused on providing services to a few Fortune 500 customers. The company also established capabilities to successfully get into new verticals from the ground up, re-engineer processes and enhance service delivery to customers. The new orientation worked well. By the end of 2001, Daksh had established credibility in the market and was rated by NASSCOM as one of India's leading e-CRM organisations. According to Jeffrey S. Robinson, vice-president of customer care at Upromise:

> *Unlike others, the organization design of Daksh allowed for a relatively small company like Upromise to get the focus and attention of an independent business manager. Specifically, the idea that business units are limited in size and that I can have a dedicated team with a senior officer managing that business unit helped make the Daksh offer most viable.*[24]

In fiscal 2001–2002, with three operational facilities in Gurgaon, Daksh recorded revenues of US$17.88 million. The company's strength lay in its ongoing efforts to create a work culture of continuous operational excellence. Its values [see **Table 2**]—which all employees, including the founder members, proudly carried—emphasised the organisation's commitment to both its employees and its customers. The working atmosphere, charged with assorted graffiti on the walls, open door sitting arrangements and understated offices of the top management, all reflected the core management values:

- Live by the customer
- Passion and excellence
- Respect for people
- Integrity and openness
- Management by facts and data
- Entrepreneurial spirit
- Cost effectiveness

Table 2: The Daksh Values

[23] As quoted in, "Leadership Recognized" (1–15 October 2001) *DQ Channels India*.

[24] As quoted in, "With Upromise, Daksh Delivers" (30 June 2003) Dataquest. Upromise was a company that provided a free service which enabled families to earn money for college education through everyday spending at leading American companies.

Expecting to double its revenues in fiscal 2003–2004, Daksh's top management had started preparing by July 2002 the blueprint to acquire the capital needed for expansion. With a credible management team, a booming market and an impressive client list, Daksh had no dearth of prospective investors. In October 2002, Daksh secured US$21 million from General Atlantic Partners (GAP) and Citibank as it closed its third venture round. GAP and Citibank contributed US$18 million and US$3 million respectively. In an attempt to create a diversified equity structure, no investor was given more than a 25% stake. With the extra funds, Daksh planned to set up its first facility outside the nation's capital, in Mumbai, to strengthen its presence in the US and UK. Daksh also looked towards setting up additional centres outside of India.

By the end of 2002, Daksh offered "a range of blended customer care services including voice, e-mail response, real-time chat, knowledge management, e-CRM architecture and other value-added services to the Fortune 500 and Digital 500 market"[25]. It also became one of the first Indian BPO company to receive the Customer Operations Performance Centre (COPC) Certification.[26] In recognition of the company's achievements, Sanjeev Aggarwal was named Ernst & Young start-up entrepreneur of the year. Commenting on the company's meteoric growth, he quipped: "I would be lying blatantly if I said we had any clue that this was going to happen".[27]

With increased publicity, Daksh's brand awareness was growing. As a direct consequence, the ability to attract both talent and customers significantly improved. On the other hand, competition in the BPO market had also increased. Clients looking towards outsourcing to India had four options. They could: set up captive operations; look towards a global player like Convergys; outsource to the ITeS arms of large Indian firms they were familiar with; or work with niche third party operators. Falling in the last category, Daksh was looking towards expanding its customer base through reference-driven credentials.

Establishing Competencies

Daksh exceeded the industry growth of 60% for 2002–2003, recording revenues of US$29.12 million. In line with its expansion plans, Daksh opened an 80,000 square feet facility in Mumbai in May 2003. Dedicated to banking, insurance and retail sectors, this facility raised the company's country-wide capacity to 4,000 seats. Meanwhile, tapping the non-English-speaking market in Europe, the company started serving Amazon's European operations by providing services in German and French.

