

Destination China

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Business process outsourcing (BPO) has become one of the key strategies for not only large multinational organizations, but also small and medium-size businesses.

This is understandable as many organizations today look for a dynamic strategy to reduce their costs and increase returns on investments.

BPO provides SMBs with another tool to improve competitiveness through focusing on core business activities and offering better and more responsive customer service. Smaller companies often do not have the scale to set up their own operations offshore in order to benefit from the low cost advantages available, so they leverage the consolidated scale of an outsourcing provider.

Although BPO can take different forms, offshore outsourcing is an escalating trend among Asia-Pacific SMBs, and China, one destination for BPO, is catching on fast. In the outsourcing field, China is the biggest challenge in the future and the largest threat to India. With its vast population and fast-growing economy, the country has at least two strengths in the global outsourcing market: manufacturing and IT.

The offshore manufacturing already in China has created the support services infrastructure necessary for outsourcing. Many organizations have found that outsourcing their manufacturing to China for their companies' global operation can be profitable and also of good quality.

Manufacturing outsourcing and research and development investments ensure China's leadership position in the global outsourcing market. Further leveraging the manufacturing image, China slowly has been developing ancillary services to support its large manufacturing base.

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The country is currently experiencing powerful economic growth, bringing multifaceted strengths to the global outsourcing market. The key advantage in China is the low labor cost. At the moment, it has an excess supply of well-trained engineers willing to work at wages lower than those in India. According to government estimates, China has over 50,000 software programmers added to the labor pool annually, while China's universities churn out more than 250,000 engineering graduates each year. As such, China is a natural competitor in the labor-intensive software industry and is also well-suited for low-level IT work including maintenance and porting.

China also has a high level of technical competence in fast-growing segments like Linux, bio-informatics and antivirus software. With such a vast number of educated programmers and other highly skilled workers, China appears to be a keen global force in the IT outsourcing industry.

Changes in the country are also creating favorable economic factors for outsourcing, including the liberalization of laws and policies, a burgeoning middle class and a new emphasis on education. Many universities and training institutes are now emphasizing software development and technical applications, often combined with advanced courses in English or Japanese. The Chinese government has invested US\$5.4 billion in nine universities in China to promote English-language training and other skill sets. Government efforts have also led to a significant improvement in overall infrastructure, increasing telecom density and PC penetration; China now scores over India in these aspects and intends to further increase the gap.

China's software parks guarantee an uninterrupted power supply, with most equipped with backup power generators. The bandwidth of China's international Internet broadband connection is expanding. The country is also now passing laws that protect private ownership and intellectual property, which is a crucial step for outsourcing to take hold.

Japan and Korea, prime customers

China's entry into WTO in 2001, the government's dedicated effort to become a serious contender for global sourcing jobs, and the integration of China into the global value chain of most major multinational organizations will open up further opportunities for China as a global sourcing destination. However, China-based BPO providers are currently strongest in the Asia Pacific market due to geographic proximity and China's cultural affinity to nearby nations. A significant number of Chinese people speak Japanese and Korean, especially in the northeast cities of Shenyang and Dalian where software firms reside and where Japan is three hours away and Seoul is only two hours away.

Furthermore, most Chinese programmers are very familiar with the unique double-byte system used to generate Chinese and Japanese characters. As such, China offers significant advantages to Japanese SMBs looking to outsource their projects. Japanese companies in the IT sector turn to China as a source for everything from computer programming to system design and R&D, or for establishing call centers to service their domestic operations.

Most current BPO activities in China include back-office processes, such as call centers, finance and accounting, payables, and some research and development. However, China is increasingly attracting a wider range of BPO activities, particularly from North Asian SMBs in Japan and Korea. According to studies conducted by

China's demonstrated success in outsourcing to Japanese and Korean SMBs may potentially win over Western companies who have an impending interest in outsourcing to China.

AMI-Partners, over 1.2 million SMBs in Japan currently outsource their business processes and over 40,000 SMBs outsource to offshore companies. Similarly, over 21,000 Korea SMBs currently outsource to offshore companies, a number expected to nearly double in the next 12 months. China's demonstrated success in outsourcing to Japanese and Korean SMBs may potentially win over Western companies who have an impending interest in outsourcing to China.

Due to the language barrier and cultural gap between China and Western places, while Asian businesses can move their customer-interaction activities to China to gain cost savings, Western corporations can take advantage of the vast, low-cost labor pool by sending their transactional work and labor-intensive software activities to China. Since China is still a newcomer to the outsourcing industry, some are unable to even determine the proper approach to outsourcing to China. A few recommendations to SMBs wishing to outsource to China include the following:

- Clear understanding of the Chinese law and government policies associated with foreign business activities.
- Establish comprehensive contract terms and determine the best structure for the contractual relationship.
- Conduct a trial, low-risk project before transferring critical work to an outsourcing partner in China.
- Periodically reassess the outsourcing strategies in place and monitor stability of the political environment.

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