The Future of Outsourcing in India

Today, with outsourcing being the top business trend, the biggest question on everyone’s mind is: what will the future of the outsourcing industry look like in the next 10 or 20 years? Though India has managed to position itself as a major outsourcing hub, questions about its future in outsourcing continue to surface in industry circles. The dynamics of global business are changing, and outsourcing is no different.

Current and Future Trends that will affect the Outsourcing Market

With the outsourcing industry emerging from the aftermath of the global recession, there are a number of trends that give us a glimpse of the future:

- Analysts are predicting that the industry will continue to fight short-term cost pressures, and that there will be pressure on service providers for more flexible pricing contracts.

- Buyers will seek more standardized solutions from their outsourcing engagements, so they will have to differentiate themselves through performance rather than pricing. Hence pricing structures will be stabilized to some extent.

- Many small alliances, focused on increased operational efficiencies, better quality control and reduced back office costs, are being set up. This trend is going to continue.

- Shared and common services were always considered a threat to outsourcing, but the trend is changing. Sharing critical business and IT services has been proven to cut costs, reduce errors and improve productivity.

- Industry experts predict that Latin America and Europe will be the new outsourcing destinations in the near future.

- Brazil and Russia will make their presence felt in the global outsourcing market and China will continue to move ahead.

- The rising price of oil will put pressure on companies to take advantage of technology and outsource work to remain profitable.

- According to industry experts, consumption-based technologies that are delivered through the cloud will grow, as they are cost effective.

- Some analysts predict that European carmakers will start outsourcing their business. This would result in cars being developed by other companies while being sold under their brand names.

- Big pharmaceutical companies will launch new drugs in the market at a fraction of the current cost by partnering with India, China, and Russia in molecular research and clinical testing.

India’s role in the outsourcing industry

India continues to be the major destination for outsourcing because it has been able to
evolve with changing needs. NASSCOM, (National Association of Software & Service Companies) the apex body of India’s premier IT software and service (IT & BPO) companies, reported that India’s share in the global outsourcing market rose from 51% in 2009 to 55% in 2010. India still stands out for its customer service and efficiency, so its future is bright. Today, customers are not only looking at cost-effective solutions for their outsourced business but also for skilled staff, enhanced productivity, service quality and business process excellence. India, with its large population and multiple-skilled people, would continue to be preferred for both back-end and front-end outsourcing.

Opportunities for the Indian Outsourcing Industry

The growth of Indian outsourcing industry has been phenomenal. As markets worldwide are becoming knowledge-intensive, India has evolved to become the most preferred destination for knowledge services. Knowledge Process Outsourcing may soon be the biggest revenue grosser in India. India has a large pool of skilled manpower—Chartered Accountants, MBAs, Doctors, Lawyers, Research Analysts, etc., which strengthens its position in the knowledge service industry.

- Opportunities for India in terms of outsourcing are:

  - In services that require advanced English, like KPO, Content and Medicine, India will continue to excel. NASSCOM predicts that India will emerge as a global hub for knowledge services by 2015.

  - India has a large pool of English-speaking lawyers with expertise in foreign legal systems who can offer legal support and patent services. A few Indian companies are already affiliated with American legal firms and they have captured a small part of the American market.

  - India is now the leader in the FAO market with many Fortune 500 companies already having their outsourced operations in India with firms like IBM, ACS, TCS etc.

  - India has a big market in pharmaceuticals, in terms of clinical research and manufacturing. Availability of talent for high-quality trials and data management gives it an edge over competitors. Ranbaxy, a major Indian pharmaceutical firm, has tied up with GlaxoSmithKline to manufacture certain compounds together.

  - Another vertical that presents great potential for India is Infrastructure Management Services. A wide range of management services for IT infrastructure, application operations, IT security and maintenance can be provided.

  - According to a study done by Booze and Company, India will become a dominant player in the Engineering R&D market which is expected to expand to $1.4 trillion by 2020. India’s domestic market is expected to contribute 10-15% of the global ER&D services market.

Challenges for the Indian Outsourcing Industry

The industry is undergoing an evolution, and will continue to be driven by changes in demand. A survey done by Pricewaterhouse Coopers and Duke University’s Offshoring Research Network found that the outsourcing industry is transforming as new providers are emerging while existing providers are expanding into new markets. India has made remarkable achievements and has built a strong reputation in the outsourcing industry.
- India will face some new emerging challenges, such as:

  - The industry is growing rapidly and requires corresponding growth in infrastructure as well, an area where India is lacking—this needs to be addressed.

  - Due to the rise in labor costs in Indian metro cities, companies are moving towards smaller Tier II cities.

  - Though India continues to be the world leader in the outsourcing business, it will face tougher challenges in the near future, from South-east Asian countries like Indonesia, Malaysia, the Philippines, Singapore, Vietnam and Thailand, which are improving their positioning as alternative offshore locations.

  - India’s competitiveness is being challenged by countries like Indonesia, which offer cheaper labor in IT and business process skills, while India is experiencing increased labor costs and high attrition, which are of concern, and need to be addressed.

  - Political crises in markets like the US and UK might result in outsourcing restrictions being put in place.