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BPO INDUSTRY IN INDIA: B2B MARKET TRANSFORMATION

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ABSTRACT

The Business Process Outsourcing (BPO) industry in India is considered significant which require radical transformation to leverage its critical success factor in the competitive environment. BPO service redesigning process, transformation and innovation at basic level focus on continuous improvement in service delivery need to be studied and deeper efforts for improvement can be achieved. With respect to the BPO service improvement through innovation can be represented in different views. Thus focus of B2B need to be widened beyond "cost" element to "value" and "benefits" approach. Deciding on revenue and cost the B2B has to look for alternative using transformation. Low-cost outsourcing from other countries exerts downward push on costs which leads the Indian BPO to loose market share. Rising global competition also exert high pressure on Indian BPO industry. Advantage of Indian outsourcing industry can be well taken into consideration which provides the clear idea behind the development as super power creating India as target destination for multinationals to back end their operations. The government both at state and central level are focusing on the various area and possible ways to support the sector with the developing infrastructure and political and trade relation with other counties. Indian BPO service providers have gained market share through innovative service delivery leveraging various strategic factors and adding value to its functions. The paper will highlight the transformation in Indian BPO sector explaining challenges and factor for innovation providing opportunities to the sector.

KEYWORDS

B2B, BPO Industry, transformation, India.

INTRODUCTION

 Outsourcing service providers in India has grown far ahead to attract clients and transforming process with value addition to its business clients. This increasingly value delivery to the clients has won many hearts. The Business Process Outsourcing industry in India needs to be considered significantly which require radical transformation to leverage its critical success factor in the competitive environment. BPO service providers need to transform and enhance relationship network with its clients to maximize value delivery through customer centric business.

We need to understand about the service delivery and technology of these BPO service providers in India can create transformation and whether it is appropriate enough to provide value addition; or Do Indian BPO providers transforming business clients to focus on change? Whether effective service is being provided to the client regularly conducting regular transformation in service and delivery? If one of these is true then, does Indian BPO think of business transformation to focus on potential earning of revenue and get large business clients? This paper is intended to discuss strength, weakness opportunities and threats of Indian BPO industry and analyze how Indian BPO service industry provides value addition to the clients.

Normally, every business clients will complain for the BPO business irrespective of any specific area from customer care to value addition. On the other hand, BPO service providers claim to provide value to its clients through enhanced services. The regular dissatisfaction from B2B leads the business to attract new form of competition. The regular innovative service delivery at fundamental level by the BPO business need to be put forward to gain market revenue and to deliver improved value. Incremental process improvements are essential for providing value to its business clients looking for better customer services and satisfaction. For this reason, the BPO service redesigns the process through transformation and innovation at basic level through focus on continuous improvement. Other parts of the coin is the cost at which the business supports the customer and cost at which BPO provide services. Clients continuously flatter and try to reduce cost giving benefits to its customer ultimately BPO providers will become the primary option for reducing cost. BPO has to provide continuous improvement and focusing on value delivery.

BPO – SERVICE FOCUSING ON IMPROVEMENT

In the process of outsourcing service improvement through innovation and transformation plays a vital role to gaining revenue. BPO service providers search for people who continuously provide innovative solution to the process outsourced by the business. In respect to the BPO service improvement through innovation can be represented in different views:

Firstly, Client centric view: Improved service provided by the BPO business service provider need to give additional value with respect to the higher order of magnitude which can accomplish the client objective to improve revenue, sales and customer loyalty. Nevertheless, innovative improvement need not be the only factor related to revenue but also focus and put thrust on other changing factor to marketing, product development, accounting procedures, business analysis, engineering development, customer services, IT solution, R&D, and others. In client centric view major challenge is to understand the issue based on "core value" being provided by the business to its customer and how to "add" to it through outsourcing by the service providers.

Secondly, Business centric view: BPO service providers are looking for transformation which helps the desired "core value" to the business client. Meanwhile, "adding value" create positive application to "continuous improvement" in the service being provided. The biggest challenge to the service provider is to generate solution that will integrate the client mentioned "value".