On the people front, a BPO employee satisfaction survey conducted across BPO service providers indicated that most BPO employees typically displayed high levels of stress and moved on at the first available opportunity. The top reasons for attrition were a lack of growth opportunities and a poor working environment. This was not so for Daksh: its employees showed amongst the lowest stress rates, and 82% of employees said that they looked forward to a long-term career with the company. With 5,000 employees on board, the employee satisfaction score at Daksh was 91.6, way above the industry average of 80.7.[28] Meanwhile,

[25] (October 2001) "Exclusive customer care, the Daksh way", Express computer, National.

[26] COPC has been designated the acceptable standard for outsourced BPO-ITeS operations, more specifically for US-based companies. A third party service provider would have to obtain the COPC certification in order to be awarded a contract. This included obtaining compliance requirements under 32 different parameters such as client satisfaction, efficiency, speed and productivity, to name a few.

[27] As quoted in, "New Calling for a High-Tech Manager" (19 November 2002) *Business Standard-Issues & Insights*.

[28] "BPO Employee Survey" (2004) Dataquest.

leaving the reigns to Sanjeev Aggarwal and Pavan Vaish, Arvind and Venkat, two of the founding members, left Daksh to follow different pursuits.[29]

Moving forward, in 2004 Daksh became the first independent Indian BPO company to set up operations outside India. In addition, the wholly owned subsidiary located in the Philippines increased capacities to employ 1,000 people. Catering to the demand of clients who wanted a redundancy unit outside India, the Manila unit offered the full range of BPO services including customer service, technical support and back office transaction processing.

> *Philippines knowledge workers have become the key assets for the growth of the BPO industry and we have leveraged this opportunity by setting up this new facility. We hope to unlock the intellectual capital of this country and position Philippines as a strong BPO destination on the world map. This expansion would help address the geopolitical diversity requirements of our clients and allow us to continue to grow at a rapid pace.*
>
> - Pavan Vaish, executive vice-president, Daksh[30]

The expansion process [see **Exhibit 4** for company milestones] brought with it a new set of challenges stemming from diversified locations. These included the need to reduce risk to customers and to hire additional manpower. For example, moving into a newer location meant duplication of infrastructure—investments in telecom, IT systems, power back-up and real estate, among others. Given that the investment per person ranged from US$8000 to US$10,000 and that it took 18–24 months to break even, the timing of investment with the phases of growth was also extremely critical. To handle the eminent changes, management endeavoured to put into place practices that would help streamline operations. Working with IBM Business Consulting Services, Daksh implemented a Peoplesoft application, an enterprise resource planning system, that automated processes in the areas of finance and human resource management across multiple business units. According to an IBM spokesperson, the implementation greatly eased the communication process across facilities in India, UK, US and the Philippines.

Distinctive Capabilities

Working on the "5P capabilities model" [see **Exhibit 5**], a number of distinctive features set Daksh apart from its competitors. These included its 100% BPO focus, unique co-sourcing model and a strong delivery platform, among others. The team at Daksh had also developed a detailed methodology for transitioning and implementing client projects. Called the "Transitioning and Project Management (TPM) toolkit", structured processes enabled a better understanding of clients' processes, higher quality of implementation and a strong adherence to project implementation deadlines. In addition, as drivers for standardisation, improvement and best practice sharing, "Centres of Excellence" (COEs) were set up for internalising the in-depth knowledge that each function imbibed.

Operations included a combination of front office and back office work. However, almost 80% of the work handled was front office processes that included customer care and technical support. Of this, about 65% were voice and 35% were web-based queries, both via e-mail and chat. Other processes included collections, telesales and transaction processing.

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[29] They, however, continued to serve on the company board.

[30] As quoted in, "Daksh eServices Announces Launch of Facility in Philippines" (7 January 2004) http://www.daksh.com/pr-7jan04.htm, Company Press Release (accessed 6 June 2006).

We are a full services company. The company's core competence is in handling interactions and transactions for its customers. We take care of our customers through e-mail voice or chat. We can handle entire back office operations. We are also in claims adjudication, payroll processing, supply chain and logistics management. Everything you need to run your business we do.

