



Outsourcing can be a key 'enabler' for India's Growth Sectors: Everest Group study

Outsourcing can help growth sectors release scarce capital, provide quality talent, innovative practices and management bandwidth

NEW DELHI, 31 July 2007: As India makes huge strides in its quest to gain a rightful place amongst the economically mighty nations, rapid and sustainable growth in its wealth in recent times is particularly visible in the growth of sectors such as **telecom, organized retail, insurance, healthcare, hospitality and airlines**. According to an in-depth study by the Everest Group, outsourcing can act as a key 'enabler' and catalyst for these growth sectors in India in multiple ways, ranging from release of scarce capital, providing quality talent, innovative practices and management bandwidth. The Everest Group study, titled, "**Staying on Course with the Growth Agenda - Potential for Outsourcing to Drive India's Growth Sectors**", further suggests that outsourcing may help these growth sectors free up their resources to be better utilized to **focus on core business activities**.

Elaborating on the potential and relevance of outsourcing for Indian companies, **Mr. Gaurav Gupta, Country Head, Everest Group**, says, "So far, India has been seen as a leading supplier destination in the outsourcing arena. Its potential as a buyer of outsourcing has not yet been explored to the fullest. Today, sectors like telecom, organized retail, insurance, healthcare, hospitality, and airlines in India are witnessing unprecedented growth, which will further be fuelled by the increasing entry of global players. It will be important to address the resultant **operational growth challenges** in these sectors to ensure that they maintain their momentum, and establish a flexible and competitive operating model. Companies in these sectors will need to evaluate a range of **'build or buy'** options, to address these constraints suitably."

Says **Mr. Vikash Jain, Engagement Director, Everest Group**, who co-authored the paper, "This is perhaps the first authentic whitepaper that provides pro-active insights into the ability of outsourcing to impact and address the key challenges facing India's growth sectors. It brings out early evidence of outsourcing as a 'growth enabler' to Indian companies, and is supported by case studies and examples that further reinforce our predictive analysis."

Mr. Punish Mishra, Senior Consultant, Everest Group who co-authored the report, explains how exactly Indian companies can leverage the power of outsourcing to help further their focused growth, "**Capital efficiency** is a huge challenge for business leaders in these growing sectors. Outsourcing can create growth opportunities by releasing the capital otherwise required for investment in non-core assets and activities thereby **reducing the capital investment required per unit of growth**. Further, it **also reduces operating costs** through more efficient and competitive service delivery. Our analysis suggests that IT outsourcing alone can improve EBITDA margins by 30-50 basis points for the retailers, which is significant considering the retailer's imperative to expand margins. This saving, apart from improving the bottom-line of companies, can be ploughed back into growth initiatives allowing retailers to drive additional 4-5% growth with the same capital."

Besides capital efficiency, the paper also highlights the impact of outsourcing on other challenges facing India's growth sectors. On talent, the paper suggests that these sectors can address issues of inadequate labor pool, poor quality talent and attrition by outsourcing to suppliers who have extensive experience in hiring in large numbers, creating a powerful engine to recruit and in training talent pool to meet global standards. Outsourcing can equip companies to scale-up manpower quickly in response to business demands, and also limit attrition, thereby reducing cost further. Again, on technical know-how, the study suggests that companies can leverage existing collective global expertise and learning of supplier firms rather than investing resources. Several leading Indian providers in the insurance and retail

space have deep capabilities to support Indian buyers, on the back of their global expertise, outlines the study.

Citing reasons why despite such huge potential, outsourcing in India has not gathered momentum so far, Mr. Jain says, “While the potential is huge, the Indian market continues to be nascent. Solutions, commercial models, and contract structuring in India do not reflect the level of maturity in other developed outsourcing markets. The key reason for under-development in this area is that so far there is limited understanding of the outsourcing value proposition. Buyers are not clear of the onshore outsourcing proposition and Indian suppliers have been focused on the international market. The pressure to deliver significantly higher margins compared to their international peers and inability to attract quality talent for domestic work has resulted in Indian suppliers shying away from lower margin domestic work.” However, Mr. Jain further concedes, “Whereas Indian suppliers have largely missed the domestic opportunity, some international suppliers have taken this opportunity to corner most of the mega deals over the last 3-4 years..

Mr. Gupta is upbeat about outsourcing picking up in India, “With continued buoyancy in the growth sectors, and the pressures around talent and efficiency unlikely to reduce, we see significant potential for outsourcing within India. An increasing number of outsourcing deals are being considered by Indian buyers in Telecom, Retail, Insurance is a testimony to the growing confidence”. Citing an example on the potential, Mr. Gupta adds, “We estimate that ***cumulative outsourcing spend on IT in retail alone could potentially be between US\$1.5-2.5 billion over the next five years***; expanding the scope to include other SG&A¹ functions could push this figure even higher.”

However, Mr. Jain adds a word of caution, “Indian buyers need to adopt a robust sourcing process to select the best-suited suppliers and to ensure long term partnerships. Further, the relationships need to be designed with an eye to the future as buyer’s environment will continue to be dynamic. As a result, alignment of interests and equity in relationship over time will be key”. He adds, “Our experience suggests that a collaborative approach to sourcing can create at least 3 times more value than the traditional RFP based approach and lays the groundwork for a successful relationship.”

About Everest Group

Everest Group (www.everestgrp.com) is a global consulting firm specializing in outsourcing and offshoring advisory services. Since 1991, Everest Group has served as the trusted business advisor for hundreds of IT and business process outsourcing transactions worldwide. Everest Group offers services in IT Outsourcing and Business Process Outsourcing (BPO) such as Human Resources Outsourcing (HRO), Finance and Accounting Outsourcing (FAO), engineering services, IT applications and Infrastructure (ITO) and procurement.

Everest Group also runs Everest Research Institute (www.everestresearchinstitute.com), an autonomous research wing that serves as a central source of independent and objective strategic intelligence, analyses, and actionable insights for leading corporations, service providers, and investors in the global outsourcing and offshoring marketplace. To further augment its research and consulting practice, and to provide a competitive advantage to its clients, the Everest Group has an online publishing and marketing channel called Outsourcing Center (www.outsourcing-center.com).The portal hosts a wealth of free research, case studies and frequently conducts webinars on relevant topics for the industry.

For the past 11 years, Everest Group has been producing the *Outsourcing Excellence Awards*, popularly known as the ***Oscars of Outsourcing***, that recognize the world’s superior outsourcing arrangements.

Media Contacts:

Abhishek Jain (9811693370)

Puneet Khunger (9810191409)

R&PM: Edelman, New Delhi (011-2332-0116)

abhishek.jain@edelman.com / puneet.khunger@edelman.com

Pallavi Chandra

Everest Group, India

0124-3041000

pchandra@everestgrp.com

¹ Selling, General and Administrative functions include business support functions like Finance & Accounting, Human Resources, Indirect Procurement, etc.