Outsourcing – Challenges For India

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OUTSOURCING

Outsourcing is subcontracting a process, such as product design or manufacturing, to a third party company. The decision to outsource is often made in the interest of lowering costs or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labour, capital, (information) technology and resources.

OVERVIEW

1. **Outsourcing:** involves the transfer of the management and/or day – to – day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement, the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract. Business segments typically outsourced include information technology, human resources, facilities, real estate management, and accounting.
2. **Outsourcing and off shoring:** are used interchangeably in public discourse. Outsourcing involves contracting with a supplier, which may or may not involve some degree of offshoring. Offshoring is the transfer of an organizational function to another country, regardless of whether the work is outsourced or stays within the same corporation/company. The globalization of outsourcing operating models has resulted in new terms such as near shoring, no shoring, and right shoring that reflect the changing mix of locations. Indian companies in the U.S. and U.K. see this in the opening of offices and operations centers. A major job that is being outsourced is accounting.
3. **Multi Sourcing:** refers to large outsourcing agreements (predominantly IT). Multi sourcing is a framework to enable different parts of the client business to be sourced from different suppliers. This requires a governance model that communicates strategy, clearly defines responsibility and has end – to – end integration.
4. **Strategic Outsourcing:** is the organizing arrangement that emerges when firms rely on intermediate markets to provide specialized capabilities that supplement existing capabilities deployed along a firm's value chain. Such an arrangement produces value within the firms' supply chains beyond those benefits achieved through cost economies. Intermediate markets that provide specialized capabilities emerge as different industry conditions intensify the partitioning of production.

REASONS FOR OUTSOURCING

Organizations that outsource are seeking to realize benefits or address the following issues:

1. **Cost Savings:** The lowering of the overall cost of the service to the business. This will involve reducing the scope, defining quality levels, re-pricing and renegotiation, and cost restructuring. Access to lower and cost economies through offshoring called "labour arbitrage" is generated by the wage gap between industrialized and developing nations.
2. **Cost Destructing:** Operating leverage is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable.
3. **Improve Quality:** Achieve a step change in quality through contracting out the service with a new service level agreement.
4. **Knowledge:** Access to intellectual property, wider experience and knowledge.

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5. **Contract:** Services will be provided to a legally binding contract with financial penalties and legal redress. This is not the case with internal services.
6. **Operational Expertise:** Access to operational best practice that would be too difficult or time consuming to develop in – house.
7. **Access to talent:** Access to larger talent pool and sustainable source of skills, particularly in science and engineering.
8. **Capacity Management:** An improved method of capacity management of services and technology where the risk in providing the excess capacity is borne by the supplier.
9. **Catalyst for change:** An organization can use an outsourcing agreement as a catalyst for major step change that cannot be achieved alone. The outsourcer becomes a Change Agent in the process.
10. **Enhance capacity for innovation:** Companies increasingly use external knowledge service providers to supplement limited in – house capacity for product innovation.
11. **Reduce time to market:** The acceleration of the development or production of a product through the additional capability brought by the supplier.
12. **Commodification:** The trend of standardizing businesses processes, IT services and application services enabling businesses to intelligently buy at the right price. Allows a wide range of businesses access to services previously only available to large corporations.
13. **Risk Management:** An approach to risk management for some types of risks is to partner with an outsourcer who is better able to provide the mitigation.
14. **Venture Capital:** Some countries match government funds venture capital with private venture capital for startups that start businesses in their country.
15. **Tax Benefits:** Countries offer tax incentives to move manufacturing operations to counter high corporate taxes within another country.

THE BENEFITS OF OUTSOURCING

Outsourcing has several benefits. Outsource and take advantage of the benefits of offshore outsourcing. The following benefits of outsourcing can give a business competitive advantage.

