CHAPTER - 8
SUMMARY OF FINDINGS AND SUGGESTIONS

Introduction

Organizations of today and tomorrow are faced with intense global competition, ever demanding customers, shrinking response times, shorter product life cycles and demanding employees. Add e-commerce and the trend gets accelerated exponentially. With growing level of business activities and customers demanding higher level of services at the same price, companies are on a look out for ways and means to deliver the same. One of the means through which companies are able to realize this objective is through BPO-client partnership. With advancement in technology, BPO has emerged as a global reality. What started as a mere tool for cost arbitrage has added newer dimensions. BPO industry as such is all about opportunity and innovations. Across industries it is proving itself as a differentiator and is being accepted as a competitive tool. At the moment, BPO is not only a business necessity but a recipe for global reach and success.

FMCG sector being price sensitive, highly competitive, driven by high volume and a great contributor towards India’s GDP, calls for avenues to boost further sales. Rising input cost, spiraling prices, particularly in petroleum and packaging material have left out with no option to companies, but to resort to practices which can seek efficiency and improvement in performance and delivery of products and services. BPO is coming to their rescue by allowing companies to concentrate on core activities and hand over the non core activities to external expert. By doing so, they get time to
develop and enhance the process efficiency of both core and non core activities and are in a position to deliver more value added product and services to customers.

In the light of the above discussion, the study attempts to understand the penetration and acceptance of BPO in FMCG company operations in India. Samples of 438 FMCG companies have been selected, out of which 119 companies responded. All big, medium, small companies and MNC’s across four FMCG segments viz. Personal care segment, Household care segment, Food and Beverages segment and Spirits and tobacco segment have been considered for the study. Out of 119 companies, 84 companies are outsourcing one or the other activity while 35 are not outsourcing. In the following pages, a summary of findings is provided based on analysis of questionnaire and hypothesis testing.

**Analysis of BPO in FMCG**

- Almost all the products of FMCG are broadly classified into four broad based segments namely Personal care, Household care, Food and Beverages and Spirits and tobacco segments. As understood from the market and research, it is found that FB segment is more popular and widely spread across India. While shelf life of food product is less, its availability matters the most. Hence, widely spread. Since, FB is consumed on daily basis, more numbers of FB manufacturers are found to be in existence in India. However, small medium enterprises are found dominating in this segment. Number of established brand in each segment of FB is quite few, though this segment of FMCG encompasses more sub segments compared to PC, HC and HB. The next popular segment is HC segment. This segment caters to household care products to keep household hygienic and clean. The spread and number of players are not as much as FB segment. Small
unorganized players are more prevalent. Products of HC segment is consumed more by urban population. However, with the introduction of small sachets, its acceptance in rural masses is increasing. The next popular segment is PC. This segment is dominated by MNC's and deals with personal hygienic products. Well established brand names are prevalent in the market and lot of R&D happens in this segment. The last segment in FMCG is spirits and tobacco. Very few players exist in this segment and lot of restriction and licenses are involved. By and large, this segment is not popularly accepted by the surrounding society.

- Outburst of BPO market in worldwide scenario clearly reflects that across industries one or the other activities is being outsourced. FMCG is no exception. Survey studies by Manpower and global top decision makers study in foreign countries have indicated that more than 60% of the companies outsource some of their business activities. Forrester research also reveals that 40% of fortune 1000 companies currently outsource. Our survey findings also reveal that 71% of sample FMCG companies in India outsource. Accept it or not the trend for BPO is set and companies have started using it as a strategic or operational tool for higher efficiency and productivity.

- As core and non core activities vary across industries, irrespective of their nature, core, noncore or both are being outsourced. However, noncore activities are outsourced more than core activities. Some survey studies have revealed that 6-8% of core activities are being outsourced. Our survey findings reveal that 17% of core activities of sample FMCG companies are outsourcing core activities, while 68% of sample FMCG companies outsource non core activities. Hypothesis testing also revealed that non core activities are outsourced more than core
activities. It is evident from these findings that both core and noncore are getting outsourced though the intensity is more in non core activities.

- Categorization of activities into core and noncore is subjective to companies operation and industry. Hence, it is found to vary. Our survey findings revealed that business operations such as facilities management, transportation, IT, food and cafeteria, logistics and distribution, marketing and sales and human resource activities are categorized as noncore processes by the sample FMCG companies. Whereas finance, manufacturing, R&D and administration activities are indicated as core. Manpower outsourcing survey across different industries in UK has categorized marketing and sales, HR and R&D as core activities and other activities as non core. From these finding, it is evident what is core for an organization may be a non core for different organization in different industry. However, core and non core activities generally may remain same for specific industry.

