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BPO PENETRATION IN FMCG SECTOR - AN EMPIRICAL STUDY IN INDIA

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ABSTRACT

The purpose of this study is to: a) Study the number of companies currently outsourcing in FMCG b) Examine prominent reasons for FMCG companies to outsource c) Analyze the extent and impact of cost saving achieved by outsourcing companies d) Examine the extent of outsourcing process-wise in FMCG sector e) Identify the core and non core activities of FMCG companies and identify scope of future outsourcing by non-outsourcing FMCG companies. The results indicate that majority of the FMCG companies are outsourcing at least one business processes and are able to achieve an average cost saving of 5 to 10%. Companies are primarily outsourcing to save cost, reduce operational risks and maintain core competency. Depending upon the type of business process, the extent of outsourcing is varying. Transportation process is outsourced to the maximum extent followed by other business processes. The overall extent of outsourcing process-wise is varying from 2% to 34% in FMCG sector. Business processes such as facilities management, transportation, IT, food and cafeteria, logistics and distribution, marketing and sales and human resource business processes have been categorized as noncore processes while processes such as finance, manufacturing, R&D and administration activities are categorized as core processes as per the study. Further, study finds that 40% of non outsourcing companies are interested in outsourcing in the near future.

KEYWORDS

BPO, FMCG, Core and Noncore, Extent and impact.

INTRODUCTION

Beyond the border line of industry segmentation or nationality, organizations are under threshold pressure to compete on global front. Ways and means are being worked out by competing firms to respond to demands of customers/clients at reduced cost. To ensure flexibility in management and to deliver quality offers to customer/clients, organizations have started outsourcing part of their processes to specialized firms with the pretext that predefined objectives are achieved (Gildron and Rueda, 1998). To add further, Grossman and Helpman (2002) opined that we all are living in the era of outsourcing and at the moment, outsourcing is a time-honored business strategy for most of the organizations. One of the common forms and worldwide accepted phenomenon of outsourcing is Business Process Outsourcing (BPO).

CONCEPT OF BPO

BPO is a process of identifying core and non-core processes of a firm and identifying a suitable vendor who could perform the non-core processes better. By outsourcing business processes, firms rejig their cost-structure. In fact, BPO is defined as an act of converting the fixed operating cost into a variable operating cost. In the words of Ghosh and Scott (2005), BPO involves transferring ownership of one or more firm's business processes to external vendor for executing and managing processes with efficiency.

FMCG OVERVIEW

Since liberalization, the Indian Fast Moving Consumer Goods (FMCG) Sector has grown mainly on two impulses. One is increased penetration in rural sector and other is creation of value products for middle class customers. FMCG sector is price sensitive and one of the key components of India's GDP. It is a direct and indirect employer and employs 5% of the total factory employment in India. FMCG sector is the 4th largest sector of Indian economy and has strong MNCs presence.¹ As per CII (Confederation of Indian Industries) classification, FMCG has four broad based segments – Household Care, Personal Care, Packaged Food and Beverages and Spirits and Tobacco. Each segment includes many sub-segments. The overall performance of FMCG sector is driven by internal competitiveness of the sub-segments.

REVIEW OF LITERATURE

There is limited empirical analysis of BPO and its impact on firms' fundamentals. The available literature is US specific. Strassmann (1997) find that US companies undertake outsourcing decision when company profits are worsening. Lacity and Hirschheim (1993) find outsourcing vendors claims to cut cost by 10-15%. Study by Collins and Millen (1995) indicates that external vendor, who is an expert, is in a position to build, maintain and run the applications/functions more cheaply than in-house operations. Nicholas Beaumont and Amrik Sohail (2004) reveal that reducing cost, access to skills, obtaining flexibility and improving performance are the prime reasons for outsourcing by firms in US. The study also finds that intensity of outsourcing significantly varies among industries and business processes outsourced are dependent on primary business of the organization. Indranil et al. (2006) find that manufacturing plants are likely to outsource if more IT investments are done in the company. Lankford and Parsa (1999) conclude that benefits of outsourcing are not only reaped at the operational level but also at the strategic level. The gains to the companies on account of outsourcing are visible on short term as well as on long term basis. Manpower Survey (2003) on UK organizations identifies HR, R&D, marketing and sales as core functions and surprisingly these processes are also getting outsourced to the tune of 6-8%. Editorial team of Engineering talk (May 14th, 2007) have said that outsourcing speeds aerospace industry growth. Though some work has been carried out in developed and developing countries in the area of HR, banking and insurance, financial services, healthcare, telecom and retail but the penetration of BPO in FMCG in India has not been studied. This gives an opportunity to carry out this study.

