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## INTRODUCTION

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*This is not war, where one economy's victory is another's loss. We all win when these things go forward, but if we are not realistic about our strengths and how to act on them, then we could go backwards. The prescription for the U.K. and U.S. economic behavior is the same; they must be economies that build innovative products [and services].* **Bill Gates**

**Outsourcing.** It must be important, if everyone is doing it. But how to do it well? How to decide whether to do it at all?

The newspaper headlines at the time of writing tell the story:

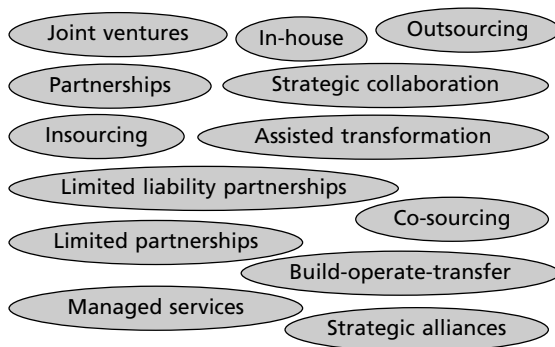
- Abbey established an IT development presence in Bangalore in September 2002, employing 100. Another 400 jobs will be exported soon
- ABN AMRO Central Enterprise Services has call centers in Gurgaon and Delhi with more than 2,000 employees
- American Express first outsourced to India in 1994. It now has 4,000 employees there
- Aviva announced plans in January 2004 to outsource 2,350 jobs to India, where it already employs 1,200
- Axa Insurance has moved 100 back office jobs to Bangalore
- Barclays cut 150 U.K. jobs to use cheaper Indian staff in June 2003
- Citibank employs 3,000 people in Mumbai and Chennai
- Deutsche Network Services employs 50 in Bangalore
- Fidelity Investments set up base in Gurgaon in July employing 200–250, increasing to 1,000
- Goldman Sachs is to create 250 jobs in India
- HSBC first outsourced to India in 2000, and now has more than 2,000 employees in Bangalore and Hyderabad. Another 4,000 jobs will go to India, Malaysia and China
- Morgan Stanley employs 1,600 in Mumbai

- Prudential hopes to have a call center in Mumbai by the end of 2004 employing 850
- Standard Chartered Bank first outsourced to India in 2002 and now has 4,500 employees
- JP Morgan Chase first outsourced to India in 2001 and now has 3,000 employees
- Capital One first outsourced in 2002 and now has 1,200 employees
- Lloyds TSB announced plans in October to close its call center in Newcastle and outsource the 986 U.K. jobs

*Business Week* magazine sums it up well:

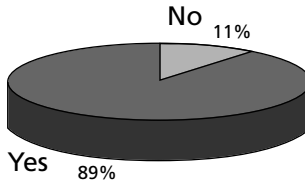
India also is working to assure that it will be able to meet future demand for knowledge workers at home and abroad. India produces 3.1 million college graduates a year, but that's expected to double by 2010. The number of engineering colleges is slated to grow 50 percent, to nearly 1,600, in four years. Of course, not all are good enough to produce the world-class grads of elite schools like the IITs, which accepted just 3,500 of 178,000 applicants last year.

But it is a confusing world, the world of outsourcing. Consider the jargon in Figure 0.1. We'll deal with these terms in this book.



**Figure 0.1** Terms in the outsourcing world

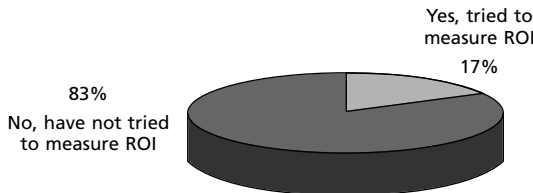
But explaining the forms of outsourcing relationships is just the start. Our ultimate goal is to understand whether it enhances shareholder value.



