INDIAN TECH CITIES: EVOLVING BEYOND BPO

India's deep pool of well-educated English-speaking manpower and relatively lower cost of salaries and operations have firmly established the country as a leading Technology, Business & Knowledge Process Outsourcing (BPO/KPO) market for western multinational corporations seeking to subcontract their office functions.

However, recent years have seen a shift away from the traditional focus of customer and technical support, data processing and help desk services, as India evolves beyond providing basic labour arbitrage and commoditised outsourcing.

MOVING UP THE VALUE CHAIN

Typical BPO companies have taken a back seat to companies that possess considerable expertise higher up the technology value chain and are providing a broad range of knowledge intensive and strategic technology services.

This is reflected by the number of Global In-House Centers (GIC) that are currently operational in India. There are over 1,500 GICs in India employing over 750,000 people across a range of industries such as software, internet, banking and financial services, insurance, automotive, research & consulting, semiconductors, and telecoms.

The emergence of an advanced Indian tech sector is further substantiated by the number of patents Indian firms have filed with the World Intellectual Property Organisation (WIPO) which stood at more than 46,000 in 2018.

This is attributed to many factors related to talent pool and cost arbitrage, such as operating environment, ease of doing business and changes to tax reforms.

Examples of major recent contracts include Mastercard, PayPal, Volvo, Limited Brands and Telstra, which have all initiated innovation hubs in India.

Additional instances include HCL, which announced in December 2018 that it had extended its existing agreement with an European bank to offer digital workplace services; and Infosys, which stated in March 2019 that its turbo machinery and propulsion practice had won a contract with Rolls-Royce to provide end-to-end digital and engineering services.

Domestic BPO providers are also now offering complex technological design and development services, with specialist mechanical engineering technology firms providing 3D modelling, rendering and tooling designs to western automotive sector clients.

India's burgeoning reputation as a hub for tech excellence is also enticing overseas investment in its semiconductor and system design sector. A leading semi-conductor company recently announced plans to create a global technology centre in Hyderabad that will eventually host to 5,000 engineers, while a global technology company is building a new team of engineers in Bangalore dedicated to designing its own smartphone and data centre chips.

Tech startups and unicorns are beginning to flourish, supported by the availability of venture capital and the national government's Startup India initiative, which provides entrepreneurs with fundraising assistance and simplifies the patent application process.

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TECH AND REAL ESTATE

There was an 11% y-o-y increase in space take-up by tech firms in India in 2018, reversing the decline in leasing activity witnessed over the past two years. Growth was primarily driven by multinationals, which accounted for almost 75% of overall space take-up by tech firms in 2018.

With tech firms accounting for 34% of all office leasing activity in 2018, the sector's specialised requirements are driving a strong focus on technology-driven, hospitality immersed and stimulating workplaces that can help attract and retain talent. Research by CBRE has found that 85% of Indian millennials place a strong importance on office design/layout when looking for a new job[1].

While Bangalore and Gurgaon are well established as India's leading tech cities, and score highly in terms of business conditions, innovation environment, and cost and availability, Hyderabad is seeing a renewed influx[2].

This market had enjoyed robust tech demand for office space until 2008, when political instability resulted in the significant contraction of leasing activity. However, a resurgence of investment activity coupled with government incentives for the IT Industry such as allotments of government land, stamp duty refunds for property purchases and leases, and reimbursements for patent and trademark costs, has prompted the revival of demand in recent years.

CBRE expects this and other leading Indian tech cities to continue to attract substantial tech sector investment, with office leasing activity also expected to remain robust in the coming years.

1. Asia Pacific Millennials Survey, CBRE Research, 2016.
2. Hyderabad 2.0 – India's Original IT Hub Continues to Grow, CBRE Research, 2018