

Benchmarking India's business process outsourcers

A new methodology for measuring the performance of remote providers shows that while clients are mostly satisfied, there is significant room for improvement.

**Noshir F. Kaka,
Shailesh S. Kekre, and
Saipriya Sarangan**

India, having captured 46 percent of the global business-process-offshoring (BPO) market, is the leading offshore destination and will probably remain so for some time. But competition is intensifying there (and in other popular offshore destinations) as more companies compete to supply such services. This crowded field is driving down billing rates, while the rising demand for talent is boosting the labor costs of India's BPO sector by up to 15 percent annually. Both factors are combining to threaten profit margins. At the same time, clients are now more demanding: having captured the benefits of lower labor costs, they want better quality and higher productivity. If offshore service providers—captives as well as third-party ones—are to remain cost competitive while meeting these rising expectations, they will need to innovate and to measure and improve their performance.

Until recently, there was no methodology to benchmark the performance of remote-delivery centers. To address this need, in late 2005 McKinsey and India's National Association of Software and Service Companies (Nasscom) launched a Web-based benchmarking survey to research the performance of the BPO providers. The effort, which we call Process 360:

Operational Excellence, classifies operational processes into five key categories: costs, quality, speed and flexibility, productivity and innovation, and risk management. The survey gathered input from four groups of stakeholders—clients, operations managers, senior managers, and frontline delivery agents (Exhibit 1)—to gauge the degree of alignment across these groups about the relative importance of the five operational factors. The benchmarks, which are equally applicable to the captive back-end operations of multinational companies and to independent third-party providers, also examine the maturity level of 12 key operational practices, including recruitment, training, and work flow management.

Completed at the end of 2005, our initial survey covered 50 operational processes across 12 delivery centers in India. It revealed three interesting findings. First, while clients rated their offshore partners (captives or third parties) highly on process performance, they want providers to offer more than just labor cost savings. In the first few years of offshoring, clients tend to focus on cost benefits and on the provider's ability to maintain quality levels comparable to those at onshore sites. Given the availability of skilled talent and lower wage rates, most offshore partners can meet these

Exhibit 1

Benchmarking performance

A 2005 Nasscom-McKinsey benchmarking survey of business process offshoring in India assessed opinions of 4 stakeholder groups on 5 categories of BPO processes.¹

Stakeholder groups

- Clients
- Operations managers
- Senior management
- Call center agents, staff

BPO processes

- **Basic data:** straightforward activities, eg, data entry,² data conversion from one electronic format to another, reconciling data in several databases
- **Rules-based decision-making:** data activities based on business rules and guidelines, eg, in accounts payable, processing insurance claims
- **Basic voice:** scripted activities requiring minimal training, eg, telesales, taking sales orders
- **Specialized voice:** more complicated interactions that can't be fully scripted and require some domain knowledge, eg, help desk, credit card collections, cross-selling
- **Knowledge services:** activities not governed by standard rules and that require deep domain knowledge, eg, research requests, automotive engineering, radiology

¹Includes 50 processes across 12 delivery centers in India; BPO = business process offshoring; Nasscom = National Association of Software and Service Companies.

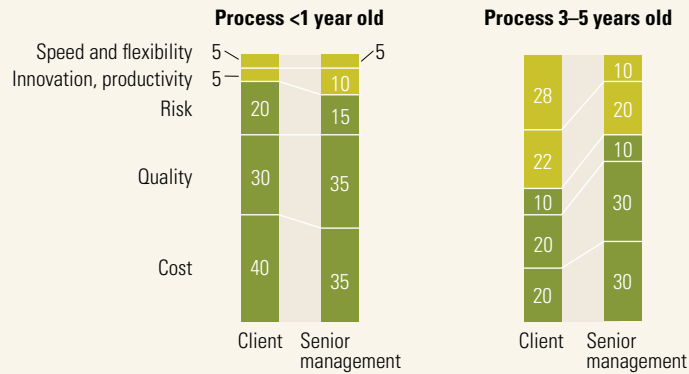
²For example, entering application or enrollment forms into databases.

Exhibit 2

Rising expectations

Benchmarking revealed that newer customers focus more on cost and quality, while more tenured customers look to innovation and speed. In most cases, the focus of the provider's senior management lags behind.

Reported relative importance (based on respondents' allocations of percentage points across 5 categories), %



Misalignment score¹	20	40
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¹ Misalignment score is weighted sum of differences between client and senior management.
 Source: 2005 Nasscom-McKinsey benchmarking survey of 50 processes across 12 delivery centers in India

Noshir Kaka (noshir_kaka@mckinsey.com), a principal, is a leader of McKinsey's outsourcing and offshoring practice and leads the IT practice in India. He is based in Mumbai.

Shailesh Kekre (shailesh_kekre@mckinsey.com) is a consultant in the global IT practice. He is based in Mumbai.

Saipriya Sarangan (saipriya_sarangan@mckinsey.com) is a consultant in the global IT practice. She is based in Gurgaon, India.

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initial expectations relatively easily and therefore generate high levels of client satisfaction. Within two to three years, however, as clients become accustomed to the cost savings, they begin to look for productivity benefits and service delivery innovations. Unfortunately, too many providers continue to focus on cost benefits while they struggle to accommodate the evolving needs of their clients (Exhibit 2).

The research also highlighted the significant spread in performance between leading outsourcing providers and the rest of the pack: the average total cost per full-time equivalent for a leader was 15 to 20 percent lower than that for an average provider. The leaders thus had higher margins. Similarly, while most providers could improve their clients' productivity by 2 to 3 percent each year, the industry leaders recorded a staggering annual increase of 8 to 10 percent. Interestingly, performance levels for similar processes also differed across locations within the same provider: given the rapid growth in the scale of operations, most delivery centers had created islands of excellence but hadn't replicated their best practices throughout the organization.

Finally, the survey found a high degree of correlation between the maturity levels of operational practices and process performance. Companies whose senior management devotes substantial time and effort to streamlining and "industrializing" their processes, for example, outperform their peers. Also, since reducing attrition rates is the key to keeping costs low and quality high, providers that innovate in the areas of recruitment, training, and people management tend to deliver better value as well.

The BPO industry, which has grown rapidly over the past five years, is worth about \$10 billion today. Our research with Nasscom suggests that the addressable opportunity is a staggering \$122 billion to \$154 billion, leaving significant room for growth. Top-tier providers that can improve their operational performance will position themselves to play a leading role in this growth during the years ahead. **MoIT**