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# Outsourcing's next phase has begun *part 1*

## India's past success is putting restraints on continuing growth
## Next step destinations like Philippines couldn't be happier

"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 TO EACH other for months now. Today, we are seeing deliberate action to move capacity from India to next step destinations like 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 Philippines, we can get a better idea what is going on. Sykes, a large US-based contact center and IT support organization, has operations in both India and Philippines. The company said it would shift much of its Indian capacity to Philippines where it already has 7000 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 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 Philippines. The company just received a $43.5M investment through Telus International, a Canadian-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 Philippines offered the best long-term opportunity given all the options including India.

As Asia Pacific VP for global B2B services provider GXS, Victor Lee oversees the professional & customer services operations in the region. His company made the decision to direct functions with a strong customer component to Philippines because of better economics and results there. His company's analysis also indicated that costs were increasing disproportionately in India unlike Philippines. As well, Victor feels that "having product development in India and professional & customer services in 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 good-sized IT solutions provider. The company already has a strong offshore presence in 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 to that which is available in Philippines. He also cited overstretched infrastructure in India as a further reason RCG would not consider this destination at present. According to Rick, his company has its "radar set on Vietnam and China" should their current best option of Philippines give way.

Others that appear to be moving work to Philippines include: Hewitt, which has just started hiring staff for its newly commissioned BPO facility, and HSBC, the global banking organization, which got their BPO underway a few months ago. I am currently meeting with numerous early stage entrants to Philippines – more than at anytime during the past 3 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 US and Canada to jobs back in India. This is no surprise since there is strong demand for returnee management talent. Except that this fellow was not looking for managers, he was looking for individual contributors with 3 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 dotcom boom times in North America. So, current alleged constraints are not indicative of weakness but of great success.

And 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 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 they will soon be back stronger than ever.

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products. So better, control it.

How do we get this sensible message across to the opposition?

As to the economic team, the President has made excellent choices: Cesar Purisima, current Secretary of Trade and Industry but more importantly ex-SGV head leads the team and goes to the Finance portfolio. Johnny Santos previously president of Nestle replaces him at DTI. While Bert Lina, who represented Fedex amongst a number of other companies takes over at Customs.

Sadly Vince Perez is leaving Energy (he needs to make a little money again – he's one of those who will only do it legitimately) but he's replaced by "Popoy" Lotilla who, although not as well known to us, has done a good job at PSALM, the entity responsible for selling NPC's power generating plants. And he is well regarded by those who've dealt with him.

Romy Neri is still there at NEDA, and Larry Mendoza at Transport and Communications. But Florante Soriquez has been fired from Public Works. And with the President promising further change those two must be feeling a little insecure at the moment.

The President is finally showing some real decisiveness—her quick action on Soriquez is not something she'd have previously done. And, as, or more importantly, she has promised to keep her hands-off on the economic team.

Her previous excessive intervention will be no more. Now promises are easy to make, but in this case they were made to men who have no need for their job, who are in fact sacrificing to take it so could, and would leave if she breaks this promise to them. This augurs well for us in business. A team that was "one of us", knows how to run a business, knows how multinationals think and operate.