¹ <http://www.scribd.com/doc/7184882/Fmcm>

PURPOSE OF THE STUDY

The opening up of Indian economy has given tremendous opportunities to business organizations to explore the globe. Along with these opportunities, challenges have also fallen in the way too. The Indian companies are expected to compete at global level in terms of quality and quantity with high value added services. The FMCG sector, being strategically important to Indian economy, is presently going through heightened competition. It is found that FMCG companies are outsourcing one or other processes. To understand the penetration and acceptance of BPO in FMCG, this study has been undertaken.

OBJECTIVES OF THE STUDY

1. Study the number of companies currently outsourcing in FMCG sector
2. Examine prominent reasons for FMCG companies to outsource their processes.
3. Analyze the extent and impact of cost saving achieved by outsourcing companies
4. Examine the extent of outsourcing business process-wise in FMCG sector.
5. Identify the core and noncore processes of FMCG companies
6. Identify the scope of future outsourcing by non-outsourcing FMCG companies.

HYPOTHESIS FOR THE STUDY

H₁: The extent of outsourcing is independent of type of process to be outsourced

H₂: Sample companies outsource core and non-core processes equally

H₃: The growth of FMCG sector is independent of outsourcing

RESEARCH METHODOLOGY

Given the limited amount of information on BPO in FMCG sector in India, it was decided to design an exploratory study to understand the reasons for FMCG companies to outsource business processes. From past literature review and subsequent discussion with local FMCG companies, top 8 reasons were identified and were used further to understand the rationale behind outsourcing using five point Likert Scale. The study uses both primary and secondary sources of data. The primary data is collected through mailer by sending structured questionnaire. Through websites (fundoodata), journals, product packaging and magazines, secondary data was collected to find the popular brands, addresses of FMCG companies and other relevant information pertaining to BPO and FMCG. The study selects a sample of 438 companies for the survey and personal visits were made wherever possible. The large sample size was taken to improve the response rate. The samples were selected based on convenience sampling technique and number of players in each FMCG segments varied depending on responses and popularity of the segment. The sample companies were picked from industry best, Forbes 500 companies, MNCs, SME, listed and unlisted FMCG companies and others. The mailers were addressed to Owner/CEO/CFO/Plant In-charge/ Functional heads. Attempt was made to approach all the four segments (personal care, household care, packaged food & beverages and hot beverages) of FMCG sector depending upon the availability of addresses and segment popularity. Initial mail survey resulted in a meager response of 15 companies out of 275 companies approached, giving a response rate of 5.5%. The subsequent mails were sent to 438 units, giving a response rate of 27%. Study by Baldauf et al., 1994, on mail survey responses reveal that surveys of organization typically receive substantially lower response rates than the survey of individuals. According to him, a 15% response rate becomes a level of acceptability for organization surveys. However, for the final analysis, 119 firm responses have been used. Care has been taken to approach most of the states so that penetration of BPO in FMCG in India is properly understood. The study analyses the BPO impact over 2-year period, 2007-09. Out of 119 respondent companies 93 are small companies, 10 are medium sized companies and 16 are large companies classified on the basis of amount of investment. Appendix A, given at the end provides necessary data relating to profile of sample units. The data so collected was properly analyzed and edited to get meaningful information. Appropriate statistical tools such as Chi square and Cumulative scores are used to get the inferences from compiled data.

ANALYSIS

Number of FMCG companies currently outsourcing

The exponential growth of BPO worldwide indicates that, across industries one or the other business processes is being outsourced. The FMCG is no exception. The Global Top Decision - Makers Study (Aug, 1998) and Manpower Outsourcing Survey Study (Sept, 2003) in western countries indicate that more than 60% of the companies outsource some of their business processes. The extent of outsourcing in sample units is shown by Table 1:

TABLE 1: NO. OF FMCG COMPANIES CURRENTLY OUTSOURCING

Sl. No.	Outsourcing	(%)	Not Outsourcing	(%)	Total
1	84	70.59%	35	29.41%	119

Source: Survey data

71% of the sample FMCG companies are currently outsourcing at least one business process in India. This large percent is a pointer at the sector's confidence in BPO as a cost management tool. The growing number of global contracts and alliances focusing on outsourcing service delivery also demonstrate organizations belief in BPO value-propositions.