- Depending on the type of activity, the extent of outsourcing varies across different business processes in different industries. Our survey found that business processes such as transportation and L&D are outsourced to the maximum extent, followed by marketing, Food & cafeteria and others. The extent of outsourcing happening business processes wise is varying from 4% to 34% among the selected sample FMCG companies. Similar study conducted in UK organization across different industries by Manpower revealed the extent of outsourcing business processes wise is in the range of 6% to 37%. Business processes such as IT (17%), R&D(6%), Manufacturing (15%), Facilities management(9%) extent of outsourcing is on the higher side when compared with our survey findings. However, extent of outsourcing in Customer care services (6%) and HR(6%) are
found similar to our survey findings. Hypothesis analysis also revealed that extent of outsourcing is varying according to the type of activity. A T Kearney survey (2008) also found in their survey that companies outsource less than 25% of overall activities. From these findings and comparison it can be seen that activity outsourcing is happening and varying across different business processes and industries. However, the overall extent of outsourcing activity wise and company wise may fall in the range of 20% to 30%.

- Year 2005 was declared as record year for outsourcing by Information week (Jan, 2006). The outsourcing contracts in US increased by 9% when compared to previous year, though major work is performed within US. In our survey we found that in the year 2000, maximum number of outsourcing activities occurred followed by year 2004 and 2002. This was because of post LPG, lateral thinking of management, market structures getting redefined and advancement in the technology. However, it can be observed from the survey that there is a declining trend in the number of activities outsourced for sample companies. This probably could be due to failure in meeting commitments as per organization expectations by BPO vendors. Nevertheless, BPO is emerging in new dimensions and more and more performance based revenues are being developed and worked out.

- Gallup (2004) survey on 150 firms found that 38% of the companies which tried outsourcing failed completely or had delivered fewer benefits than expected. Forrester research also predicts that 40% of the outsourcing relationships fail to deliver outsourcing value envisioned. James in his business briefs mentions that BPO encompasses seven assurance essentials for successful business relationship between BPO vendor and client (Understand and communicate process models and experience, Measure and monitor key indicators, Keep a daily pulse,
Communicate, Analyze and report, Provide for timely resolution of conflicts, Make decisions on changing capacity. To do all these activities and ensure success in the relationship, organizations are expected to maintain separate organization structures for smooth operations. However, our findings reveal that only 19% of selected samples maintain separate organization structure for managing BPO affairs. The culture of dedicating separate formal organization structure is yet to pick up.

- **BPO implementation involves strategic decision or operational decisions.** Such decisions can be undertaken by highest authority within the organization. However, the Board, CEO/CFO, Divisional head and Functional heads are involved in BPO decision making. As per CEO survey on outsourcing, 77% of outsourcing decisions taken by CEO and 10% by CFO. Our survey revealed that 43% of outsourcing decision is taken by CEO and CFO. As selected sample companies fall under small and medium enterprises, majority of the outsourcing decisions are taken by CEO in consultation with CFO or the entire board sits for taking such decisions. Routine outsourcing decisions which have low significance value are normally taken by divisional and functional heads. Even in government sectors, CEO takes maximum outsourcing decision and in BFSI, the CIO takes the decision.

- **Several reasons are quoted for outsourcing.** Among them, prime reason as per our survey is to save cost. Other reasons quoted were to reduce operational risks, to maintain core competency, avail resources not available internally, to make growth process smoothly, to free the resources and focus on strategies, to gain access to world class capabilities and to start new process quickly. Other survey
works found alleviate worker shortages and improve cost management and capital funds along with other reasons quoted as above. However BPO has moved up the ladder from cost arbitrage to quality and innovative dimension. BPO vendors use to tell their clients 'come for cost and stay for quality. But now they say come for quality and stay for innovation'.

- Choosing the right vendor is essential for successful BPO vendor-client relationship. A vendor is selected based on several criteria's. Megha banduni in her study found that vendors are selected on technical competence, services rendered and on price front. Study by Dian found that vendors are chosen based on commitment on quality, proven competencies, price, technology fit, flexible contracts, geographical location, availability of resources, cultural adaptability and reputations and references. Our survey found that commitment to relationship was considered important while choosing the vendor followed by efficient resources and staff, significant market presence, up to date technology and expertise to handle global operations respectively. Trestle group outsourcing survey found that specific skills and reputation are more important than price. From these surveys it is clear that well structured contracts, skill sets, understanding goals of client, commitment on the quality, price and reputation matter the most while choosing the vendor.

- BPO vendors may be onshore or offshore. They may be captive centers or subsidiaries of MNC's. With the advancement in the technology, irrespective of location, processes can be executed from distance places. What really matter is implementation and execution of process with utmost efficiency. Our survey
findings revealed that more than 90% of sample companies have onshore vendors and around 6% are subsidiaries of MNC's.

- As per Culpepper benefit survey on outsourcing (2007), 47% of sample companies preferred domestic service providers while 37% of sample companies preferred vendors from foreign origin. Our survey revealed that FMCG sample companies preferred domestic vendors for transportation, L&D, marketing and sales etc, while customer care services, manufacturing, human resources etc were opined to be executed by foreign vendors by some sample companies. More than 95% BPO vendors of sample companies where from Indian origin.