- Pavan Vaish, executive vice-president, Daksh[31]

Delivering multiple processes from multiple locations, Daksh took pride in the strategic long-term relationships that it had built with all its customers across different industries. Its clientele comprised a host of Fortune 500 companies who were market leaders in their domains. These included a Fortune 500 e-tailer, a Fortune 100 telecommunications giant, a Fortune 25 computer hardware provider, a Fortune 150 airline major, a Fortune 100 health insurance major and a major UK life insurance firm.[32]

Emerging Threats

While Daksh's performance and client portfolio looked impressive, the market was showing signs of a transition. Many potential customers in the financial services sector were opting for the captive route. In addition, consolidation in the industry had begun in earnest, with all the major global players having established a significant or emergent presence in India. Also, the first visible cases of process pullbacks, either due to the political backlash (which was at an all time high, given the US elections) or due to quality problems, were being reported. Deals were also becoming increasingly larger, and more knowledge driven. Smaller Indian players were either getting acquired or were closing shop. In fact, Daksh's mirror competitor, Spectramind, had been acquired by the Indian software giant Wipro as early as 2002. It was evident that in order to maintain a sustainable advantage, third party BPOs had to scale up operations and move up the value chain.

IPO: The Way Forward?

We have built all the factors including brand, business model as well as business, required for an IPO. And now the market is also good for an IPO.

We have a comprehensive service delivery system spread across seven verticals and 70 processes. We'll have around 20 customers in 2004–2005. We will then go for a public offer.

By 2005, we will be among the top BPO companies in the world. We are also planning an IPO in the next fiscal. The offering will be in the range of US$30–50 million.

- Sanjeev Aggarwal, CEO, Daksh[33]

Public debates centring on remarks made by the top management about the imminent IPO had been gathering speed since the end of 2003. There was also talk that a large number of employees would get shares at the time of the IPO. With revenues crossing US$50 million in fiscal 2003–2004 [see **Exhibit 6**], Daksh had all the right numbers to be a sell-out IPO. In the

[31] Pavan Vaish, executive vice-president, Daksh eServices, as quoted in, "Daksh: Scaling up the Value Chain" (7 April 2003) *Express Computer*.
[32] Due to non-disclosure agreements, client names have not been disclosed.
[33] As quoted in, "Daksh Sees Global Scale by Raising Capacity" (4 December 2003) *Business Standard*; "Daksh to Set up Philippine Arm" (7 January 2004) *Times of India*; and "Daksh eServices Moving to Manila" (19 January 2004) *Business World*.

buoyant stock market and in line with the public offerings of Biocon, TV Today and Maruti, its shares were expected to be listed at a very high price. The strong performance record of Daksh, coupled with the booming BPO sector in India, also spelt an inflow of substantial foreign investors. However, having received substantial private equity funding, for Daksh the IPO looked to be more of a brand building exercise to help consolidate its identity, rather than an endeavour to raise funds. It also seemed that Daksh was looking at the IPO as an exit route for investors.