REASONS DRIVING FMCG COMPANIES TO OUTSOURCE

Several reasons motivate companies to outsource. However, stiff competition and demanding customers have made FMCG companies to rethink on their strategies and operations. Unlike overseas business, labor or cost arbitrage does not drive the domestic companies to outsource. But strategic factors such as focus on core competencies, enhanced productivity, need to scale rapidly; reduced time to market and other reasons are driving domestic demand. The survey finds 84/119 companies presently outsourcing and have expressed their opinion based on significance of each reason on a five point Likert scale (refer Table 2) as given below.

TABLE 2: REASONS FOR OUTSOURCING

Sl. No	Rationale	Very Significant	Significant	Moderately Significant	Low Significant	Insignificant	Total
1	Save Cost	33	29	11	7	4	84
2	Free Resources and Focus on Strategies	14	23	31	10	6	84
3	Make Growth Process Run Smoothly	15	24	27	13	5	84
4	Maintain Core Competency	19	31	24	7	3	84
5	Start New Projects Quickly	2	8	31	39	4	84
6	Gain Access To World Class Capabilities	4	5	42	30	3	84
7	Reduce Operational Risks	18	38	23	4	1	84
8	Avail Resources Not available Internally	19	32	21	10	2	84
Total		124	190	210	120	28	

Source: Survey Data

TABLE 3: CUMULATIVE SCORE AND RANKING OF REASONS

Rationale	Cum. Score	Rank
Save Cost	332	1
Free the Resources & Focus on Strategies	281	6
Make the growth process smoothly	283	5
Maintain Core Competency	308	3
Start New Process Quickly	217	8
Gain access to world class capabilities	229	7
Reduce Operational Risks	320	2
Avail Resources Not Available Internally	308	3

Source: Computed from table 2

Tables 2 and 3 reveal that that FMCG companies outsource basically to save cost which is ranked #1, followed by desire to reduce operational risks and to focus on core competency. It should also be noted that BPO has moved up the ladder from cost arbitrage to quality and innovative dimensions. Now the slogan in BPO world is 'come for cost and stay for quality'. But now they say 'come for quality and stay for innovation'. By focusing on fewer and manageable processes, companies can lessen their cost and focus on their core competencies.

EXTENT AND IMPACT OF COST SAVING

The study enquires into the extent of outsourcing benefit realized by FMCG units. Table 4 shows the extent of outsourcing benefits among sample companies.

TABLE 4: EXTENT OF COST SAVING ACHIEVED BY SAMPLE COMPANIES

Sl. No.	Extent	Count	Percent
1	Nil	1	1.19%
2	< 5%	24	28.57%
3	5% to 10%	39	46.43%
4	11% to 20%	15	17.86%
5	Above 20%	5	5.95%
Total		84	100.00%

Source: Survey data

46% of sample outsourcing companies are able to realize cost saving in the range of 5% to 10% and 20% of sample companies have achieved cost saving in excess of 10%. A study by Lacity and Willcocks (1998) shows that Continental Bank and Continental Airlines reported cost saving in the range of 10% to 50% on account of BPO.

IMPACT OF COST SAVINGS

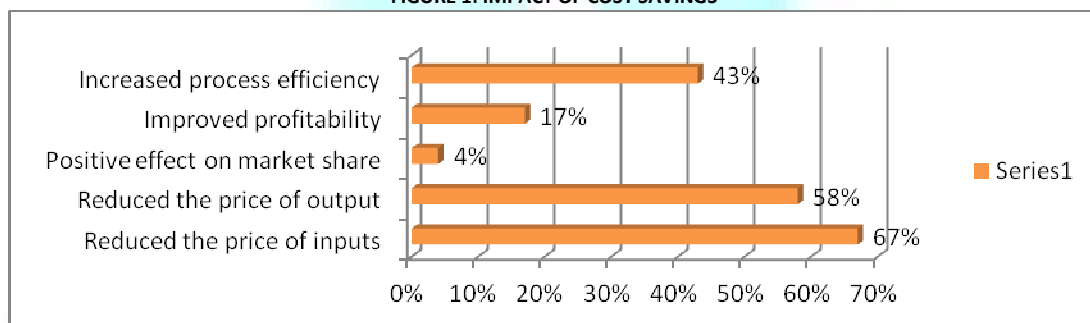
What is the net advantage of cost savings? Did companies earn more or reduce prices? Table 5 shows an analysis on these lines while Fig 1 presents a pictorial view of the analysis:

