

BPO Services in India

A White Paper

BPO Services in India

With the spectacular growth of BPO and IT related services in India, outsourcing such BPO Services to India has become one of the most popular business practices in today's competitive business environment. With a consistent growth of the Indian BPO industry, outsourcing to India has become a very effective and cost saving proposition to many businesses worldwide.

Outsourcing to Indian BPO's – Benefits

"It is much easier to see the short term benefits of protectionism than to see the long term costs to consumers and business competitiveness" says Patricia Hewitt, British Trade and Industry Secretary during the national conference of the Confederation of British Industry (CBI)

This is the very essence of most pro-outsourcing experts. Two pronged benefits of outsourcing BPO Services to India are – a drastic cost reduction and increased productivity and quality. With a no-ending supply of excellent talent and skilled manpower, outsourcing benefits not only the companies but also their customers.

Cost saving factors

Addressing the Product and Embedded Software Summit in Bangalore, Bob Beauchamp, BMC Software President and CEO said "studies have indicated that for every one dollar invested in India, the value derived by the US economy is between \$12-14". He also termed the BPO outsourcing process to India as an "irreversible" process and said it was essential and a "must have" contributing immensely to the Indian and the global economy at large.

Some essential facts:

a. Lowest labor costs (\$300-500/m) comparable anywhere in the world with respect to high quality, never ending supply of English understanding and speaking programmers and systems analysts, project management skills;

excellent communications and other infrastructure, very strong inflow of global venture capital, technological advancement and MNC presence; all-in costs of \$10-25/hour, compared with US costs of \$40-120/hour.

b. MNC presence very low (at only 13% of employment) of which services make up 96% of revenue resulting in no or very low product development.

c. Expected annual growth of 20% in labor deployment from the current level of approximately 230,000 persons.

d. The US banking, financial services and insurance (BFSI) sector shows better bottom lines than their European counterparts because of 7-10% cost cutting resulting from outsourcing to BPO's in India. (NASSCOM).

e. American BFSI sector companies are known to have saved \$1.5 billion annually by outsourcing to BPO's in India.

Creation of jobs

It is an amazing fact to note that, during the past four years, the American BFSI sector has created about 125,000 new jobs as a result of cost savings in the region of \$6 billion by outsourcing their services to BPO companies in India.

This only reiterates the facts, despite the outcries from the American establishments that jobs have been created in USA due to excess cost savings and in INDIA, due to the growth of BPO sector by leaps and bounds giving rise to demand for qualified manpower.

To add to this, nearly 170 Indian IT and technology companies have their offices in the USA with employee strength of nearly 60,000 (2001). These employees in turn paid nearly \$810 million in taxes. Consumption of goods and services by these employees has been pegged at nearly \$1.2 billion in the USA and also paid \$300 million as social security. Since 2001 the trend has only grown.

Value Addition in outsourcing to BPO companies in India

The outsourcing by the US BFSI sector has also resulted in productivity and quality gains of 15-20% and the customer satisfaction has reached 85%.

- Business Processes are generally white collar processes that are required to service vendors, customers and employees alike. The areas may include customer care, human resources, auditing, accounting, tax preparation, telemarketing, claims processing, benefits management, payroll and document management.
- Over 90% of new job creation in India since 2000 has been in the area of services.
- Business services and BPO is today ranked the largest growth segment amongst service growth areas.

The US automobile industry has received a shot in the arm by outsourcing to BPO companies in India. The automobile industry is the biggest in the world and the two biggest companies in this industry are American. Outsourcing helped the automobile industry to re-engineer its process by outsourcing and investing in new equipment. However, the other big industry, steel, has resisted the outsourcing phenomenon and has suffered.

The Long Term Benefits of outsourcing to India

Some long term benefits could be

- A cost saving of 40-80% for IT and telecom sectors. Going by the past five years, the key issues of telecom costs, quality, cost of venture capital and red tape have been eased out despite much resistance to the same. Easing out of government policies to bring in more outsourced jobs to India has been the norm in the recent past. Many dedicated clusters have emerged for both IT and BP outsourcing in Mumbai, Delhi and Bangalore.

- Multi National Companies will drive the future growth with more and more focus shifting to the higher-end of the technological spectrum.
- BPO employment is slated to grow from 230,000 at the start of 2003 to about a 1,000,000 by the end of 2006. ITO employment at the same time is slated to grow from about 250,000 in 2003 to about 400,000 by the end of 2006.
- Shortage of high end technological skills and higher value-added areas and lacking process management skills may keep value addition low initially compared to developing countries whereas the ability and the basic capabilities of Indians maturing with more internationalized education will tend to drive India up the value chain with a greater speed in the coming years.

Amidst the daily mounting furor against business process outsourcing, when one examines the situation more objectively, the realization of short term benefits, cost benefits and the ever important factor of value addition become more and more apparent. Although an initial investment is involved in training and infrastructure, the outcries against so called migration of jobs seem unjustified especially when the whole process seems to create jobs at both ends of the spectrum.

Despite all these factors, the outsourcing of BPO to India not only allows many a global companies to avail and make use of probably "the" talent and expertise at highly competitive rates, but it also facilitates the outsourcing company to actually save several jobs, which may have been laid off otherwise.