- Outsourcing success requires careful management of BPO vendor-client relationships. Generally vendor commitment is based on contract duration- longer the commitment, the better the price. The duration of contracts for process outsourcing is generally six months or longer. Typically, it takes couple of months to arrive at a steady state in process and quality. Our survey found that majority of the sample companies had an average duration of 2 years contract period with vendors. Some sample companies experienced contract period for more than five years. This signifies that if relationships are managed properly and meet client expectations then contract may get renewed for longer period of time. Some contracts of sample FMCG companies were terminated within six months. Deloitte Consulting outsourcing survey showed that more than 53% of the sample companies have moved from long term contract to short term contracts.

- Every BPO engagement begins with the premise that another company can perform a certain business process better than you can. Unfortunately, proving the premise is often left to the wind. As per Dyer and Singh (1998), win-win situation
is possible only when there is mutual understanding and shared goals among vendor-client relationship. Relational rents are created only when partners share, combine or invest assets, knowledge/ capabilities or improve synergies. Our survey finds that continuous interaction with each other is found to be an important attribute for managing BPO vendor-client relationship followed by sharing resources between the two parties for better process efficiencies. Kaizen was found to be the third attribute which binds and keeps the contract going followed by management involvement which involves both the parties taking ownership of executing their tasks. The hypothesis testing also revealed that corporate relationship practices have a bearing on corporate performance.

• Despite precautions being undertaken while choosing vendors, unsuccessful outsourcing relationship creep in. This may be due to the fact that client expectations are more or vendors are not equipped or geared to discharge duties as desired. Mounting costs and technological obsolescence may be other reasons for failure. Duns and Bradstreet outsourcing survey reported that 25% of all outsourcing relationship fails within 2 years. Some 50% fail within 5 years. Our survey found that only 19% of the sample companies had unsuccessful outsourcing relationships.

• Change of vendor was observed when there was dissatisfaction. Study conducted by Cutting Edge Information Inc., a Durham, revealed that 40% of the companies across different industries were dissatisfied with outsourcing relationships. Such dissatisfaction and other reasons have compelled companies to change their vendors. Our survey reveals that 23% of sample companies have changed their vendors while other sample companies were happy with BPO vendor
performance. Change in BPO vendor was observed in activities such as transportation, L&D, food and cafeteria and in manufacturing. Our survey finding also revealed that change in BPO took place on account of price, low quality of services, failure to maintain delivery schedules, emergence of new players and management problems. Other studies have quoted reasons such as change in business strategy, outsourcing becoming expensive than expected, failed to meet contract terms and better service terms with different service providers.

- When any new thing is introduced in our routine and day to day life, its human tendency to resist. Acceptance is not as easy as we think. The same thing holds true when organizations think of outsourcing a business processes. The employees associated with the process resist as this job moves to third party vendor. Similar situation was faced in US when jobs started shifting to countries like India and China. Despite the outcry in US, BPO is here to stay and India will continue to retain competitive edge for obvious reasons says Sushma Ramachandran. Our survey findings found that 17% of selected sample companies faced labor resistance when the company opted for outsourcing. However, the company undertook various measures to handle labor resistance. VRS was one of the popular measure which was undertaken by sample FMCG companies to tackle labor resistance on account of outsourcing. Other measures included counseling and training, transfer to other departments and termination. Mishra and Mishra (1994) found that redundancies and layoff were quite common practices in outsourcing situations. Redeployment of employees in other departments, transfer of personnel to service provider, outplacements and voluntary early retirement were other measures undertaken.
BPO outlook in FMCG sector and performance of sample companies

- Manpower outsourcing survey results found that outsourcing is not set to increase in the coming two years. Their survey revealed that companies which are presently outsourcing are planning to cease their outsourcing contract within the next 2 years. CEO survey also revealed that 14% of the sample companies do not intend to outsource in the near future, but 13% of the sample companies are considering outsourcing. However, our survey revealed that 40% of the FMCG sample companies are interested in outsourcing in the near future.

- Many blogs, magazines and gurus talk about how outsourcing to be viewed in strategic perspective and not just a way to cut cost and reduce headcount. But then, why is everybody saying that their view on outsourcing is purely on cost saving? If outsourcing is meant to be strategic, then why aren't medium and small sized implementers saying? To quote an example on online ticketing which has customer service support centers throughout the country operates on two applications which are being outsourced. Internal IT team takes care of supporting the existing software infrastructure. The first application is online ticketing which is strategic initiative while another application enables customer service centers to collaborate on different initiatives to support customers which cannot be rendered online. The second application is aimed at increasing operational efficiencies. From this example it is clear that perspective on outsourcing vary with nature of activity and strategic importance to the organization. Kotable and Murry (1990) believe that outsourcing is viewed as strategic option as it helps firms to increase concentration on core competencies. Our sample survey revealed that 49% believe
outsourcing to be strategic in nature while other sample companies consider it to be an operational tool.

- For many years, big MNC's have turned to India not only as a source of new market but also as a way to make their business operations more efficient and productive. Everest reports that outsourcing act as a catalyst to foster growth of sectors such as telecom, insurance, retail, hospitality and airlines. Gartner predicts that outsourcing will continue to be the catalyst for growth in the IT sector. Our survey findings of revealed that 86% of the sample companies believe that outsourcing is attributed with FMCG sector growth. Hypothesis testing also revealed that there is strong co-relationship with FMCG sector growth and outsourcing.

