



UNDERSTANDING

OUTSOURCING:

Why the Philippines is the
outsourcing capital destination



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INTRODUCTION

In a progressively competitive, business growth depends on the effective management of assets, including by the full attention of resources on the essential activity of the organization. However, as a rule, any organization is “burdened” with non-core but no less important services for its functioning: IT, accounting, Administrative, legal department, etc. In order to successfully exist and develop without wasting resources, organization can reduce non-core business functions to outsource. Nowadays, the popularity of outsourcing is growing and firmly entrenched in the minds of the global business community.

According to the experts of Outsourcing Institute, outsourcing of business process is an emerging view of the optimization of companies, with the largest increase observed in the field of finance and accounting. Statistics gathered in 1997 by the American Management Association showed that already 20% of surveyed 600 firms outsource at least some of the financial and accounting operations, and 80% – part of the administrative functions (Spring, 2010, pp.171-172).

Outsourcing is the transfer of non-core business processes to third parties. The first outsourcing services were a bit distinct, it was an outsourcing of personnel, in the involvement of employees of another firm to perform some tasks. Today, outsourcing is used in various fields, but most often it is used in warehousing and logistics.

It also classifies as the process of contracting a business function or any specific business activity to specialized agencies. Mostly, the non-core areas such as sanitation, security, household, pantry, etc. are outsourced by the company. The company makes a formal agreement with the agency. The agency then sends the manpower required to the company. The agency charges the company for their services and in turn pays wages to their employees. Global competition has given rise to outsourcing. With the help of outsourcing, companies can focus on their core areas which leads to better profits and increase the quality of their product.

AN OVERVIEW

Outsourcing has been on the lips of business leaders everywhere for several years now. And yet, there is sometimes confusion on just what outsourcing, and an outsourcing company is. That said, despite the different views on what outsourcing really is, the common thread is that it involves an organization handing over one or more processes to a 3rd party to execute at an agreed fee.

Building offshore remote teams is a very common business practice; if you started asking your industry colleagues if they use outsourced or offshore remote teams, you might be surprised how many of them say “yes.” Most medium to large companies in the world participates on some level.

Companies today can outsource a few tasks or services. They often outsource information technology services, including programming and application development, as well as technical support. They frequently outsource customer service and call service functions. They can outsource other types of work as well, including manufacturing processes, human resources tasks and financial functions such as bookkeeping and payroll processing. Companies can outsource entire divisions, such as its entire IT department, or just parts of a particular department.



CHAPTER 1

HOW DOES IT WORK?

For a company to effectively outsource duties, it is important to focus on the business partnership as much the logistics. Outsourcing is about managing relationship more than service-level agreements, and is a partnership, not a purchasing project. Maintaining and securing a trusted relationship is important in outsourcing efforts and is more complex than establishing service levels and relationships. Some experts recommend placing extra emphasis on the exit clause of a service contract. It is important for companies to know when the contractual agreement inevitably times out and ensure that the involved parties fulfill their obligations and stick around until the contract is up.

REASONS FOR OUTSOURCING

Companies often outsource to lower costs, improve efficiencies and gain speed. Companies that decide to outsource rely on the third-party providers' expertise in performing the outsourced tasks to gain such benefits. The underlying principle is that because the third-party provider focuses on that task, it can do it better, faster and cheaper than the hiring company could.



Given such benefits, companies often decide to outsource supporting functions within their businesses so they can focus their resources more specifically on their core competencies, thereby helping them gain competitive advantages in the market.

However, some companies decide to outsource for other reasons. For example, they outsource because they're unable to hire in-house, full-time employees with the specialized skills and experience needed to perform certain jobs.

