

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. (Source: Logica CMG study)

The industry is rapidly growing and maturing and India has established itself as a major outsourcing hub.

India is the world's favorite outsourcing destination

India's share of the global offshore 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 \$17.2bn (£9.5bn) in the year ended March 2005, a rise of 34.5% over the previous year. A further expansion of 30% in exports is predicted in the next twelve months, to reach \$22.5bn. The US accounts for 68% of Indian exports.

Current outsourcing trends worldwide

1. Outsourcing in traditional areas like customer care, financial services, manufacturing, IT, ITES is growing.
2. Large multinational companies are investing in captive BPO units in supplier countries in multiple locations, to reduce risk and control quality.
3. Outsourcing is becoming more sophisticated. Customers are looking for business process excellence, speed to market, improvement in quality, benchmarking to world-class standards. CEOs are involved to ensure the long-term success of strategic offshoring decisions. On their part, suppliers understand that they must **compete globally** and that outsourcing will play a more **transformational and strategic role** for the client.
4. There is increasing **global competition** and **pressure on margins** from emerging lower-cost outsourcing destinations.
5. **Risk factors** for outsourcing like terrorism and war, disaster and disease make contingency plans a necessity.
6. The IT industry will see roughly 10 to 15% of its jobs move overseas during the next ten years, inviting more **political debate**.
7. For the past two decades, China has been growing at an astounding 9.5% a year and India by 6%. They are impacting the global economy and leading the outsourcing revolution.

Future outsourcing trends worldwide

1. Outsourcing **expenditure** will continue to rise.
2. More **countries** will find outsourcing attractive, creating a **multi-polar world**. Following the lead of the US and UK, the European Union markets will expand their offshoring programs, while Japan will increasingly look to China for its needs.
3. Clients will take greater **control** in driving and designing deals.

4. The interlinking of the supply chains brought about because of outsourcing will create stability as companies will put pressure on governments to avoid wars.
5. Risk factors and unexpected occurrences like war, terrorism, disease, natural disasters and economic upheavals can throw a wrench in the works.
6. The rising price of oil will put increasing pressure on companies to both utilize technology and outsource to remain profitable.
7. The rising price of oil will cause oil consuming countries like the USA to be less competitive resulting in more outsourcing to India and China.
8. India will show excellence in Services that require advanced English like Knowledge Process Outsourcing (KPO), Content and Medicine.
9. Political backlash over outsourcing is likely to lessen over time as economies strengthen and companies continue to reap the benefits of offshoring.
10. **Technological power will shift from the West to the East** as India and China emerge as big players in the global outsourcing market. The two countries have the size and weight to **transform the 21st global economy**.
11. **By 2015 China will be No. 1, India No: 2 in the global top five outsourcing destinations.**
12. Vendor focus will shift from basic skills, costs and processes to domain knowledge, transition challenges, change management, HR issues and governance.
13. **Regional outsourcing hubs will develop** as companies will take **strategic near-shoring initiatives** to minimize risk and leverage cultural and linguistic compatibility. The supplier countries are in the same time zone as their clients.
14. The large diverse Indian companies will face stiff competition from new focused smaller companies. Because these companies are able to focus and become excellent in one area they will be able to provide a higher level of service. In 2006 there will be a flood of companies targeting niche services.

Opportunities for India

Near-shoring as a business strategy

India can collaborate with other countries to leverage local knowledge of the business environment and language skills while providing its domain knowledge and technological expertise for successful outsourcing. For example, TCS has a Latin American arm based in Mumbai, India which serves an insurance client in Chile with a center in Uruguay as a near-shore location. Outsource2india has a collaboration with a company in NE India that leverages the unique talents of the people of this region.

Opportunity areas

Today more industries are where IT was in the 1990's - knowledge based. **Knowledge Process Outsourcing (KPO)** 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 Systems, 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 the American market. They are now doing legal research at very high rates by Indian standards but yet 50% below typical American rates.

3. **Engineering Outsourcing**

India can provide high-quality engineering services in the fields of:

- Mechanical & Electronic 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 and some accounting is being done for large American companies. This trend will continue and soon a full range of accounting and tax services will be provided by Indian companies.

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

Rising competition

In the next ten years, China will replace India in its number 1 position in the global ITES-BPO industry.

Rising costs and low efficiency in many cities like Bangalore will make software outsourcing less attractive in 2006. The giants may show a drop in earnings.

India 's terrible Infrastructure will continue to be a drag on the potential of India giving other countries the competitive advantage.

Other competing countries providing low-cost outsourcing options will exert a downward push on costs – East Europe, Latin America, South Africa

Infrastructure

India 's ability to develop infrastructure is far outpaced by neighboring China
Metro cities are getting saturated and costs are rising -- Tier II towns need to develop infrastructure but India's track record does not bode well for fast development.

Human resources and training

The demand-supply gap in India for knowledge workers is being felt now in Bangalore but may peak India wide in 2008-2009

The education system needs transformation to produce people with skill sets that match industry needs.

The transition to knowledge processing will be a much bigger challenge for the Indian company and employee 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.