

Operational Excellence: The Next Frontier in Offshoring

A 360-Degree view of India's BPO and IT Industries indicates potential for BPOs to reduce costs by 20-30% and IT services companies to increase EBIT margins by 3-6%

“Operational Excellence: The Next Frontier in Offshoring,” an independent study by McKinsey & Company, the leading management consulting firm is in continuation to the third NASSCOM-McKinsey Report, 2005 that highlighted India's potential to realize US \$ 60 billion in exports from these industries and operational excellence as one of the imperatives for achieving this potential.

Conducted over the last 12 months, the assessment involved working closely with leading companies to develop unique operational excellence frameworks – **Process 360° for BPOs**, and **Project 360° for IT services companies**. These frameworks **are one of the first operational excellence tools developed explicitly for offshore centers**. They collate inputs from all stakeholders—clients from global corporations in the originating countries, engineers/ associates, operations managers and senior executives at remote centers.

Process 360° covered 162 processes and surveyed over 4800 respondents across 6 groups – basic voice processes, specialized voice processes, basic data processes, specialized data processes, rules-based decisioning processes, knowledge services and, research and analytics.

Project 360° included 58 projects and garnered responses from about 400 respondents across 3 groups – application development, application maintenance, and packaged software and implementation support.

The data gathered from over 30 leading captives and third-party providers reveals three broad trends:

- (i) Clients are highly satisfied with their offshore experiences – over 80% of customers are satisfied with the performance of their offshore units.
- (ii) Performance has been the result of capable people, not institutionalised practices.
- (iii) Rapidly evolving customer expectations will place increasing pressure on offshore units. Specific highlights of the study include:

Process 360° (for BPOs)

- Data operations are generally performing better than voice operations due primarily to higher retention rates resulting from effective training and employee engagement practices
- Third-party providers usually outperform captives in practices and metrics; but best-in-class captives show this gap can be bridged. The difference is a result of higher wage costs, lower span of control, and poor infrastructure procurement and utilisation
- Operating practices, rather than location, determine performance on key metrics such as cost and quality. For instance, a Mumbai-based provider has been able to deliver superior cost and quality performance compared to BPOs in cities like Chennai. Low attrition rates, an optimal skill and tenure mix among employees, and higher infrastructure utilisation have been the drivers of this outcome.
- There is a lack of consistent performance within and across companies. For example, a Bangalore-based centre engaged in rules-based decision-making and basic data processes delivers above-average performance on most metrics for the former service but lags behind in the latter. Low performance levels result from inappropriate recruiting practices, i.e., mismatch between skills and job profiles.
- While clients focus initially on cost and quality, their priorities shift rapidly to higher order benefits like innovation and productivity once offshore services are well established.

Project 360° (for IT services companies)

- Productivity improvements are evident across projects in which practices have been institutionalised, particularly application maintenance
- Despite excellent customer satisfaction scores and robust outcomes, significant variance exists across and within service providers on critical metrics like solution design, training and recruitment.
- Customers are increasingly looking for upstream services like requirements gathering and solution design. However, at present, these practices are not robust enough to meet their demands efficiently.
- An industrial mindset that encourages institutionalisation of practices separates average from leading performers. The latter are able to absorb 15-18% annualised wage increases without impacting margins.
- The industry needs to focus on improving performance and consistency across six practice areas. These include requirements gathering, solution design, and training amongst others.