1. **The Cost Advantages: -** Outsourcing to countries such as India can give access to cost – effective services. The same services with the same level of quality are offered in India for a much lower cost. This cost – advantage has increased the number of services that are being offered to India. Services such as call center services, teleradiology, medical billing etc., can help to save up to 60% of total costs when outsourced.
2. **See an increase in business**- Another benefit of outsourcing is seeing a big increase in profits, productivity, level of quality, business value, business performance and much more.
3. **Save Big!**:- One of the benefits of outsourcing is that the outsourcer can his save on every aspect of business and increase profits. When you outsource, you can save on time, effort, infrastructure and manpower. Outsourcing removes the burden of changing or maintaining on training costs, because you do not have to invest in manpower. These savings will help bring about an increase in revenue. The organization can also save on investing in expensive software and technologies.
4. **Get access to specialized services:** - By outsourcing, you can get expert and skilled services. This benefit of outsourcing has been the key reason why several outsourcers opt for outsourcing. The function that you outsource may not be your core competency but you can find an outsourcing partner who is specialized in that particular business process. Your outsourcing partner will be able to provide more proficient services. This is yet another benefit of outsourcing, because if you perform all your business processes in – house, you will not be able to provide specialized and skilled services. Outsourcing can give you this advantage.
5. **Concentrate more on your core business:** - One of the benefits of outsourcing is that your organization will be free to concentrate on its core business. By outsourcing all your non – core functions, your employees can be put to better use and you will be able to see a huge growth in your core business.

6. **Make faster deliveries to customers:** - Another benefit of outsourcing is that you make quicker deliveries to customers. Your outsourcing partner will be able to provide faster deliverables and you in turn will be able to make quick deliveries to your customer. Faster deliveries can also help you save on time.
7. **Improved customer satisfaction:** - With timely deliveries and high – quality services, you can impress your customers. Outsourcing can help you benefit from increased customer satisfaction and your customers will remain loyal to your organization.
8. **Benefit from time zone advantages:** - Outsourcing to countries such as India has a time zone advantage. Your night will be India's day. With this advantage, your outsourcing partner can complete critical work and send it to you the next day. Thus, your outsourcing partner continues your work even after your employees go home. This enables the work to be completed much faster and gives your business a competitive advantage. This is one of the benefits of offshore outsourcing.
9. **Increased efficiency:** - Another benefit of outsourcing is increased efficiency. Your outsourcing partner will perform your non – core business functions efficiently, while your core functions can be efficiently carried out in – house. Thereby you can achieve overall efficiency and see an increase in your profits.
10. **Give your business a competitive edge!** - Outsourcing can help your organization gain a competitive edge in the market. You can also get access to specialized services for different business processes and thereby provide your customers with best – of breed services. Such strategic outsourcing can give your business a competitive edge among your peers. The benefits of outsourcing can give your organization a cutting – edge in the worldwide market. Outsource and take advantage of the benefits of outsourcing.
11. **Outsourcing countries also benefit from outsourcing:** - Countries such as U.S, U.K., Norway and Australia amongst others can benefit by outsourcing. The economy of these counties has increased tremendously after outsourcing. In the U.S., after the outsourcing boom, the economy has increased, jobs have increased and the wages of American workers have increased.

SOME OTHER BENEFITS OF OUTSOURCING ARE AS FOLLOWS:

1. Outsourcing can help you streamline your business operations.
2. Outsourcing can make your organization more flexible to change.
3. You can experience an increased control of your business with outsourcing.
4. Your organization can save on investing in the latest technology, software and infrastructure as your outsourcing partner would be investing in these.
5. Outsourcing can give you assurance that your business processes are being carried out efficiently, proficiently and within a fast turnaround time.
6. Offshoring can help your organization save on capital expenditure.
7. By outsourcing, your company can save on management problems, as your offshore partner will be managing the team who does your work.
8. By Outsourcing, you can cater to the new and challenging demands of your customers.
9. Outsourcing can help your organization to free up its cash flow.
10. Sharing your business risks is possible with outsourcing.
11. Outsourcing can give your business a competitive advantage, as you will be able to increase productivity in all the areas of your business.
12. Outsourcing can help your organization to cut is operational costs by more than half.

