

Advantages of Offshoring to India

Following are the key factors that contribute to India's position as a preferred destination for offshore outsourcing:

1. Availability of large talent pool
2. Low cost
3. Fast turnaround time

Availability of a large pool of talented and motivated professionals India has a large pool of young talented professionals. Its 380 universities and 11,200 higher education institutions produce 2.1 million graduates each year. As a result, companies have sufficient options to choose from, while recruiting employees for their offshore captive centers. Further, it is expected that the number of people in the working age group in India will increase by 250 million from 2003 to 2020 at an average rate of about 15 million per year. This will ensure labor for companies in US and Europe where the demand for labor is increasing. India also has the largest English speaking population in the world. This ensures good communication between the customer and vendor when the work is outsourced to India.

Indian employees are hard working and motivated. They are also satisfied with their work; this can be seen from the attrition rate in BPO in India. As shown in Table 3, attrition rate in BPO in India was 18 percent in 2003, significantly lower than that in other economies.

Attrition Rates

Country	Attrition Rate (Percent)
US	42
Australia	29
Europe	24
India	18
World Average	24

Source: Times New, New York (2003)

According to the Boston Consulting Group, access to the large talent pool and higher employee satisfaction translates into better employee performance (and cost savings on recruitment and training). This leads to a productivity increase of over 30 percent in India. Indians also produce superior quality of work. Research has found that error rates in accounting were reduced by 60 percent when the work was outsourced to India.

Significant cost advantage

One of the biggest advantages of offshoring to India is cost savings. Companies have been able to save about 30 to 40 percent for most services by outsourcing processes to India. Cost savings in India can be accounted for by savings in the following three heads:

1. **Labor:** Indian professionals work at wages much lower than that in the US and Europe.
2. **Capital:** Infrastructure costs in India are lower thus saving significantly on capital.
3. **Labor management:** The number of employees required during a project is not same throughout the course of the project. Hence, when a business process is carried out in-house, companies have to pay the employees and maintain office space for them, even if these employees are not working on any project. Outsourcing enables companies to do-away with the expenditure on bench labor, as the outsourcing vendor allocates the bench employees to projects for other clients or bears the cost of inefficiency.

An excellent example of a company that has achieved cost savings by offshoring to India is General Electric (GE). After offshoring its operations to India, GE found a reduction of 25 percent on its labor cost. This led to an increase of 150 percent in the Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). Table 2 provides the pre-offshoring and post-offshoring comparative figures.

Effect of Offshoring to India on GE's BPO Operations

	Pre-offshoring	Post-offshoring	Effect
Sales	100	100	
Labor	60	45	25 percent decrease
Materials	20	20	
SG&A	10	10	
EBITDA	10	25	150 percent increase

Source: FII View

There is a vast difference in the labor costs in US/Europe and India in the IT industry as well. An IT professional with 1-2 years of experience in the US and Europe charges USD 50,000 to 70,000 per year. On the other hand, a professional with same experience level costs about USD 8,000 per year in India, about 11 to 16 percent of that in the US and Europe.

Fast turnaround time

In India, clinical trials are conducted in 30 percent less time, while there has been a backlog reduction of 50 percent in transcription processing. Also, India and the US have a zonal time difference of about 12 hours, thus effectively giving companies a 24 hours work environment. Most of the processing functions are performed during the day time in India, when it is night time in the developed countries. As a result of this zonal time difference, there is no or little backlog in the front end and processing tasks.

The advantage of this zonal time difference is more prominent in IT outsourcing. Many IT projects have onsite and offsite teams. The onsite team works during the day at the client site and hands over the work to the Indian team before retiring to bed. The offsite team then works on the same project as it is day time in India. When the Indian team retires to bed, the onsite team takes over the work, thus significantly reducing the project turnaround time. Nortel Networks, an IT firm headquartered in Canada, started its operations in India to harness the benefits of the time difference between India and Canada, along with cost savings.

The Indian government also offers tax holidays under Section 10A and 10B of Income-tax Act on various IT enabled products and services. These services include back-office operations, call centers, payroll, data processing, geographic information system, human resource and training, insurance claim processing, legal services, medical transcription, engineering and design, accounting, administration and support, and content development.