

## **Indian BPO Industry - Opening New Avenue Through Domestic Outsourcing**

*Business process outsourcing i.e. BPO is one of the most rapidly growing industry in the world today. Though it is not an industry, it includes various sub activities of many main stream industries such as manufacturing, trading, marketing, banking, insurance and financial services. Since it works for all these industry, it has been treated as an industry. This is due to the enormous growth and development of outsourcing of work in the past few years over the globe in many countries.*

Mumbai, Maharashtra, May 21, 2010 /[India PRwire](#)/ -- Business process outsourcing i.e. BPO is one of the most rapidly growing industry in the world today. Though it is not an industry, it includes various sub activities of many main stream industries such as manufacturing, trading, marketing, banking, insurance and financial services. Since it works for all these industry, it has been treated as an industry. This is due to the enormous growth and development of outsourcing of work in the past few years over the globe in many countries.

BPO in simple language can be defined as the act to give a specific function or work to a third party with the condition to maintain required standard and quality in order to focus on your core activities. So BPO simply helps you in focusing on your core area and other function i.e. non core activities can be outsourced to an outside agency for which it becomes a core activity and have specializations.

In past, there were no such specific outside agencies that were existing but when people knew about this advantage they started concentrating on the non core activities of large corporate which has a huge volume of work and started providing these companies with the specialization of work for their non core function, which is very large number and gives cost advantage to all the parties involved in the transaction and generates great employment opportunities.

### **HISTORY**

BPO as a concept and industry has really emerged and known to people in the past few years but it is not a new activity for all of us. People in their day to day life and even in the small and big business have been using the outsourcing model since years. Few e.g. could be the keeping a maid at your home to carry out the regular house cleaning work so that you can focus on activities which are more important to you. For business the manufacturing units many times send material outside to job worker for some process.

I rather something think that an entrepreneur is the oldest example of outsourcing as he is the person who has an idea or some business model. He starts his business and at the initial stage he himself is involved in handling many functions such as production, marketing, accounting, finances etc. But as he grows he hires people to handle various functions and he focuses on the core activities of business development. If the organization grows to a really good level he may further outsource many unproductive and non core activities to outside agencies. But in all this he never compromises on the quality of work and the deadlines.

So the outsourcing has been existing for years for the people who had the thrust for the competitive advantage for cost and quality. Now that people have really understood it as a strong business model they are really creating more opportunities for them.

### **INTERNATIONAL BPO**

The very fact that how BPO became known to people of India so fast, was due to the international outsourcing model i.e. outsourcing between the two nations. As we know that there is a huge gap in the cost of manpower and infrastructure in the developed and developing nations. Both of these costs are further affected by high population in the developing or undeveloped nations which makes the manpower cheaper in these countries. This has resulted in the historical growth in the international BPO market.

The above opportunities have been observed by the multinational companies and the international business community and they have really taken the advantage of this by outsourcing the work to India and other

underdeveloped and developing nations.

The 80 % of the business for export BPO is from the two countries i.e. US and UK and this has created a dependency for these nations. This increasing trend of international outsourcing gave a setback to the developed national such as unemployment and other social security issues and due to this the administrator of these countries has started demoralizing the outsourcing model. Further this has been hit by the recession in the international market. The main reason I could understand is that that these nations have outsourced the work but they really could not focus on their core activities and specialization. This has created uncertainty in the highly growing international BPO market.

The above factors have made the International BPO more challenging and resulting in Indian BPO Industry to rethink their strategy and a need to broaden its horizon and look for alternative path of growth which is less volatile and affected by the global country and industry specific dominance. There are many advantages and factors which provides us the facts that the domestic outsourcing will be very successful in India. We will analyze each factor individually. First have a look at the potential of the Indian Domestic BPO market.

## **SCOPE IN DOMESTIC BPO**

The Indian BPO Industry has a huge potential which may be very difficult to assess. People have realized the advantage and benefits of the Domestic BPO and many of the big companies like Infosys, satyam, Infovision, Intelenet have started focusing on the domestic BPO realizing the future of the Industry.

Indian domestic BPO industry as per the report given by E & Y is at a market size of \$1.62 Bn in the year 2008 with a growth rate of 50 % in the past five years which is higher than the export BPO market. It is expected to reach at the \$ 6 Bn by the year 2012 with a maximum addressable opportunity of \$16-19 Bn.

Further similar data have been given by IDC forecasting the market size to reach \$6.82 Bn by the year 2013 and will continue to grow at a rate 33.3% to reach the above target. The growth rate is very impressive.

Further the banking, Finance, telecom and Insurance sector are expected to grow at 20-30% growth rate over next 3- 5 years and these sectors contribute 80 % to the BPO industry. Hence the exponential growth in these sectors will require them to intensely focus on their core activities. Besides the above industry the other industry such as travel, healthcare, media and retail are also fascinated by the cost advantage of the domestic BPO industry. The focus is also shifting from voice based outsourcing to other outsourcing work such as HR and F&A.

Although the profit margin in the domestic BPO are lower than the international still the net margins are expected to increase from 8-9% in 2008 to 11-12 % in 2012 and even more if the resources of the interior part of India are utilized properly.

Thus besides the above facts there are many other factors which make the Domestic market more attractive and interesting.

### **4.1 Manpower Advantage**

India has ample manpower resource and it is good for the services industries, it has already been proved that manpower is one of the biggest cost advantages in the outsourcing model. As we know that within India itself there is discrimination in the salary and wage structure which could work as a great advantage for the domestic outsourcing industry. These salary structures make it a more attractive business within domestic outsourcing.