THE DISADVANTAGES OF OUTSOURCING

1. At times, it is most cost – effective to conduct a particular business process, rather than outsourcing it.
2. While outsourcing services such as payroll processing services and tax preparation services, your outsourcing provider will be able to see your company's confidential information and hence there is a threat to security and confidentiality in outsourcing.
3. When you begin to outsource your business processes, you might find it difficult to manage the offshore provider when compared to managing processes within your organization.
4. Off shoring can create potential redundancies for your organization.

5. In case your offshore service provider becomes bankrupt or goes out of business, your organization will have to immediately move your business processes in – house or find another outsourcing provider.
6. The employees in your organization might not like the idea of you outsourcing your processes and they might express lack of interest or lack of quality at work.

OUTSOURCING SERVICES

The outsourcing services being provided include – software development, data entry, wealth management, legal services, payroll services, patent writing, analysis of business opportunities, manufacturing, test reporting, inbound call centers, inbound customer support, animation, programming, audio tape transcription, book conversion to digital formats, market research, customer interaction, banking, financial and insurance services, healthcare and welfare services, content development, course ware development, data conversion, e-commerce, internet marketing, multimedia, telemarketing, web development, writing…, the list is endless.

- **IT Outsourcing:** IT encompasses all information technology and therefore, IT outsourcing could encompass all BPOs that use IT resources in their functioning. Most outsourcing is possible only because it harnesses the power of information technology. With technology like terrestrial and satellite-dedicated links, video – conferencing, online chats, e-mails and telephones, the whole dual shore system works as a single virtual unit.
- **Business Process Outsourcing:** Business Process Outsourcing (BPO) is a form of outsourcing that involves the contracting of the operations and responsibilities of specific business function or processes to a third party service provider. Originally, this was associated with manufacturing firms, such as Coca-Cola that outsourced large segments of its supply chain. In the contemporary context, it is primarily used to refer to the outsourcing of services. BPO is typically categorized into back office outsourcing – which includes internal business functions such as human resources or finance and accounting, and front office outsourcing – which includes customer – related services such as contract center services. BPO that is contracted outside a company's country is called offshore outsourcing. BPO that is contracted to a company's neighboring (or nearby) country is called near shore outsourcing. Given the proximity of BPO to the information technology industry, it is also categorized as an **Information Technology Enabled Service or ITES, Knowledge Process Outsourcing (KPO) and Legal Process Outsourcing (LPO)** and these are some of the sub – segments of business process outsourcing industry. Business Process Outsourcing refers to a decision to sub – contract some or all non – core processes. The main motive for Business Process Outsourcing is to allow the company to invest more time, money and human resources into core activities and building strategies, which fuel company growth. Managers, in fact, don't need to justify outsourcing. They might even have to justify work done internally that could easily be outsourced. The global market today is highly competitive and ever changing. A company must focus on improving productivity and yet, cut down costs. Therefore, a lot of tasks that use up precious time, resources and energy, are being outsourced. BPOs or the units to which work is being outsourced are flexible, quicker, cheaper and very efficient. Business Process Outsourcing helps free up a firm's capital and reduce costs. The functions or processes being outsourced range from manufacturing to customer service to software development and much more. The Indian BPO industry is growing rapidly. But as the outsourcing movement grows, there is also a backlash against BPOs, as white – collar jobs move from USA and UK to offshore locations like India. With multilingual skillsets developing, the European market too is likely to open up to BPOs in the near future.