Companies sometimes opt to outsource to shift meeting regulatory requirements or obligations to the third-party provider. Furthermore, more companies are looking to outsourcing providers as innovation centers. According to Deloitte's 2016 outsourcing survey, 35% of respondents said they are focused on measuring

TYPES OF OUTSOURCING

There are several ways to outsource a business process, and depending on the process, one may be preferable over another. Broadly there are a few different types based on the distance between the two members of the relationship. These types are: **Onshoring**. Relocating work or services to lower-cost location in the company's own country. **Offshoring**. Relocating work or services to third-party providers overseas. **Nearshoring**. Relocating work or services to people in nearby, often near regions and countries. Outsourcing agreements can also vary widely in scope. For certain processes, like programming or content creation, hiring freelancers on job-to-job basis might be appropriate.

A company outsourcing their entire IT department will require a long-term partnership with clearly stated requirements.

Examples: The increasing use of virtual assistants is one trend where outsourcing will play a significant role. More and more, enterprises are using business-level virtual assistants to automate certain processes.

This means an increased need for specialized voice assistant applications. Many companies may choose to outsource that development project for cost and skill reasons.

THE GROWTH OF OUTSOURCING

With a global workforce on hand, American companies have made excellent use of skilled labor in countries with significantly reduced labor costs to enjoy a high level of quality from their workforce combined with huge savings by outsourcing various roles to overseas partners. There is still a great deal of scope for corporations and even medium-sized businesses to benefit from outsourcing. The cost savings are simply unbeatable. It is estimated that one could save up to 70% on staffing costs by moving operations to a low-cost location in the Philippines.

CHAPTER 2

HOW OUTSOURCING CAN IMPROVE YOUR BUSINESS.

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TYPES OF TASKS TO OUTSOURCE

There is no limit to the kind of tasks that can be outsourced. In fact, it can be virtually any work that you need to get done. The beauty of outsourcing to a virtual employee/s is that the business owner can handle tasks that do not yet demand a full-time or part-time employee. Some of the most outsourced tasks include:

Customer Service
Marketing
Web Development
Content Writing
Design Work
Accounting and bookkeeping
Technical Support
Lead Generation
Human Resources



WHY BUSINESSES ARE SWITCHING TO OUTSOURCING.

As we look at the global remote teams' trends, the top reasons why businesses hire an external outsourcing partner include:

To cut down on cost	59%
Improve the focus on core business activities	57%
Increase the capacity as a service provider	47%
Enhancement in the quality of services	31%
Deliver the right expertise	28%
Expansion of service offerings	17%

Fig 1: Statistics sourced from Deloitte's 2016 Global Outsourcing Survey

PRIMARY BENEFITS OF OUTSOURCING

There must be some reasons why even Fortune 500 corporations outsource their processes. Here are some of the benefits that you can enjoy from taking the outsourcing route:

- ✓ Cost-effective- Business owners typically avail outsourcing services from companies based in countries with lower labor rates. As a result, there will be significant cost reductions.
- ✓ Gain access to additional resources, especially those which are not available internally.
- ✓ Higher productivity and faster completion of tasks- Since you will gain access to more resources, work will be completed much faster.
- ✓ More time to focus on core business processes by freeing up yourself and your internal resources from mundane and time-consuming tasks.
- ✓ Gain access to highly skilled staff with domain-specific expertise from different parts of the world
- ✓ Greater control of budget as the costs of outsourcing are predictable.
- ✓ Business flexibility- Through outsourcing, companies can easily adapt to the varying seasonal demands on their resources.

