

THE ROUTE MOST TRAVELLED

Despite a predicted slowdown in the growth of offshoring over the next few years, Professor **Soeren Dressler** says the trend was not all hype. He explains how offshoring is set to become a standard business strategy for all large global corporations.

Offshoring has become an increasingly common business practice. Global corporations are moving back office processes to locations around the world and almost every large-scale corporation is investigating its options. Yet many are asking themselves whether it is just hype or a serious business strategy that they should be investigating.

US companies have been successfully offshoring IT and service operations since the late 1980s to India. Since independence, India has focused on education, and as a result, the Indian Institute of Technology, founded in the 1956, is now a leading educational facility. Besides the sheer size of its labour pool, India can also offer a highly skilled workforce.

Large US corporations have tested India's capabilities as an alternative location for many years. While some engagements have suffered under technological, communicative and cultural roadblocks, the majority of offshoring assignments have generated the expected results.

However, India is facing two major issues: accent and attrition. While accent neutralisation is now standard training in India's offshore centres, the Philippines has emerged as a serious competitor. With its close ties to the US and relatively high cultural compatibility, the Americanised English spoken in the Philippines has turned out to be an important differentiator.

Attrition is a more serious issue for India. With attrition rates of more than 50%, process and service stability is no longer secured. The double-digit growth rate seen just a couple of years ago is history. India's offshoring business will grow at a much slower pace, if at all, in the next few years.

European offshoring

New growth markets are now in Europe. With UK companies already offshoring successfully, the rest of Europe is paying attention. Companies in Scandinavia, Benelux, France



and Germany are expected to be the prime sponsors of the offshoring business in the near future. Germany alone is expected to increase BPO and ITO outsourcing by 12.7% this year, from €15.3 billion in 2007.

However, the major stumbling block for non-English-speaking countries is that the English offered in locations such as India and the Philippines is not sufficient. Even Germany's multinationals will need at least a partly German-speaking back office. And with many subsidiaries spread all over Europe, up to 18 languages can be found in the service functions of Europe's key players – with no common denominator in terms of language.

ITO and BPO providers in Europe are trying to adjust to the situation. Operations in Eastern Europe are part of the solution. There is no major provider without at least one centre operating from Poland, the Czech Republic, Hungary,

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Slovakia or Romania. However, the combination of domain and language expertise is becoming a scarce resource, eroding cost advantages. While call centre personnel for simple tasks can still offer significant labour arbitrage, SAP experts with English and German in Prague or Budapest are as expensive as in Berlin – if they can be found at all.

Splitting the load

Many providers and companies are moving towards a multi-location model to solve these issues. Voice- and non-voice-based processes can be separated and sent to the relevant country. For example, all language-sensitive processes, such as interacting with customers or suppliers, can be consolidated in the high-cost country while requests via email or chat are handled in India, Malaysia or China.

The sequenced multi-location offshoring concept can be rolled out in different phases. Initially, the organisation should familiarise itself with the concept by consolidating services in a European centre with multi-language capabilities. As soon as all issues regarding processes and technology have been resolved and English has been established as a back-office language, everything can be moved to Asia or Latin America. Even Africa, with its abundant resources and attractive cost structures, is on the radar, although the quality of the labour pool remains an issue.

At the same time, additional interfaces have to be closely managed. Not being able to communicate easily with the back office creates fear and resistance. For example, a German business unit accountant with limited English capabilities who has to resolve an issue with an accent-loaded Indian service agent will lose trust in the offshoring strategy very soon.

Where next?

BPO and ITO offshoring is at a critical stage. The provider market is maturing, and for the Anglo-American world, offshoring is part of modern business. Europe and Asia are a different story. Different languages, jurisdictions and cultures are major obstacles.

Meanwhile, the diminishing qualified labour pool, combined with rising attrition and eroding cost advantages, is making offshoring a risky endeavour that needs to be managed closely with business savvy and an understanding of the global business environment. Following the crowd is not always the best policy. The late entrants to places such as Bangalore, New Delhi, Prague, Budapest or Krakow are often unsatisfied. The fact that many global players have succeeded there in the past is not a guarantee for the future. Local knowledge and the courage to define your own path is the best recipe for success in the offshoring market. Offshoring is an unstoppable phenomenon. In a digitised world with increasingly high



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educational standards everywhere, the global allocation of work will become a standard model for international businesses. Knowledge and skills will be acquired on the same rationale as material and components – the price-quality ratio.

However, the boom is over. Established providers and mature shared services operations are trying to maintain the pace of growth with new customer segments, such as the middle market, or fresh locations, such as Africa, but offshoring has become nothing more than a standard business practice. When the dot.com bubble was bursting in 2000, the internet did not die, and the same applies to offshoring. It remains a vital organisational tool for global corporations, but the hype is finished. FDE

OVERFLOW