

### India vs. China – The Outsourcing War

The global outsourcing market has evolved over the years and has redefined the approach of doing business. The outsourcing vendors are providing strategic solutions to meet the organization’s needs. The leading organizations are looking beyond data entry and customer’s service and are shifting their focus to high-end analytics.

IT is considered to be the most prominent areas of Outsourcing. The organizations are taking advantage of IT outsourcing to focus on revenue-generating aspects. The offshore outsourcing model can bring down cost by 50 percent.<sup>1</sup> The figure below presents different areas of outsourcing.

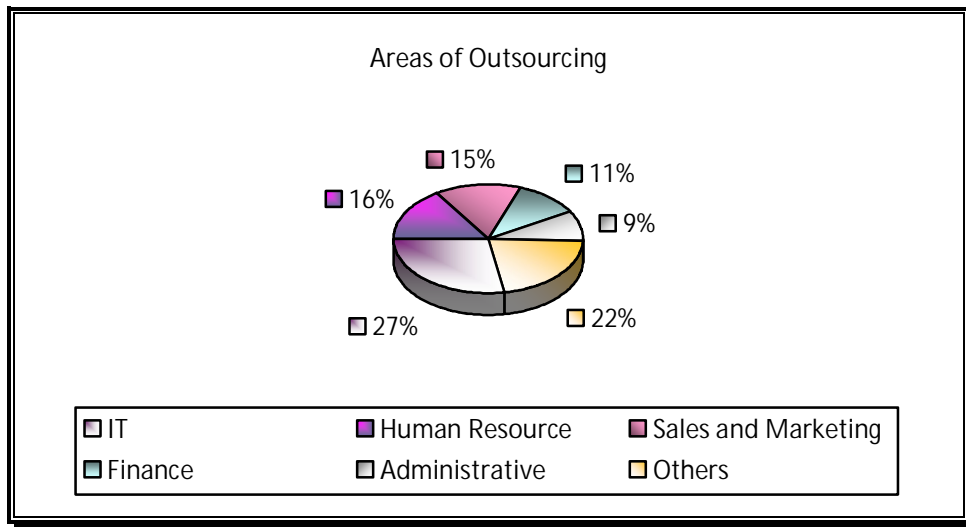


Figure 1: Areas of Outsourcing

India is the leading global outsourcing hub closely followed by China. In spite of the economic slowdown, there has been a slow and steady recovery in the fourth quarter of 2009. India is targeting to achieve USD 60 billion (approximately) by 2011. The figure below gives the estimated revenue of the BPO and the IT companies in India.

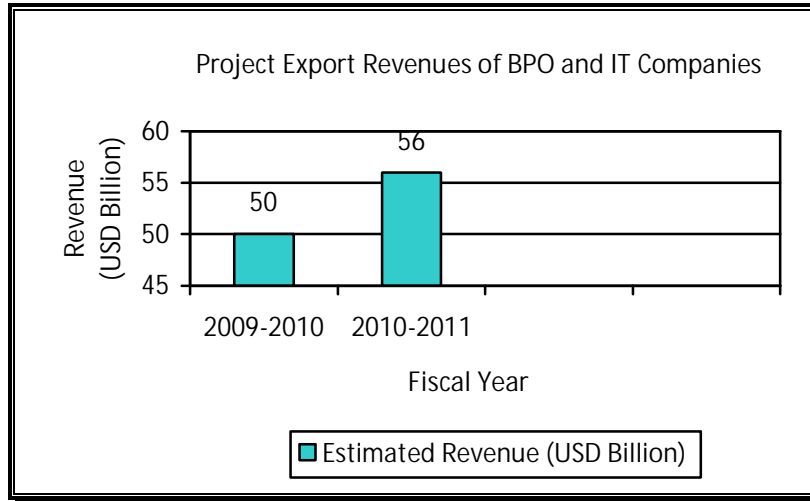


Figure 2: Project Export Revenues of BPO and IT Companies

According to Nasscom, a revenue growth of 13 to 15 percent is estimated from the IT and BPO sector in the next fiscal year to March 31, 2011.<sup>1</sup>

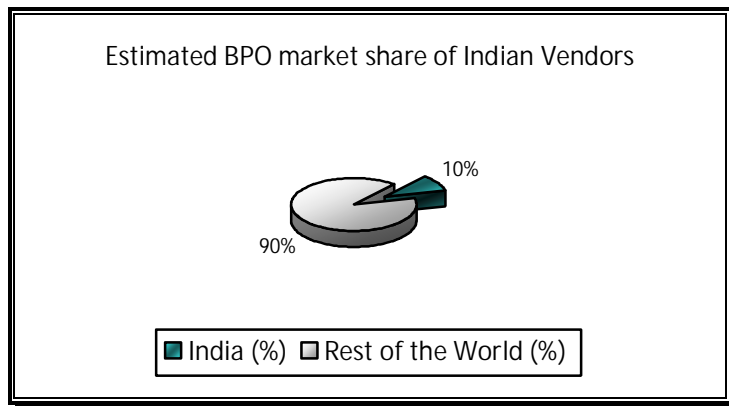


Figure 3: Estimated BPO market share of Indian vendors by the end of 2010

As shown in Figure 3, by 2010-end, the global market share of India's BPOs is estimated to become 10 percent.<sup>1</sup>