TABLE 5: IMPACT OF COST SAVING

Parameters	Outcome	%
Reduced the price of inputs	56	67%
Reduced the price of output	49	58%
Positive effect on market share	3	4%
Improved profitability	14	17%
Increased process efficiency	36	43%

Source: survey data

FIGURE 1: IMPACT OF COST SAVINGS



Source: Compiled from Table 5

It can be inferred that 67% of outsourcing companies are able to reduce the price of their inputs, 58% are able to reduce the price of output and 43% companies have increased process efficiency in their operations. BPO vendors are able to deliver these benefits to clients by identifying and eliminating redundant steps in a process. Study by Tomás and Victor (2004) also reveals that outsourcing is able to exert greater influence not only on cost reduction but also on other aspects of operational objectives. However, only 17% of sample FMCG companies have achieved improved profitability and 4% of outsourcing companies felt the positive effect on market share prices.

EXTENT OF OUTSOURCING

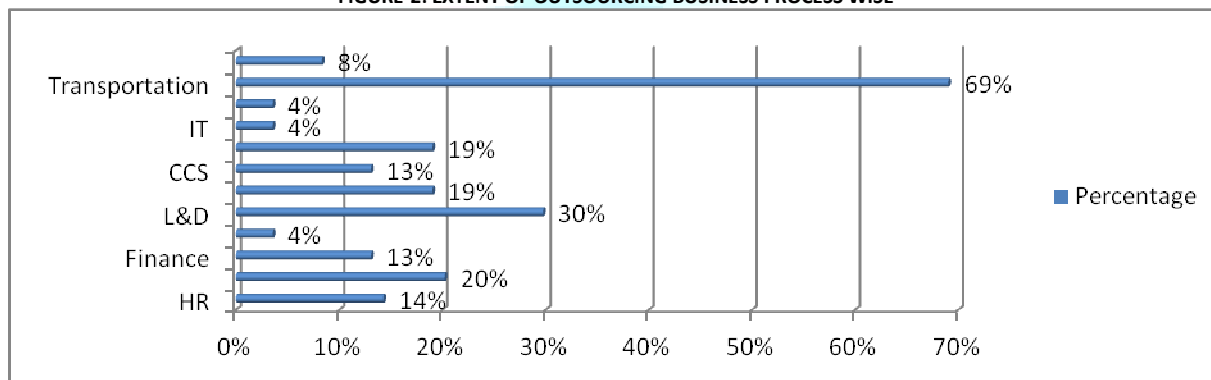
Arvind Parkhe (2007) opines that in this global market place, no company alone possesses all the resources needed to compete in today's competitive world. This remark clearly indicates the development happening in the market place and dependence on outside expertise to become competitive. Table 6 and Fig-2 presents the extent of outsourcing by sample companies:

TABLE 6: EXTENT OF OUTSOURCING

Activity	Extent of Outsourcing				Total	%	Overall
	< 20%	20%-40%	41%-70%	71%-100%			
HR	4	4	3	1	12	14.29	7%
Marketing	6	5	3	3	17	20.24	9%
Finance	5	3	2	1	11	13.10	6%
R & D	2	1	-	-	3	3.57	2%
Logistics & Distribution	8	4	6	7	25	29.76	14%
Manufacturing	6	2	3	5	16	19.05	9%
Customer Care Services	2	5	1	3	11	13.10	6%
Food & Cafeteria	4	5	-	7	16	19.05	9%
IT	-	1	-	2	3	3.57	2%
Administration	1	1	1	-	3	3.57	2%
Transportation	3	10	21	24	58	69.05	32%
Facilities Management	-	3	2	2	7	8.33	4%
Total	41	44	42	55	182		

Source: Survey Data

FIGURE-2: EXTENT OF OUTSOURCING BUSINESS PROCESS WISE



Source: Compiled from Table 6

The sample companies outsource transportation process (58/84) to the maximum extent (69%) followed by logistics and distribution (30%), marketing (20%), manufacturing and food & cafeteria (19%), HR (14%), finance and customer care services (13%), facilities management (8%), R&D and administration (4%). Overall (out of 182 processes outsourced), the extent of outsourcing is varying from 2% to 32% in FMCG sector.

A similar study conducted in UK organization across different industries by Manpower (2003) reveals the extent of outsourcing business process-wise was in the range of 6% to 37%. However, the extent of outsourcing in customer care services (6%) and HR (6%) are found similar to our survey findings while other processes were on the higher side.