- When you can save 10% on the manufacture of a product, you can sell it at a lower price (benefiting customer) and/or earn more money for shareholders. And if you don’t save that 10%, your competitors will and take business away from you. Certain firms believe that outsourcing is a tool to ease pressure from competitors. Our survey found that 51% of sample companies deem outsourcing to have high impact on competitors. From these findings and discussion it is clear that outsourcing has become a threat and whoever enables it is enjoying competitive advantage.

- To outsource or not to outsource is the question in front of non outsourcing companies. Every job and every business strategy is seen as potential fodder for the outsourcing mill, with the assumption that the cost savings reaped from the practice will simply pour back into the company coffers. The option that offers the biggest cost savings isn’t always the best one. Several reasons have been quoted
for not outsourcing viz. spillover effects, leakage of private information, loss of control etc are some of the common reasons quoted for not outsourcing. Our survey also revealed similar findings quoted by non outsourcing companies i.e. loss of control, inadequate operating gains and employee backlash. Study by Edward and Michael(1991) and our survey findings revealed that loss of control was the main reason for not outsourcing.

Performance impact of outsourcing in FMCG sector

- According to the Sixth Annual Outsourcing Index, which polled over 640 outsourcing buyers from large companies, 64% of the executives concede that reducing and controlling operating costs is their number one reason to outsource. Meanwhile, 67% of those managers voted "price" as the most important criteria in selecting a vendor. Study by Bloomberg (1998) indicated cost saving in the range of 20% to 40%. While lacity et al. reports that cost saving may be in the range of 10% to 50%. Our survey findings revealed savings in the range of 5% to 10%. From these studies it can be inferred that outsourcing leads to cost saving.

- Outsourcing is very controversial and affects every part of business from manufacturing through to design, software development, financial control, logistics management, customer support and sales. Outsourcing has been praised as cost-effective, efficient, productive and strategic - but also condemned as evil, money-grabbing, destructive, ruthless, exploiting the poor. A recent survey by the McKinsey Global Institute has shown that for every dollar spent on outsourcing to India, the US economy gains at least $1.12. Outsourcing can be used to economize on production cost, in particular labour cost (Abraham and Taylor, 1996) by substituting in-house production with the buying-in of components. Görzig and
Stephan (2002) find that outsourcing of materials is positively correlated with profits. A study commissioned by The Bank of New York suggests that fund management companies can boost their share values by more than 10 percent by farming out administration and support services. The study also found that share prices in asset management companies have risen when firms agreed to outsourcing deals because investors expected improved company performance. Most obvious reason is the universal recognition of the fact that outsourcing business processes helps significantly towards reducing operational costs. Outsourcing firms work on tight margins and it's in their interest to improve the efficiency of processes outsourced to them. This is why an effort to increase process efficiency comes naturally to outsourcing firms rather than being something that is dictated to them through terms and conditions listed in the contract. Our survey attempted to measure impact of cost saving on price of the input, output, performance efficiency of activity, market share value and profitability. Findings revealed that improved profitability was ranked as number one reason followed by reducing the price of outputs, reducing the price of the inputs, better performance of activity and improved market share respectively.

- The current economic environment has caused companies of all sizes to revaluate how they do business, with an eye towards finding and exploiting areas of cost saving and productivity gains. In addition, companies must do more for less. One way of doing this is through outsourcing. ROI analysis is also a powerful tool when calculating whether an outsourcing initiative is beneficial to an organization. Cash flow, payback, net present value, internal rate of return are all the factors that shape an organization rate on investment. Our survey found that majority of sample units have indicated that their ROI on account of outsourcing is falling in
the range of 5% to 10%. Very few sample companies have indicated ROI >5%. Hewitt’s analysis of CFOs’ perspectives on outsourcing revealed that double digit growth companies reported an average ROI of 19% while single digit growth companies indicated an average ROI of 17%.

- Different activities of the organization have different impact on the performance of the organization. Here in this survey an attempt is being made to measure the impact of individual activity outsourcing on the profitability of the company. Survey finds that HR, administration, transportation, finance, manufacturing, etc have greater impact on profitability as compared to other activities. R&D activity is found to be least profitable as indicated by sample companies. Also, the survey revealed that 88% of the sample companies claimed that outsourcing has improved profitability of the company. Study by Maramonte on outsourcing found that some companies are able to make profits up to 40% while some companies have made profits less than 10%. Thus from the above discussion, it is evident that outsourcing improves profitability of the company.

