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## Outsourcing Overseas – The Real Story

By Vinoo André Mehera

*Vinoo André Mehera was a general manager at Dell and set up Dell's offshore operation in India (read more about him at the end of this article)*

### **How has the offshore market developed in the last 12 months?**

Coming originally from India, I have been well aware of the development of the offshore outsourcing market. It initially developed as Software Development and this was not only the case in India but as well as in the Eastern European countries like Czech Republic, Poland and to a lesser extent Russia and Bulgaria. Today this has expanded as well into an area one calls IT Enabled Services (ITES). The term "ITES" covers business process outsourcing (BPO) and customer interaction services, for example call center outsourcing. The key nations playing in this space are India followed by Philippines. Canada, Ireland, and Australia have higher costs than these two, and if compared to India, much smaller labor markets. South Africa also has the potential due to its large English speaking population but lacks the size of qualified staff.

Outsourcing has always played a large role for many companies however in the last 3 years the rapid progression in technology and the more demanding customer requirements forced outsourcers and companies to look out for new markets which provide large amounts of skilled and qualified labour.

In the last 12 months the difficulties in the market have even put further pressure on cost savings making this market of offshore outsourcing grow even faster. Besides it is now all the more important to be able to differentiate yourself by delivering even better service but at the same time managing costs more efficiently.

It was during my tenure with Dell that we too looked at offshore outsourcing. It was in mid 2000 that we analysed the complete overseas outsourcing markets, and decided to go to India.

We planned on a two-pronged strategy – One, start our own captive call center and back-office operations; and Two, outsource similar activities to a local Indian Outsourcer.

Today this strategy has paid off with Dell's own captive business having grown today to over 2000 employees as well as the business of the local outsourcer having grown to over 600 employees.



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## What are the advantages and disadvantages of offshore outsourcing?

### Advantages

The advantages of offshore outsourcing are partly similar to outsourcing in the US or UK, but there are some specialities making this more attractive.

- Benefit from continued growth of the well-educated population
- Immense cost saving – up to 60% cost savings on higher value projects. Even taking future inflation and salary increases into account this cost advantage will remain.
- Latest technology, times two– First, India has come into this business far later in the business cycle; this results in a prevalence of the latest innovations both in hardware as well as software applications in the call center, CRM and back-office areas. Secondly, outsourcing providers have best in class technology at far lower costs allowing them to offer these tools to their clients and improving their clients business efficiency
- Allows the local resources in the US/UK to concentrate on the core business(s), thereby improving the overall profitability of the company.

However I would like to explain this further using my observations on the case for India: For now and in the future, I see India remaining the leader in offshore customer interaction outsourcing. This is not to say India will see significant challenges from other countries. Some of the key reasons for selecting India for offshore outsourcing are the following:

- India has one of the largest English-speaking populations in the world  
A huge, educated workforce: a major emphasis on technology and engineering has produced a high quality talent pool which can help support complex IT projects, products, and services, at fractional costs compared to British or American staff.
- They have a graduate base of 14 million graduates per year. The base of graduates has grown from 10.5 million to 14 million over the last 5 years adding at twice the rate as the previous 10 years. There has been an emergence of private computer training institutes that have trained 1 million at various levels of IT skill sets.
- India enjoys the confidence of global companies: a fast-growing, export-oriented IT industry, representing \$7.6 billion in revenue, is recognized around the world for it's capabilities, advantages, and growth
- Ideally located from a time zone perspective
- 24/7 service or sales for much lower cost
- Cost-effective work force, whereas at US call centers staff is an average of 67% of costs



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- Government support: numerous policy initiatives and incentives are the result of recognition of the value of this industry

### Infrastructure:

- Domestic leased circuit tariff reduced by 79% last year
- New submarine cables offer 33 times current bandwidth utilization
- Basic, Cellular, Internet, and Paging Services privatized
- International Internet Gateway privatized: likely reduction in tariff
- Business Continuity & Redundancy

India's infrastructure, combined with the right additional redundancy measures, can achieve virtual-parity with developed nations' infrastructure, as measured by power and communications uptime.