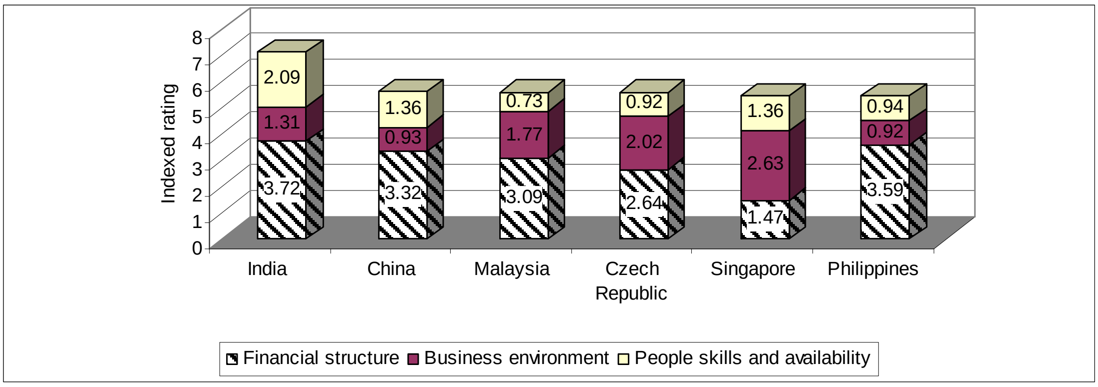
While Pavan Vaish and Sanjeev Aggarwal deliberated over the IPO issues, they received a call from IBM offering a buy-out. Now, besides the IPO, Daksh could don the IBM colours as an alternate future. Having tasted success, the task before the top management was to maintain that success. No longer was the ability to deliver services and domain expertise being questioned. Neither were issues about quality, six sigma, billing or margins pertinent. What had emerged as the relevant question was whether or not the IPO was the best way to go forward. If Daksh went public, would it, as an independent service provider, be able to take head-on industry giants? Alternatively, was the sell out to IBM a better bet? If so, what should be the asking price? While the top management at Daksh evaluated both options, industry analysts ruminated why a BPO company like Daksh made sense for IBM in the first place.