Lastly, Customer centric view: Being a customer looking for maximizing benefits in terms of cost and value for money becomes major concerns. Thus, focus of B2B needs to be widened beyond "cost" element to "value" and "benefits". Deciding on revenue and cost the B2B has to look for alternative using transformation.

B2B TRANSFORMATION

B2B with the view of handling the changing environment concentrates on basic business process change that can shift the cost issue to value concentration. The basic transformation of the BPO would need to categorize the priorities in client process which support and transform the major aspects. Priority transformation within the client process is critical and complex which need time and effort in order to benefit the client. The resultant aspect is the capability of business to deliver continuous and improved service eliminating possible error and attain value process.

B2B PARTNERS – INDIA, A GLOBAL HUB

The Indian economy has growth tremendously with the end of last century and started developing at great pace in the new millennium in vast sector ranging from traditional agriculture to automobile and IT sector having the capability to be a global hub for service and manufacturing having vast portfolio of modern industries with dominant services with growth output on more than 50% attributing major contribution in the economic growth and development of the country.

With the opening of the Indian economy with dynamic and flexible policies which brings the macroeconomic reforms serving to achieve a stabilized economy and shed the foreign exchange crises increasing the foreign reserve to stabilize the market and consequently increasing the development of financial market and export. After the policy reform in the country is able to attract significant number of foreign investment and improve the business opportunities adding to growth and development. Policies especially related to external affairs have been structured gradually to open the Indian economy and consequently the Indian market for direct investment.

With the open economic policies, India has developed and grown rapidly with positive impact on both social and economical front which direct India as one of the fastest growing economy in the world. The service sector makes up a further 28%, and industrial sector around 12% with the labor force totals half a billion workers. India's large service industry accounts for 54% of the country's GDP while the industrial and agricultural sector contribute 29% and 17% respectively. Indian economy at a glance includes - GDP: \$1.209 trillion (2008 est.); GDP Growth: 6.7% (2009); GDP by sector: agriculture: 17.2%, industry: 29.1%, services: 53.7% (2008 est.); Inflation: 7.8% (CPI) (2008); Labor force: 523.5 million (2008 est.); Main industries includes: textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, software; Revenue: \$153.5 billion (2008 est.; wikipedia.org/wiki/Economy_of_India). According to the World Trade Statistics of the WTO (2006), India's total merchandise trade (exports and imports) was valued at \$294 billion in 2006 and India's services trade inclusive of export and import was \$143 billion. India's global economic engagement in 2006 covering both merchandise and services trade was of the order of \$437 billion, up by a record 72% from a level of \$253 billion in 2004.

OUTSOURCING

Outsourcing non-core business processes and competencies to a third party gives the organization better focus and control on their core competences, which will lead to increase the overall profitability of their business (Aldarrab et.al, 2006). During the early century the tax has been collected with the other party which has gained other application giving birth to the outsourcing process in business in late nineties. The corporate are looking for the reduction of the cost as the competitive advantage through reducing business activities. This concern about the cost through business activities and adopted change in action related to the business activities has created the platform for BPO service providers to proliferate and grow attaining service excellence based on cost reduction and adding value. This resulted the vertically integrated and self-sufficient corporations were achieved by managers who reevaluated the core functions of the organization (Mullin, 1996). Later, to improve the business process and to increase the profitability the corporate firms bring the operational excellence to provide better services achieving quality, efficiency with cost benefits to the clients.

Outsourcing can be done for various reasons achieving results with support activities, business transformation, develop capabilities, developing competitiveness, developing core competencies, gaining competitive advantage, improving cash flow, improving operations, increasing sales, increasing shareholder value, innovation, overcoming lack of internal capabilities, service excellence, reduce capital investment, reducing costs, reducing inventory, operational excellence, adding value etc.