TESTING HYPOTHESIS H₁:

Since there is divergence in extent of outsourcing between the same processes in different firms, the study hypothesizes that the extent of outsourcing decision of a firm is independent of type of process to be outsourced. Table 8 and 9 show the results of the testing:

HYPOTHESIS

H₁: THE EXTENT OF OUTSOURCING IS INDEPENDENT OF TYPE OF PROCESS TO BE OUTSOURCED

TABLE 7: EXTENT OF OUTSOURCING VS PROCESS OUTSOURCED CROSS TABULATION

Process Outsourced		HR	Mrktg	Fin	R&D	Logistics Distribution	Manft	Customer care Service	Food Cafeteria	IT	Admi nistra tion	Trans porta tion	Facilities Manage r	Total
Extent of Outsourcing	< 20%	4	6	5	2	8	6	2	4		1	3		41
	20% - 40%	4	5	3	1	4	2	5	5	1	1	10	3	44
	41% - 70%	3	3	2		6	3	1			1	21	2	42
	71% - 100%	1	3	1		7	5	3	7	2		24	2	55
Total		12	17	11	3	25	16	11	16	3	3	58	7	182

Source: Survey Data

TABLE 8: CHI-SQUARE TEST

Particulars	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	49.066(a)	33	.036
Likelihood Ratio	59.776	33	.003
Linear-by-Linear Association	21.722	1	.000
N of Valid Cases	182		

Source: Table 7

It can be discerned from Table 8 and 9 that the null hypothesis is rejected at the given conditions (p<0.05) and hence alternative hypothesis is accepted, i.e., type of business process outsourced and extent of outsourcing are dependent of each other. Johnson and Schneider (1995) found that activities such as

accounting systems, information technology, R&D, HRM and distribution which are secondary value chain processes are extensively outsourced. From these observations it can be inferred that type of business process and extent of outsourcing are depended on each other.

OUTSOURCING OF CORE AND NON-CORE PROCESSES BY FMCG SAMPLE COMPANIES

As core and noncore processes vary depending upon the strategic importance to the company, it becomes all the more important to categorize the processes of the company into core and noncore. This classification helps the companies in understanding the core and noncore processes of FMCG sector as well as it helps in taking outsourcing decisions. Table 9 gives the categorization of activities of FMCG sector.

TABLE 9: CATEGORIZING BUSINESS PROCESSES BY SAMPLE COMPANIES

Sl. No.	Activities	No. of companies opining as Core	Percentage	No. of companies opining as Non Core	Percentage	Total
1	Human Resource	33	39.29%	51	60.71%	84
2	Marketing & Sales Dept	26	30.95%	58	69.05%	84
3	Finance	66	78.57%	18	21.43%	84
4	R&D	53	63.10%	31	36.90%	84
5	Logistics and Distribution	13	15.48%	71	84.52%	84
6	Manufacturing	76	90.48%	8	9.52%	84
7	Customer Care Services	28	33.33%	56	66.67%	84
8	Food & Cafeteria	16	19.05%	68	80.95%	84
9	IT	25	29.76%	59	70.24%	84
10	Administration	78	92.86%	6	7.14%	84
11	Transportation	12	14.29%	72	85.71%	84
12	Facilities Management	23	27.38%	61	72.62%	84

Source: Survey Data

The sample FMCG firms view facilities management, transportation, IT, food and cafeteria, logistics and distribution, marketing and sales and human resource processes as **noncore processes** while finance, manufacturing, R&D and administration processes as **core processes**.

TYPE OF PROCESSES OUTSOURCED

Many of the organization believe that outsourcing non-core can offer big savings. But research studies reveal that irrespective of core or non-core, activities are getting outsourced based on the companies requirement and overall business strategy. Table 10 gives the update of sample companies outsourcing different type of processes.

TABLE 10: TYPE OF PROCESSES OUTSOURCED

Type	Count	Percentage
Core	14	16.67%
Non Core	57	67.86%
Both	13	15.48%
Total	84	100%

Source: Survey data

The non-core processes are outsourced more than core processes by sample FMCG companies in India. Almost 68% of the sample companies outsource non-core processes followed by 17% core processes. Around 15% of sample companies are outsourcing both core and non-core processes. Study by Chalos and Sung (1998) and Currie and Willcocks (1997) reveals that outsourcing noncore processes has become a norm. Finally, it is not a question of core or non-core but a question of global distribution of competencies and a race of acquisition of capability. Pure economies of competitive advantage will determine what gets outsourced.

In order to understand further, whether core and non-core processes are outsourced equally by the sampling firms, a hypothesis has been set and tested. The study hypothesizes that core and non-core business processes are outsourced equally by the sample companies.