BUSINESS PROCESS OUTSOURCING IN INDIA

The Business Process Outsourcing in India refers to the Services Outsourcing Industry in India, catering mainly to Western operations of MNCs. As of 2008, around 0.7 million people work in outsourcing sector (less than 0.1% of Indians). Annual revenues are around $11 billion, around 1% of GDP. Around 2.5 million people graduate in India every year, but only about 15% are suitable for employment in this sector. Wages are rising by 10 – 15% as a result of skill shortage. Business process outsourcing firms in India have the ability to achieve and deliver essential benefits such as cost saving, quality and efficiency; improvements and increased customer satisfaction. Outsourcing service providers in India are able to achieve these high-end objectives because they have some natural advantages such as the easy availability of required skills and talent. Moreover, since hiring talents and skill sets in India is lot more affordable as compared to other countries, outsourcing firms in India find it easier to achieve and deliver the desired cost savings to clients.

Achieving and maintaining quality of offered services is also not a problem for outsourcing firms in India because being a British colony once, India has the largest pool of industry –ready professionals, proficient in both spoken and written English. Finding highly- educated professionals to manage complex day-to-day operations of call centers and other outsourcing delivery center is also not a problem because India has a vast network of colleges and universities churning out the required managerial talents by the tens-of–thousands every year.

Recently, newer outsourcing destinations such as China, Indonesia, Malaysia, Brazil and others may have been able to share some of the limelight, but when compared to India, they are still way behind, specially in terms of the ability to achieve and deliver essential benefits such as cost saving, efficiency and quality. That is one of the main reasons as to why businesses need to **outsource to India.**

SIZE OF THE INDUSTRY

The industry has been growing rapidly. It grew at a rate of 38% over 2005. For the FY 2006, the projections are of US$7.2 billion worth of services provided by this industry. The global industry is estimated to be worth 120-150 billion dollars; of this, the offshore BPO industry, is estimated to be some US$11.4 billion. India thus has some 5-6% share of the total industry, but a commanding 63% share of the offshore component. The US $7.2 billion also represents some 20% of the IT & BPO industry, which is in total expected to have revenues worth US$36 billion for 2006. The headcount of 400,000 is some 40% of the approx. one million workers estimated to be directly employed in the IT & BPO sector. The related industry dependent on this are catering, BPO training and recruitment, transport vendor, security agencies, facilities management companies.

PRICEWATER COOPERS SURVEY

The Indian BPO industry employs in excess of 245,100 people. Nearly 75% of European multinational companies and US now use outsourcing or shared services to support their financial functions. 72% of European multinational companies have outsourced financial functions over the past two years. Additionally, 71% of European companies and 78% of US companies plan to use these services in the next 12 –24 months. Overall, 29% of European companies and US expect to increase their use of outsourcing of financial functions, with spending expected to be nearly 16% higher than the current level. Growth in this sector will get a further impetus as Indian BPO companies have robust security practices and emphasis is laid on developing trust with a client on this score. While earlier there were varying quality standards on these aspects, today there is focus on standardization of security, such as data and IP security.

Table1: Global BPO Market by Industry

Industry	(%)
Information Technology	43%
Financial services	17%
Communication (Telecom)	16
Consumer Goods/Services	15%
Manufacturing	9%

Table2: Global BPO Market by Geography

Country	%
United States	**59**
Europe	27
Asia – Pacific (incl., Japan)	9
Rest of the world	**5**

Table3: Size of Global Outsourcing Market

Year	**Size (US D Ban)**
2000	119
2005	234
2008 (est)	**310**

Table3(b): Size of Global Outsourcing Market

Year	**Size (US $ Bn)**	**Growth rate (%)**
2003	2.8	59
2004	3.9	45.3
2005	5.7	44.4

LEADING BPO-ITES CITIES IN INDIA

Bangalore, Chennai, Hyderabad, New Delhi, Delhi, Gurgaon, Faridabad, Noida, Greater Noida, Ghaziabad, Pune, Mumbai and Kolkota are Tier-1 cities that are leading IT cities in India. With raising infrastructure costs in these cities, many BPO's are shifting operations to Tier-II cities like Mangalore, Musore, Hubli=Dharwad, Belgaum , Coimbatore, Madurai, Hosure, Nagpur, Kochi, Trivandrum, Chandigarh, Mohali, Panchkula, Ahmedabad, Bhubaneshwar, Jaipur, Vishakapatnam and Lucknow. Tier II cities offer lower business processes overhead compared to Tier I cities, but may have a less reliable infrastructure system which may hamper dedicated operations. The Government of India in partnership with private infrastructure corporations is working on bringing all around development and providing robust infrastructure all over the nation.