SERVICES OUTSOURCING

Service sector in India is considered one of the biggest sectors to attract foreign investment through attracting corporations to offshore the services to the country. Also with the revolution of telecommunication infrastructure and education system in the country creating skilled workforce in large as well as the high quality level in speaking multilingual languages with good command over English made the companies to offshore their non core competencies to Indian firms and ideal choice to outsource. Indian Outsourcing services firms are not only restricting themselves to one area of handling consumer queries but also involved in clinical research, analysis, case management, customer care service, data processing, business transaction, accounts management, financial management, assets management, form processing services, insurance, medical, product research, market research, policy issuance, policy management, auditing, promotion, risk assessment, sales management, survey, animation, screening, market development etc.

BPO industry in India is considered as process partners, catering extensively and valuable services to it business client's mostly in western countries having large and small operation. Business Process Outsourcing (BPO) expenditure is likely to grow by 10 per cent a year from \$140 billion in 2005 to over \$220 billion by 2010 worldwide including IT outsourcing (Source: Logica CMG study). The sector has been grown tremendously with the start of the new millennium with the capturing of large market share and extensively enlarged in size and capacity offering services to both domestic and international business. With the boom in Information technology and communication revolution which enhanced the growth stage with respect to resources, cost efficiency and technology. Matching with the IT and communication infrastructure BPO industry in India plays a catalyst role for service export and contribute high to annual revenue growth both from domestic and international market. This fast growth also led the sector to emerge as one of the key investment market in the country. India's share of the global offshore outsourcing market for software and back-office services is 44%. According to the NASSCOM, India's IT, software, services exports worth \$17.2bn in the year ended March 2005, a rise of 34.5% over the previous year. A further expansion of 30% in exports is predicted in the coming year, to reach \$22.5bn. The US accounts for 68% of Indian exports.

Business process outsourcing (BPO) is a broadly defined as getting support from the external entity for getting process done. BPO differentiates itself by either application of new method or putting in new technology to improve process. The motivational factor which works behind the main idea can be: factor cost advantage, economy of scale, business risk mitigation, superior competency, utilization improvement etc. Outsourcing in India started with the development of software industries (Bhowmik, 2004). With the initiation of various multi million projects by various state to establish and develop the software industry especially in states like Karnataka and Andhra Pradesh etc. has lead India to achieve new targets capturing market share around the world. With the advantage, India on comparative cost advantage production, Indian industries especially dealing with IT and its application has gained well status in the national and international market. With the added advantage of low cost labor availability and skilled professionals in large number has added the cutting edge to the software industry. India is hoping to enlarge this sector in the future with highly skilled and well developed infrastructure. Business to business outsourcing to India in the area of IT, customer service, legal, supply etc is increasingly becoming strategic choice of the companies searching for competitive advantage with reduced cost. The government at both central and state level are focusing on the various area and possible ways to support the sector with the developing infrastructure and political and trade relation with other counties.

CHALLENGES FOR BPO IN INDIA

With the tremendous growth in Information Technology, communication and infrastructure, established business process (IT) outsourcing sector in India faces several challenges. These challenges need to be understood and should be analyzed to implement the solution to overcome its complication and order of magnitude which will avert India to attain the leading position in the global ranking of outsourcing industry. Reengineering of the off-shoring business with the change in the operation system and business model has becomes the common trend in the sector. Changing business processes is the goal to keep the country in its leading position, though it is considered as a difficult and a time-consuming job (Aldarrab et.al, 2006)

In future, India may face various challenges, including: Skilled workers: The off-shoring IT BPO industry are now taking technical graduate who are currently undergoing college training or are just graduates. Indian IT-BPO may face predictable shortage in the next few decades. Secondly, Cost of service: with the development the cost of services are increasing which will support the competitor within Asia to extract market share which was previously enjoyed by the Indian BPO industry. Thirdly, with the incremental growth in the clients requirement the infrastructure need will be more which can create problems of space availability to companies operating in metros. Other cities need to create with well developed infrastructure to support the incoming business.