ADVANTAGES OF OUTSOURCING

- ✓ **Overall Cost Advantage:** It eludes the need to hire individuals in-house; hence recruitment and operational costs can be minimized to a great extent. It reduces the cost and saves time and effort on training cost.
- ✓ **Stimulates Entrepreneurship, Employment, and Exports:** Outsourcing accelerates Entrepreneurship, Employment, and Exports in the country from where outsourcing is done. Look at the example of India. After the initial success of call centers, there was a sudden development of many small scales and medium scale BPO's and KPO companies.
- ✓ **Low Manpower Cost:** The manpower cost is much lower than that of the host country. This is exactly the case with India. We have a very large, educated workforce. And this causes the labor cost in our country to be much lower.
- ✓ **Access to Professional, Expert and High-quality Services:** Mostly, the tasks are given to people who are skilled in that field. This provides us with a better level of service and fewer chances of errors or misjudgment.
- ✓ **Emphasis on Core Process Rather than the Supporting Ones:** With its help, companies can focus on their core areas which lead to better profits and increase the quality of their product. They simply outsource additional services.
- ✓ **Investment Requirements are Reduced:** The organization can save on investing in the latest technology, software, and infrastructure and let the outsourcing partner handle the entire infrastructure.
- ✓ **Increased Efficiency and Productivity:** There is an increased efficiency and productivity in the non - core areas of an organization.

- ✓ **Knowledge Sharing:** Outsourcing enables the organizations to share knowledge and best practices with each other. It helps develop both the companies and boosts goodwill in the industry.

ADVANTAGES OF OUTSOURCING

- ✓ **Lack of Customer Focus:** An outsourced vendor may be catering to the needs of multiple organizations at a time. In such situations, vendors may lack complete focus on an individual organization's tasks. And the reputation of the organization may suffer as a result.
- ✓ **A Threat to Security and Confidentiality:** The inside news of the organization may be leaked to the third party, so there are security issues. The leak of sensitive information may result in losses to the company and also be an advantage to competitors.
- ✓ **Dissatisfactory Services:** Some of the common problem areas with outsourcing include stretched delivery time and sub-standard quality.
- ✓ **Ethical Issues:** The major ethical issue is taking away employment opportunities from one's own country. Instead of creating employment and wealth in the origin country it gets outsourced to another country. In recent times this has been viewed by many as unethical and even unpatriotic.
- ✓ **Other Disadvantages:** Include misunderstanding of the contract, lack of communication, poor quality and delayed services amongst others.



CHAPTER 3

WHY OUTSOURCE TO THE PHILIPPINES?

Today, Philippines is one of the leading countries in the business process outsourcing market, both in the call center services and non-voice field. To add to that, it is also one of the emerging outsourcing destinations for IT services such as web design, mobile app development, software maintenance, etc. Employment in the BPO sector in Philippines hit an all-time high in 2015 with 1.15 million employees and continued its increasing trajectory with 1.3 million total jobs created in 2016, a number expected to increase 17% annually.

As a result, although many companies still look at India as the obvious choice when it comes to outsourcing business processes, but with the fast-increasing costs and falling retention rates in India, many are realizing the benefits of outsourcing to Philippines. With revenues set to reach a staggering \$48 billion by 2020, Philippines is fast announcing itself as the new heir to the outsourcing crown.

PHILIPPINES AS A TOP BPO DESTINATION.

In 2012, the country's top Business process outsourcing players Accenture, Convergys and JPMorgan generated gross revenues of P28.104 billion, P17.281 billion and P10.80 billion, respectively. Now the Philippines has grown to be one of the top outsourcing locations in the world, second only to India. At its growth rate of 15-18%, the country's BPO industry is now its single biggest GDP contributor (11% GDP).

Outsourcing opportunities in the Philippines is not limited to multi-billion-dollar companies. Small businesses also stand to benefit from the country's attractive outsourcing climate, as is demonstrated by Human Proof Designs' success story. Its COO, Brad Vandenberg, witnessed the company grow from a small staff of 15 members to have 200 employees in less than 18 months. And he attributes this growth to outsourcing to the Philippines. More than just growing their staff, Human Proof Designs also managed to expand the range of services they offer.

FACTORS WHY THE PHILIPPINES IS THE BEST CHOICE FOR YOUR BUSINESS.

For businesses looking to build offshore teams, we believe there is simply no better destination than the Philippines. While the lower cost of labor and abundance of English-speaking professionals are the main attractions, there are so many other things to consider.