KNOWLEDGE PROCESS OUTSOURCING

KPO is a form of outsourcing in which knowledge – related and information-related work is carried out by workers in a different company or by a subsidiary of the same organization, which may be in the same country or in an offshore location to save cost. Unlike the outsourcing of manufacturing, this typically involves high-value work carried out by highly skilled staff. KPO firms, in addition to providing expertise in the processes themselves, often make many low level business decisions – typically those that are easily undone if they conflict with high – level business plans.

Process transparency is a major barrier to using KPO services. Many organizations do not track carefully who makes which decisions, and rely so much on informal social processes (and "soft skills") that it is unclear how much the use of KPO would disrupt existing operations.

As of 2007, most US organizations were hiring foreign professionals under H-1 visas to do jobs in the USA for several years, after which they would return to their home countries as managers to train and supervise others, continuing to report to their former business units.

Table4: Below Lists A Few of The Prominent KPOs And The Skills Required

Segments	Services	Skills sets required
Legal Services	Reviewing transactional & litigation documents; drafting contracts; research memoranda & due diligence reports; prosecuting patents; negotiations	Knowledge in US/UK laws; adept in legal application; ability to reason & research
Engineering R&D	3D modeling; conversion; 2D to 3D; finite analysis; computational fluid dynamics analysis; technical specifications for tenders; value engineering	CAD /CAM; drafting & modeling; product design
Market Research & Analysis	Secondary & Primary research; Conversion of findings to knowledge; Writing & editing; Formatting client reports	Statistical tools; research techniques; report writing & research
Writing & Content development	Editorial; Content delivery; Digitization of content; Data enrichment & warehousing; Prepress work; Proofreading; Template designing; Text composition	English communication skills; Journalism; experience in writing
Pharma R&D	Research & development; drug discovery; clinical research.	Doctors; master's degree in science, PhDs
Healthcare Services	Diagnostic; Genetic profiling; oncology tests; HIV & allergy	Medical degree; specialized subject knowledge
Education & Training	K-12; private tutors; curriculum design; pedagogy; content development	Teaching methods/ techniques; cultural sensitivity; online teaching methods

KPO SKILLS: THE GLOBAL SPREAD

According to a Confederation of Indian Industry (CII) study, KPOs will grow at a compounded annual growth rate of 46% to be worth $17 billion by 2010, of which $12 billion will be outsourced to India. NASSCOM projects that the KPO sector in India may reach $15.5 billion by 2010, up from $1.2 billion currently. Several other countries are now trying to build capabilities in specific KPO areas. Russia claims to be a good destination for healthcare and technology – related KPOs. The Philippines has established itself as a successful animation –

outsourcing destination. India, however, remains the proven and favored destination, way ahead of other competitors in most areas, especially financial research, legal and healthcare/pharma research. The reasons that usually influence buyers' decisions regarding choice of destination are; (1) Availability of qualified manpower (2) Political stability (3) Infrastructure (4) IPR/Data security Issues (5) Communication skills (6) Lower Wages (7) Proven delivery capabilities. Underlying all of this, of course, is the availability of high – quality personnel at a reasonable cost.

PROLIFERATION OF VENDORS

Table : 5

Segment	Country
Animation	Philippines, India, China
Content	India, Philippines
Financial services	India, China
Healthcare	Russia, India
IT/R&D	India, China, Russia
Legal	New Zealand, India
Pharama	India, Russia

Since 2004, India has seen a Proliferation of vendors in every niche. Apart from the large number of entrepreneurs and professionals starting KPO outfits, almost all the large multi- service BPOs are joining in, attracted by growth and higher margin business.