- Outsourcing impacts various spheres of business organization. Study by Hanes et al. revealed that outsourcing creates shareholder values. Survey studies on Japanese manufacturing firms revealed that short term outsourcing contracts and business related outsourcing contracts have positive impact on company’s market value. Our survey also revealed that outsourcing has helped in improving market value of the firm for almost 83% of selected sample companies. This indicates that outsourcing has a positive impact on company’s market value.
Hypothesis testing

- Outsourcing has been one of the most important factors in the industry turnaround, providing an opportunity to remove large amounts of fixed cost while drawing on the expertise of the outsourcer. Accepted wisdom would have us believe that cost savings is the key reason companies turn to outsourcing. Unquestionably, cost savings will almost always be a primary driver behind decisions to outsource. In fact, outsourcing veterans seek a wide spectrum of “big picture” business outcomes, including improved profitability (cited by 64 percent of respondents), improved management focus (39 percent), enhanced speed to market (37 percent) and increased revenue (33 percent). However, cost saving may not necessarily end up in improving the performance of the company. In our survey, we have gone about in measuring impact of cost saving on performance of the organization in terms of reduced cost of inputs, reduced cost of output, better performance of activity, improved market share and improved profitability. Our survey findings and hypothesis testing revealed that there is relationship between cost saving and performance of the company. From this, one can conclude that cost saving on account of outsourcing is helping companies to improve overall performance of the sample companies. Even Prahalad and Krishnan (2004) in their study found apart from cost cutting reasons, BPO can help in delivering high quality, innovation and value creations to the clients.

- Different activities have different impact on the performance of the companies. All activities are important; however some activities are strategic and crucial for the organization. Porter (1985) introduced value chain analysis and classified organization activities into primary and support activities. The goal of these activities is to offer the customer a level of value that exceeds the cost of activities,
thereby resulting in a profit margin. The firm's margin or profit depends on its effectiveness in performing these activities efficiently. It is in these activities that a firm has the opportunity to generate superior value. To assess the effectiveness, hypothesis testing was conducted to understand the relationship between type of activity outsourced and profitability. The test revealed that type of activity outsourced (core, noncore, both) and profitability of the company are dependent and depending on the type of activity, the company profits may vary.

- Some companies may outsource small number of activities, while other companies may outsource entire process or complete product. To understand the impact a survey was conducted by manpower in UK for UK organization. The research revealed that satisfaction goes up as organizations outsource more of their activities. Of those organizations outsourcing five or more business activities, 85% said that it has enabled them to concentrate on core business, and 78% said that it saved them time and money. This increased satisfaction is driving future outsourcing plans: in the context of broadly flat growth over the next 2 years, this group of companies (those outsourcing five or more activities) is set to increase in size over the same period. However, no studies have highlighted that if more number of activities are outsourced then it may increase the profitability of the company. To gauge this, hypothesis was set to understand the relationship between the number of activities outsourced and profitability of the company. Hypothesis test revealed that there is no relationship between the number of activities outsourced and profitability of the company. This also indicates that companies should assess the activity and then take decision of outsourcing that activity. Further, profits to organization on account of outsourcing, is not
depending on the number of activities outsourced, but on the type of activity that is being outsourced.

- Majority of the organization outsource one business process or the other. It is also true that all firms cannot outsource all or part of the particular business process. Efficiency is checked for the partial process which has been outsourced. If found improved, then it increases the extent of that business process. Normally in any firm, the extent of outsourcing is going to vary depending on the satisfaction and scale of operation. Very few business processes are outsourced completely. To understand the extent and its impact on profitability of the organization, hypothesis testing was done to elicit the inference. The test revealed that there is no relationship between extent of outsourcing and profitability of the company.

- The next thing that outsourcing companies should consider is duration of the contract. A longer period of time does not easily guarantee success that is why companies should first deliberate if they want a long-term or short term one. Long term entails to save more in their outsourcing contracts, while short term for a year or so indicates that they are still in the testing period of whether or not outsourcing would work for them. For cost saving to be reaped, sufficient time of at least two years to be given to BPO vendor to prove their expertise. To understand more on this aspect, hypothesis was set to infer the relationship between cost saving and duration of outsourcing of sample companies. The test proved that there is strong correlation between cost saving and duration of the outsourcing. Similar study conducted by Ahmad et al. (2000) found that companies profitability and liquidity decrease in the years in which outsourcing announcements occur, and tend to increase in the subsequent years.
• Too many businesses take a short-sighted view of their outsourcing contracts, concludes Deloitte. The consulting firm found that most executives are satisfied with cost saving on account of outsourcing but outsourcing relationship has not led to important innovations or transformation. Out of 300 executives approached, 70% said they were satisfied with their relationship, and 83% said outsourcing projects had met their return on investment goal, with an ROI just above 25%. To understand further, hypothesis was set to understand the relationship between duration of outsourcing and ROI. The test revealed that there is relationship between duration of outsourcing and ROI to the companies.

• Study conducted by Jiang et al. on Japanese manufacturing firms (2007) revealed that core business-related outsourcing, offshore outsourcing, and shorter-term outsourcing have positive effects on outsourcing firms' market value. To know whether outsourcing duration impacts market value of the sample firm, hypothesis was set. The test revealed that duration of outsourcing and market value are independent of each. However, announcement of outsourcing contract have positive impact on firm market value. Study, conducted by the Centre for Economic and Business Research (cebr) analyzed outsourcing announcements to the press and measured the change in share price one month later - measuring the result sector by sector. The findings showed that companies announcing an outsourcing deal perform on average 1.7 percent higher in the stock markets benchmarked against others in the same sector that have not announced outsourcing deals. However, this is not universally true. Banking, insurance and telecommunications companies showed poorer share price performance one month after making an outsourcing announcement.
A change in the organizational structure or processes is generally independent of formal organization structure. However, an attempt is being made to understand the relationship of having formal organization structure for BPO and its impact on profitability of the sample companies. To get the inference, hypothesis is set. The test revealed that there is no relationship of having a separate formal organization structure for BPO and profitability of the sample companies.

