CHAPTER - 1
INTRODUCTION

Beyond the boundary of industry segmentation or nationality, competing on a global scale has become a pressure for businesses everywhere. Companies are on a constant hunch to look out for new ways to respond quickly and efficiently to demands for reduced cost. Under the framework of globalization and intense competition, customers are now demanding specialized and intense offers. This has left no option to the companies, but to adopt new technologies and improved strategies. To ensure enhanced quality offers to customers and for flexibility in management, companies have started outsourcing part of their activity to specialized firms with the pretext that desired objectives set are accomplished (Gildron & Rueda, 1998). By outsourcing, management gets more time to concentrate on core competencies and leave those activities which can be better managed by outsourcing vendor. To add further to this, Grossman and Helpman’s (2005:135) stated that “We live in an age of outsourcing”. This statement clearly indicates that we live in the era of outsourcing and outsourcing has now become an accepted phenomenon and a business strategy. One of the common forms of outsourcing is BPO (Business process outsourcing). As defined by Scott et al., 2005 “ BPO includes transferring the operational ownership of one or more of the firm’s business processes to an external provider who in turn, manages the processes according to some predefined metrics”. 

India BPO sector has emerged rapidly in the last decade and its exports have grown from $565 million in 2000 to about $7.3 billion in 2005. Exports are projected to increase to $20 billion by 2007 and employment in the sector is expected to rise
from its current level of 300,000 to over 1.1 million by 2008 (Chanda, 2005; NASSCOM, 2005a). During the last quarter OND07(Oct, Nov, Dec,2007) the industry has registered 40% growth in its top line to reach Rs9,195.41m compared with the same period of the previous year. The BPO (ITES) industry’s operating profit increased to Rs.2405.24m from Rs.1453.47m and also there was an increase in OPM (operating profit margin) to 26.16% from 22.15%. Net profits have registered 71% growth to reach Rs1, 507.44m. The industry is moving up the value chain from voice-based processes to non-voice based processes. Typical users of BPO in India are Pharmaceuticals, FMCG, Automobile, Airlines, Construction, Data management, Software development, Telecom, Oil and gas distribution, Insurance, Educational institutions, Products retailing, Health care, Infrastructural, Research, Electronics, Hospitality, Banking and financial services.

BPO has migrated from being a functional issue to a board room discussion. It involves companies outsourcing various business functions such as Finance and Accounting, Logistics, HR, Manufacturing, R&D, Transportation, Food and cafeteria, Customer Care, Facilities management, Telemarketing and Back office transactional operations. The BPO vendors or suppliers not only help their clients (outsourcing firm) in reducing cost but also provide improved client services, increased profits and expertise. Further, to have a win-win situation and increased customer satisfaction, shared goals and mutual understanding of processes between client and vendor need to be emphasized (Dyer and Singh, 1998).

The FMCG (fast moving consumer goods) sector over the years after liberalization has grown mainly on two impulses, the rural sector and creation of value for the middle class, but growth for the sector started drying up after 1996, for
which depth initiatives were needed. FMCG sector being a price sensitive sector is a key component of India's GDP. It is a significant direct and indirect employer. It is responsible for almost 5% of the total factory employment in downstream activities and is the 4th largest sector in the economy with a total market size in excess of US$ 13.1 billion. FMCG industry will witness a growth of more than 50% in rural and semi-urban markets by 2010, and will grow at a CAGR of 10%, according to Associated Chambers of Commerce and Industry of India. It has a strong MNC presence and is characterized by wide distribution network, intense competition between the organized and unorganized segments and low operational cost. Availability of key raw materials, cheaper labor costs and presence across the entire value chain gives India a competitive advantage.

Unlike US market, which is dominated by handful of global players, India's FMCG market remains highly fragmented. Nearly half of the Indian FMCG sector is accounted by unbranded and unpacked home made products. Rural regions, where nearly 70% of India's population resides, accounted for 34% of the off take for FMCG products. Since urban regions are already matured, the rural region is expected to be the key growth driver. In urban areas, introduction of newer, convenience and higher end products propelled the growth. An average Indian spends around 40% of his income on groceries and 8% on personal care products. A larger part of the total spending pie along with a large base (in terms of population) makes India one of the largest FMCG markets. As per CII, like any other industry, FMCG has four broad segments - Personal care products, Household care, Packed food and beverages and Hot beverages and tobacco. Many players such as HUL, P&G, Marico, Godrej soaps, Colgate Palmolive, Dabur, Reckit and Colman, Nirma, Nestle, Cadbury, Godfrey Philips, ITC, Shaw Wallace and others are active in these segments.
Need for the study

Opening up of Indian economy has given tremendous opportunities to business organization to explore the globe. Along with these opportunities, challenges also fall in the way. Companies are expected to compete on global front in terms of quality and quantity with value added services. Apart from this, businesses are pressurized from factors of demand and supply. Narrowness of profit margins has pushed service suppliers to become involved in new areas of activity while from the demand side, companies are required to concentrate on crucial business operations. Increased competition and consumer expectations have propelled companies to revamp their structure and strategies.

