Trends in global outsourcing: Why, how, where
Technology is fueling growth, shaping business strategy

How do outsourcing and offshoring help US corporations be more cost-efficient, and what kind of training do students need to achieve success in the competitive global job market? These issues were addressed at an International Executive Roundtable and Distinguished Lecture Series presented by the Institute for International Business and Center for International Business Education and Research (CIBER) at the University of Colorado Denver.

Distinguished Lecturer: LARRY JONES is CEO and president of StarTek, Inc., a $289 million public company headquartered in Denver. A business process outsourcing company, StarTek has 9000 employees in 18 delivery centers located in North America, Costa Rica and the Philippines, in addition to an at-home workforce. Jones has over 25 years experience and a proven track record as a turnaround CEO building, operating, and growing public and private technology companies including: Activant Solutions, Inc.; Converge, Inc.; Interelate, Inc.; Exabyte; and Wang Laboratories. He serves as chairman of the board for the Deming Center for Entrepreneurial Leadership at the University of Colorado Boulder.

Moderator: DARICE HENRITZE is national industry tax sector leader for KPMG LLP's National Mining Practice and a member of the National Renewable Energy and Sustainability Practice. Henritze has more than 20 years experience advising mining, data/telecommunications, media, high technology and manufacturing clients on domestic and international taxation, mergers and acquisitions, and financial management. She is also the industry tax sector leader for KPMG's national mining practice and advises numerous multinational clients on all aspects of income tax provision accounting. Henritze holds a bachelor of business administration in accounting from Colorado State University.

For the last 30 years or so technology has been establishing a presence in foreign countries in ways that armies never could and in ways that are completely acceptable to the native populations. Consequently, “international is becoming more important as part of business strategy,” said Larry Jones, with companies increasingly opting to outsource and offshore in their quest for growth and cost efficiencies.

What do those efficiencies look like?
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“I can provide in a centralized way the appropriate technology and leverage it over multiple clients,” said Jones. “I can hire labor cheaper and train them to acquire the necessary skills more cost effectively than any of my clients can. And I can find a facility large enough to run these operations that will not impact a client’s operating expenses.”

The recession has not hurt the outsourcing industry. “Outsourcing is the big value proposition in a down market because it’s a variable cost to clients and allows them to reduce prices to their customers,” said Jones. “We are seeing an increased focus on selling and revenue; clients want us to ask for the order with every customer contact. We used to hire customer care people who were good at fixing problems but not necessarily good at selling. One of the challenges now is having to figure out how to hire people to do both and at the same time not be too aggressive.

“The cost of customer care is going up tremendously. For the last 10 years companies have been looking for the silver bullet that will stop customers from calling in. Only about 12 percent of the calls today are handled without the aid of an agent and we suspect it will go to 25 percent because most of us still want to talk to a live person at the other end.

“The outsourcing world is transforming and expanding from its base of telcos to the next generation of markets: energy, health care, pharmas, biotech, and utilities.”

Local labor the key
Rapidly advancing technology is fueling the growth of BPO (Business Processing Outsourcing) estimated to be a $150-$250 billion market. “BPO is fundamentally a method where a client takes a piece of its business function, such as customer care, and outsources it to a company that has large scale expertise and the ability to tap into global labor markets.”

“Local labor is the key driver in the BPO world,” said Jones. “Ten years ago 95 percent of all call centers were located in the US for domestic business. There were call centers in Europe for Europe. But now about 40 percent of all call center needs in the US are handled not in the US but in other countries where the lower cost of labor has a positive impact on the bottom line.”

For a while, Canada was a desirable nearshore location, offering a workforce with English language skills at a cost cheaper than in the US. “When we entered Canada about six years ago, the minimum wage was $5.50/hour and we were paying $6-$7. That labor market has since shot up to $10.50 and we’re now paying $11/hour,” said Jones.

“Labor costs are never static so you have to find and use that cheaper labor whenever the opportunity presents itself.”

Nearshoring – operating in a neighboring country – had been a good solution for StarTek. “It was very easy to do business across the border,” said Jones. “We started with four call centers, went to eight and went back to four when wages increased and the currency exchange rate put us on the wrong side of the math.” In four-five years, StarTek will not have a presence in Canada. “Today I’m better off in the US at $10/hour than in Canada.”