**Figure 0.2** Does outsourcing enhance shareholder value? (n=508 CFO's)

Source: Hewitt Associates

Indeed the support for outsourcing is so overwhelming, that very few companies even try to measure the return on investment (ROI) – presumably because the figures are so clear, rather than because they measure very little.

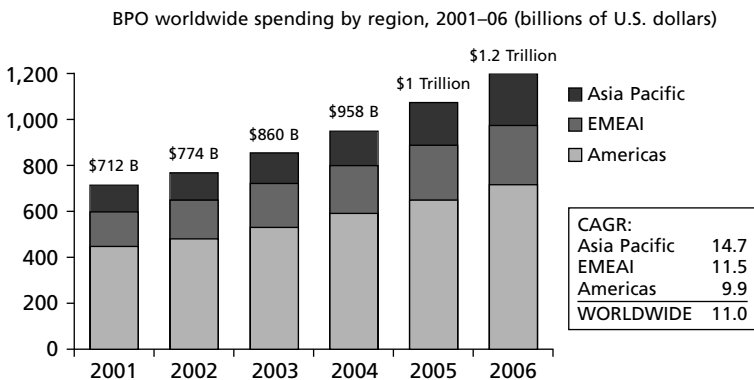


Only 17 percent of respondents have tried to measure the return on their investment in outsourcing

**Figure 0.3** Measuring ROI (n=470 CFO's)

Source: Hewitt Associates

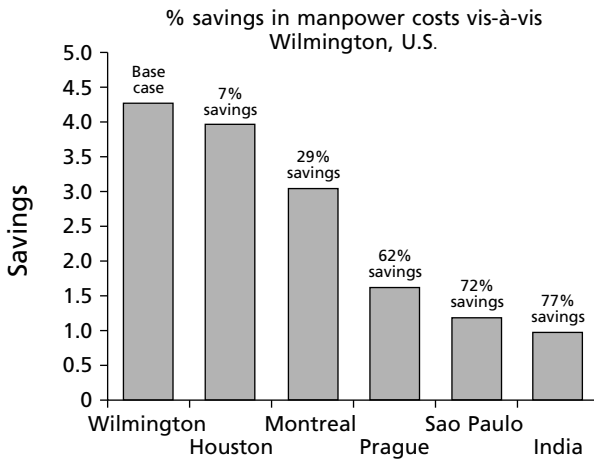
Consequently, little wonder so much is being spent on outsourcing. And where there is money being spent, there is money to be made.



**Figure 0.4** Business process outsourcing spending

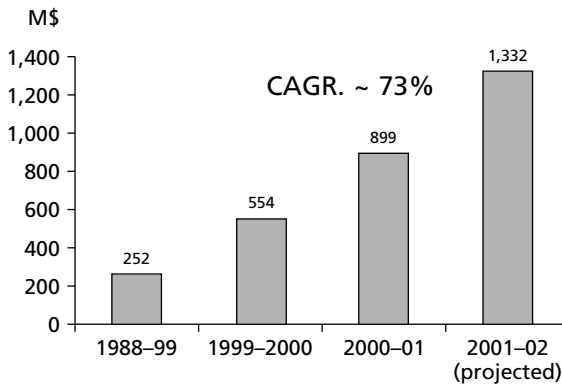
Source: IDC

The focus of many has been on cost savings. But as we shall see, for successful outsourcing, cost saving is only one goal.



**Figure 0.5** Percentage manpower cost savings

To succeed in outsourcing, we need to understand the leading player – India, which we will do in the book. We will explore the experience of outsourcing players with India.



**Figure 0.6** India's share of the BPO market in USD mn

Source: Accenture

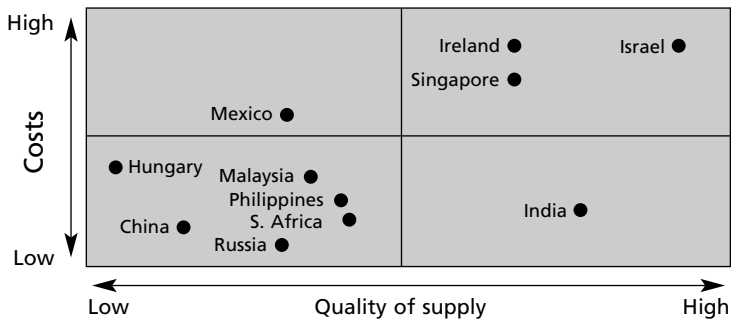
Of course India is not alone as an outsourcing provider. Other countries provide differing advantages and we do not neglect them either.