THE FUTURE OF OUTSOURCING-OPPORTUNITIES AND CHALLENGES FOR INDIA

Business Process Outsourcing (BPO) will include IT outsourcing and mainstream BPO expenditure is likely to grow worldwide by 10 per cent a year from $140 billion in 2005 to over $220 billion by 2010. The industry is rapidly growing and maturing and India has established itself a major outsourcing hub.

INDIA IS THE WORLD'S FAVORITE OUTSOURCING DESTINATION

India's share of the global outsourcing market for software and back-office services is 44%. According to the National Association of Software Companies (Nasscom), India's premier trade body of the IT software and services industry, technology and IT services exports in India were worth $17.2 bn in the year ended March 2005, a rise of 34.5% over the previous year.

OPPORTUNITIES FOR INDIA :OPPORTUNITY AREAS

Today more industries are where IT was in the 1990's – Knowledge Based, Research and Analysis Outsourcing may soon be the biggest revenue grosser in India as BPO companies move up the value chain in their service offerings. This includes:

1. RESEARCH AND DEVELOPMENT

Product Innovation – Companies are going beyond basic research to invest in innovation and new product development. Companies that have invested in R&D in India are Cisco system, Motorola, Hewlett-Packard, Google, General Motors Corp. and Boeing Co among others.

Co-development- In pharmaceuticals, India has the opportunity of co-development and ownership of new-patented drugs through drug research, clinical trials and manufacturing. Indian pharma major Ranbaxy has an agreement with MNC GlaxoSmithKline to commercialize compounds they develop together.

2. LEGAL OUTSOURCING

India's large pool of qualified English-speaking lawyers with experience in the British legal system can offer paralegal support, legal support and patent services. A few Indian companies affiliated with American law firms are now able capture a tiny piece of American market. They are now doing legal research at very high rates by Indian strandards but yet 50% below typical American rates.

3. ENGINEERING OUTSOURCING

India can provide high-quality engineering services in the fields of: Mechanical & Electric engineering – analysis and design, embedded software, Plant Design, Process Engineering, Plant Automation Services, Enterprise Asset Management and OEM solutions.

4. REMOTE INFRASTRUCTURE MANAGEMENT SERVICES

India can offer management services for IT infrastructure, applications operations, IT security and maintenance. This sector presents great potential through large-value multi-year contracts.

5. ACCOUNTING SERVICES

We are in the initial stage where payroll processing services and some accounting is being done for large American companies. This trend will continue and soon Indian companies will provide a full range of accounting and tax services.

6. Outsourcing opportunities for India exist in other fields like Financial Research, Content Development, Medical Writing, Animation, Film, Publishing, Web Services, Human Resource Outsourcing: Recruitment, Training, Education, Nanotechnology and many others.

CHALLENGES FOR INDIA

1. RISING COMPETITION

1. In the next ten years, China will replace India in its number 1 position in the global ITES – BPO industry.
2. Rising costs and low efficiency in many cities like Bangalore will make software outsourcing less attractive in future. The giants may show a drop in earning.
3. India's terrible infrastructure will continue to be a drag on the potential of India, giving other countries the competitive advantage.
4. Other competing countries providing low-cost outsourcing options will exert a downward push on cost – East Europe, Latin America, South Africa.

2. INFRASTRUCTURE

1. India's ability to develop infrastructure is far out placed by neighboring China.
2. Metro cities are getting saturated and costs are rising – Tire II towns need to develop infrastructure but India's tract record does not bode well for fast development.

3. HUMAN RESOURCE AND TRAINING

1. The demand and supply gap in India for knowledge workers are being felt now in Bangalore but may peak in 2008 –09.
2. The education system needs transformation to produce people with skill sets that match industry needs.
3. The transition to knowledge processing will be a much bigger challenge for the Indian company and employees than it was for BPO services. The typical college graduate many not have background or flexibility to understand global issues required by this type of service.

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