Challenges that Indian BPO may face in the future and need to be analyzed with great concern are: Indian BPO with large concentration of firm makes difficult entry to the sector. The new entrants look for niche market and expose slowly with the potential which needs huge investment and time. Undeveloped infrastructure in the cities leads the companies to move to metro which provide limited space to expand and grow. Lack of specialized human resource most of them engaged in other technical area for which the firm faces regular turnover leading to low efficiency and low productivity.

Low-cost outsourcing from other countries exerts downward push on costs which leads the Indian BPO to loose market share. Rising global competition also exert high pressure on Indian BPO industry. China, Malaysia, Singapore and other Asian countries are growing in terms of BPO market share. Lack of research and development in BPO industry restrict innovation and development. The business clients are looking for regular innovation in services increasing efficiency and reducing cost which will lack without research in the area.

Other challenges that Indian BPO sector can face in the future are:

1. Benchmarks: Benchmarking within the policies is not yet taken as corporate culture in the BPO service in India which needs to be developed.
2. Brand equity: Attracting talents with specialization is the biggest problem due to the fact the people still consider BPO job as low profile.
3. Demanded results from outsourcing partners based on parameters like quality, timeliness, information security, business continuity and disaster recovery are regularly changing.
4. Training: Lack of specialization in the employee and clarity on skill and no standard curriculum which could fulfill the need intense designed training program etc.
5. India's outsourcing sector is heavily dependent on external market for business. In the present situation, economic slowdown has acted as a drawback for the industry. Such other factors may challenge the industry due to dependency of the sector.

BPO SERVICE PROVIDERS IN INDIA

According to a survey ranking is terms of revenues generated and other parameters like Employee Size (Operation level executives), Percentage of last salary hike, Cost to company, Overall Satisfaction Score, Composite Satisfaction, Organizational Culture, Job Content, Growth, Training, Salary and Compensation, Appraisal System, People, etc on the BPO companies in 2003-04 done by NASSCOM the list of BPO companies in India are: WNS Group, Wipro Spectramind, Daksh e-Services, Convergys, HCL Technologies, Zenta, ICICI Onesource, Mphasis, EXL, Tracmail, GTL Ltd.

Advantage of Indian outsourcing industry can be well taken into consideration which provides the clear idea behind the development as super power creating India as target destination for multinationals to back end their operations. Annually, India produce large number of English speaking professional which will act as base, adding to the workforce pool ready for taking assignment which are absorbed by the IT companies supporting the industry framework for the outsourcing process. Besides this, India acts as the cost advantage country when compared to the international market. Cost benefits, both to the companies and the BPO will give soothing platform for long term alliance between the companies. Providing the high quality service to the customer through innovation and speedy solution will add as advantage. Infrastructure availability and government support in terms of policies and development has motivated the Indian BPO companies to venture abroad and capture the major market share in the international scenario. Some of the major supportive and non supportive factors which affect the Indian BPO are:

Key factors/ development factors	Supportive factors	Non supportive factors
Responsiveness	<ul style="list-style-type: none"> • High cultural responsiveness • Strong reputation for technical and strategic fit • Developed high specialized capabilities 	<ul style="list-style-type: none"> • Technological adaptability • Culturally less adaptive to other Asian countries (China & Japan)
Infrastructure	<ul style="list-style-type: none"> • Capacity building • Infrastructure development • Other supportive infrastructure availability 	<ul style="list-style-type: none"> • Availability of land and developed technological centre for the industry • Lack of development infrastructure for immediate achievement
Human Resource	<ul style="list-style-type: none"> • Technical development and supportive education system • Language proficiency • Adequate and talented IT skilled professional 	<ul style="list-style-type: none"> • High turnover • Low penetration of skilled professionals • Lack of innovative capacities • In spite of large workforce pool, supply is slow.
Cost	<ul style="list-style-type: none"> • Favorable labor cost • Large skilled manpower 	<ul style="list-style-type: none"> • Retention issues • Development cost
Location attractiveness	<ul style="list-style-type: none"> • Time zone advantage • Networking • Location favorable 	<ul style="list-style-type: none"> • Competition within the region • Low absorption • Low retaining capabilities

