

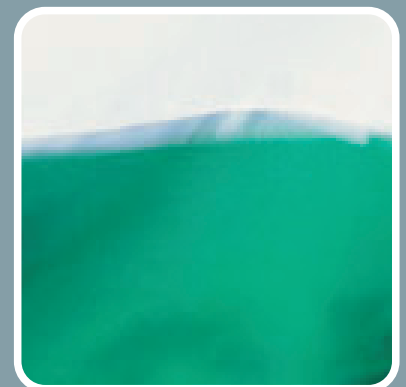
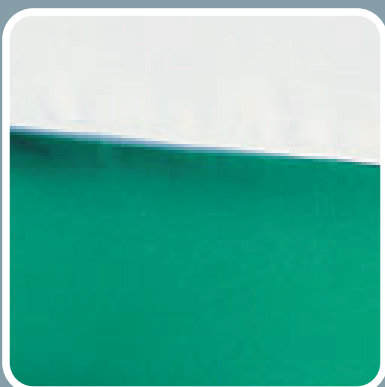
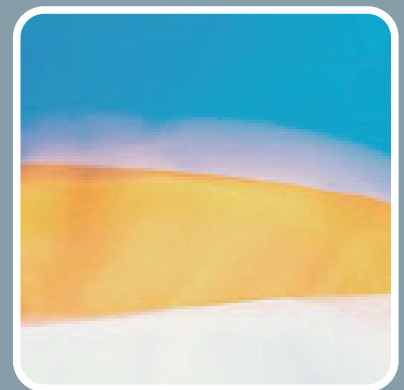
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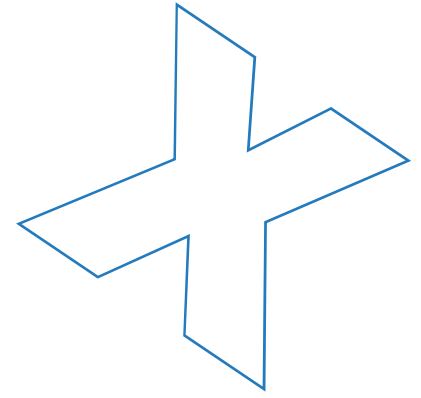
Point of View

# Have You Been To India Recently?

Should you outsource your  
back office processes  
to India?



# Have You Been To India Recently?



## Should you outsource your back office processes to India?

This is the question that everyone is asking when the conversation turns to reducing the cost of the company's back office operations.

General Electric's Jack Welch cites the 70:70:70 rule - 70% of your processes should be outsourced, 70% of those should be outsourced offshore, and 70% of your offshore outsourcing should be done in India.

GE was one of the first entrants into offshore outsourcing in India and now employs over 10,000 people serving GE and non-GE companies from multiple locations.

Since 1998, the growth of the offshore Business Process Outsourcing (BPO) market in India has been spectacular. A joint study by NASSCOM and McKinsey estimates that the offshore outsourcing industry in India will grow to £13 - £15 billion by 2008 and provide employment to 1.1 million Indians by 2008.

It is not difficult to understand why business is booming - Indian BPO providers are claiming a 30-40% reduction in costs for their clients' operations, achieved over a matter of months not years.

Whilst much of the outsourcing volume in India to date relates to call centre and IT outsourcing, there is an increasing volume of work being done in other back office areas such as finance and human resources.

So, is outsourcing your back office processes to India an irresistible proposition, or is it just all sales hype? It is still early days, but evidence to date suggests the answer lies somewhere between the two.

Xayce has recently completed a study tour of major BPO providers in India. We have combined this understanding with our experience of helping major companies transform their back office operations - including through outsourcing to India - to address the following questions.



## Should India be favoured over other countries developing offshore BPO capabilities?

Whilst a growing number of countries, including India, China and the Philippines, are providing access to resources at a significantly lower cost than the UK, India currently has a number of advantages. First and foremost is the availability of BPO providers. The phenomenal growth of the BPO sector has already led to the establishment of over 300 companies and this has attracted significant capital investment from Western organisations. As a result, many companies find themselves in a strong financial position.

The growth of IT outsourcing has also positioned the country well, bringing a well-established telecommunications infrastructure connecting India's major cities to the UK and the US. Typically this means bandwidth is readily available for BPO operations, although at a cost which is 10-15% higher than within home countries.

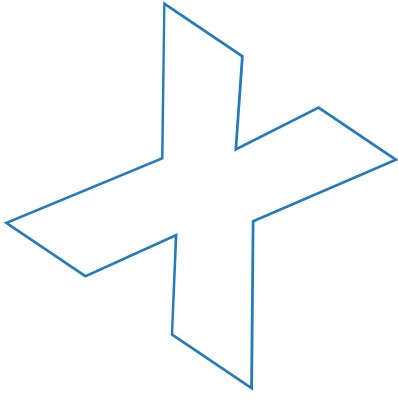
Another fact in India's favour is that much of the offshore experience in India is with UK and US companies. Some 85% of the overseas ITES revenue is estimated to come from the US and there is a rapidly growing number of clients from the UK.

