

Getting Ready for the Deluge: Outsourcing in Philippines

The Philippine outsourcing sector has been steadily picking up momentum over the past few years. As of this time, it seems to have reached a tipping point. Direct employment seems to have surpassed 100,000 people and hiring growth is maintaining very high levels. Most estimates put growth rates for Business Process Outsourcing (BPO) at 40% to 50% annually, while many of the contact center organizations are blistering ahead at rates approaching 100%. While this is clearly not sustainable in the long term, it is thrilling while it lasts and this should be over the next 1.5 to 2 years. When one considers the dramatically slowing growth in India and other more mature offshore outsource destinations, the situation in Philippines is positive to say the least.

Given that the BPO sector is easily the most significant economic opportunity for Philippines at the current time, it is important that all business leaders keep up-to-date with progress. In this chapter, I will describe what real decision makers in the BPO sector are doing and saying about Philippines. Since India is still what most people think of when the topic of outsourcing is discussed, the information will often be discussed in relation to that country.

Sykes is a large U.S.-based contact center and IT support organization with operations in both India and Philippines. The company said earlier in the year that it would shift much of its Indian capacity to the Philippines, where it already has more than 7,000 employees.

The official company announcement from Dan Hernandez, Sykes' vice president for global strategies was, "We moved calls to other facilities in Asia to get a higher rate of return." However, knowledgeable observers in the region said that the rate of return differential must have been substantial for a company of Sykes' size and prominence to forgo India after already spending millions to put capacity in place. While there has been no formal company announcement, it seems that future growth in Asia for Sykes, will be in Philippines.

GXS (formerly known as GE Information Systems) is a large IT organization with locations throughout the world. The company has had a presence in India for years but made the decision to direct all functions with a strong customer component to Philippines because of "better economics and results." Company analysis also indicated that costs were increasing disproportionately in India. Victor Lee, who oversees professional and customer service operation in the region for GXS, is also quoted as saying that "having product development in India and professional and customer services in Philippines reduces risks."

Many in the Business Processing Outsourcing (BPO) sector will remember when Dell made a significant announcement in 2004 that they were withdrawing 1000 jobs from India back to the US because of quality problems. What is less well known is that during that same period, Dell increased the number of jobs in Philippines by over 1000.

In 2005, the company announced that it was expanding its commitment to Philippines by setting up a number of captive centers and will also keep most of its current third-party relationships as well. Dell selected Philippines for its new customer contact centers because of the "strong

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language and communication skills of its high-quality workforce.” On the Dell website, they also stated the following: “English-savvy population, about 100 similar facilities in place and 650,000 students, the Philippines is fast becoming the contact center location of choice in Southeast Asia.”

More outspoken than most, Rick McGonegal is clear that India won't be part of his company's plans for the foreseeable future. He is the Managing Director of RCG Information Technology, another good-size IT provider. The company already has a strong offshore presence in the Philippines and has assessed the Asia-Pacific region for future expansion. India, he feels, is already too crowded, with numerous companies all scrambling to hire from each other. The result is destructively high staff turnover rates, mounting salary costs and poorer English communications skills compared with that available in the Philippines. He also cited overstretched infrastructure in India as a further reason RCG wouldn't consider this destination at present. According to McGonegal, his company has its "radar set on Vietnam and China" should its current best option of the Philippines give way.

ICT Group Inc., another large contact center organization says it “has bypassed India altogether.” The company opened its second call center in Manila and is about to open its third. John Brennan, chairman and chief executive of ICT, is quoted as saying in the Wall Street Journal “Philippines has several advantages over India.” According to him, wages are higher in Manila than in New Delhi, Bombay or Bangalore but there is less staff turnover in the Philippines because of a relative shortage of higher-paying software development and other business-processing jobs. “Callcenter work is something people naturally want to migrate out of, and there are more opportunities to do that in India,” he says.

ClientLogic is a similar story. The company, among the top 5 in its industry, is quoted by CNN as saying that “Philippine call centers have higher average staff tenure and better customer satisfaction ratings than India.” Within the BPO industry, it is known that the company is experiencing stronger growth in Philippines.

Industry estimates for Convergys, another large BPO organization, are that it will employ 8000 people in Philippines by the second quarter of 2006. This is up from roughly 6000 as we approach the end of 2005. This surprising if one considers that Convergys announced recently that it is undergoing a global restructuring plan affecting most areas of the company – although apparently not the Philippine operation.

Another industry story that got out recently was about developments at IBM. The company is said to have a large deal with Sprint. After more than a year of frustration in Bangalore, they pulled all voice operations out of India sending a loud message to the world that India is not a preferred destination these days.

Perhaps the most significant acquisition in the BPO sector this year was the purchase of Ambergris Solutions, arguably the leading home-grown contact center organization in Philippines. The purchaser was Telus International, the IT division of Telus Corporation, the second largest telco company in Canada. In a presentation to the Canadian Chamber, company CEO Eng Boon Lau described the exhaustive Asia-wide research his people undertook. The Philippine option was deemed as overwhelmingly superior to those of other countries, including India. An aggressive growth strategy is now in place that should make Ambergris one of the key players in the Asia Pacific sector.

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Even the Consulting Firms Are Catching On

Many of the large research consulting firms are reporting this shift. Gartner Group, perhaps the most respected of the IT industry, recently released a report that predicted India would lose "significant market share" to countries like Philippines because it "does not have a long-term plan for improving infrastructure and increasing the supply of quality employees for the BPO industry."

XMG Global, another consulting firm, predicted that "Philippines will surpass India by 2008 in contact centers." This is a remarkable statement consider India is roughly 10 times the size of Philippines in total population.

It is a similar story for the major business journals. Many are reportly on the growing problems in India and viability of next step destinations countries like Philippines. Forbes (India: Good Help is Hard to Find), BusinessWeek (India's IT Challenge), Rediff (India: Desperately Seeking Talent) are a few examples. A simple internet search will uncover dozens more similar headlines.

Long Live the King

Despite all of the negative statements about India, we should also understand that no one is predicting the demise of India as an outsourcing destination. That country became the "King of Outsourcing" because it was the one that proved to the world that the offshore outsourcing model works. India will continue driving the industry forward because of its huge size and remarkable competence of its senior managers.

If India does experience slower growth in the near term, it is only because of its tremendous success over the past few years. Current alleged constraints are not indicative of weakness but of India's great success. Rising salary costs may be a big deal to business bigwigs who have to somehow budget for them but it is reasonable to assume that for individual workers, who see their paychecks rise by 30% from a well timed job change, "rising costs" probably don't warrant the same degree of concern.

If Philippines is a better option today, it is only because it has been less successful at developing and attracting quality outsourcing employers in the past. The pioneering accomplishments made by India have now opened the door for Philippines to receive its share of the blessings. And as for India, we can be sure they will soon be back stronger than ever.

Philippines Is This Year's Fashion

That said, the prevailing sentiment among business leaders is that Philippines is a superior choice overall for the following reasons. First and most importantly, quality people are more available in Philippines. Filipinos are said to speak better English, have a better customer service mind-set and are more culturally attuned with the west. While India's first-rate educational institutions are said to produce better technical people, Philippines' more well-rounded liberal arts education programs are more appropriate for the larger opportunities in back-office processes.

Infrastructure requirements for BPO organizations are relatively straightforward. The most important of these are reliable and cost effective telecommunications, office space and electricity. These are mainly available in Philippines with some growing constraints in office space.

Business leaders report infrastructure deficiencies in telecommunications, office space and electricity in India that are becoming more extreme as the industry continues to grow. Even simple matters like roads are constraining growth in some Indian cities because workers have difficulty getting to work.

Expatriates also report a much improved lifestyle in Philippines as compared to India. Lastly, issues like security, government support and general business environment are said to be somewhat better in Philippines although these differences do not seem to be significant.

If Philippines Is So Great, Why has It Lagged?

It is certainly true that Philippines has been slow to attract awareness of itself as an accepted, let alone preferred, destination for offshore outsourcing. The country had the same opportunity India had during the Year 2000 craze years ago but sat around the sidelines and watched as India created dozens of world-class outsourcing organizations. During the same period Philippines created almost none. Even today, the penetration of the outsourcing sector in Philippines is said to be 2 to 3 years behind India.

It is hard to understand why this is. According to most business leaders, Filipinos speak better English, have a better customer service mind-set and the cultural gap is less. India is reported to have better technical universities but Philippines is said to be better in liberal arts (more appropriate for back-office processing). Philippines is also broadly reported to have better infrastructure and expatriate life-style.