FUTURE OUTSOURCING TRENDS WORLDWIDE

1. Control will become the major issue as clients will design the requirement
2. Creation of multi-polar world as more competitors from different countries will exist.
3. Environmental risk factors will frequently occur which sometimes leads to downturn.
4. India will be leading in Services with a advantage in English language and cost factor
5. Indian companies will face stiff competition from other counties in Asia and likely to provide specialized services with minimal risk and cost.
6. Interlinking of the supply chains create stability and put pressure.
7. Outsourcing expenditure will continuously increase due to the regular technological and innovation requirement.
8. South Asian countries will transform the global economy through service and development. Shift in basic skills, costs and processes to domain knowledge and other knowledge will shape the economies.
9. Technological power will shift from the West to the East
10. Competition among larger firms for market share

OPPORTUNITIES FOR INDIAN BPO SECTOR

With the increasing competition within the South Eastern region has pressurized the Indian BPO to look for alternative areas. Knowledge Process Outsourcing (KPO) has been exhibited as the major area on which Indian BPO are looking sharply to capture the opportunities. Some of these knowledge domain areas are:

1. RESEARCH AND DEVELOPMENT

- Product Innovation – Various multinational companies both in manufacturing and service sector are investing large amount on product development and innovation process which open potential market for Indian service industry.

- Co-development - Indian service industry has the opportunity to link with various multinational organizations for co-development of product and services to commercialize compounds they develop together. Some of these areas are; pharmaceuticals, clinical trials and research testing

2. ENGINEERING OUTSOURCING

India has the opportunity to provide high-quality engineering services to MNC's in the fields of: asset management, automation, design, engineering, process engineering, software development etc.

3. ACCOUNTING SERVICES

With the capability of developing high standard accounting system in India the firm in India provides accounting service like financial analysis, stock market view, etc.

4. MANAGEMENT SERVICES

Indian service sector with high potential of large-value addition and can offer management services for IT, operations, IT based security etc.

5. INFRASTRUCTURE MANAGEMENT

The growth of Indian economy in all sectors has created added advantage for many projects. Infrastructure for manufacturing, service and other sectors need to be developed to greater extends to improve overall productivity.

6. LEGAL OUTSOURCING

India with high potential of legal lawyer specialized in various area with the proficiency in English and exposure to different countries legal system are capable to support the multi national for legal support like patents, entry and exit regulation, strategic alliance, networking, etc.

7. Other fields include animation, Education, film, Financial Research, web designing, medical writing: publishing, training, Biotechnology, Nanotechnology, automation and many others.

The outsourcing industry in India offers the greatest potential to grow and expand in different sector supporting the main industry. These sectors can be identified as:

- Customer interaction and support
- Finance and accounting services
- Human resources support services
- Technological process development
- Information systems outsourcing and systems integration
- IT services and development
- Knowledge service
- Software application development

SWOT analysis of Indian BPO sector:

<p>Strength</p> <ul style="list-style-type: none"> • Cost advantage • Strong education and training • Process development • Established reputation of firms • Large export market • Quality focus • Skilled workforce • Expertise in new technologies • Entrepreneurship • Technical innovations • Reverse brain drain • Existing corporate relationships • Global branding • Attractive offerings • Speedy expansion • Growth in domestic • Quality software development. • English language proficiency • Internal Support • Financial support • Factor Cost Advantage • Economy of Scale • Business Risk Mitigation • Superior Competency • Utilization Improvement • Technical Support Services • Insurance Processing • Networking • Highly developed telecommunication • Developed transport system 	<p>Weakness</p> <ul style="list-style-type: none"> • Brand management • Infrastructure • Cultural differences • Marketing & Sales • Education • Business process • Distance from US • Uncertainty • Slower Legal system • Lack of globalization skills • Internal competition • Over-promise / Under-deliver • Regional geopolitical uncertainty • Rising labor costs • Competition from other countries • Policies • Corruption • Positioning • Benchmarking • Delivery system
<p>Opportunities</p> <ul style="list-style-type: none"> • Changing Regulation • Commercial terms • Global destination • Developed partner • Developed Patent system • Developing communication facilities and Developing analytical systems • Improved Licensing system • Increasing off-shore market • Increasing population of skilled workers • Innovative processes • Low cost economies • Lower costs technology availability • Political scenario • Research and development 	<p>Threats</p> <ul style="list-style-type: none"> • Costs of finance • Costs of utilities like power • Credibility loss • Dual exchange rates Competition form other Countries • Government subsidies and taxes • Price wars • Quality standards, • Understanding of the intricacies of global regulatory requirements • Unhealthy competition • Unorganized international partners Relationship and service