Parallels between the US, UK and Indian legal systems, a well-developed educational system and governmental incentives all increase the levels of comfort of UK and US companies in dealing with Indian providers.

**In conclusion, if your strategy is to outsource your back office processes, India is likely to present the best opportunities to do so offshore.**

However, we believe there are three fundamental questions that a company should answer before outsourcing its back office processes to India.





### **Is outsourcing to an offshore BPO provider the right model to adopt?**

In many cases the answer will be yes. Our research, however, has identified six different models for transforming a company's back office operations, with four of these involving some degree of outsourcing.

The model in vogue today is outsourcing on a fee-for-service basis to an offshore provider, typically in India. Nevertheless, there are successful case studies for all six models, all based upon differing start points and strategic goals.

Outsourcing on a fee-for-service basis to an offshore provider is more likely to be appropriate in situations where a company:

- a) Is looking for significant cost savings over a relatively short period (12 months or less). Transferring work offshore to resources that cost between a fifth to a tenth of the UK salary per employee can be one of the quickest ways to reduce overall costs, if done correctly.
- b) Has a reasonably cohesive set of processes that would benefit little from a radical overhaul. It is less likely that such an overhaul would be feasible and cost effective for the company once the processes are managed offshore by a third party.
- c) Is expecting little fundamental change to those processes over the medium to long-term.

Significant process changes undertaken offshore by a third party may not be as cost effective as onshore alternatives, owing to the complexities and dependencies involved in such changes.

In conclusion, it is imperative that companies decide upon the right model to successfully transform their back office operations over the long-term. An essential start point for such a decision is a clear understanding of why it is being done and for what benefits in the long-term as well as the in short-term.

## How will the change be managed to ensure delivery of the maximum benefit with minimal disruption?

Outsourcing back office processes offshore is a significant business change - for both the client as well as the provider. Attention is typically given to the changes affecting the BPO provider, e.g. in defining the tasks to be undertaken offshore, recruitment and training of staff and setting up suitable communication links. Emphasis is also placed on agreeing the contract and related Service Level Agreements.

Far less attention is given to the changes necessary within the client organisation. Some tasks no longer need to be done and some need to be done differently. Expectations need to be managed - activities that used to be accomplished by picking up the phone or dropping in to see someone can not be done that way any more.

As if that is not enough, there are also "hearts and minds" to be won - are our jobs really safe? Can we work with people we have never met before and who live abroad?

So, who is going to manage the changes needed in your own organisation? Who will ensure that the changes you implement are consistent with those in the provider organisation?

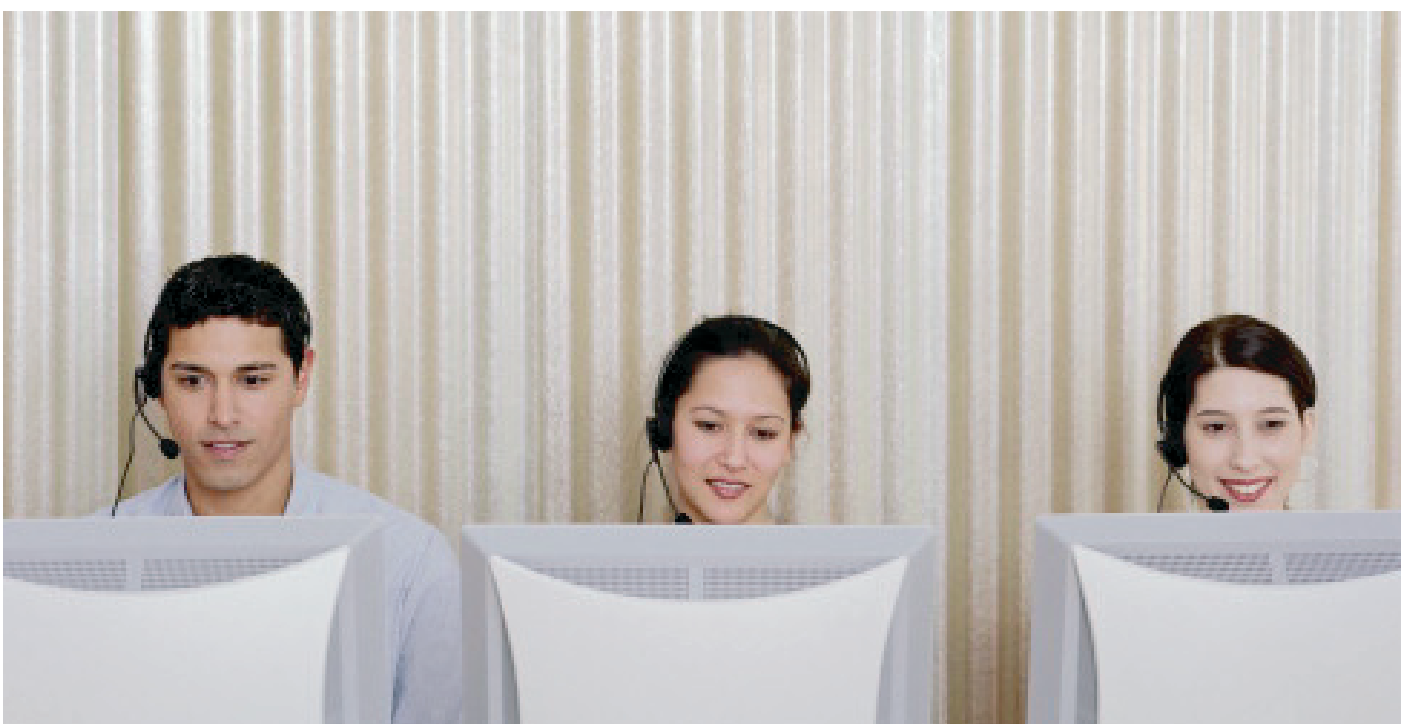
We have many anecdotes where change either does not happen or is not coordinated between client and