TESTING HYPOTHESIS H₂:

H₂: SAMPLE COMPANIES OUTSOURCE CORE AND NON-CORE PROCESSES EQUALLY

TABLE 11: NUMBER OF PROCESSES VS TYPE OF PROCESS CROSS TABULATION

		Type of Process			Total	
		Core	Non Core	Both		
Number of Activities	1.00	34			40	
	2.00	4	14	2	20	
	3.00	3	5	5	13	
	4.00		2	4	6	
	6.00		1		1	
	7.00			1	2	
	8.00			1	1	
	11.00		1		1	
	Total		14	57	13	84

Source: Survey data

TABLE 12: CHI-SQUARE TEST

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	37.791 ^a	14	.001
Likelihood Ratio	38.679	14	.000
Linear-by-Linear Association	5.865	1	.015
N of Valid Cases	84		

19 cells (79.2%) have expected count less than 5. The minimum expected count is 15

Source: Computed from table 11

Table 11 and 12 shows that null hypothesis is rejected at the given conditions ($p < 0.05$) and hence alternative hypothesis is accepted i.e., core and non-core processes of sample companies are not outsourced equally. From Table 10 it is also clear that non-core processes are outsourced more than core processes by the sample companies.

FMCG SECTOR GROWTH AND OUTSOURCING

It is generally opined that the growth of any sector is sought by improving operational and financial efficiencies. As FMCG sector is vital for Indian economy, an opinion survey is been undertaken to understand the linkage between FMCG sector growth and outsourcing. Table 13 gives the details.

TABLE 13: FMCG SECTOR GROWTH AND OUTSOURCING

Particulars		Growth				Total
		Yes	No	Yes	No	
Outsourcing	Yes	72	85.71%	12	14.29%	84
	No	24	68.57%	11	31.42%	35
Total		96	80.67%	23	19.33%	119

Source: Survey Data

86% of sample FMCG firms which outsource one or the other processes opine outsourcing as a mechanism to push forward the growth rate. Though 35 sample firms do not outsource any processes, 69% feel outsourcing improves the growth rate. As per Everest Research Report, Indian outsourcing industry can act as catalyst for the growth of emerging sectors including telecom, retail, insurance, hospitality and airlines among others². To justify further, a hypothesis has been set to understand whether FMCG sector growth is attributed towards outsourcing or not. The hypothesis is as under:

TESTING HYPOTHESIS H₃

H₃: THE GROWTH OF FMCG SECTOR IS INDEPENDENT OF OUTSOURCING

TABLE 14: GROWTH VS OUTSOURCING TABULATIONS

Count		Outsourcing			Total
		Yes	No	Total	
Growth	Yes	73	23	96	
	No	11	12	23	
Total		84	35	119	

Source: Survey Data

² <http://www.sharedxpertise.org/file/3929/outsourcing-to-act-as-catalyst-for-emerging-sectors.html>

TABLE 15: CHI-SQUARE TEST

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.115 ^b	1	.008		
Continuity Correction ^a	5.821	1	.016		
Likelihood Ratio	6.623	1	.010		
Fisher's Exact Test				.011	.009
Linear-by-Linear Association	7.055	1	.008		
N of Valid Cases	119				

a. Computed only for a 2x2 table

b. 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.76.

Source: Computed from table 14

Tables 14 and 15 shows that null hypothesis is rejected at the given conditions ($p < 0.05$) and hence alternative hypothesis is accepted, i.e., the growth of FMCG sector is dependent on outsourcing.

OPINION BY NON-OUTSOURCING COMPANIES

The present study covers 119 FMCG firms in India; among them 84 outsource and 35 do not outsource. Perception of not-outsourcing regarding future employment of outsourcing method is tabulated in table 16 as given below:

TABLE 16: OPINION OF NON-USER TO OUTSOURCING

Sl.No.	Future Outsourcing	Count	Percentage
1	Yes	14	40.00%
2	No	21	60.00%
Total		35	100.00%

Source: Survey Data

Opinion survey reveals that 60% of the sample companies have no plans to outsource. However, 40% of the respondents were positive and would like to outsource in the near future. As per Manpower Outsourcing survey results (2003), outsourcing is not set to increase dramatically for the next two years, out of which 14% of the companies' currently outsourcing plan to cease their outsourcing processes in the next 2 years.