### Regulation

- Software Technology Parks (STPs) established, providing incentives and concentration of others requiring similar facilities
- 100% foreign ownership permitted in IT Enabled Services industry unlike other sectors where foreign ownership is restricted
- To provide ready-to-plug IT infrastructure and telecom facilities.
- Single window clearance for all regulatory compliance issues
- Well developed legal system
- High accounting standards and ethics
- Established banking infrastructure

This led many US and European companies to outsource their call center and back-office activities to India.

Some examples here are:

- GE – have circa 10,000 agents in India
- British Airways – one of the pioneers to go to India
- Dell Computer
- AOL
- Microsoft
- Sun
- HSBC Bank
- Citigroup
- Swiss Airlines
- Amazon
- American Express
- Lufthansa

### **Disadvantages**



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Traditionally, disadvantages of outsourcing have fallen into the control or cost areas. I'll address control first. The relationship with a company and outsourcer can go south if the expectations of performance differ between the outsourcer and the client. Fortunately this is part of the equation that can be addressed by the client. To avoid this it's critical to:

- Invest the required time and other resources upfront
- Select a vendor that has both the capability and the motivation to achieve your objectives
- Design a contract that aligns the desired performance with objectives

Also a certain level of integration between the company and outsourcer's operations is a way to keep communications strong, expectations met, and best practices shared. I've found several companies that just don't establish a context in the relationship that allows for ongoing dialogues to occur with several levels of the in-house team. This is really not taking advantage of the organizations abilities to learn from each other. For example, if we're running a technical support operation for a client, and either one of us has seen a marked improvement in a key metric, then by all means there should be contacts at different levels available that allow those staff to assimilate that success into their process. At Client Outsource we encourage this level of integration with the client because we believe it "gears" the development of the process, resulting in better overall performance.

Although outsourcing is less resource intensive than managing it internally, it does require assigning resource(s) internally to manage the process – some outsourcers actually imply that this is not the case - I would be wary of that view. The outsourcer does not have title authority within the client's organization, so a powerful sponsor needs to drive internal support and manage the external organization.

From a cost perspective, most of the quality offshore outsourcing vendors do provide a cost savings versus operating onshore, if you're referring to countries such as India. Sometimes outsourcing onshore has been shown to actually cost more than internally managing a process onshore; this depends on the level of other benefits of outsourcing. A strategic outsourcing relationship should include benefits that drive costs lower through other improvements. Some examples might include access to industry-leading or functional-leading processes and expertise, converting assets to expenses, shifting technology investment risks to an outsourcer, allowing greater focus on core competencies, and increasing flexibility. However, the same points that I mentioned regarding control apply: thorough needs documentation, vendor selection and contract design.

## **How will the offshore outsourcing develop over the next 5 years?**

Today the customer, be it a consumer or a large corporation, has huge demands on customer service. The rapid technology progression has also assisted in increasing these demands even further.



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The tough market conditions that currently prevail and appear to do so for a while demand efficient cost management. This will help in the growth and development of Offshore Outsourcing.

Due to these above-mentioned factors the US and UK, namely, and other English speaking nations will be forced to look outside for outsourcing. No other country outside of India currently has as strong of a capability of meeting the demands of such a large educated and especially technically savvy amount of resources.

Alone these 2 major factors – customer demands & requirements and today’s vast and complex technology will allow for the future growth and development of this business to remain secure and viable.

### What tips would you give to contact centers looking at outsourcing overseas?

Due diligence is critical in searching for an outsourcer. It is therefore important to dedicate the required time and energy to know and describe your exact requirements.

Of course standard practice is putting it into an RFP/RFQ and sending this out to various Outsourcers. I have to recommend making careful comparisons and personal visits to those whom you think suit/fit your requirements.

