

## **Will India lose “Pole” position in BPO Space?**

Ajith Dandeniya looks at the challenges faced by India in maintaining No. 1 position and who is likely to take over the mantle.

Given a few years, this could become a realistic possibility. Over the last decade, India has enjoyed the mantle of being the leading offshoring destination in the world. Increasingly, this is being fiercely challenged by the other neighbouring southeast Asian countries in the world.

### **Indian Legacy**

The Cost Arbitrage, the Knowledgeable Workforce, the Government Support to BPO Sector, the quality of Outputs, a wide choice of Reputable Suppliers, a good Telecommunication & other Infrastructure, and various BPO City Locations available within India have all helped propel India to that enviable position. But today, most of these factors are being increasingly challenged.

All major outsourcing suppliers today have an Indian presence, which has been essential strategically. But with an increasing number of suppliers comes the opportunity for “best of breed” BPO workforce to demand higher salaries. This is increasingly reducing the cost arbitrage enjoyed by the Organisations in the past. The year-on-year salary increase of approximately 10-15% will erode the level of cost arbitrage over time, where it will not become a key factor in the offshoring decision-making process. Another worrying factor faced by the suppliers is the attrition levels that are rising alarmingly. A 40-50% attrition rate amongst suppliers is not uncommon. To overcome this, suppliers today carry higher amounts of “bench staff” which adds to their cost base. It is also not uncommon to see BPO staff moving jobs today for a matter of a few thousand rupees, which are adding to the woes of BPO suppliers.

With an ever increasing presence of BPO Suppliers in India comes another key challenge – suitable locations to house them. The Tier one cities such as Bangalore, Mumbai, & Hyderabad have already been filled up and the real estate costs are on the increase. We are now seeing the Tier two cities such as Pune & Noida being increasingly used for BPO locations. It will be simply a matter of time that these will also follow a similar fate of their predecessors. Outside these cities, the infrastructure in terms of telecommunications, roads, and suitable real estate to house BPO centres are yet to be fully developed.

With the need to provide a significant number of BPO staffs year-on-year to meet the demand comes the challenge of quality of staffs. In the past, we have all seen highly skilled staffs that provide fantastic outputs – but the question remains as to whether such a trend could still continue as the demand for staffs continually rise.

The International Organisations that offshore their business processes are increasingly demanding from suppliers the capability within India for other European language proficiencies. The availability of such language-proficient BPO staffs in India are few & far between. Alternatively, the BPO suppliers in India offering their East European locations to cater for such demands does not quite work, especially if the numbers of FTE's required with such language expertise are not huge to warrant a separate team in another country location. There are two key factors here: (a) The team dynamics could suffer in breaking the language-proficient team in to another country location, and (b) Cost arbitrage savings will be reduced

by deploying the Eastern European location strategy.

Organisations that offshore their business processes are more sophisticated now than a decade ago in terms of their strategies. They are increasingly looking for multi-location, multi-supplier, and multi-country strategies to spread their business risks. With the multi-country strategy, it becomes apparent for organisations to easily compare the qualities of outputs produced and accordingly, shift their processes between countries at new contractual negotiation times.

Another factor that may begin to weigh against India will be this – the original BPO contracts that were signed for durations of 5-7 years with suppliers will now increasingly be coming up for renewals. With the Indian cost arbitrage gained originally eroding, there will be other countries waiting in the wings to take over. Over the next few years, we will start to see transitioning of business processes from one supplier to another as a common occurrence - as opposed to transitioning processes from organisations to suppliers. In fact, the new suppliers who will take such processes on will offer organisations a cost-free transition to make it an attractive proposition.

Finally, organisations do also look for cultural similarities – but not just as a company itself but as a country. Unfortunately, India in the latter regard does not match up to Western Nations. Up to now, this has not been a core issue – but the moment the other Asian countries with a “better fit” come in to the equation – this will start to become a significant factor.

So given all these factors, who will be there to challenge the Indian Superpower from the “pole” position of BPO space?

### **Philippine Advantage**

Entering the grand prix of BPO space will be the southeast Asian neighbour, Philippines.

Today, there are over 450,000 BPO workers operating in the Philippines. Many global BPO suppliers already have a presence in the Philippines and those who don't are quickly moving in before it's too late. In addition to this, many multinationals have already set up their own Captive Centres. The telecommunication and other infrastructure in the Philippines are far advanced compared to other offshoring destinations and Telecommunication is comparatively cheaper. In fact, the Philippines was the first nation in Asia to de-regulate the telecommunication sector and they appear to present a more stable, robust, and a highly scalable telecom infrastructure due to numerous fibre optic landings in the country.

In terms of cost arbitrage, the Philippines is presenting an extremely competitive cost strategy. The starting salary for a graduate in the Philippines is in the range of £180 - £240 pounds per month. This, compared to India, is in the range of being 40% cheaper. This cost competitiveness is not just limited to salaries. It appears to apply to all other business expenses such as real estate, utilities, office supplies, and other third party services. In fact, today, organisations that offshore business processes to the Philippines have been able to enjoy cost arbitrage savings in the range of 50-70% (compared to 40–50% and continually eroding in India). This appears to be a phenomenal advantage for the Philippines.

Besides the cost arbitrage savings and infrastructure, there are multiple other factors that

appear to be swinging the pendulum – the Philippine way!

The English speakers make up 75% of the Philippine population and, as a former American and Spanish colony, it appears to be steeped in Western Culture. It is therefore no doubt that Filipinos not just speak English but think in English, too. For Western organisations that offshore business processes, Filipino accents are easier to work with compared to India – and that instantly provides a head start in terms of the Contact Center space – that continues to be an ongoing challenge with Indian-based Contact Centres. The Philippines appears to have found answers for staffs with other European languages, too.

In addition to that, the Philippine government has put various incentive programmes in place to attract foreign organisations and also significant work has been done by the government to create BPO-specific cities & parks around Metro Manila and other locations around the country.

Just consider some of the recent comments by various research establishments around the globe:

- “Cebu City ranks 1st among Top 50 emerging outsourcing cities” (Global Services, 2008);
- “Manila ranks 2nd among Top 10 Outsourcing Cities in Asia” (IDC);
- “Philippines among top 10 shared services and outsourcing locations in the world” (Frost & Sullivan, August 2007);
- “The Philippines has established a strong presence in voice-based BPO sectors such as call centres, and there are also signs of growth potential in other offshore services, such as finance & accounting, medical transcription and animation” (IMF, March 2007);
- “Philippines awarded Off-shoring Destination for 2007” (National Outsourcing Association (UK), October 2007);
- “The Philippines has become a destination for call centre and back-office finance and accounting operations; rates highly in cost, labour quality and language/cultural compatibility” (Gartner, Dec 2007);
- “We think that the Philippines have grown into the No. 2 outsourcing base after India in call centre–based BPO fields” (Nomura Securities, November 2007);
- “The Philippines is now the third largest destination geography for BPO services” (Everest Consulting, April 2008);
- “The Philippines is among seven key markets that are “above the rest” and are the “most critical to achieving corporate growth and outperforming the competition in 2008 and beyond” (Frontier Strategy Group, September 2007);
- “Philippines awarded Off-shoring Destination for 2009” (National Outsourcing

Association (UK), October 2009);

Surely, with so many promising accolades & comments, India will have to be concerned about their long-term leading position.

*Ajith Dandeniya is an Engagement Director at O&OC with over 8 years of BPO experience gained across working for both Organisations who offshore business processes as well as offshore suppliers who take on the offshoring.*