LABOR COSTS

The cost of living in the Philippines is dramatically less expensive than in Western countries. This means that brilliant, highly educated workers cost a fraction of what they would cost in the USA or Australia. You can save between 60% to 70% of your labor costs by hiring staff in the Philippines.

EDUCATION & SKILLS SPECIALIZATIONS

There are over 2,500 higher education facilities in the Philippines, and education has become a very high priority for many Filipinos. This has created an enormous talent pool to draw from and makes it easy for us to find extremely educated staff with concentrated skills that absolutely fit your needs.

HIGH AVAILABILITY OF FLUENT ENGLISH SPEAKERS

The Philippines is the third most populated English-speaking country in the world. English is one of the two official national languages and is the formal language used in schools, universities, business, and the courts. Most Filipinos speak high-level English with neutral accents.

CAREER PROFESSIONALS

Many Western businesses suffer from high staff turnover for low-level positions that involve boring tasks. In the Philippines, it is much easier to find dedicated staff who are committed to long-term career employment rather than Western staff who often consider lower-tier jobs as short-term. For businesses, this means far less hassle and expense for recruitment, training, and domain knowledge loss.

COMPATIBLE CULTURE

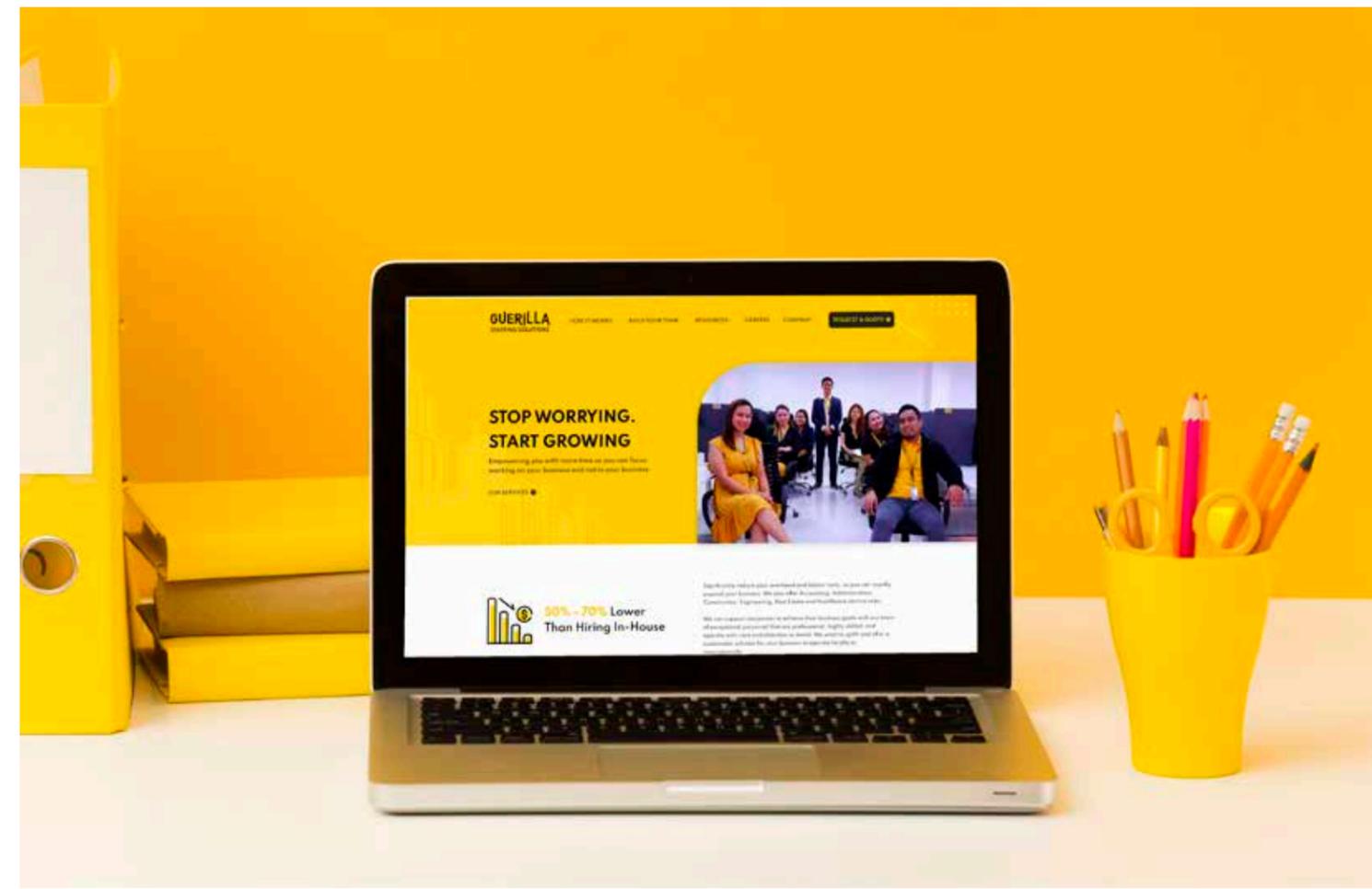
As a former US colony, the Philippines has fully embraced Western culture more than any other outsourcing destination such as India and China. As such the cultural compatibility and friendly nature of Filipinos make them an ideal match for businesses requiring friendly customer service and staff who can easily get along with their onshore teams.