However, no matter how much workers are paid, “the attrition rate is typically 80-100 percent because it is grueling work and not a long-term career job. Some people love it but a lot of people don’t and they leave within the first three months. That means for a call center with 200 people I’m hiring 200 people a year.” The expense of hiring and training can spiral upwards very quickly “so we focus on attracting great people and screening them so they stay with us,” said Jones.

“India and the Philippines are the current hot spots for offshoring because they have huge labor markets that are becoming educated pretty quickly. Those students used to go into parts of Asia to find jobs and they are thrilled to now be able to find
work at home.

“In the Philippines, the call centers are about customer care and workers’ ability to connect with the customer. India is known for software development, regimented, fixed and highly educated functions,” said Jones.

Other regions may in time become outsourcing magnets. “South America, for example, has an educated workforce and appealing economics: labor rates of $2-$4 an hour and about half the attrition rates of the current outsourcing centers. In size, however, its labor force, while abundant, is nowhere near as large as India and the Philippines so these two countries are going to dominate the industry for quite some time until they are saturated with call centers.”

However, South America has advantages that India and the Philippines do not. “South America is attractive for the Spanish languages and for some European languages as well,” said Jones, adding, “There are very different dynamics across the world.”

**New hot area**

The success of BPO has led to the emergence of a more demanding component of offshoring: KPO - Knowledge Processing Outsourcing.

“The new hot area is KPO,” said Jones, explaining that KPO is about “taking $100-$200 thousand dollar jobs and offshoring them at a fraction of the cost. ‘Fifteen years ago no one thought we could do that because it required of workers a certain amount of expertise, judgment, decision making skills and the ability to collaborate with other workers over time and distance.

“KPO is an extension of BPO but with greater business complexity. It is knowledge-intensive and therefore labor rates are higher. The people who perform KPO need specific expertise; you can’t put a script before someone and tell them to do a legal deposition, legal brief or financial audit,” said Jones. “The success of KPO depends to a large degree on trust. Before a Goldman Sachs gives you a contract to outsource 100 people from their research department, they’ve got to trust that you’ll do it right. That trust takes a while to build.”

KPO is growing at 34 percent and is dominated by India. Among the KPO functions being outsourced are financial services, research, credit and capital market analysis in the financial services world; company research on the business side; high level design prototypes on the engineering side; chemistry and everything you can imagine on the pharma side.

“There are no boundaries; it’s just a matter of economics and how much control you’re willing to give up when your high-level functions cross the ocean.”

**Megatrends**

According to Jones, three megatrends are shaping the outsourcing industry:

- **New communications technologies.** “Global devices will become conduits the way phones were conduits and they’re going to dramatically change the world.” Such devices include Global PDAs (a handheld mobile computer that can access and store information on the Internet).

- **Home connectivity.** A high speed portal in the home will create a new kind of call center staffed by an at-home agent. “We’ve built the technical infrastructure that allows an agent to sit at home and work. The agent is virtually recruited, virtually tested and virtually trained. Today we have 100 agents scattered throughout the US; they are supervised by supervisors scattered throughout the US and managed by managers scattered throughout the US, all empowered by this high speed portal.

- **On-demand Cloud computing.** Internet-based computing whereby shared resources, software and information are provided to computers on demand, like a public utility.

“Eighty percent of research reports will be done by machine, handed off to an agent who will do the remaining 20 per-

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**The value proposition and evolution of an industry**

Thirty-four years ago, before computers became small and mobile, computing was done on large, expensive main frames. Companies that didn’t own the costly equipment had to outsource their processing functions to companies that did.

“Call centers weren’t around in the 70s and 80s because there was no telco infrastructure,” said Larry Jones. “Taking a call from New York and shipping it to Omaha, one of the early call center hubs, was not economically feasible. It wasn’t until technology advanced that call centers started sprouting in places like India and the Philippines, creating customer care jobs in low-cost labor markets.

“As technology advanced, companies like StarTek were able to offer clients a way to reduce labor costs by tapping into an offshore workforce. The value proposition for clients grew and triggered the growth of computing services and BPO.”

