

Australia missing out on services boom

Author: Emma Connors with Mark Jones
Date: 28/02/2006
Words: 1147
Source: AFR

Publication: The Financial Review
Section: News
Page: 1

When Shiva Badruswamy made his whistlestop tour of South-East Asia earlier this month, Australia was not on his itinerary. The head of US operations at three-year-old Indian services firm Aranca was in Manila, deciding where his company would set up a new delivery centre for clients.

Aranca supplies business and economic research services to international investment banks, stockbrokers, independent research providers, private equity funds and stock exchanges - including Nasdaq - in the US and Europe.

Its new delivery centre will be in either the Philippines, Sri Lanka or the United Arab Emirates. Australia is not in the running.

Despite Australia being a major player in international finance, when it comes to the "third wave" of outsourcing, the country is missing out on a slice of an emerging multibillion-dollar services industry.

First was information technology, then straightforward business processes. Now high-end analytical services are being sourced offshore by major companies.

"When our US clients look offshore, they look first to India. No one questions that. Australian equity research people may be 40 per cent cheaper than they are in London, but if they are only 20 to 30 per cent [cheaper] than the US, there would be a push back from our clients, wondering if offshoring to Australia was really worth the pain," Mr Badruswamy said.

Last year, demand from the global finance industry for these services generated \$1 billion of business. By 2010, 130,000 full-time employees are expected to power a \$US12 billion (\$16.2 billion) industry, according to estimates from Baring Private Equity, Gartner and India's National Association of Software and Service Companies.

The Manila visit will cost Mr Badruswamy little more than an airfare and his time. The Philippines government will take care of his other expenses. After all, when you are pioneering an industry tipped to boom, governments come knocking.

"There is a lot more awareness about India and China than there was two years ago. That has caused heartbeats to skip in governments around the world," he said.

"The Philippines government is worried that India has become the preferred

destination for financial services jobs. Sri Lanka is betting heavily on its position - Colombo has one of the greatest concentrations of chartered accountants in the world - and the United Arab Emirates is also making a play, as well as many Eastern European countries. They are all saying, 'Let's work with you'. We also have a request from the Mexican government who want us to take a look at their side of the fence."

These countries are tracking a trend that began with giants like JPMorgan. In 2003, the global investment bank established a centre in Mumbai that is an extension of its global research team and provides equity, credit and economics research to its operations around the world.

Now companies including MorningStar have taken the next step by buying research services from offshore companies.

India is on the ground floor of this new wave of outsourcing, and many other nations are queuing up for business, including Australia.

Victoria's Minister for Information and Communication Technology, Marsha Thomson, acknowledged Australia would not win on costs alone. But she believed a combination of cultural and economic advantages would be enough of a lure.

"We look at all those higher level, higher technical areas as potential areas for us to be an outsourcing point. There is apparently a uniqueness in the Australian way of thinking that makes us an ideal place for those more complex solutions and complex work. That's the story I get from the big multinationals, that's what comes back to us."

Due to increased demand for highly qualified staff in India, wages were rising there.

"Compared to a US, UK, or European pricing regime, we're not looking too bad. If you look at all costs, and the reliability of our services, we stand up pretty well," Ms Thomson said.

But this glowing endorsement of Australia is not shared by companies making decisions about where to extend operations.

While they are not hostile to the idea of doing more than simply selling services to Australian clients, they have yet to consider how the country ranks against others competing for a slice of this new knowledge industry.

Marc Vollenweider is chief executive and co-founder of Evaluserve, another Indian-based company that specialises in providing expert knowledge services. The company has a sales operation in Australia, but its delivery centres are in the Indian city of Grugaon and in Shanghai, China. Evaluserve would open new centres next financial year but they were unlikely to be in Australia, Mr Vollenweider said.

"To date, we have not considered Australia because English could be taken care of in India [and India was the point of origin anyway]. Our second base in Shanghai added a new time zone and several new languages simultaneously, and Australian costs were significantly higher than costs both in India and China.

"Being a young company with limited resources, we had to set clear priorities. Clearly, logistics to and from Australia did not help either in this decision," he said.

The company is still interested in the long term, thanks to Australia's educated workforce.

But the NSW government believes it is now well placed, arguing Sydney in particular has a strong skills base, a mature services economy, and experience with leading-edge financial products.

In fact, there is a view that India's emerging financial services industry will look to NSW in particular for industry expertise as it seeks to move up the outsourcing value chain.

Sri Annaswamy is a Sydney-based consultant who helped compile a report on analytics offshoring for Invest Australia. He said Australia had a good story to sell but warned there was plenty of competition.

"Given the intensity of the current skill-set crisis experienced by many in India, there is opportunity for NSW, Queensland and Victoria in particular to develop global service hubs.

"However, these companies have invested significant resources in identifying and developing alternative destinations including South Africa, Eastern Europe, Ireland and China, so Australian states cannot afford to be complacent."

Tata Consultancy Services (TCS) also expects to be deciding where to locate new centres of excellence as the knowledge process outsourcing (KPO) market develops.

So far, Australia has been good to TCS. The company has won some information technology work from companies such as Woolworths and Hutchinson. About 900 staff work for the firm's Australian customers, including 350 in Australia. TCS employs about 100 Australian nationals in its development centres in Melbourne and Sydney and expects to take on more staff as its business evolves.

TCS executive vice-president N. Chandrasekaran runs global operations and sales, and thinks Australia has a chance to shine in the next wave of outsourcing.

"We currently have development centres in India, China, Latin America and Australia. As the KPO market expands, we will look to set up specialised centres. Australia has the potential - you have good skill sets here - but we still have to see how the market develops. It's early days yet."