FMCG sector being strategic important to Indian economy, is presently going through heightened competition. Owing to cost advantages, many MNC have started using India as their manufacturing hub. Brand proliferation, higher input cost, low disposable income of rural region and poor infrastructure have put tremendous pressure on the performance of the FMCG companies. Given the huge potential offered by the fast-growing Indian economy, this is not a difficult task provided suitable measures are undertaken. Many were able to sustain growth for a long time because they were comfortably placed in high-growth categories with less competition. However, once those categories slowed down and competition started becoming stiff, the same businesses could no longer deliver the performance they had formerly delivered. This warranted some actions from the FMCG firms to concentrate on core business operation and outsource the noncore processes to the external vendors. These specialists (BPO vendor/s) undertake business processes on behalf of clients and execute task based on defined and measurable performance metrics.
As it is observed that some FMCG firms have started outsourcing few of their business processes. Mere allocation of processes to BPO vendor may not suffice the very purpose of business. This created curiosity to understand the acceptance of BPO in FMCG sector in India. Moreover, core and non core activities vary from one firm to another in FMCG sector. A comprehensive study on the activities may reveal the core and non-core activities segment wise and list the activities currently being outsourced. This classification may be useful for taking outsourcing decisions and get a feel on the extent of outsourcing happening activity wise in FMCG sector.

It becomes incumbent to understand reasons propelling FMCG business to outsource their activities, the type of activities outsourced and extent of outsourcing, process employed in selecting the BPO vendor, maintenance of the relationship and above all impact of outsourcing decisions on financial performance. Is outsourcing really profitable? What is the extent of benefit enjoyed by firms and if it is really profitable, is outsourcing adopted by all players in the sector? What are the determinants of the benefits of outsourcing? Are benefits under outsourcing in any way related to duration of the contract, nature of relationship, type of activity and extent of outsourcing, existence of a separate organizational mechanism, etc? The present study aims to find answers to some of the above stated questions with a view to generalize on the nature of relationship between FMCG sector and outsourcing decisions. The study also helps to extend the principle of outsourcing to other sectors of the economy with a view to further the pace of economic development of India.
Review of Literature

Here an attempt has been made to explore the works conducted so far particularly in the field of BPO.

Zhiwei Zhu et al (2001)

The study on “Outsourcing – a strategic move: the process and the ingredients for success” highlights that outsourcing has become an important strategic tool in today's competitive business. It also throws light on 4 stages of outsourcing process – planning stage, development stage, implementation stage and evaluation stage. The planning stage comments on identifying all costs associated with the current method of conducting business and all costs that are anticipated once outsourcing is deployed. The developments stage talks about the vendor agreement, the business relationship transparency, impact on employee benefits, the employee separation plan, the outsourcing timeline and the communication plan. The Implementation stage speaks about the outsourcing transition plan and its check list. The last stage which the author coins it as post outsourcing review which focuses on review and accomplishments of the process.

Cutting Edge Information Inc., a Durham, NC-based research and consulting firm (2002)

The report released by, found 40 percent of companies in a wide range of industries were dissatisfied with their outsourcing relationships. The report found that this dissatisfaction springs from a lack of understanding about why a company outsources certain processes, a lack of understanding about the vendors that are available, or lack of communication with the outsourcing vendor. Other times, the outsourcer's
responsibilities were not specific enough or its performance was too difficult to measure.


The study on “The Human Side OF Business Process Outsourcing” explores the impact of IT BPO on the employees and on the culture of the target organization. In particular, it analysis outsourcing strategies that involve employee transfer (contract transfer) from the client to the external service provider (ESP). “Of the corporation that outsource, 60% of those deals involve the acquisition of the user organization IT staffers”. The study on outsourcing and outsourcing life cycles emphasizes the importance of developing an effective human resource strategy, linked to the overall corporate strategy, in each outsourcing exercise.