Summary of Suggestions

FMCG sector is a big contributor to the economic development of any nation. Besides meeting varied requirements of consumers, the FMCG sector provides ample employment opportunities both directly and indirectly. To a great extent, the nation's agricultural development hinges upon the growth and development of FMCG sector. The FMCG is a big consumer of agricultural outputs. In view of this, all efforts must be made to strengthen the sector. Further, the competitive pressure within the sector has made the various players to leave no stone unturned in retaining the competitive edge. Outsourcing is a big bonanza. The outsourcing involves obtaining some of the activities performed outside the business. Such an approach will lead to reduced cost and improved margin. Therefore, it can be said here that FMCG sector needs to adopt a proactive approach towards business process outsourcing techniques and need to integrate it into mainframe of business. The present work was done to understand the extent of integration of BPO by Indian FMCG sector. The study observes that BPO is not viewed seriously by many of the strategic players. Still there is long way to go before BPO can make a big impact on FMCG sector. The study offers the following suggestions to strengthen the interaction between BPO and FMCG.
The study reveals that all the sample units are not adopting outsourcing strategies. Though outsourcing is not mandatory and is done purely by the internal requirements of individual firms, the present study reveals that there are cost advantages due to outsourcing. Firms which do not outsource may be missing this benefit. Therefore, there is a need to bring home the advantages of BPO. Many small units may be exceptional of BPO. The CII, ASSOCHAM, trade associations, business club etc, need to propagate the benefits of BPO and clear many of misgivings of players and outsourcing.

1. Outsourcing as a Strategic option

Global competition is forcing the organization to rethink the way they do business. It is no longer the "big that eat the small" but it is now the fast that eat the slow. This paradigm shift has pressurized firms to be fast, flexible, and participative and focused on customers, competition, time and process. Becoming market oriented is the norm of the day and companies are rethinking the way the processes can be executed so that maximum value can be delivered to customer. Research envisages that majority of the organization are outsourcing one or the other business processes for strategic or operational reasons. Majority of the organizations are outsourcing one or the other activities. The amount of time and energy spent and the importance attached to each activity are also viewed very seriously by the competing organizations. Activities which are strategically important are executed in-house while the rest is thought of being outsourced. Availability of vendor expertise in the market and proven performance in specific areas is attracting clients to take more number of BPO decisions. Outsourcing on long term basis is proving to
be a strategic option than operational. Therefore, FMCG should view BPO as a strategic option rather than considering them as operational goal.

2. Core Vs Non Core

Based on the intrinsic and extrinsic value, the activities or business processes of the organization are classified as core and noncore. Generally, noncore activities are outsourced first followed by core activities. Several research findings have pointed out that both core and noncore are getting outsourced depending on the organization requirement. However, non core activities are outsourced more than core activities. This phenomenon is prevalent as nowadays, organizations are expected to concentrate more on the core competencies to be effective and competitive. To support this, Hamel and Prahalad argue that a corporation should be built around a core of shared competencies which is difficult for competitors to imitate. In the light of the discussion, it is evident and suggested that organizations have to contemplate on core competencies and by doing so activities which do not build competency are likely to be outsourced. The study reveals that there is lack of clarity as to outsourcing of activities. Some of the sample companies outsource even core also. Therefore, a higher concentration should be made to outsourcing non-core rather than core activities.

3. Identifying core and non core activities

Every organization has core and non core activities to be executed for smooth running. What is crucial is to identify which activity/s is core and which activity/s is/are noncore within the organization? This identification helps an organization in dedicating more resources (time, energy, effort, personnel, capital) and also helps in developing core activities. Efficient and innovative ways of executing core activities
lead in excelling core competencies. Any effort done to strengthen core competencies is definitely welcome by all organizations. Non core activities are also important for the successful running of the organization but are best provided by specialist vendor. This rationale has triggered industry sectors to identify the core and non core activities. Due care should be taken in identifying core and non core activities as this categorization involves resource allotment and business orientation for competing in the market. By and large, core and non core activities remain same for specific industry but vary across industries.

