

PROJECT PROFILE

ON

BUSINESS PROCESS OUT SOURCING (BPO)

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BUSINESS PROCESS OUT SOURCING (BPO)

INTRODUCTION

In simple words, Business Process Outsourcing is the transfer of operational responsibility of either business process or functions to an external service provider, together with information technology that supports these processes. Thus while the corporation continues to function commercially in the field of its core competence, it necessarily fans out every other aspect of its venture that it does not do itself.

The Global major companies have rated India as a prime destination for outsourcing. Recent surveys suggest that most US companies consider India as the best destination for offshore outsourcing. The BPO is made possible by new forms of encryption and faster methodologies that allow confidential data to dart instantly around the world.

Initially low end work such as data entry, setting up of call centres etc were considered as India based investment form global companies, but now the back office operations by several IT, Finance companies are being done from here.

Presently the share of outsourcing from India in sectors like Finance & Accounting, HR/ Payroll services, settlement and Clearing, Administration, occupies the major share. Several factors have acted as catalysts to the phenomenal growth of outsourcing.

MARKET POTENTIAL

BPO Industry

This industry has grown almost 9 times from US\$ 1.6 bn to US\$ 14.7 bn over the last decade. This works out to an average annual growth rate of 25% over this period. The BPO industry currently employs 1 m people, also providing indirect employment to 3.5 m.

Passing out the tough times

The subprime crisis and subsequent meltdown affected the BPO market as well. Companies cut budgets and discretionary spending on IT. Rising unemployment, of around 10% in the US and 8% in the UK, gave rise to protectionist sentiments. New bills were introduced in the US Congress to curb offshoring of jobs. Racism and verbal assault against call-centre employees was rampant. BPOs faced pricing pressure and fewer new deals or contract renewals. Vendors dependent on single or few clients faced risks on being able to continue the business.

BPO vendors quickly responded to this scenario by increasing the depth of their offerings. They focused on flexible operations and improved their efficiency. Innovative pricing models were designed in line with global demand. The industry also decided to focus on new verticals and clients which were recession proof. BPO subsidiaries as part of Wipro and Infosys reported decent performances. Overall revenues increased by 6% in FY10, as per NASSCOM, a reasonable growth in a bad year.

Specialized Services via KPO

This industry has now moved out of its initial days and is now in a rapid growth phase. From plain vanilla voice based offerings, it now provides offerings of different maturity levels. Several new upcoming areas such as procurement services, healthcare outsourcing, and knowledge services have been introduced. Knowledge Process Outsourcing (KPOs) offers services such as research and analytics, legal process outsourcing, financial research and data management is expected to aid growth of the overall industry in the future.

These specialised services are difficult to duplicate in other countries such as Sri Lanka, Pakistan, Bangladesh and the Philippines We expect India to continue to be a leader, especially in the KPO space. This is due to its large professional base, superior skill sets and English language proficiency.

India's KPO market is forecast to grow by 25-30% annually till 2013, according to

the global research firm Gartner. This market space is estimated to be worth US\$ 50-70 m at present.

Growth fueled by optimizing resources

Rural BPO presence: Tier-2 cities have now become the hub of IT industry and software development. From only being present in large metros, the BPO industry is today present in over 50 cities and towns. Karnataka has been a pioneering state in a new phenomenon of Rural BPOs. India's first rural BPO was set up in a tiny nondescript village, about 150 km from India's IT hub Bangalore. The BPO called Mpro Solutions really shows how IT can change the rural economy. Jobs, money and education is now provided locally thus greatly improving the village youth's prospects. This also prevents them from migrating to urban cities and increasing pressure on the already scarce city resources. About 60% of BPO employees in the cities currently come from small towns and villages, according to NASSCOM.

Domestic offerings: The domestic BPO market is a high-growth segment and is estimated to grow 19% through 2013, according to Gartner. It estimates that this market would grow into a US\$ 1.2-bn market by 2011. This will reach US\$ 1.8 bn by 2013. Many Indian providers and some multi-nationals have now shifted focus to the domestic market. This was mainly due to global economic uncertainty post the economic crisis.