Below a chart assisting you in categorising the competencies of the various suppliers. (5 being the best and 1 the worst). Of course these can be weighted... the leadership team being first in my opinion.

| Competency |            |                 |             |                          |                   |                  |                |       |         |         |     |
|------------|------------|-----------------|-------------|--------------------------|-------------------|------------------|----------------|-------|---------|---------|-----|
| Supplier   | Facilities | Leadership team | Scalability | Contact Mngt. Experience | IT infrastructure | Voice capability | Web Capability | Focus | Pricing | Overall |     |
| A          | 5          | 5               | 4           | 4                        | 4                 | 3                | 3              | 4     | 3       | 3.9     |     |
| B          | 3          | 4               | 3           | 3                        | 3                 | 4                | 2              | 4     | 5       | 3.6     |     |
| C          | 4          | 4               | 4           | 4                        | 4                 | 4                | 4              | 3     | 1       | 2       | 3.3 |
| D          | 4          | 3               | 3           | 3                        | 3                 | 3                | 2              | 4     | 3       | 5       | 3.3 |
| E          | 3          | 3               | 3           | 3                        | 4                 | 4                | 4              | 2     | 3       | 4       | 3.3 |
| F          | 4          | 2               | 3           | 4                        | 4                 | 3                | 1              | 4     | 3       |         | 3.0 |
| G          | 4          | 3               | 3           | 2                        | 2                 | 3                | 3              | 3     | 3       |         | 2.9 |
| H          | 2          | 2               | 2           | 2                        | 3                 | 2                | 2              | 3     | 3       |         | 2.4 |
| I          | 4          | 2               | 2           | 2                        | 3                 | 2                | 2              | 2     | 1       | 1       | 2.1 |
| X          | 4          | 1               | 1           | 1                        | 2                 | 3                | 1              | 3     | 1       |         | 2.0 |
| Y          | 3          | 1               | 1           | 1                        | 2                 | 2                | 4              | 1     | 1       |         | 1.9 |
| Z          | 1          | 1               | 1           | 1                        | 2                 | 1                | 1              | 1     | 1       |         | 1.1 |

Other important points to be considered are:



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**Location** – based on the type of activity outsourced it is important that the outsourcer is not located in an area where accent neutralisation becomes a problem. This is less of an issue when it is a back-office function or email support.

**Building** – Does it have a Sprinkler system or other fire suppression agents?  
Is it located next to a hazardous area – Petrol station, River, Gas Depot etc.

**Back up** – What sort of back-up facilities are provided for?

- Diesel Generators
- 2<sup>nd</sup>. Voice line from another provider
- Satellite
- Server Back up system & process

### **Security**

- Firewall technology
- Server Room
- Secure work areas for employees working on confidential data
- Other industry-specific security standards

Treat this whole process as if it would be a part of your business – do not forget it is a partnership, which represents YOU. As far as the end-customer is concerned, they are dealing with YOUR business and not an outsourcer, leave alone one offshore.

Doing this right will be a true “win-win” situation for both parties, increasing profits, reducing costs and improving customer relationships.

### **Conclusion**

Offshore outsourcing will not just be a time phenomenon; it will remain and grow to become part of the English speaking outsourcing environment.

*(see the following page for information about the Author)*



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## About the Author

**Vinoo André Mehera**, co-founder of Client Outsource, a company with more Call Center experience in more parts of the world than even the more established competitors. The founders have not only 'been there-done 'that' at Fortune 100 companies, but have done it successfully, achieving double-digit growth for the companies they have served by supporting their customers.

Their approach is to utilize their unique experience by teaming with the world's most cost competitive talent. The two ideas in those words are key. Cost competitive means something that works well and is worth the investment. Talent means a highly educated workforce in a technologically savvy country – affordable success.

Prior to Client Outsource he was Business Development Director EMEA for Dell Computer, where he re-engineered the South Africa business; previously General Manager India where he established a 500 seat technical call center within 4 months which is already best in class; formerly General Manager Home, Small & Medium Business division Benelux region. Prior to Dell Vinoo worked for Datapoint Corporation a pioneer in call center solutions and in the Restaurant and Hotel business. Mr. Mehera has over 15 years of technology business development and financial planning experience.

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