4. Extent of outsourcing

Availability, expertise of vendor and client requirements decide the activity and its extent of outsourcing. This extent of outsourcing is varying across different business processes and different industries. However, the extent of outsourcing observed in the market is varying from 5% to 40% and extent of noncore outsourcing is comparatively more than core activity outsourcing. This reflects that there is lot of scope for increasing the extent of outsourcing. The same is possible only when BPO vendors are committed, performance driven and understand the goals and visions of client. Market perspective reveals that processes such as IT, R&D, Manufacturing, Facilities management, etc., the outsourcing extent is more when compared to customer care services, marketing and sales, HR and FAO. Such variation in the extent is seen due to the fact that technology is changing fast, leaving no option but to update or outsource. Activities which do not carry strategic importance or absence of vendor expertise in the market may outsource to a lesser extent. It can be concluded that extent of outsourcing can be increased provided BPO vendors are expected to realign their strategies as per clients requirements.
5. Formal organization structure for BPO

As BPO is becoming more strategic and professional, it is expected that organizations maintain separate organizational structure to manage the affairs of BPO. Research reveals that 40% companies which tried outsourcing are failing or had delivered fewer benefits than expected. This reflects that due care has not been taken to make the BPO vendor-client relationship successful. One of the minimum essentials for BPO relationship to be successful is the existence of formal organization structure. When organization thinks of hiring BPO services, internally the organization structure need to be modified so that it accommodates BPO changes. Existence of formal organization structure invokes better negotiation, job clarity, expected outcomes and delivery schedules. The concept of having separate formal organization structure is yet to pick up in the market and will definitely help the organizations to maintain healthy relationship with BPO vendors.

6. Vendor selection

Selection of good vendor is also one of the important decisions which need to be taken by client organizations. BPO vendor client relationship is like a marriage. If due care is not taken, then relationship may not last long. Many criteria are tested before the choice of the vendor. Some of the criteria which are normally tested are commitment to quality, proven competencies, technology and price fit, flexibility, adaptability and reputations. These form the broad bases on which the vendor is chosen. BPO vendors are expected to work out on these areas to become the first choice of the clients. Specific skill set and domain expertise are also judged. Target the small-to-medium-sized BPO providers that have long-term stability and expertise in the regional industry. Choose vendors that employ similar management styles, cultures, standards and ideals.
7. Domestic Vs Foreign vendor

Irrespective of locations, some of the processes are getting outsourced from distant places. Vendors can come from captive centers, subsidiaries of MNC’s, domestic or foreign. Generally, majority of the companies prefer their own captive centers or domestic vendors. Certain processes such as L&D, transportation, marketing and sales require presence of domestic vendors. Looking into the nature of the processes, vendors can be chosen domestically or internationally.

8. Duration of outsourcing contract

It is observed that duration of contract matters the most when it comes to measuring the end result of BPO vendor-client relationship. Typically, it takes couple of months for any BPO contract to reach steady state in process and quality. If relationships are well managed, then the very purpose of coming together is served. Contract duration of 2years and above, give a good platform for parties to realize and exploit the full potentials. Moreover, if contract duration is more, commitment also increases from both the sides. Generally, clients do not change vendor if commitment is strong and performance driven. Off course, cost effectiveness and innovativeness also matter in this competitive world. Lack of competency and updation of technology are the main reasons for enforcing short-term contracts. With changes happening very fast, long term contracts are more viable when goals and visions of both the organization are clearly understood and implemented.

9. Managing Vendor relationship

Several researches have pin pointed that 40% of the outsourcing companies are dissatisfied with the relationship. Why such situations creep in? The answer lies in managing the relationship tactfully and strategically. Partnership is required
everywhere. No organization can get away without having partnering relationship. An element of sacrifice is required from both sides for relationship to be successful. Different organizations practice different relationship practices to keep the relationship going. Some of the relationship practices are sharing resources, Kaizen, etc. A win-win situation is possible only when there is sharing of resources between the two parties in terms of knowledge, assets, intellectual property and synergies. For lasting relationship, Kaizen concept needs to be understood and practiced by both the organizations. Continuous interactions also play a major role in defining and redefining the task for efficiency and value enhancement.

10. Determinants of profitability

The study undertook hypothetical testing and arrived at the following model which reflects the determinants of profitability for the selected sample FMCG companies.

**Determinants of Profitability**

![Diagram of Determinants of Profitability]

The above model reveals the determinants of profitability or cost saving in FMCG sector due to outsourcing. The extent of profitability or cost saving is determined by the type of activity outsourced and the duration of the contract. The other factors do not determine the relationship. Therefore, it is suggested that the
FMCG companies are required to determine properly the activities to be outsourced, i.e., core and non-core activities and period of the contract. An outsourcing of non-core adds greater to the profitability or cost saving than the core. If this truth is not considered, a firm may outsource an activity which is contributing to the value of the firm. At the same time, a contract of longer duration indicates the extent of sharing and understanding between the vendor and FMCG. A big thrust should be given to have a long-term relationship with the vendor.

11. Strategies for controlling labour resistance

A few of the organizations have encountered labour resistance to the outsourcing approach. Though suitable strategies have been adopted to mitigate the hardships and misgivings of employees, the study intends to stress that the proactive approaches must be employed for labour resistance. Employees must be taken into confidence even before deciding the outsourcing. They must be apprised of the need for outsourcing and effects of outsourcing. Open communication channels must be established with the employees for mitigating the hardships or misgivings.

