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Outsourcing's Next Phase Has Begun

Advice by Richard Mills, Chalre Associates

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(COMPUTERWORLD) - 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 such things to one another for months now. Today, we are seeing deliberate action to move capacity from India to next-step destinations like the Philippines, China and Vietnam.

Even 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 feature articles that directly 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 U.S.-based contact center and 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' vice president for global strategies. But knowledgeable observers in the region say that the rate of return differential must be large for a company of Sykes' 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 $43.5 million investment through Telus International, a Canada-based global IT 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 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. As well, Lee feels that "having product development in India and professional and customer services in Philippines reduces risks."

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

Others that appear to be moving work to the Philippines include Hewitt, which has just started hiring staff for its newly commissioned business process outsourcing facility, and HSBC, the global banking organization, which got its BPO under way a few months ago. I am currently meeting with numerous early-stage entrants to the Philippines -- more than at anytime during the past three years.

As another anecdote, I spoke recently to the Texas-based global recruitment manager of a multinational technology company who needed help attracting Indians living in the U.S. and Canada to jobs back in India. This is no surprise, since there is strong demand for returnee management talent. But this fellow wasn't looking for managers; he was looking for individual contributors with three years of Java/C++ experience -- a core skill that was once available in seemingly infinite quantities. He described, with great exasperation, the challenges his company faced hiring such people within India these days.

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 dot-com boom times in North America. So, current alleged constraints aren't indicative of weakness but of great success.

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

If countries like the Philippines and Vietnam are better options today, it's 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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