SUMMARY OF MAJOR RESULTS

- The FMCG sector is broadly classified into four broad based segments, namely, Personal Care, Household Care, Packed Food & Beverages and Spirits and Tobacco segments.
- Packed Food and Beverages segment is spread widely in India and includes more number of sub segments and brands followed by Personal Care Segment, Household Care Segment and Spirits and Tobacco Segment.
- 71% of the sample FMCG companies are currently outsourcing at least one business process in India.
- 46% of sample outsourcing companies are able to realize cost saving in the range of 5% to 10% and more than 23% of sample companies have achieved cost saving in excess of 10%.
- 67% of outsourcing companies felt a reduction in the price of their inputs, 58% of the outsourcing companies are able to reduce the price of the output and 43% of outsourcing companies have expressed increased process efficiency in their operations. Further, 17% of sample FMCG companies have achieved improved profitability and only 4% of outsourcing companies have expressed positive effect on their market share.
- The present survey finds that if the company is operational in more than one segment the chance of that company getting business processes outsourced is more.
- As per the survey, Spirits and Tobacco segment outsources to the tune of 83%, Packed Food and Beverages segment at 74%, House Hold Care segment at 69% and Personal Care segment at 33% respectively.
- 93% of BPO vendors are Indian companies, 6% are subsidiaries of MNCs and 1% is a captive center. All service providers are located in India especially in tier 1 and tier II cities of the country. There are no offshore vendors and all of them are onshore and near shore vendors.
- Prime reason of business process outsourcing is to save cost followed by reasons such as to reduce operational risks, maintain core competency, avail resources not available internally, make the growth process smoother, free the resources and focus on strategies, gain access to world class capabilities and start new process quickly.
- Depending on the type of business process, the extent of outsourcing is varying. Hypothesis testing reveals that there is significant relationship between type of business process outsourced and extent of its outsourcing.
- Transportation business process (58/84) is outsourced to the maximum extent (69%) followed by logistics and distribution (30%), marketing (20%), manufacturing and food & cafeteria (19%), HR (14%), finance and customer care services (13%), facilities management(8%), R&D and administration (4%) respectively by sample FMCG companies. However, the overall (out of 182 processes outsourced) extent of outsourcing in FMCG sector is varying from 2% to 32%.
- The study finds that 17% of sample FMCG companies are outsourcing core processes while 68% companies are outsourcing non-core processes. Remaining 15% of companies are outsourcing both. Hypothesis testing also reveals that non-core processes are outsourced more than core processes by sample FMCG companies.
- The study finds, on an average, at least two business processes being outsourced by sample FMCG companies.
- Business processes such as facilities management, transportation, IT, food and cafeteria, logistics and distribution, marketing and sales and human resource processes have been broadly categorized as non-core processes. While finance, manufacturing, R&D and administration processes are categorized as core.
- Almost 81% of the opinion survey respondents have expressed that outsourcing contributes to FMCG sector growth and hypothesis testing reveals that there is significant relationship between growth of FMCG sector and BPO.
- 40% of non outsourcing companies are interested in outsourcing in the near future.

MANAGERIAL IMPLICATIONS

Organizations are expected to deliver their best product in the market at the best price. The attempt to pass on higher costs to customers because of operational inefficiency is no more accepted. As a result, keeping costs under control has become an important strategic issue for companies. Different alternatives to keep costs under check are explored. One such method is BPO. The empirical evidence shows that BPO companies are able to achieve an average cost saving of 5% to 10%. Small and medium sized business owners strongly believe that they can save money by outsourcing some of the processes, but which business processes to outsource and from where to outsource (onshore, nearshore or offshore) are the options which needs to be looked upon.

As a result, small and midsized companies are finding difficulty in embracing BPO in their strategy. Large companies carry required infrastructure and are availing BPO services. They plunge into BPO activity for innovations and operational efficiencies. Our survey finds that majority of sample outsourcing companies prefer near and onshore vendors available in tier 1 and tier 2 cities of the country. The decision on location is purely taken on business factors – cost, availability of skills, environment and risks associated. However, majority of the companies are not able to realize improved profitability. This indicates that BPO is operational at the bottom level and has not moved to the strategic level. The study also finds that majority of the sample FMCG companies are outsourcing one or the other business processes to specialists. These specialists may be Indian vendors or a subsidiary of MNC's, catering mostly in peripheral non-core processes. As minority of outsourcing companies has expressed increased process efficiency, Indian BPO vendors are yet to achieve desired performance efficiency in their operations. Depending upon the situation, organizational capability and expectations, availability of internal resources and external expertise, outsourcing decision is taken. To enable effective outsourcing decision, the companies are required to identify and categorize the business processes into core and noncore. This classification is done based on the strategic importance of that business process towards the company.