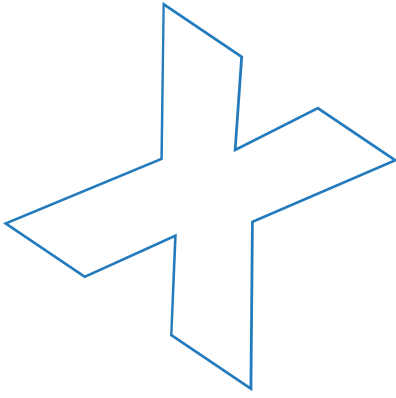
provider. In one example, the provider worked hard to build IT tools to make a process more efficient and thereby reduce costs. As a consequence, this caused a backlog in transaction processing. The client was upset that service levels had dropped and the provider was upset because their attempts to reduce costs did not appear to be appreciated.

Indian BPO companies appear to be able to carry out the changes that affect themselves - work often described as "pick up and drop". Provider web sites refer to the use of methodologies and techniques such as Six Sigma.

However, these are typically aimed at reengineering processes rather than managing change and we see little evidence of Indian providers' ability to manage the overall change programme, or indeed help the client with their change activities.

In conclusion, you should make sure you know how change is to be managed within your own organisation and also with your BPO provider. Do not assume your provider is going to manage this change for you.





## In the long-term, will your chosen BPO provider continue to be the right one?

Supply is exceeding demand in the dash for market share. It is not unusual to visit a provider facility and be met by a room of empty seats waiting to be occupied.

Many providers are “buying” work to get a foothold in their strategic markets. This level of investment can only be sustained with real returns - not that there is yet a shortage of investment capital: WIPRO moved into BPO last year through the acquisition of Spectramind; last year also saw Warburg Pincus take a 90% stake in WNS.

Yet the dash for market share is likely to initiate a wave of failures and consolidations within the next two years - a pattern seen not so long ago with dot.com companies.

Selecting the right provider is not easy given the immaturity of the market. A strong balance sheet is clearly essential to survive the market shakeout - in this regard, those companies with stakeholders who are financially strong are at an advantage i.e. TCS, Spectramind, Progeon and ICICIOneSource.

Some Indian providers are already responding to the competitive pressures and looking for ways to “stay ahead of the game.” One provider, for example, considers any town with a population of over 1 million as capable of sustaining a low cost BPO operation.

As competition for low cost graduate labour intensifies, they are exploring the possibility of “outsourcing” their own work to even lower cost locations both within and outside India.

Then there are the onshore providers, who are fast building or acquiring facilities offshore. Accenture opened a facility in Bangalore around 18 months ago, which now has some 1,500 seats. Vertex has recently acquired 7C, a 500 seat contact centre in New Delhi.

These initiatives are providing companies with another way into offshore outsourcing that many would consider lower risk with access to a much greater range of consultancy services, albeit at a higher price.

“Picking a winner” is not the only factor underpinning a successful long-term relationship. You also need a BPO provider that grows and develops in a way that is compatible with the way your own business grows and develops.

Perhaps we can draw here upon the secrets of a successful marriage - start out with compatible goals, work hard at staying together and recognise there will be “ups and downs” along the way!

**In conclusion, select your BPO partner with care and convince yourself that this is a relationship that will stand the test of time.**



## **Point of View**

**This white paper is one of a regular series of Points of View on business process outsourcing and other leadership topics. Xayce ([www.xayce.com](http://www.xayce.com)) is a business and technology consultancy that specialises in helping its clients transform their back office operations.**

**The views and opinions expressed in this article are meant to stimulate thought and discussion. As each business has unique requirements and objectives, these ideas should not be viewed as professional advice with respect to your business.**

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