The study on “BPO potential in the financial service sector” revealed that financial service institutions are going to be tremendously benefited in terms of reduced cost, enhanced performance, and ability to access superior expertise and industry best practice, and devoting scare resources to core businesses on account of BPO. The study also highlighted that traditional and vertical organization structure must be replaced with new business models and partnerships should be sought for optimal business performance. Parameters such as value creation, speed to value and optimization of value with success related rewards need to be agreed by service provider and client while establishing relationship.
David, Mary, Leslie (2004)

The study on “12 capabilities to evaluate in your BPO provider” revealed that client organizations are challenged to identify a BPO vendor whose capabilities are most appropriate to the company needs. The study investigated that 3 competencies namely delivery, transformation and relationship form the base for describing 12 capabilities to be assessed in a BPO vendor, while choosing the service provider. The 12 potential supplier capabilities are a) Domain expertise capability b) Business management capability c) Behavior management capability d) Sourcing capability e) Technology exploitation capability f) Process improvement capability g) Customer development capability h) Planning and contracting capability i) Organization design capability j) Governance capability k) Program management capability l) Leadership capability.


A comparative study on “Rethinking Outsourcing in Manufacturing: A tale of two telecom firms” reveals strikingly different strategies for production and outsourcing. The study is based on interviews with managers and union representatives in purchasing, manufacturing and development roles in Finland and Sweden. The study focuses on manufacturing of Nokia and Ericsson networks which are physical products and are the nodes in the mobile networks. Nokia adopts horizontal sourcing model and maintains strategic components and processes in-house while Ericsson adopts vertical sourcing model and transferred complete production responsibility to contract manufacturers. The study concluded that from the perspective of outsourcing consensus Ericsson could be seen as a more ‘advanced’ case, soon to be followed by the ‘late-comer’ Nokia. But, reduced inter organizational
interfaces and issues such as speed, time to market and revenue are strong reasons to believe that combined horizontal model is superior. From this perspective Nokia would not be seen as a ‘late-comer’ in the outsourcing game but a harbinger of future orientation and adopts more balanced approaches.

Nicholas Beaumont et al. (2004)

The study on “Outsourcing in Australia” surveyed CEOs of 2000 Australian organization with at least 20 employees through online survey; 162 responses were received and data was sought on number and intensity of applications outsourced, reasons for outsourcing and discontinuing outsourcing were found. Further, the study was able to pin point that number of separate activities outsourced are dependent on the primary business functions and some industries outsourced significantly different number of functions. However, there were no significant differences among the industries in the intensity of outsourcing. Under strongly expressed reasons for outsourcing include – access to skills, reducing cost, obtaining flexibility and improving performance. Factor identified in the study were – operational, resources, cultural and external. With regard to reasons for not outsourcing, common objections were put under 4 factors namely – operational, strategic, cost and loss of control.

Biswajit Nag (2004)

The study on “BPO: Impact and implications” has revealed that the development of the IT sector has increased the cross border trade of ITES and has widened the scope of outsourcing. Both government and entrepreneurs face challenges in developing and thriving BPO sector. The expansion of BPO services in a developing economy depends on the capacity to identify potential niches and make
investments in telecom infrastructure, education, legal framework and tax incentive to attract overseas client.

Sanjib Dutta (2005)

This study on “HR outsourcing: Emerging trends” highlights that HR outsourcing market is booming and major consultancy firms predict India to be one of the emerging players. The study explains the reasons for the growth in this segment and India’s contribution to HR outsourcing. The HR fever has not only spread to large companies but many small and medium sized companies. The various HR processes that companies are venturing into include data entry, payroll processing, staffing, training, resume management, compensation, employee communications, pension plans, leave administration and HR data analytics.

Dhiraj Sharma et al. (2005)

The study on “BPO: The strategic alternative for India” examines the emergence of India as a preferred destination for outsourcing. Robust communication infrastructure, English speaking workforce, low labour costs, appropriate time zone difference and brand equity build by software service sectors are compelling reasons for choosing India as a BPO destination. SWOT analysis on Indian competitiveness to meet global standards is carried to justify that India emerges as a preferred destination for outsourcing.

Lisa Webb and Justin Laborde (2005)

The study on “Crafting a successful outsourcing vendor/client relationship” highlighted that “the success of an outsourcing arrangement depends greatly on the success of the client/vendor relationship”.


Christine Harland and Louise Knight (2005)

The study on “Outsourcing: assessing the risks and benefits for organizations, sectors and nations” suggest that that a more holistic view of outsourcing is needed, linking local, organizational issues with sector and national level actions and outcomes. In this way, aggregate risks and benefits can be assessed at different systems levels.