The salary structure analyses by a research firm shows the following data for the Average salary structure of the Senior software/and production Engineer in various states. Following are the observation:

> Karnataka is highest salary paying state to Senior Software Developer with Avg. Salary INR 5.82 Lacs.

> Lowest salary for Senior Developer softwares Average salary is in Guajrat with INR 3.51 Lacs

- > The Difference in the pay scale is more than 62 %
- > There are many other states with in between range of salary.

Source :- [www.payscale.com](http://www.payscale.com)

In the above chart the highest salary is from Karnataka , and lowest is from the Gujrat and the difference is 62% which is very significant, Further there are many states like Bihar, Goa where these industries can be further developed.

Further the above salary are from the main cities in these states , if the BPO industry can further go to other II & III tier cities and towns the structure can be reduced further. The companies can even provide training to people and can employ them.

#### **4.2 Infrastructure Advantage**

The second biggest factor in the BPO is the Cost advantage in the infrastructure cost. India has definitely the low infrastructure cost as compare to US and UK. But within India itself there is a wide gap in the lease rentals and other infrastructure cost. No such analyses comparing the lease rental in the different cities or states are available. But lease rentals discrimination prevails within the cities itself e.g. within Mumbai there are many lease rental available within the range of INR 25/- Sq. Ft. to 225/-Sq Ft. As outsourcing location does not have anything to do with the locations. In other cities and states the lease rentals are very low as compare to the major cities due to the low property rates.

The other infrastructure cost is also very low in the other cities of India due to low standard of living among the people. This can help the Domestic Outsourcing market grow very well. The location to carry out the process is not much important except that the entire technical and relevant infrastructure should be available in the city.

The above facts can be justified with the recent development happening in many of the tier II & III Tier cities such as Indore, Ranchi, Baroda, Bhopal, Pune, Lucknow and many other cities where the telecom companies have started their call center and are working efficiently as the requirement of company is to answer local customer care problems in the local language.

#### **4.3 Relaxed Quality Standards**

As compared to the international quality standards the domestic BPO are not much quality conscious as these companies which outsource the work are local companies and their major concern is to get the work done within their standards. The users of their services are also people from India which does not require very high standards. For e.g. the call center in Ranchi can be used only for the people opting to use Hindi as a language or a Call center in Aurangabad can be used to answer the problems in Marathi i.e a local language of the state. Hence Quality is not a major consideration as compared to the international BPOs. As the outsourced work is purely process oriented. These companies can also provide the required infrastructure or checks on the quality work.

Further availability of manpower for such work is easily available as it doesn't require much qualified people as compared to standards of international BPO.

#### **4.4 Currency Fluctuation Risk**

The international BPO market is surviving even after significant variation in the rates of international currencies. As we have seen the rate of international currency are very volatile, In the previous 12 months the USD rate has been in the range of 46 to 51 against rupee affecting the margins of International BPO companies. But in the domestic BPO the risk of currency fluctuating is nil as the transaction are within the country and this minimizes the risk of the business for both the company's.

#### **4.5 No International Competition**

The domestic outsourcing can have its long term path within India as there would be no competition within the countries as compared to the international BPO where in there are other countries such as Phillipines, china, Russia, Canada etc. Even though India has shared more than 50 % of the International Business in BPO. The Domestic outsourcing would in all its variation would have the benefit to the consumer and the people as the competition would be within the states of India and each state government may be keen in providing the better infrastructure to the corporate interested in having their BPO operation in their state.

#### **4.6 High Reliability & Security**

The reliability & Security factor in case of domestic BPO are very high as they will never be affected by the government policies within India. As currently we have observed that between the nations there is high instability due to political and social factors for outsourcing of work to other countries like India, China, Russia etc.

#### **4.7 Timing Differences**

For domestic BPO, the people would not hesitate to get into the work and even the HR can provide better facilities as the people will not have to work in night shift. International BPO have to incur additional cost for retaining the employees in the night shift , further the availability of people willing to work in the night shift is very limited. People would not agree to work in night shift as this impact the body's natural circadian rhythms.

#### **4.8 Potential Growth**

Domestic BPO has a great potential for growth of Indian economy as the development, education and a good standard of living will reach to the poor and middle level of people in all the small and medium cities. The people who do not posses complete qualification can also get the job as they have to do only a specific process for which they do not require high education. They can do the work based on the basic training provided by the companies. This can really provide a good pace to the growth of Indian economy in all the sectors.

#### **4.9 Dual Advantage**

The biggest advantage in the Domestic BPO is that the benefit of cost reduction, which will remain in India as both the companies are in India. The ultimate advantage of cost reduction would be enjoyed by the Indian consumer as previously it was enjoyed by the consumers of other countries.

#### **4.10 International Policy Advantage**

The international policies on the outsourcing will not at all affect the Indian market as the domestic outsourcing will be within the control of Indian administration. Further the policies that will be framed by the government would be in favor of industry and people as it will have direct impact on industry growth and employment opportunities of the nation.

## CONCLUSION

The Indian domestic BPO market has grown in the past and has a promising future growth with many factors which will work as advantage to our nation and to the whole of BPO Industry. All the big players have realized the importance and have started preparing them self to take their bite of cake. The domestic BPO will give many benefits to India socially, politically, financially, culturally, technically and legally.

### Notes to Editor

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