

Emerging destinations for outsourcing, including parts of the UK, are challenging India's cost-effectiveness, but price isn't all that matters, as Sally Percy reports

# Race for the bottom as companies cut costs

## CHANGING GEOGRAPHIES

For a decade and more, India has reigned as the world's outsourcing destination. Among its well-publicised advantages are a large pool of educated, English-speaking people, proactive government backing and robust infrastructure, telecommunications and technology. But with wage inflation and rising staff attrition eroding India's cost-effectiveness, other nations hope to cut a bigger slice of the \$370-billion global outsourcing pie. "Countries will seek to grow their participation in offshore services with each country working out what they can offer that's different," says Duncan Aitchison, partner at global outsourcer Information Services Group (ISG). India's declining cost-effectiveness, combined with the financial crisis, has sparked what Richard Jones, chairman of procurement outsourcer Proxima Group, describes as a "race for the bottom". Companies are open-minded

about where their outsourcing providers are based as they hunt down destinations that offer the best service for their money. The emerging destinations share several important attributes, according to R. Chandrasekaran, group chief executive for technology and operations at US outsourcing giant Cognizant. "They offer a rich pool of multi-skilled talent with a high work ethic. They also have cost advantages, sound IT and telecoms infrastructure, good connectivity, ease of travel, government support, business-friendly policies and cultural compatibility." But the journey to find high-quality, cost-effective outsourcing providers doesn't only end in exotic locations. The UK is set to attract more outsourcing as companies repatriate work to the regions, which are increasingly good value for money. And the Coalition Government's cost-cutting drive could mean it makes greater use of

outsourcers for public sector work. Mr Jones also predicts a strategic shift towards robotics in business processes, which could benefit the UK given our history of incubating leading-edge technology. And cost isn't everything, even in outsourcing. "Companies have been very quick to go down the cost-saving route," says Debra Maxwell, global business process outsourcing (BPO) director of Arvato. "They need to be focused on quality."



**The UK is set to attract outsourcing as companies repatriate work to regions which are good value for money**

**\$1,000**

**average monthly salary for a bilingual Chilean call centre agent**

Source: Nearshores America

**600k**

**call centre jobs in the Philippines**

Source: arvato



<b>Jamaica</b>   <b>01</b>	<b>Chile</b>   <b>02</b>
Cited as a destination to watch by analyst Gartner, Jamaica is the Caribbean's leading outsourcing destination. Its close proximity to the US, robust telecommunications and developed financial services sector in the Montego Bay Free Zone make it attractive to insurers and similar businesses. Salaries for outsourcing staff are 40-60 per cent lower than in the US and attrition rates are low. Work carried out includes debt collection, finance and accounting, customer services, insurance claims and technical support.	For the past six years, the Chilean government has actively promoted the country as an outsourcing centre through generous incentives and investment in infrastructure. Chile has the highest rates of mobile telephony and broadband penetration in Latin America, the safest capital city in Santiago and employer-friendly labour laws. Literacy is high at 96 per cent and the country is on the same time zone as New York. It is politically stable with a low foreign currency risk.
<b>UK</b>   <b>05</b>	<b>Ghana</b>   <b>04</b>
The UK is enjoying an outsourcing renaissance thanks to the competitiveness of its regions. Locations, such as South Wales, Glasgow and Belfast, offer skilled people at a reasonable price with Glasgow, particularly, known for its work ethic. The regions offer government grant assistance, sound infrastructure and cost-effective commercial property, including purpose-built business parks. They are a low-risk option since it's easier to manage outsourced operations here than abroad and it's cheaper to transition the work.	Ghana is a rising star of business process outsourcing. According to outsourcing group ISG, it is the least expensive destination in the world thanks to its low taxes, rent and wages. Salaries in Ghana are 60-65 per cent lower than South Africa and 50-55 per cent lower than Egypt. The country has tried to boost its attractiveness to investors through technology parks, and by supporting research and development. An established democracy, it shares a time zone with the UK.
<b>Poland</b>   <b>05</b>	<b>Romania</b>   <b>06</b>
As an outsourcing provider, Poland ticks many boxes. It has a well-educated and loyal workforce, good telecommunications and a convenient location at the heart of Europe. Government support for outsourcing is high and it has invested heavily in foreign languages, making it a call-centre hub. Poland is home to around 500 IT service providers that offer network services, analytics and embedded systems. Large multinational companies, including Motorola, HP, Google and IBM, have development centres there.	It may not seem an obvious choice, but Romania has a reputation as an attractive outsourcing destination. The country is becoming a leader in outsourced IT product development, particularly for chip design, embedded software and information security. With more than 100 universities, Romania is renowned for its cheap, high-quality labour pool that has language and mathematics skills in abundance. It was ranked 25 on the 2011 Global Services Location Index produced by management consultancy A.T. Kearney.
<b>South Africa</b>   <b>07</b>	<b>Russia</b>   <b>08</b>
South Africa's advantages include its weak currency, multi-lingual population and convenient time zone, just two hours ahead of Greenwich Mean Time. Besides English speakers, it has a German population, making it an attractive offshore destination for German companies. Airline Lufthansa has a call centre in Cape Town. Gartner research found that South Africa has a good reputation for data and intellectual property security, which explains why many UK law firms send their document production there.	The impressive education system of the former Soviet Union is behind Russia's emergence as an IT outsourcing centre. It has a huge pool of engineering and IT talent who are relatively low-cost and expert in technically challenging tasks. Russia is geographically well positioned and the government has expanded IT infrastructure in the country. Siemens, Alcatel and the London Stock Exchange are among more than 250 global companies that use Russia for offshore software development.
<b>Vietnam</b>   <b>09</b>	<b>The Philippines</b>   <b>10</b>
Vietnam has established itself as an important hub in software development and is home to more than 3,000 IT service providers, employing around 15,000 engineers. It is reaping the benefit of rising costs in China and growing Chinese-US trade tensions. In 2010, Intel opened a \$1-billion chip manufacturing plant in the country. Vietnam is a very cost-effective outsourcing destination thanks to cheap commercial rent, hardworking people, modest entry-level salaries and a low cost of living.	The Philippines may be less well known in the UK than its great outsourcing rival India, but it's a favourite with US companies. Skilled graduates come cheap and the country has decent infrastructure and technology. Outsourcing is predominantly call-centre based although more complex back-office operations are taking off. Workers tend to speak fluent English with an American accent. Companies with outsourced operations in the Philippines face limited reputational risk due to stringent labour laws.

**£6,000**

**annual rent for a 1,000sq ft office in Newport, Wales**

Source: Rightmove

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