KNK Venkatraman (2005)

Based on the study done by Wipro technologies on total cost management (TCM) it has been found that medium sized organization or large departments employing about 5000 employees can get a cost benefit of $9.7m - $18.4m per annum by outsourcing their IT infrastructure management. The savings can vary from 35.8% to 50.7% of the total IT infrastructure management cost of $170m over five years. This saving was accrued because of a) saving due to reduced in-house IT infrastructure management staff and b) better SLA deliverables through outsourcing.

Manish Subramanian and Bhuwan Atri (2006)

The study on “Captives in India: A Research Study” by Infosys was carried out for 250 companies across IT software, Hi-tech manufacturers and financial services firms and revealed that many companies are using captive centers to preserve control and protect intellectual property. Study examines that for very large scale of operations; captive may even provide lower costs than the price charged by the external BPO vendors. As a result, the number of captives being set up in India and their size are both increasingly rapidly.
Indranil, Jonodhan and Sunil (2006)

Research on “Antecedents of BPO in Manufacturing plants” explores the relationship between investments in IT, manufacturing plant strategies and their impact on BPO in manufacturing plants. The study investigates that plant with greater IT investment, as a percentage of plant sales, is positively associated with the outsourcing of plant production activities. It also found that with higher levels of in-house software infrastructure are less likely to outsource plant support business processes. Plants with low cost strategies are more likely to outsource* noncore support processes whereas high quality strategies are more likely to outsource core production processes. Further, the study comments that plant size and age do not play significant roles in terms of their impact on BPO. Plant specific characteristics, such as plant unionization and the nature of manufacturing processes have a significant impact on the incidence of BPO.


A study on “Challenges and Opportunities of Business Process Outsourcing in India”, interviewed 28 executives in lower, middle and upper management in 15 BPO firms and revealed that overall HR, motivation and stress, career and business prospects and change related issues were the main themes mentioned across the three levels of management. The main challenges pertained to job or HR issues at the lower management levels, HR and directing at the middle management level, and planning, directing and controlling at the upper management level. Perception about opportunities exceeded threats. Negative responses dominated the lower and middle level managers whereas positive responses exceeded negative ones for upper managers.
Harsh Bhargava et al. (2006)

A field study on performance appraisal system in BPOs was conducted on 6 companies on several aspects of performance appraisal. The study found that there was wide variation in the frequency, methodology, performance parameters, reward system whereas focus of the appraisal system was largely on productivity and all BPO companies had well defined rating system. However, 3 BPO companies practiced feedback mechanism and for remaining companies it was exception.


A study on "The Dynamics of HRM Systems in Indian BPO Firms" was conducted on 51 sample firms situated in and around New Delhi revealed the existence of formal, structured and rationalized HRM systems in Indian BPO companies. The study also reported that attrition rate is in the range of 15 to 50% and is the most pressing problem of Indian BPOs. The three main motivator as expressed by BPO employees are money, career opportunities and work environment which were rated high than others such as benefits (facilities), recognition at work, growth, company brand name, opportunities for personal growth and better treatment from clients. Interviewed HR mangers opined that existence of effective HRM systems in Indian BPOs are very crucial for the survival of the units in the ever increasing and highly competitive national and international business environment.

Statement of the problem

Reviews of earlier literature showed that majority of the studies have been conducted in the area of HR. A few studies have examined the impact of cost and performance on account of BPO in the financial sector. Some studies were able to
explore the business process integrated issues and key challenges in transitioning BPO projects. Studies on captive centers revealed that number of captive centers in India is increasing and commented that large scale captives can deliver service at a cost lower than external BPO service provider. Existence of Vertical and Horizontal BPO models have been discussed for manufacturing plants in telecom sector. Manufacturing plants with more IT investment are more likely to outsource. Advancement in the technology has increased cross border trades and India happens to be one of the preferred BPO destinations as commented by few researchers. One of the study claimed that more the strategic advantages greater the tendency for outsourcing. In addition, one of the research studies investigated that number of activities outsourced are depending on the primary business function and some industries outsource significantly different number of functions.

Thus, it can be concluded that sufficient works have not been undertaken to understand BPO impact on performance of firms. Research studies in India are primarily focusing on HR issues, working conditions of BPO and its benefits. Number of studies undertaken even under HR is also not adequate. Empirical studies on BPO have not been conducted sufficiently across different sectors of the industry. Moreover none of the studies have been conducted in the area of FMCG pertaining to BPO.