However, China has begun offering better rates with reduced operational costs as compared to India. In 2008, China generated USD 3.8 billion revenue from information technology and business process outsourcing. Despite the financial crisis, China reached USD 2.59 billion in the first quarter of 2009, marking a growth of 25.9 percent from the same period last year. Although China has not yet reached India's revenue rate of USD 12.7 billion/year from Information technology services, China's IT and BPO industry is expected to grow 30 percent annually by 2013.

According to NASSCOM, BPO industry of India is expected to generate annual revenues of USD 30 billion by 2012, as compared to its present annual revenue of around USD 11 billion.

India is considered to be the best offshore IT outsourcing destination because of the following reasons<sup>1</sup>:

- Process and Quality: According to NASSCOM, India would soon have the highest number of ISO-9000 software companies in the world. These companies ensure on-time delivery and quality output.
- Government Support: The Indian Government has formulated policies and laws to ensure growth of the ITES-BPO sector in India.
- Skilled and Talented Resource: India has highly talented and qualified resource in IT. As far as English competence is concerned, India has an edge over China. More white collared IT and service outsourcing jobs are being moved to India while China is capturing the low and medium-tech industries.<sup>1</sup>
- Education System: The education standard is at par with global standards.

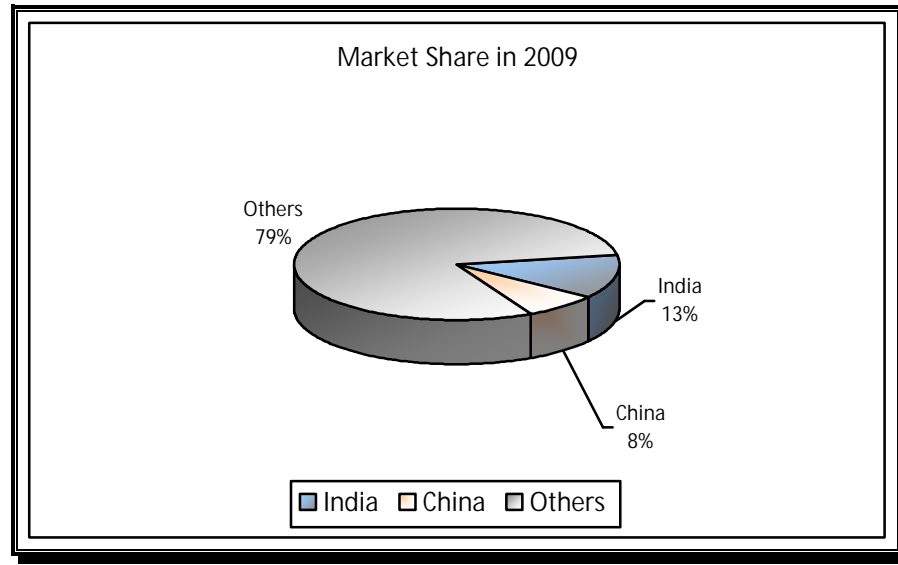


Figure 4: India and China Global Offshore Market Share in 2009

China is gradually emerging as a tough competitor in offshore IT services because of its low cost talent pool. India needs to come up with new business models to sustain its leading position. The government needs to remove regulatory hurdles and improve infrastructure and talent holdups to ensure India's leading position in the IT-enabled services.<sup>1</sup>

The government of China is taking measures to improve the IT sector and to overcome the language barrier.

Given below are the latest Pros and Cons of IT outsourcing in India and China:

<u>Pros/Cons</u>	<u>India</u>	<u>China</u>
Pros	Large labor pool Transparency in operations Country-wide camaraderie Currency exchange rate	Low-cost destination Easy entry to Chinese market. Strong infrastructure spending
Cons	Perception of some American Companies Weak Infrastructure Lack of privacy and security laws	Intellectual property concerns Language Barrier Inner-country competition

Table 1: Latest pros and cons of IT outsourcing in India and China

Some of the key Facts:

- North America is the most successful sales location for Indian BPO providers generating USD 2.2 billion revenue.
- India's IT market is estimated to grow to USD 10.73 Billion by 2011, at a 5-year CAGR of 23.2 percent<sup>1</sup>
- Outsourcing to Indian IT companies can generate cost savings between 40 and 50 percent for foreign companies