Indian BPO industry contribute large percentage share of total \$ 5.7 billion in 2005 with the growth of 44.4% has been estimated in 2005. Growth of BPO sector has also favored due to security practices and under laid developed trust based on standardization and quality measures being used during the years.

Indian BPO industry has achieved to gain major market share through transforming the process and developing cutting edge on: 1) cost 2) Information quality standard and security 3) process innovation act as fundamental thrust which supported transformation process and service pillars. The series of activities based on improving efficiency and effectiveness, productivity and system improvement and transformation is achieved with business process metrics being initiated. This spectrum leads to stable, secured, scalable and flexible process management which add value to the client and capable of changing based on environment change situation.

The initiative of performance and productivity based process transformation has been drilled by several operational parameters initiated at global business process centre. This initiative has accrued to standardization and process handling enabling ability to consider alternatives and transformation.

INNOVATIVE DELIVERY BY INDIAN BPO INDUSTRY

Indian BPO providers have gained market share through innovative service delivery through various key leverages:

- 1) **Business Process Reengineering:** Service providers evaluate the business client processes with a view to provide value rather than performed repeated steps and functions which restrict efficiency and productivity. The benchmarking process will support and provide the measures and scale within them. This process of reengineering will be formed to reduce errors and cost of overall process.
- 2) **Cost:** The key reason for the Indian BPO firms to attract larger business community is due to the cost reduction. Low technology cost, information security cost, automation etc has benefited clients through remarkable cost saving which previously marked as huge investment. Clients have obtained far larger benefits beyond cost is the achievement of productivity in spite of low cost. Some of them are due to large volume and improved process system.
- 3) **Value creation:** Reducing end user complain, differentiated service, cost reduction, error reduction, improved and accurate system process has developed creation of value to its clients.

Strategies for improving the BPO industry

- Allows executives to better manage resources
- Creates an improved and consistent participant experience
- Creating improved business process system
- Developing and implementing competency frameworks
- Efficient utilization of capacity
- Enables HR to focus on core product and development strategies
- Enhances data security
- Enhancing internal efficiencies through process improvement
- Improve performance, increase delivery and Reduce transaction costs
- Improves audit and compliance procedures
- Business value-addition of its function
- Performance-linkage and tenure track system adoption
- Recognition and Flexible system approach
- Setting up new facilities

CONCLUSION

The regular innovative service delivery at fundamental level by the BPO business need to be put forward to gain market revenue and to deliver improved value. The BPO service improvement in India through innovation can be represented in different views: Client centric view; Business centric view; Customer centric view. With the opening of the Indian economy with dynamic and flexible policy decision which brings the macroeconomic reforms serving to achieve a stabilized economy and shed the foreign exchange crises increasing the foreign reserve to stabilize the market and consequently increasing the development of financial market and export. The sector with the concern about the cost through business activities and adopted change in action related to the business activities has created the platform for BPO service providers to proliferate and grow attaining service excellence based on cost reduction and adding value.

Indian BPO may face challenges in the future and need to be analyzed with great concern with large concentration of firm, entry barriers to the sector, market concentration and requirement if investment and time. Undeveloped infrastructure, lack of specialized human resource with provides limited scope to expand and grow in other technical area for which the firm faces regular challenge. Advantages of Indian outsourcing industry as target destination for multinationals to back end their operations. The paper elaborates the strength and weakness as internal factor and various opportunities to build on with innovation delivery.

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