BPO – the back office functions related to accounting, billing, credit card processing – were next to be offshored. These jobs required more skills and more training than customer care.

KPO is the newest niche in outsourcing. “Twenty-five years ago if anybody told me they would take a Wall Street research analyst and put him in India, I would’ve said ‘you’re crazy.’ But that’s where it’s at now and it’s evolving rapidly to the next level,” said Jones.

“Labor has been a key piece in the evolution of call centers. We have a lot of technology that runs the infrastructure: calls are delivered in New York City and scattered all over the country based on type of call and the skill set necessary to satisfy the caller. The enabling technology is very valuable but most valuable has been my ability to hire the right people, train them and motivate them to maintain a high level of quality when clients call in. So the value proposition has been increasing.

“Technology continues to be a big piece of the offshore software development piece which started in the US and migrated to India. It’s still pretty much populated in India. Throughout the growth of the industry there’s been a skill set pushing it along. When you start getting into BPOs and software development, that skill set is very valuable; it’s the driving force for our clients.

“Finally, as you look at KPO, the ability to have research analysts off shore centralized in one company, that’s a huge value proposition.

“What we’re looking for now – and what all outsourcing vendors are looking for – is what the next generation of value is going to be. What services will our customers want and what services will we be able to provide at a price they will be willing to pay? Because as the value proposition increases, it commoditizes the services and makes us all look alike.”
“Productivity will go up and the labor leverage will change. A global company will have a global workforce and instead of a headquarters, management and administrative functions will be scattered across all the labor markets.”

The BPO world is expanding from its reliance on telcos to the next generation of global markets: energy, health care, pharma, biotech, and utilities. “These new industries are transforming the way we look at business,” said Jones.

Q&A

Darice Henritze agreed that outsourcing is impacting every sector of the economy including public accounting where “BPO in India is part of the normal routine we use to deliver services to our clients.”

Henritze asked Jones: “How do you think outsourcing is going to impact the US economy in the short and long term?”

Jones: If you take offshoring off the table, my ability to attract labor at a reasonable price is getting harder and harder independent of the economics. Therefore, I think there is a service crisis happening in the US based on our deteriorating education system. I think the problem the President is talking about regarding outsourcing have been happening for 100 years and the answer is in retraining the workforce and making sure they have the education that is chasing the upper end of the value curve.

We’re an innovative culture, the most innovative in the world, and we have to draw on that and figure out what the next big thing is and keep chasing that. There’s always a new thing to chase from a business point of view that can make the economy better.

Henritze: Labor costs in India when KPMG began its BPO were much less expensive than they are today, but are still extremely reasonable by US standards. What is your view of the labor increases?

Jones: Labor rates are climbing in India as they are in the US. But they get the labor arbitrage so for the most part the industry pays for that inflation.

Manuel Serapio: You paint a picture that is very globally competitive. What is the implication for business education, for students who will graduate shortly?

How to make the world better and how to make money doing that is what students should be trained to do.

expatriates to oversee the operations of their offshore manufacturers. They may also bring some of the foreign personnel to the US for further training.

Jones: Culture matters; collaborative ability matters. We’re moving towards a cultural-collaborative based model more than in the past. The business world has become more collaborative and you add global on top of that and problems surface. In the Philippines it can be very frustrating trying to deal with a culture that is so overly sensitive to criticism that it makes workers hide. When you’re a global company with people scattered all over, dealing with the different cultures is a huge issue. The challenge is figuring out how to be collaborative in the US world while being collaborative across the globe.

Guest: I’ve always argued with friends that outsourcing shouldn’t be feared as education is the silver bullet that will save our jobs. But now that highly educated jobs are being offshored, how do I support my point of view?

Jones: There’s a higher level of intellectual sophistication that we have always brought to the world to take to the next level. We will learn how to take the low end commodities of outsourcing, get them at a cheap price and turn them into gold just like Silicon Valley did in the early 80s. I think the intelligence of how to make the world better and how to make money doing that is what students should be trained to do.

Henritze: We also need to consider the tax side of outsourcing. Clearly, the US is facing an economic crisis. We are a market economy and we need to be competitive. Putting a stop to outsourcing could have a worse impact on the economy than the outsourcing itself because it may motivate people to buy products from our offshore competitors at cheaper prices.