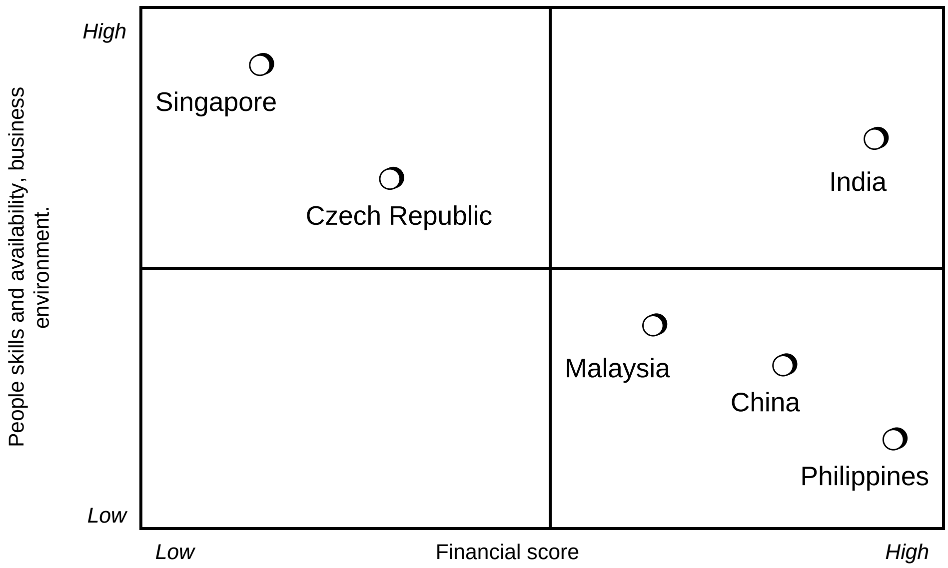
APPENDIX A

Captive Service Centres	Third Party Service Providers
Funding and Ownership	
Usually fully owned by the outsourcing firm—occasionally a joint venture between a third party solution provider and the user firm, with the user firm enjoying the right to buy back.	Usually owned by the third party solutions provider. Some relationship-specific assets may be fully or partly financed by the user firm.
Strategic Impact	
The processes outsourced may vary from those that have largely operational and tactical impact to processes that have strategic impact.	Objective of outsourcing is to lower labour costs and increase operational efficiencies. Processes rarely have strategic implications**.**
Governance Structure	
Ranging from a hierarchy implemented through employee contracts to a quasi-hierarchy governed through a combination of employee contracts and the instruments of price.	Usually governed through the mechanism of price. Here the client firm monitors while the vendor controls its employees.
Managerial Control	
Managerial control is exerted by the user company where the head of the outsourced service hub reports to the senior management of user firm.	Monitoring replaces control. Service level agreements (SLAs) are pre-specified and monitored by the vendor. Payments to the vendor are usually linked to quality assessments made by the client.
Nature of Gains	
Scale, scope and specialisation. In addition, there are benefits from lower labour costs. As the engagement model matures, the service hub helps re-engineer information flows and improved response times.	Lower labour costs and economies of scale. When the task calls for expertise, there are some gains from specialisation.
Migration Path of Outsourced Processes	
Outsourcing usually follows the order of increasing complexity of processes. As a class of task processing becomes stable, scale is achieved through transferring the same tasks from multiple regions and business units.	Migration of processes to the third party vendor is restricted usually to a narrowly defined class of processes, such as call centre work or technical support provided by teleworkers.
Extent of Integration between the two Information Systems	
High degree of integration between the two information systems.	Low-level integration, provider firm's access is restricted to a few context-specific elements of the client's information system.

Source: Adapted from The Wharton School Field Research, as quoted in, "Business Process Outsourcing—The New Growth Sector" (2003) *India Infoline Sector Studies*.

EXHIBIT 1: PREFERRED OFFSHORE LOCATIONS





Source: Adapted from "Making Offshore Decisions" (2004) A.T. Kearney Inc.

Labour Supply

	Average salary per graduate (US$ p.a.)	Graduates p.a.
India	2,400	2,100,000
China	2,000	950,000
Philippines	2,900	380,000
Mexico	1,400	137,600
Ireland	19,500	43,200
Malaysia	7,200	30,000
Singapore	16,000	12,500

Source: NASSCOM, as quoted in "Indian ITeS/BPO Sector, Just the Tip of the Iceberg" (July 2003) Batlivala & Karani.

EXHIBIT 2: THE INDIAN BPO INDUSTRY (2003)

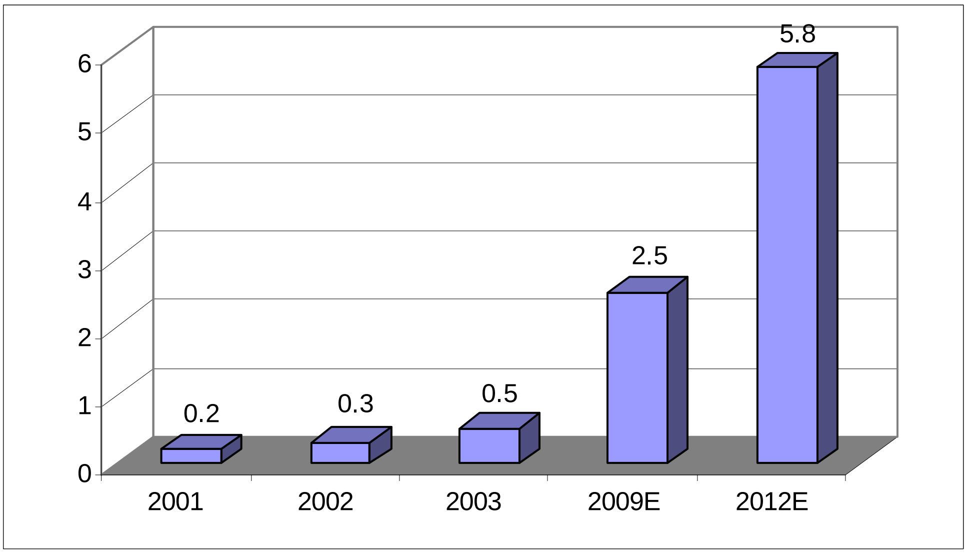
Market Segmentation Details

(Figures in US$ million)

	2001-2002		**2002-2003**	
	Employees	Revenue	Employees	Revenue
Customer Care	30,000	400	65,000	810
Finance	15,000	300	24,000	510
HR	1,500	30	2,100	45
Payment Services	7,000	110	11,000	210
Administration	14,000	185	25,000	310
Content Development	39,000	450	44,000	465
Total	106,500	1,475	171,100	2,350