Consequently, to give a holistic approach and to examine the acceptance and performance of BPO in FMCG sector in India, the present study makes an attempt. It intends to achieve this objective by analyzing the core and noncore activities of the FMCG firms and future outlook FMCG towards BPO. Hence the statement of the problem “Analysis of BPO in FMCG sector in India”
Objectives of the study

The following are the important objectives of the study:

I. To examine the growth and potential of BPO industry in Indian context.

II. To analyze the contribution and progress of FMCG sector.

III. To analyze the reasons and extent of outsourcing in sample FMCG companies.

IV. To examine the process adopted in vendor selection and in relationship management.

V. To examine the impact of outsourcing decisions on performance of sample companies.

VI. To study FMCG outlook towards BPO of selected sample companies.

Hypotheses for the study

The study hypothesizes certain relationship. The basic purpose of developing these hypotheses is to understand the nature of relationship between BPO and FMCG sector. What determines the success of BPO in FMCG sector? For this purpose the study sets the following null hypotheses

H1: Core and Non-core activities are outsourced equally for the selected sample companies.
H2: There is no relationship of having a Formal Organization Structure and Profitability of the sample companies

H3: Type of activity outsourced and extent of outsourcing are independent of each other

H4: Corporate relationship practices and corporate performance are independent of each other

H5: There is no relationship between extent of outsourcing and profitability

H6: There is no significant relationship between growth of FMCG sector and outsourcing.

H7: There is no significant relationship between cost saving achieved by the companies and the duration of outsourcing.

H8: Cost saving on account of outsourcing and performance of the company are independent of each other

H9: There is no significant relationship between the duration of contract of outsourcing and the percentage of ROI generated by the company

H10: Outsourcing of activities and profitability of the company are independent of each other.

H11: There is no relationship between the number of activities outsourced and profitability

H12: There is no significant relationship between the duration of contract and the market value of the firm.
Research Methodology

Given the limited amount of information on BPO in FMCG sector in India, it was decided to design an exploratory study to understand the factors which drive the companies to outsource. From the explanatory study, it was found that certain activities of the firms are being outsourced and activities outsourced vary from firm to firm. This created an interest to explore the activities which are currently being outsourced, extent of cost savings happening and to study the impact on the performance of the company on account of BPO. To enable this, the study used both primary and secondary data exhaustively. The primary data was used to elicit the first hand information from selected sample FMCG companies. Through websites, journals, product packaging and magazines, secondary data was collected to find the popular brands, company addresses of FMCG companies and other relevant information pertaining to BPO and FMCG.

A structured interview questionnaire was prepared and administered on pilot basis among selected sample units. The required modifications were incorporated based on the feedbacks. As FMCG firms are spread widely and deeply in different parts of the country, a sample of 438 companies was targeted through mail survey and personal visits. However, 119 companies responded for the survey and the same is being used for compilation of the data. The samples were selected based on convenience sampling technique. These samples were picked from industry best, Forbes 500 companies, MNCs, SME, listed and unlisted FMCG companies and others.

The data so collected was properly analyzed and edited to get meaningful information. Appropriate statistical tools such as Chi square, ANOVA, and
Cumulative scores are used to get the inferences from compiled data. The hypotheses are tested using SPSS 11.

Research Design

The present study has been divided into eight chapters:

Chapter - 1

The first chapter highlights the significance and need of the study, review of literature, statement of the problem, objectives of the study, hypothesis, methodology used for the study etc

Chapter - 2

The second chapter traces the origin of outsourcing and BPO. It cover aspects such as drive for outsourcing, sourcing what and how, a brief note on core and non core activities, advantages and disadvantages of BPO. Further, a brief account on Indian BPO market, various dimensions of BPO, sub segments of BPO, typical services offered by Indian BPO’s, market size of Indian BPO and government policy initiatives are provided.

Chapter - 3

The chapter makes an attempt to understand the overview of the FMCG, attributes, industry characteristics, SWOT analysis, segment performance, industry trends and a brief note on sample players.
Chapter - 4

The chapter provides the profile of the sample units in the study. The sample has been explained in terms of size of the organization, products handled and segment classification.

Chapter - 5

This chapter talks about the core and non-core activities of selected sample companies. It discusses the extent of outsourcing happening activity wise, rationale behind outsourcing and discusses the FMCG sector outlook towards business process outsourcing.

Chapter - 6

This chapter gives the future outlook of FMCG and need for outsourcing and analysis views of sample companies that are not outsourcing in any way.

Chapter - 7

This chapter is devoted to analyze the performance of sample FMCG companies in terms of extent of cost saving achieved, percentage change in ROI, net effect of BPO on profitability and impact of cost saving and the determinants of the performance of the sample companies on account of BPO.

Chapter - 8

The final chapter provides conclusions and suggestions
References


19. http://www.springerlink.com/content/57mapw208mlachra/