IT-enabled services	1998-99		2008-09 (projected)	
	Employed	Cost \$million	Employed	Cost \$million
Back office operations	9,700	96	260,000	4,360
Remote maintenance support	1,600	15	180,000	3,100
Medical transcription	3,800	32	160,000	2,530
Call centers	1,400	9	100,000	1,380
Database services	1,000	10	100,000	1,500
Content development	5,500	62	300,000	5,747
<b>Total</b>	<b>23,000</b>	<b>224</b>	<b>1,100,000</b>	<b>18,617</b>

**Figure 0.7** IT-enabled service delivery growth in India

Source: NASSCOM-McKinsey Study: Indian IT Strategy Summit

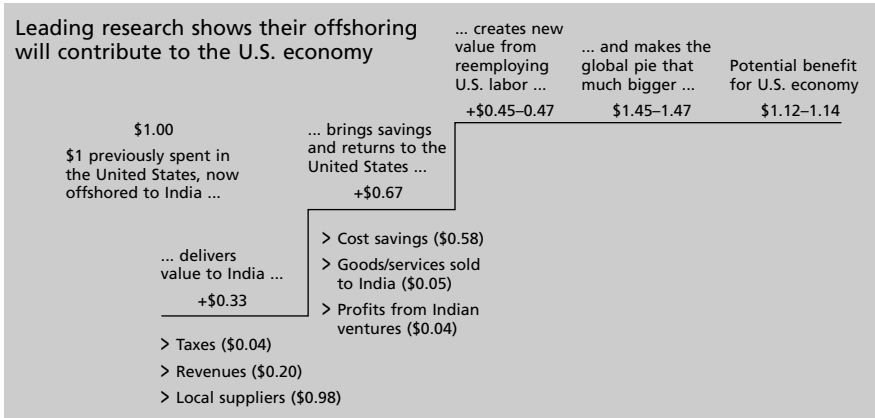
Costs include labor and all overheads associated with the particular country. Quality is determined by CMM level, resource availability and cultural fit.



**Figure 0.8** Quality and cost

Source: McKinsey

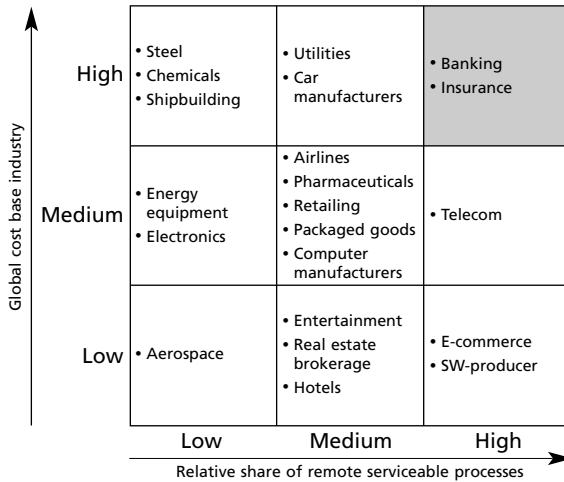
The final chapter of the book examines the bigger picture and the political arguments. How does outsourcing drive economic growth?



**Figure 0.9** Offshoring value added to the U.S.

Source: McKinsey

But part of the bigger picture is also what can be outsourced too. Whilst we cannot examine every single industry in detail, Figure 0.10 highlights some of the issues we will examine to assist any CEO, CFO, and COO.



**Figure 0.10** Banking and insurance are the key target industry segments for offshore

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Page numbers in *italic* refer to case studies

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