Source: "Business Process Outsourcing—The New Growth Sector" (2003) *India Infoline Sector Studies.*

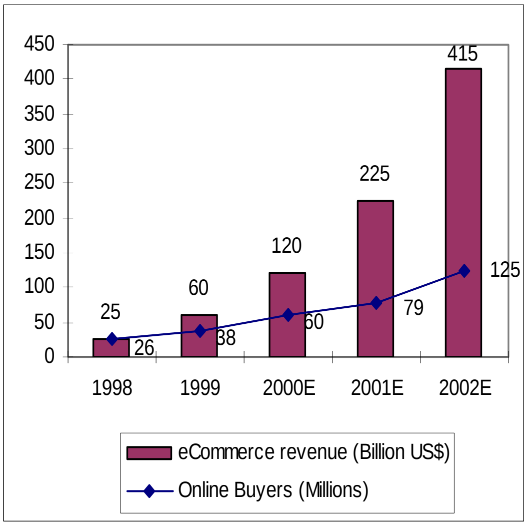
BPO Percentage Contribution to GDP

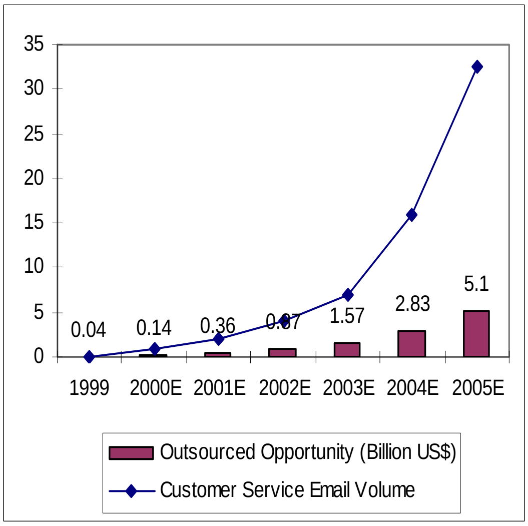


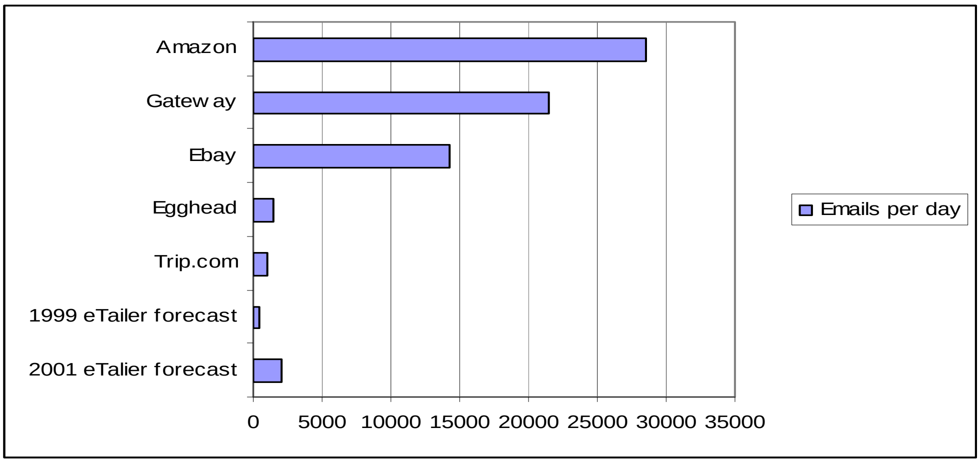
Source: Company data as compiled from NASSCOM-McKinsey, KPMG 2003 and industry data.

