Asia Times Online: Outsourcing's next outing

By Richard Mills

"Outsourcing in India has reached a near-term peak and meaningful expansion from this point forward will result in higher costs and lower quality delivery." Business leaders in Asia have been saying this for months now. Today, we are seeing the reaction: efforts are being made to move capacity from India to next-step destinations like the Philippines, China and Vietnam.

Major business publications have picked up on the evolving situation. Both Forbes ("India: Good Help is Hard to Find") and BusinessWeek ("India's IT Challenge") recently published features that address the growing problems in India and the viability of the next-step destination countries.

Looking at current events in the Philippines, we can get a better idea what is going on. Sykes, a large US-based contact center and information-technology (IT) support organization, has operations in both India and the Philippines. The company said it would shift much of its Indian capacity to the Philippines, where it already has 7,000 employees. "We moved calls to other facilities in Asia to get a higher rate of return," was the official statement from Dan Hernandez, Sykes's vice president for global strategies. But knowledgeable observers in the region say the rate of return differential must be large for a company of Sykes's size and prominence to forgo India after already putting capacity in place.

Ambergris Solutions is another large contact center organization with operations in the Philippines. The company just received a US$43.5 million investment through Telus International, a Canada-based global IT solutions provider. Jim Evans, who played the key local role in coordinating the deal, says his company wanted a "strategic investment" in the outsourcing industry in Asia, and the Philippines offered the best long-term opportunity given all the options, including India.

As Asia Pacific vice president for global business-to-business (B2B) services provider GXS, Victor Lee oversees the professional and customer services operations in the region. His company made the decision to direct functions with a strong customer component to the Philippines because of better economics and results there. His company's analysis also indicated that costs were increasing disproportionately in India, unlike the Philippines. Lee says: "Having product development in India and professional and customer services in the Philippines reduces risks."

More outspoken than most, Rick McGonegal is clear that India will not be part of his company's plans for the foreseeable future. He is the managing director of RCG Information Technology, another IT solutions provider. The company already has a strong offshore presence in the the Philippines and has assessed the Asia Pacific region for future expansion. India, he feels, is already too crowded with numerous companies scrambling to hire from each other. The result is destructively high staff turnover rates, mounting salary costs and poorer English communications skills compared to what is available in the the Philippines. He also cites overstretched infrastructure in India as a further reason RCG would not consider this destination at present. According to McGonegal, his company has its "radar set on Vietnam and China" should their current best option, the the Philippines, give way.

Others that appear to be moving work to the the Philippines include: Hewitt, which has just started hiring staff for its newly commissioned business process outsourcing (BPO) facility; and HSBC, the global banking organization.

Long live the King

No one is saying that the King of Outsourcing will lose its dominance or its long-term attractiveness as an outsourcing destination. India created the offshore outsourcing model and it will continue driving the industry forward because of its huge size and the remarkable competence of its managers. If India does experience slower growth because of constrained resources in the near term, it is only because of its tremendous success over the past few years. India's recent hiring growth has been roughly double that of the crazy dotcom boom times in North America. So current constraints are not indicative of weakness, but of great success.

Besides, rising costs may be a big deal to business leaders who have to somehow budget for them. But for individual workers, who see their paychecks rise by 30% from a well-timed job change, "rising costs" probably don't warrant the same degree of concern.

If countries like the the Philippines and Vietnam are better options today, it is only because they have been less successful at developing and attracting quality outsourcing employers in the past. The pioneering accomplishments made by India have now opened the door for these countries to receive their share of the blessings. And as for India, we can be sure it will soon be back stronger than ever.

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