US expansion: Indian BPOs are now planning to expand operations in the low cost US locations. This is following a fall in the prices of real estate and labour. A rise in anti-outsourcing sentiments also caused this shift. The aim for this surprising move is to court fresh orders and win projects in highly regulated sectors such as healthcare, government etc. Recently Patni acquired a BPO delivery centre in Texas, post a deal with a healthcare insurance provider. The Hinduja Group is also currently looking to acquire BPO units in the UK and the US as part of its plan to deploy idle cash.

According to NASSCOM, India's BPO business is expected to post a growth of 15-

16% in FY11. This is due to growing demands from overseas clients and greater domestic demand. NASSCOM is positive on the prospects of this industry, especially with the innovative endeavors they have taken for growth.

TECHNICAL ASPECTS

INSTALLED CAPACITY

The installed capacity proposed is 50 seated Pay roll Processing Outsourcing unit. This can process about 8000 Pay rolls per day. The charges are about US\$ 0.50 per Pay roll processing.

PROCESS OF BPO

Accounting firms based abroad in Canada or USA are currently providing Accounting and Payroll Services to various companies.

The details of these companies are passed on to the Indian Company.

Each of these companies requires its own cheque stationery to be used when the cheques get printed. The reporting requirements also vary from company to company. A set of employees are responsible to carry out these activities which is non optimal and time consuming as they have to mount and dismount various types of stationeries depending on the company for which they are processing. The frequency of the payroll run also varies from company to company and can be once a week, once in two weeks or once in a month.

There would be basically two types of data elements to be captured for processing the Pay Roll system

- A. The Master or One Time Information and
- B. The Transactions for a period of processing on a continuous basis

MASTER or One Time Information

This contains the following

- A. Company Information

B. Number of Employees with their social Insurance Number (SIN) associated with the Company

C. Personal Information containing

1. First Name
2. Middle Name
3. Last Name
4. Street
5. City
6. Province
7. Country
8. Postal Code
9. Phone
10. SIN
11. DOB
12. Hire Date
13. Active/ Inactive Status
14. Current Designation
15. Other

D. Tax

1. Tax Rate
2. Federal
3. Provincial
4. Social Insurance Tax
5. Additional Tax if any
6. Other deductions

E. Income

1. Hours worked

2. Rate per Hour
3. Over Time –1 hour
4. Overtime-2 Hours
5. Salary per period
6. Benefits per period
7. Commission etc per period

F. Deductions

1. Pension
2. Medical
3. Other deduction-1
4. Deduction-2

The BPO Unit has to purchase and install a software Fortune 1000 Package for Pay roll processing

Receiving Master data to India

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Process data

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Generate Cheque Images and other Reports as available in Fortune 1000 in Text Format

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Send processed reports

MACHINERY AND EQUIPMENT

The following machinery and equipments are required to be purchased.

Items	Qty	Value lakhs	Rs.
Computers	50		16.00
Routers & communication Equipments and Generator	1set		2.00
Software Payroll Process	1		16.00

Recruitment & training	1	6.00
Miscellaneous furniture etc		3.00
Total		43.00

RAW MATERIALS

There is no raw material for the process other than computer stationery.

LAND & BUILDING

An area of 4000 sq.ft is required. A rented place can be taken The monthly rent is Rs.1.20 lakh. An advance of Rs.12.00 lakhs is provided.

UTILITIES

POWER

The power requirement is about 50 HP which can be taken from the Electricity Board. A standby generator can also be provided

WATER

Water is required for human consumption only.

MANPOWER

Senior Management Personnel	3	35000	105000
Middle Management	3	25000	75000
Operating Staff	50	12000	600000
			780000
Add benefits 20%			156000
Total			<u>836000</u>
Annually			Rs. 100.32 lakhs

IMPLEMENTATION SCHEDULE

As the equipments are available easily, if financing arrangements are made, the project can be implemented in 1 months time.