12. Big Vs Medium and Small enterprises

The influences of BPO are many and complex, involving part of the process or complete process. BPO as a best practice demands holistic approach as each process is influenced by, and has an influence over the others. Furthermore, there are strong and weak links within the process. Consequently, a degree of contingency for potential variations must be allowed for optimal results. What works out for one may not necessarily mean success for another? The same holds true among big, small and medium enterprises. BPO as such is not new for big companies and MNC's. Wherever the labor or resource is found inexpensive, most of the big companies or
MNC's take the advantage; seek partners and mutually gain economies of scale by focusing efforts on specialized skills. However, small and medium size companies that don’t have complex operations often manage on their own. But, if resources are not available internally or when they grow larger and operations become tedious, outsourcing starts making sense. It gives small and midsize companies an edge because it helps them to form deeper relationship with external BPO vendors who in turn assist clients in handling business operations with efficiency and expertise. The number of U.S. business outsourcing deals increased by 33 percent in 2005, with small and midsize deals fueling much of that growth, according to research firm IDC. It also found that in 2005, small to medium-sized businesses began to buy into the business outsourcing model, particularly in financial services.

13. Noncore outsourcing

Over the last few years, outsourcing of business processes has been gaining popularity driven by the fact that US firms have been enjoying much success from adopting this business strategy. European organizations have increasingly been focusing on what they identify as their core competencies and have been looking to reduce costs while maintaining high levels of quality for non-core activities and processes. To this end, two broad approaches had developed. One, to centralize the non-core processes into an in-house shared service functions to derive benefits of centralization through an in-house process or through a wholly owned subsidiary. Two, to identify an acceptable third party service provider who will handle the processing work. The current economic climate has encouraged the latter trend as the organizations continue to look for more innovative ways to improve efficiency and cut costs in order to survive the turbulent marketplace. The non-core business process areas are the core areas of BPO business. The outsourcing of non-core
business areas is on the rise and many executives believe that it is a way to attain a competitive edge over other companies. By doing so a larger clientele can be served and the customer base can be broadened. Increased market size will definitely increase sales and consequently profits. Trends in non-core business areas outsourcing are increasingly positive and many companies are regarding it as a means to an end, an end to achieve high profits and high customer satisfaction. Simply speaking, outsourcing of non-core business processes is popular among the corporate today.

14. Empowering Executives to Outsource

Many surveys have revealed that one in four organizations plan to increase their outsourcing spending by twenty five percent or more. Executives are realizing the benefits of outsourcing to be immensely deep rooted and beneficial for the companies in the long run. The businesses can flourish in the long-run because of reduced costs of production and higher customer satisfaction. Outsourcing will contribute to 19.5 percent of a typical executive’s budget. It will increase from 16.4 percent today. This will happen because executives are giving more importance to outsourcing and thus allocating more dollars for the outsourcing processes. Firms in the dynamic market such as telecommunications, high tech products and professional services already source more than 40 percent of their operations to outside agencies. This trend is ever increasing and has a huge impact on the major industries functioning in many countries across the globe.

15. When to Outsource?

The most crucial decision for a firm is to decide when to outsource. A number of factors need to be considered while making such a decision. The environment plays an important role in determining the instance when the company should outsource. The political, legal and social issues should be considered in making the decision. The
companies need to be on their toes to realize any deficiencies in the process and provide better customer satisfaction.

In doing so the company has the option to remove the deficiencies in house or employ the resources of a third party to rectify the problem. The two things that companies need to realize are the inefficiencies and wastages present in the process. The company needs to keep a check on the production viability of a product in terms of its cost and revenue situation. The costs of producing in house should be compared with that of outsourcing the product. If the cost of producing is higher than the cost of producing it through a third party, the company should employ the resources of the third party to produce the product. If the inefficiencies in the process are numerous and are a hindrance for the company, the product should be outsourced to outside vendor. This is because an inefficient production process will carry its negative effects on the company's operations and thus increase the overall cost of production and selling of the product. If the company feels the need to employ experts for a particular department, it should outsource. If the board of directors feels that a human resource agency will be able to provide much better professional for the firm, the services of the HR agency should be employed to benefit from its resources. There is always room for improvement and to attain total customer satisfaction, to achieve this, the best possible resources should be engaged at optimal costs. The decision of when to outsource is very subjective in nature and can be different from organization to organization. Business needs, customer needs and the changing market scenario are the major determinants of this decision. To cope with the fast moving world, organizations need to realize the time to outsource and then engage the resources of the company most effectively and efficiently.
16. Outsourcing how to?

**Outsourcing** can only produce the desired results when it is properly carried out and appropriately handled to reach the core objective. Outsourcing can be detrimental to a company if it does not perform the process in a cost effective and efficient manner. Many firms have spent millions and gained nothing from outsourcing their functions. To get the desired results the following steps are essential: Identify the problem, cost-benefit analysis of outsourcing, SWOT analysis of alternative and then select the best alternative, implement and evaluate.

The above suggestions, if adopted, will help the FMCG sector to fully realize the benefits of outsourcing. They would help in building a stronger, mutual and healthier relationship between the sample companies and the vendor companies for furthering profitable relationship. With these suggestions, the FMCG would be in a much better position to stand on firmer stand and be a frontrunner in industrial and economic development.
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