Business processes such as facilities management, transportation, IT, food and cafeteria, logistics and distribution, marketing and sales and human resource business processes have been categorized as non-core processes while processes such as finance, manufacturing, R&D and administration activities are categorized as core processes in FMCG sector as per the study. Once the categorization is done, it is very important to understand readiness of that business process for outsourcing i.e., we need to find answers to questions such as—can this business process be performed by outside company without hassles in terms of execution, legality or regulatory requirement fulfillment? Also, the number of interfaces required between client and BPO vendors. Can we measure the performance of the business process? These aspects need to be evaluated to judge the readiness of business process for outsourcing. Multi segment operational companies outsource more than single segment operation companies. The overall extent of outsourcing process-wise is varying from 2% to 34% in FMCG sector. This indicates the penetration and scope available to BPO vendors. BPO service providers with greater capabilities need to market themselves to BPO clients to successfully achieve the intended business outcomes and to drive domestic demand.

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APPENDIX A

TABLE A.1: NUMBER OF COMPANIES APPROACHED STATE WISE AND RESPONSE RECEIVED

State	Approached	Response Received	Outsourcing	Not Outsourcing
Andhra Pradesh	22	0	0	0
Assam	1	0	0	0
New Delhi	70	0	0	0
Goa	4	4	2	2
Gujarat	16	0	0	0
Haryana	20	0	0	0
Himachal Pradesh	2	0	0	0
Karnataka	113	88	69	19
Kerala	6	4	2	2
Madhya Pradesh	3	0	0	0
Maharashtra	69	3	1	2
Orissa	2	0	0	0
Punjab	2	0	0	0
Rajasthan	4	1	0	1
Tamil Nadu	38	17	10	7
Uttar Pradesh	32	1	0	1
West Bengal	34	1	0	1
Total	438	119	84	35

Source: Survey Data

TABLE A.2: NUMBER OF COMPANIES APPROACHED SEGMENT WISE AND RESPONSE RATE RECEIVED

Segment	Approached	%	Response Received	%
FB	270	61.64%	83	30.74%
FB&HB	3	0.68%	0	0.00%
HB	36	8.22%	6	16.67%
HC	44	10.05%	16	36.36%
Others	2	0.46%	2	100.00%
PC	68	15.53%	9	13.24%
PC&FB	7	1.60%	0	0.00%
PC&HC	4	0.91%	0	0.00%
PC&HC&FB	4	0.91%	3	75.00%
Total	438	100.00%	119	27.17%

Source: Survey Data

TABLE A.3: COMPANIES OUTSOURCING SEGMENT WISE

Segment	Response Received	%	Outsourcing	%	Not Outsourcing	%
FB	83	69.75	61	73.49%	22	26.51%
HC	16	13.45	11	68.75%	5	31.25%
PC	9	7.56	3	33.33%	6	66.67%
HB	6	5.04	5	83.33%	1	16.67%
PC&HC&FB	3	2.52	3	100.00%	0	0.00%
Others	2	1.68	1	50.00%	1	50.00%
Total	119	100.00	84	70.59%	35	29.41%

Source: Survey Data

TABLE A.4: RESPONDENT PROFILE

SI No	Profile	Number	%
1	Owner	59	49.57
2	CEO	08	6.72
3	CFO	18	15.12
4	Plant In charge/Functional Head	34	28.57
5	Total	119	100

Source: Survey Data

TABLE A.5: RESPONDENT COMPANY PROFILE

SI No	Type of Industry	Number	%
1	Small	93	78.15
2	Medium	10	8.40
3	Large	16	13.44
	Total	119	100

Source: Survey Data

TABLE A.6: TYPE OF BPO VENDOR SELECTED BY SAMPLE COMPANIES

Sl. No.	Type of BPO vendor	Count	Percentage
1	Indian Companies	78	93%
2	Captive centers	1	1%
4	Subsidiaries of MNC's	5	6%
Total		84	100%

Source: Survey Data

TABLE A.7: REASONS FOR NOT OUTSOURCING

Reasons	Count	Percent
Loss of Control over the activity	22	63%
Employee Backlash	2	6%
Lack of Operating Gains	11	31%
Total	35	100.00%

Source: Survey Data

REQUEST FOR FEEDBACK

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At the very outset, International Journal of Research in Commerce and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

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I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator