Business Process Outsourcing and the Philippines

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GLOBAL SOLUTIONS

By Ron Rhodes

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INTRODUCTION

It's 1992, the Philippines, a densely populated island nation in Southeast Asia, has grown from a post-World War II population of about 19 million to 68,820,000 and expanding at an annual rate of 2.5 %. Corazon Aquino, the country's visionary first woman president, wife of assassinated politician, Benigno Aquino Jr. and mother of future president, Benigno Aquino III, is in the final months of her term. She is inspired by opportunities to increase Philippines' participation in the global economy, while Mount Pinatubo's 1991 volcanic eruption is still recent memory. The ground, not yet cleared of lava ash. Human displacement and $700 million of economic devastation will leave a permanent mark of her legacy.

Also, in November of 1991, the US flag that had been prominent on the Clark Air Base parade ground since 1945 was, by agreement, lowered for the last time. An independent republic beginning in 1946, the proud flag of the Philippines was raised in its stead and flies there still.

This is the setting surrounding the birth of Business Process Outsourcing (BPO) in the Philippines, now the country's fastest growing industry, estimated between 12% and 15% of the country's Gross Domestic Product. In 1992, however, Accenture partner and industry pioneer, Frank Holtz, taking advantage of the growing service-oriented, English speaking workforce in the Philippines, based the first Global Resource (call) Center in Manila.

WHAT IS OUTSOURCING?

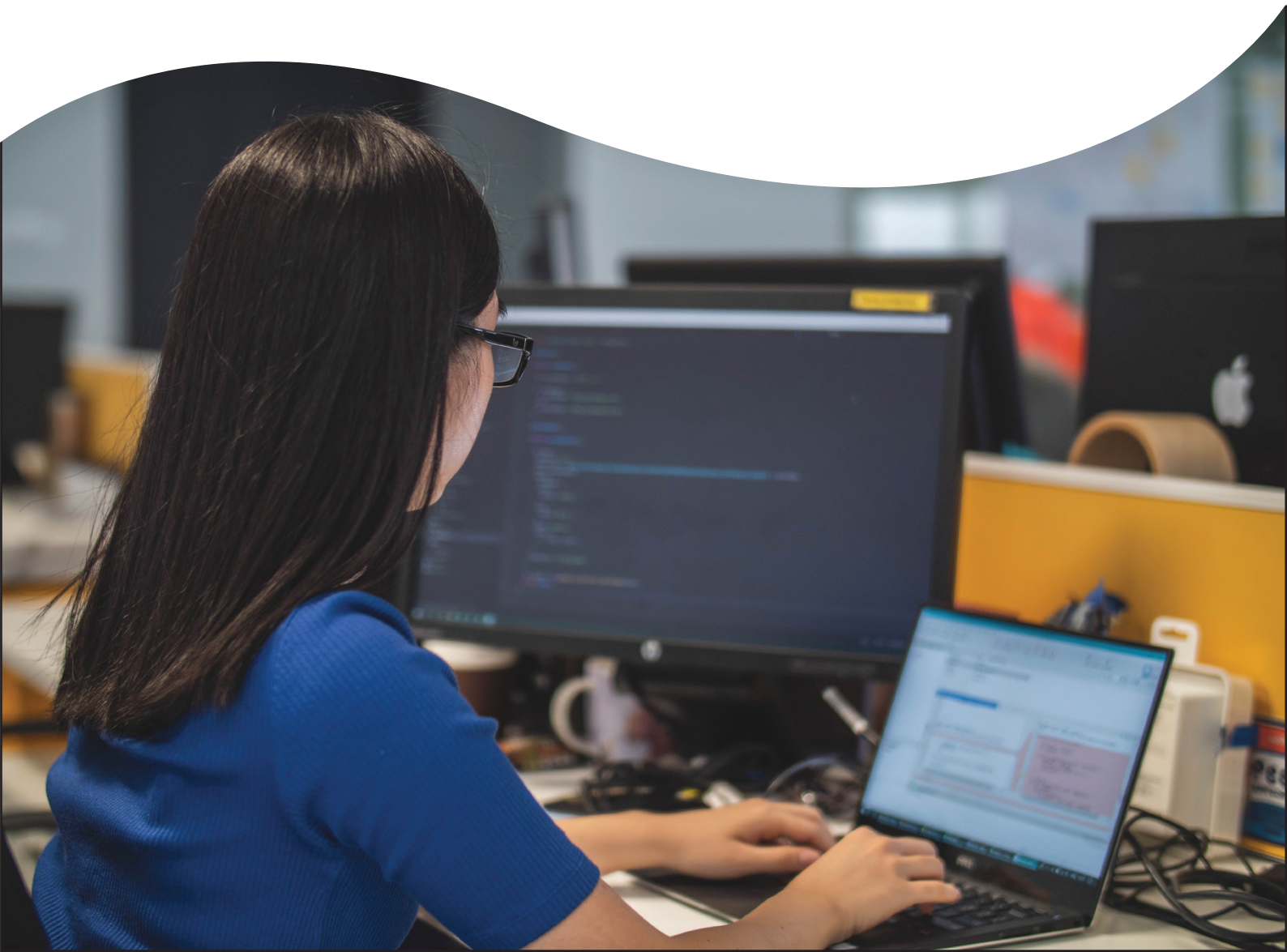
To outsource, according to Merriam-Webster, is to procure something such as goods or services, using outside sources, especially, but not necessarily, from non-union or foreign entities. Many believe that the origin of outsourcing can be traced to the period from about 1760 to 1840, known as the Industrial Revolution. It was during this era that Europe and the United States saw a progressive transition from independent manual craftmanship to mechanized manufacturing processes. Our premise, however, is that examples of outsourcing can be found throughout human history. For instance, when ancient armies and navies required weapons and ships, the demand was often met by specialized independent craftsmen such as blacksmiths and ship builders, an early form of outsourcing.

The basic idea behind outsourcing connects to the recognition of organizational "core competencies," the things we do that give us a competitive advantage. The core competencies of the McDonalds restaurant chain, for example, are trained staff, efficient processes, strategic locations and recognizable brand. While McDonalds operates over 38,000 owned and/or franchised restaurants, suppliers like Tyson Foods, Hildebrandt Farms and others are the sources of their bakery supplies, meat, fish poultry, produce and dairy products required to fill McDonalds menus.

WHAT IS BUSINESS PROCESS OUTSOURCING?

Business Process Outsourcing or BPO is a rapidly growing subsection of the outsourcing industry. BPO encompasses a contractual agreement with a third-party service provider to absorb an otherwise internal business process. The arrangement is typically cost-effective to the outsourcing party, while the staff, facility and functional expertise are the provider's core competencies.

Generally speaking, BPO is either Front Office or Back Office. Front Office outsourcing involves the provision of services like inbound or outbound telephone conversations, electronic mail, fax, chat, video and other forms of direct interaction with a client's customer base. Typical applications of Front Office outsourcing include sales, customer support, technical support, collections, market research and scheduling/appointment setting. Back Office outsourcing includes, but is far from limited to, essential support tasks like data entry, claims and payment processing, HR support services, accounting services, creative services, IT support and technology development. The key difference between Front and Back office BPO is direct interaction with the end customer.



BPO ADVANTAGES/ PERCIEVED DISADVANTAGES

Like any business solution, Business Process Outsourcing should be done thoughtfully. You should know up front that the clear and measurable advantages of outsourcing are accompanied by certain business challenges that must be considered and planned for. The list of advantages includes:

- **Core Competency Focus** – Think of outsourcing as a form of delegation. Both organizations are doing what they do best while partnering to provide more profitable results and a better customer experience.

- **Productivity Improvements** – Focused organizations are more efficient and as a result, more productive. This applies to the company doing the outsourcing (the client), as well as the outsource service provider,

- **Reduced Labor Challenges** – The service provider absorbs the HR and labor challenges of what is often a larger BPO team. The client need not worry about managing attendance, employee retention, payroll and employee relations. The services are provided turn-key.

- **Increased Revenue** – Front Office/contact center BPO's feature their ability to drive higher levels of customer engagement driving higher sales, collections and customer lifetime value as a competitive point of differentiation.

- **Cost Savings** – There are a number of ways to calculate the cost savings one should expect from a BPO. These include lower costs per production hour, lower cost per sale. Lower support costs per customer, lower facilities and administrative expenses. There is also a cash flow advantages as clients gain favorable float since employee payroll costs are included in monthly billing versus weekly or bi-weekly.

- **Innovation and Expertise** – To remain industry competitive, Business Process Outsourcing firms must hire the best and constantly upskill their personnel to compel constant innovation and solution development.

- **Increased Capability** – Without capital investment BPOs immediately expand your human resources, geographic reach, physical capacity and on-demand technology.

The perceived challenges of BPO, especially those offshore, include:

- **Attrition and Loyalty** – It is believed that BPOs have higher rates of employee turnover than captive (non-BPO) companies. There are several factors that could influence this: 1) BPO's have contractual relationships with clients which creates a perception of risk in the minds of employees. 2) Competitive recruiting of BPO talent. 3) Entry level BPO jobs may not be match with an employee's career aspirations and academic training.

• **Tribal Knowledge** – As a third party, a BPO may not start with in-depth and historic knowledge of the work being outsourced. This will take time and contractual stability to acquire.

• **Less Strategic Alignment** – Quite often the BPO is considered an expendable service vendor rather than a strategic partner. This not only reduces the likelihood of strategic alignment; it can reduce value of the process improvement and customer intelligence the BPO can offer.

• **Management Logistics** – Since the BPO can be in a different city or even a different country, a concerted effort is required to build relationships or effectively schedule direct communication between the client and BPO team. Occasional travel could be required, the cost of which should be factored in your decision.

• **Off Shore Language and Cultural Differences** – If the BPO is off shore, both the BPO and the client's teams will need to make an effort to understand the national culture of the other.

• **Poor Quality Control** – This perception is typically linked to three factors: 1) The BPO usually has one portion of a process and only measures quality within that portion. 2) Employee attrition creates a less tenured workforce, often making mistakes as they move through a learning curve. 3) Quite often, the client does not have a structured quality assurance program and does not invest in the BPO acquiring these resources.

• **Off Shore Hours** – Since the two most popular locations for off shore BPO are the Philippines and India, there would be a substantial time zone gap. This is less concerning when the work is back office or business to business, however, Front Office work that focuses on consumer markets require real time interaction. As a result, graveyard shifts are the rule, rather than the exception, in off shore BPO.

• **Restoration Challenges** – Once the work is outsourced, if the client wants to re-absorb it, they are often starting from scratch. This will likely lead to a less than desirable customer experience until the restoration is complete.

In the final analysis, thousands of businesses utilize Business Process Outsourcing. This is especially true in the Tech, Finance and Healthcare sectors and becoming more prevalent in the SMB (Small and Mid-Sized Business) space. We have been candid about the challenges with the acknowledgement that better BPO's will have proven mitigation strategies to address each of these. As a result, the global business process outsourcing market size was valued at USD 221.5 billion in 2019 and is expected to grow at a compound annual growth rate (CAGR) of 8.0% from 2020 to 2027.

Why the Philippines?

To fully understand the phenomenon of Philippine-based Business Process Outsourcing, it is helpful to first view BPO in the Philippines from a historic perspective:

WHY SELECT THE PHILIPPINES FOR BPO?

1992 - Accenture Group created the first contact center in the Philippines

1995 - The Philippine Congress passed the Special Economic Zone Act, lowering area requirements for development and offering tax incentives to attract foreign investors

1997 - America On-Line (AOL) established first off shore contact center in Philippines and Sykes Asia becomes first multinational BPO company in the Philippines

1999 - eTelecare founded, first Philippine-owned BPO

2000 - The BPO industry accounted for 0.075% of the country's GDP

2001 - US-Based PeopleSupport moved their operations to Philippines, providing 8,400 jobs

2003 - Convergys Corp. opened first two (2) call centers in the Philippines

2005 - The Philippines gained 3% of the global BPO market, which accounted for 2.4% of the country's GDP

2007 - eTelecare acquires AOL Philippines in Clark Freeport Zone

2010 - The Philippines was declared the world's BPO capital with 525,000 employees and $8.9 Billion in revenue

2011 – BPO becomes one of the biggest and fastest growing job providers in the private sector; $11B revenue generated and 638,000 Filipinos employed; 4.9% of country's total GDP

2012 - The BPO industry grows by 46% annually since 2006. Revenue comprised 5.4% of the country's total GDP

2013 - Revenue generated climbs up further to $15.5B and 900,000 Filipinos are employed full time

2016 - BPO industry is projected to generate 1.3M new jobs, with 17% annual growth

2017 - The IT-BPM (Business Process Management) industry is the Philippines' primary economic driver, drawing in $22.1 billion in.

> The Philippines remains the "BPO Capital of the World," with total revenues in the sector from 2016 amounting to almost $24 billion and a projected total revenue of $50 billion by the end of 2020.

There are currently over 850 BPO companies registered and operating in the Philippines. The list includes industry giants like Teleperformance, Concentrix and IBM Solutions Delivery. The industry has come a long way since the Accenture experiment in 1992, and If you're wondering why the growth has been so substantial, here are a few things you to consider:

1. The country is an attractive economic alternative to setting up shop in locations like the United States, Australia, United Kingdom and Europe. The currencies of these locations are significantly stronger than the Philippine Paso, creating attractive advantages in labor and real estate costs.

2. There over 109 million Filipinos that speak English at various levels of proficiency. The country has strong western cultural influences which favors diversely cultured populations like the US.

3. The labor force of the Philippines consists of over 60 million people with another 5.2% unemployed. Over 23% of the labor force are college graduates.

4. Because BPOs offer an expansive array of services, requiring a variety of skills, they can recruit candidates with almost any educational background or occupational experiences.

5. The Philippines Technical Education and Skills Development Authority, as well as numerous academic and vocational schools offer courses designed to meet the skill requirements of the BPO industry.

6. The BPO industry offers comparatively attractive career paths, complemented by competitive salaries and benefits. This makes BPO companies, employers of choice in the Philippines.

7. The Philippine government has enhanced its business environment to ease the administrative challenges doing business through reforms, streamlined procedures and tax considerations.

8. The Department of Information and Communications Technology (DICT) has created the National Cybersecurity Plan and Digital Transformation Strategy to be implemented in 2022.

9. The country has a solid technical infrastructure and world class operating facilities not just in metropolitan Manila, but in nearby Pampanga (Angeles/Clark/San Fernando), Cebu and Davao City.

10. As an employer of more than 1.35 million Filipinos, the Philippine IT-BPO industry is poised to generate around $38.9 in revenue by 2022. The level of national influence the industry continues to grow.

CONCLUSION

> In conclusion, Business Process Outsourcing reduces cost while offering businesses a host of skill, capacity and technical advantages over captive operation.

And although there are certainly challenges associated with launching and partnering with BPO firms, these are easy to anticipate and manageable, especially when approached proactively.

Beginning as an industry experiment in 1992, the Philippines has come to be known as the "BPO Capital of the World." The country provides an excellent working environment for outsourcing service providers and its capabilities continue to expand. Your selection of a compatible partner is ultimately the key to reaping the numerous rewards the industry has to offer. Consider the Philippines.