TIME ZONES

Your staff can work to any time zone that you want, but if you would like to have them work regular business hours, the Philippine time zone is uniquely placed to conveniently service Western businesses along with other destinations that regularly operate outsourced staff such as Hong Kong, Singapore, and South Korea. The Philippines shares a time zone with parts of Australia and has an overlap period with both the US and UK.

BUSINESS STABILITY & INVESTMENT

The Philippines has a stable system of government and a large economy consistently growing at approximately 6.5% per year. The outsourcing industry also receives major support from all levels of government along with heavy investment in transportation systems, digital connectivity networks, and business-friendly policies.



CHAPTER 4

BPO COSTS AND HOW IT WORKS.

The outsourcing cost in the Philippines varies based on each job function. For example, if you are looking to outsource to a call center, the average cost for a customer service rep is \$5.00/hour on the low end and \$12.00/hour on the high end.

If you want a more complete price and breakdown of costs, it will vary from one outsourcing company to another. However, often, the standard pricing model is based on certain computation.

COST STRUCTURE

The cost structure is made up of a monthly Business Process Outsourcing (BPO) fee plus the hourly rate for your outsourced employees, charged at cost.

BPO FEE INCLUSIONS:

Human resource management: we oversee staff on your behalf, do quarterly performance reviews and provide feedback back to you. We also make sure we adhere to the employment laws of the Philippines.

PRICING OVERVIEW

Our pricing is completely transparent and is billed monthly in one easy invoice. No hidden fees – No surprises! and it's completely transparent. It is made up of three components and billed monthly on a single consolidated invoice.

EMPLOYEE DIRECT COSTS

This covers the salaries and related benefits for each employee. These items are billed at cost with no markup. Salaries for each staff member will vary depending on their qualifications and experience and are set at the time of hiring.

COMPANY FEE (BPO)

BPO fee is set at a fixed price and covers all operational costs such as HR, payroll, office support, facilities, electricity, internet, security, shared meeting rooms, IT support, infrastructure and disaster recovery etc.



OPERATED AND MANAGED PC FEE

BPO company has a simple but very flexible managed hardware model. Customers / clients can choose the perfect hardware for their team without massive upfront costs. We purchase, install, secure, upgrade and fully support the hardware with rapid repair or replacement for the life of the contract.

You can be sure that this is exactly the way Filipinos will work with you, ever willing to lend a helping hand. In fact, the highest number of workers are employed the BPO sector. The Philippines is calling.