So why has India outpaced Philippines to such a degree?

It is an issue that no one seems to have a definitive answer. Some of the reasons I hear are:

1. **Better Marketing** – India has Nasscom, a one-stop association for the entire Indian outsourcing industry that has done a fabulous job of promoting India to the world. The association represents roughly 95% of India industry and is a global force in promoting India to the global community and professionalizing the sector at home. Philippines, despite being a much smaller country, has between 6 and 8 various outsourcing associations (the actual number keeps changing), all supposedly promoting Philippines. Too many of these associations are fractious in nature and seem to be constantly battling within themselves and against others who try to unify them. The result is that none are large enough or competent enough to effectively market the Philippines to global organizations. They seem to spend their limited energies promoting Philippine outsourcing to other Filipinos. Happily, a single industry association is emerging in Philippines and support for it is growing. More about this later.
2. **Better Senior Managers and Entrepreneurs** – It was reported during the dot-com boom times that close to 40% of Silicon Valley startups were founded by Indians. (A joke at the time was that all it took to start a dot-com was 4 Indian engineers and an American guy to sell.) Indians are clearly an entrepreneurial people who know what it takes to build world-class businesses. Filipinos, like most other people in the world, don't seem to have that same need for the recognition that building successful businesses entails.
3. **Bad Security Perception of Philippines** – Until recently, there was a real threat that India would go to nuclear war with Pakistan over the Kashmir region. Such a war would be in addition to the 2 previous horrific wars these countries have already fought in just the past few

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decades. They still lob a few missiles at one another even today. But for some reason, India was better about keeping this sort of information from American BPO decision makers' ears. Philippines, by comparison, has a few bungling bandits located far to the south engaging in various flavours of hooliganism. Laughably, these bozos have somehow been labeled "Muslim insurgents" and gained international notoriety for themselves. Despite the obvious differences in situations, most people in the west have the impression Philippines is the more dangerous than India. The vagaries of public relations management seems to be something Filipinos have been poor at mastering.

I am sure there are other reasons but these might be a start. The question for the future is whether Philippines will succeed as an outsourcing destination as the worldwide BPO sector continues to undergo tremendous upheaval.

The Worldwide Industry Trends Affecting Philippines

Until just a year or so ago, Business Process Outsourcing was a simple industry to understand. The sector consisted, for the most part, of a few large American companies sending call center work and some IT processes offshore.

No longer is that the case. The next phase of this fascinating sector is much more complicated since so many things are happening all at once.

First of all, outsourcing is expanding beyond just call centers and IT into almost every conceivable business process. The current new batch of outsourcing locators are involving themselves in a myriad of activities. Some of these include: accounting, HR, financial analysis, design engineering, animation, medical services, legal services, insurance processes, banking processes, map-making, publishing content creation, research, on and on.

Given that answering telephone inquiries and software programming are microscopic parts of most company's businesses, this is significant. Some business leaders I have spoken to have used the phrase "tipping point" to describe the current life-cycle stage of services outsourcing. One fellow I spoke to thought the phrase "business process outsourcing" wasn't descriptive enough to express the vast diversity of the current environment. He felt a better phrase was something along the lines of "everything-anyone-can-possibly-imagine-as-being-outsourced outsourcing."

Second, it is no longer just large American companies (and some notable UK firms) who are aggressively sending work offshore. Now every rich country in the world is moving rapidly to join the movement. We are already seeing action from countries as diverse as Japan, France, Australia, Denmark and Singapore.

As a specific example we could look at little Canada. Until a year or so ago, there were very few Canadian interests in the Philippines BPO sector. Today, Canadian companies have taken controlling interest in ClientLogic (one of the largest BPO's in the world with a strong Philippine focus), Telus acquired Ambergris (arguably the most successful homegrown BPO in Philippines), Nucomm (a quality mid-sized Canadian call center outfit) set up operations and Thomson Financial (the large global information provider) continued growing. Announcements of other major investments are imminent although still confidential at the time of this writing.

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Third, the movement is no longer just for the largest global companies. We are now seeing the early stages of involvement by mid-sized and small companies – even individual entrepreneurs are getting involved. Here are a few examples of smaller companies that you may not have heard about yet but soon will: YellowAsp creates layout designs for printed circuit boards, XMG Global IT Research and Advisory Inc. prepares high-end IT research, Forssman Pacific creates construction design drawings, Key-In Data Solutions does claims processing, Primesoft develops advanced Web applications, VinciWorks designs online training programs, and Pulse DesignTech offers electronics design services. The list goes on and on.