EXHIBIT 3: DAKSH.COM—EXCERPTS FROM PRESENTATION TO FIRST VENTURE CAPITALIST

Global E-Commerce Growth







The India Opportunity

Type of service/process	People (1988)	Revenue (Million US$)	People (2008E)	Revenue (E) (Million US$)
Back office operations/ Revenue accounting/ Data entry	9,700	100	2,60,000	4,500
Remote maintenance and support	1,600	15	1,80,000	3,200
Medical transcription / Insurance claims processing	3,800	33	1,60,000	2,600
Call centres	1,400	10	1,00,000	1,400
Database services	1,000	10	1,00,000	1,550
Content development	5,500	64	3,00,000	5,950
Total	23,000	232	11,00,000	19,200

Note: (E) indicates estimated figures

Source: Internal company presentations.

EXHIBIT 4: THE DAKSH JOURNEY

Year	Industry Capabilities	Process Capabilities
2000	Retail	Customer retention Order fulfilment
2001	Technology Retail banking Mortgage Telecom	Customer acquisition Collections Customer support
2002	Health insurance Online retail Airline Travel	Reservations After sales
2003	Energy	Finance Administration Card collection Claims adjudication Customer support Customer growth
2004	Distribution Life insurance	IT help desk Procurement Human resources

Time line

2000-2001 Focus on Foundation	**2002-2003 Repositioning for Growth**	**2004 Global Excellence**
- First reference-able deal - Strong people practices - Speed culture - Single vertical - Single channel - Single city offering - Functional structure	- Operational excellence - Profitable growth - Corporate governance - Decentralised organisation structure - Expanded service offerings - New verticals - 100% client reference-ability	- Strategic direction - US,UK, Philippines, India footprint - Branding and communication - Economies of expertise; setting up Centres of Excellence (COEs) - Transforming operations - Complement of back office and front office
Conception & Entry	**Growth**	**Consolidation**

Source: Compiled from company presentations.

EXHIBIT 5: 5P CAPABILITIES MODEL

Project management	People	Performance	Platform	Processes
- Unique co-sourcing model - Transitioning and Project Management toolkit (TPM) - Centres of Excellence (COE) - Operational seed team with relevant experience and skills - Dedicated operations organisation - Experience in handling scale with complexity - Project dashboards signed off by both parties	- Strong leadership team - 100% university/college educated employees; multi-language capabilities - Approximately 70% with computer education - 160 hours/year/agent training - Profiling right competencies for right jobs - Empowered and aligned staff supported by decentralised structure - Strong integration of culture coupled with diversity of experience	- Documented operation business continuity communication plan - Operational dashboard to track shift and individual metrics - Robust reporting mechanism - Structured communication process through: Conference calls (daily and weekly), monthly business reviews, quarterly business reviews and calibration sessions - Consistently outperform SLAs on productivity, quality and schedule efficiency	- 70 Mbps of telecom connectivity - 4 POPs in the UK and US - Multiple connectivity paths—optical fibre, earthstation, satellite - Multiple high bandwidth plans - Avaya G3R, IGX 8430, 48 channel converse ultraselect, CTI, VoIP - Multiple 3 DES Implementations - BS 7799-based IT security framework - 3 levels of power backup - Multiple recording, monitoring and reporting tools	- Processes based on COPC and six sigma framework - Robust performance management system: stack ranking; all KRAs aligned to company objectives - In-house instructional design experts - In-house and 3-tier feedback for mechanism for productivity and quality assurance - Well-defined multi-level escalation and resolution process - Structured process improvement methodology - In-house forums for best practice sharing

Source: Adapted from Daksh, http://www.daksh.com/pr-7jan04.htm (accessed 27 June 2006).

EXHIBIT 6: REVENUES AT DAKSH (2000–2004)

	2000–2001	2001–2002	2002–2003	2003–2004
Revenues (US$ million)	2.33	17.88	29.12	53.00
Growth (%)	-	667%	63%	82%
Profits (US$ million)	0.10	4.70*	7.87*	10.6*
People	500	2,000	4,000	6,000

* Estimated

Source: Compiled from company documents and various media reports