ASSUMPTIONS

1. Installed Capacity of the unit is estimated at 2400000 Nos Pay Roll processing per annum.
2. The rate assumed is US \$0.50 per Roll Processed. (Rs. 23.50 per Pay Roll)
3. During first year capacity utilisation is assumed at 60%. This will be increased to 70% and 80% in subsequent years.
4. Salary Rs.100.32 lakhs per annum as per details given above with annual increase of 5%.
5. Rent is estimated at Rs 1.20 lakh per month.
6. Electricity charges Rs.1.25 lakhs per month. (Rs. 2500 per seat per month)
7. Employees welfare Rs 1.25 lakhs per month (Rs. 2500 per seat per month)
8. Communication Expenses Rs.2.50 lakhs per month (Rs. 5000 per seat per month)
9. Transport expenses Rs.1.25 lakhs per month (Rs. 2500 per seat per month)
10. Executives salary Rs 4.50 lakhs per month
11. Depreciation is provided at 60% on written down value method on plant & machine.
12. Interest on Term Loan 12% per annum
13. Interest on working capital is not provided as the working finance is not envisaged.
15. Income tax is assumed at 33.22% on taxable income

SUPPLIERS OF EQUIPMENT

Routers

1. Skylark Information Technologies Pvt Ltd, "Lakshmi House" No:42,40 Ft Scheme Road, Kamdhar Nagar, Mahalingapuram, Nungambakkam, Chennai-600 034

Computers

1. WIPRO systems, 85 Mowbrays Road, Teynampet, Chennai-600018 and Several Other Dealers/ manufacturers

The term loan is calculated at 75% of computer, routers & communication equipment & Software, aggregating to Rs. 34.00 lakhs

COST OF PROJECT & MEANS OF FINANCE

	Rs. lakhs
Land & Building -Advance	12.00
Computers	16.00
Routers& communication Equipment	2.00
Software	16.00
Recruitment & training	6.00
Misc Assets	3.00
Pre-op expenses	10.00
Working capital	15.00
TOTAL	80.00

Capital	54.50
Term loan	25.50
TOTAL	80.00

COST & PROFITABILITY STATEMENT

Year	1	2	3
No of pay rolls processed	2400000	2400000	2400000
INCOME 2400000 0.5 47			
INCOME Rs. Lakhs	564.00	564.00	564.00
Capacity Utilisation	60%	70%	80%
Income	338.40	394.80	451.20
Salary	90.00	94.50	99.23
Rent	14.40	14.40	14.69
Employee welfare	15.00	15.75	16.54
Electricity	15.00	15.75	16.54
Communication expenses	30.00	31.50	33.08
Transport	15.00	15.75	16.54
Salary to Executives	100.32	105.34	110.60
Interest on Term Loan	3.06	2.60	2.21
Interest on Working capital	0.00	0.00	0.00
Depreciation	39.60	15.84	6.34
	322.38	311.43	315.75
Profit before tax	16.02	83.37	135.45
Provision for Taxes	5.32	27.70	45.00
Profit after taxes	10.70	55.68	90.45
add Depreciation	39.60	15.84	6.34
Cash Accruals	50.30	71.52	96.79

WORKING CAPITAL

Expenses	2 months	15.00
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BREAK EVEN LEVEL

Fixed Cost	
Salaries	99.23
Rent	14.69
Electricity-50%	8.27
Communication expenses-50%	16.54
Salary to Executives	110.60
Interest on Term Loan	2.21
Depreciation	6.34
Total	257.87
Profit before Tax	135.45

$$\text{BEL} = \frac{\text{FC} \times 100}{\text{FC} + \text{P}} = \frac{257.87}{393.32} \times \frac{80}{100} = 52.45\%$$

PROFITABILITY RATIOS BASED ON 80% UTILISATION

<u>Profit after Tax</u>	<u>90.45</u>	20%
Sales	451.20	
<u>Profit Before Interest and Tax</u>	<u>137.66</u>	172%
Total Investment	80.00	
<u>Profit after Tax</u>	<u>90.45</u>	166%
Promoter's capital	54.50	