Fourth and most significantly for Philippines, the sector is becoming vastly more competitive. Most developing countries throughout the world have seen the success of India and want to participate. The result has been a frantic stampede of new destinations to compete for the same BPO jobs as Philippines. And, most of these 30 or so countries have lower costs than Philippines. Unless Philippines aggressively begin to improve itself promotional activities and increase the value of its services, we risk finding ourselves bypassed.

Lastly, the early leaders of outsourcing like India are being pushed by extreme competitive pressure to quickly move up the value chain to more sophisticated processes. Remarkably sophisticated work is now starting to appear. As one example, Deutsche Bank has recently set up an operation that will perform financial analysis work for the company's CFO's located throughout the world. The company is hiring very senior financial professionals for these functions.

The Biggest Opportunity of Our Lives

Current growth rates in the BPO sector seem to be stronger than in other boom times. During the dot-com boom times, growth rates in employment were often quoted as 20% to 25% per year. People achieving these impressive rates were considered successful by industry standards. Today in Philippines, people with 20% to 25% growth are at risk of being called losers. Most BPO organizations, even the largest ones, have been growing by 40% to 50% per year. Many of the call centers are growing at rates approaching 100%.

Another point to keep in mind is that a lot of dot-com company hiring was based around dreams and funny ideas, and paid for with venture capital money rather than being funded from company revenues. In the current environment in Philippines, hiring is almost exclusively the result of client instructions that they are ready to pay real money for new employees.

In the current worldwide business environment, one would be hard-pressed to find such hiring growth in any other business sector. As we begin 2006, there are approximately 100,000 people employed in the BPO industry in Philippines. Estimates are that the sector will provide work for 500,000 people over the next 4 years.

Boom times like this typically happen only once per decade and they almost always move on to different sectors. The 1990's, for instance, was important for IT and telecommunications. The 1980's was real estate and high finance (in North America).

The point is this: For those involved in the BPO sector, we are living through a period that will probably not happen again in our lifetimes. We need to make sure we harvest as much as we can while the opportunity exists. This opportunity will pass quickly if we don't and probably never return.

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Philippines: World-Class Destination, Third-Class Marketing

One of the most important initiatives that is underway that will help us to achieve our great potential is through the association called Business Process Outsourcing Philippines (BPA/P). Philippines is developing a single strong voice for promoting and professionalizing the Philippine BPO sector that is in the model of India's NASSCOM. The Indian association is always cited as a strong reason for that country's great success as the pioneer and by far the most successful services outsourcing country in the world.

Another example is the Philippine mining sector. Because of the strong and competent leadership of the Philippine Chamber of Mines by Philip Romualdez, this industry is now back on its feet and ready to provide be a major job provider for this country.

The Business Processing Association of Philippines (BPA/P) has recently been put with place with strong leadership under Mitch Locsin (Executive Director) and Dan Reyes (President). A strong BPA/A will allow Philippines to promote itself in a proactive manner, rather than just reacting to bad publicity after the fact. It will also help along the process of professionalizing the industry by encouraging world-class standards of performance.

These are the goals but progress is still being hindered by the fractious nature of various industry associations – some of whom are loath to join efforts with BPA/P because they fear the loss of personal prestige. This, of course, is ridiculous and their lack of commitment to joint efforts is shameful and needs to be rectified.

This is one of the major constraints to Philippines developing itself into a world leader in Business Process Outsourcing. The product is good. We just need to market it a little better. If this can be done, there is a possibility the Philippines can rise up and finally take its rightful place among the tigers of Asia. Let's see how we do.



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Richard is considered a leading expert on Asia-Pacific outsourcing by ComputerWorld magazine. His regular column called "View from Offshore" is a feature of the publication. Richard has been appointed an "Expert Panelist" on offshore outsourcing by CIO Magazine and the Offshore Outsourcing Richard has also been called "the local guru on outsourcing" by Dr. Michael Clancy, President of the Economist Business Forum and the "Asia-Pacific expert" by Call Center Magazine. In addition to ComputerWorld, he



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