

The Rise of China BPO

Whitepaper

Executive Summary

The Chinese Business Process Outsourcing (BPO) market continues to grow despite the recovering economic climate. Due to continued support by the Chinese government the market continues to mature. China is a viable alternative to India specifically for data related BPO work as the ability to read and write in English is strong and growing.

However, China's biggest advantage is its ability to serve as a low-cost East Asian hub for global companies. As the Asian market continues to lead world economic growth, expanding in Asia will be a major focus of global companies. This expansion will require supporting services and China is the most logical destination because of its low-cost and large labour pool. Chinese service providers recognize this and many offer creative engagement models that help companies penetrate the Chinese marketplace.

This paper will also outline some of the challenges with outsourcing to China and discuss mitigating strategies companies can use to tackle those challenges. Specifically the paper will address English fluency, Data and Privacy Protection, Maturity of the Chinese BPO Market and Global Awareness issues related to Chinese BPO.

Introduction

Companies know that China is the only country that can match the scale of the Indian labour force.

India, the uncontested offshore outsourcing location, is growing stale for many enterprises. High attrition and rising salaries are the major issues for large companies. In the past, large companies really did not have another choice for BPO as no other country could provide the scale of talented labour that India could. Companies know that China is the only country that can match the scale of the Indian labour force, however, China has not been considered for BPO because of English language issues and general immaturity of the supplier market.

However, the Chinese government and supplier ecosystem has made great strides in the past couple of years alone. The Chinese government has pushed for significant BPO advances in terms of infrastructure, training and monetary support. Most importantly, China has and continues to experience rapid economic growth. China has made significant gains in English fluency as well as BPO training. In fact, India itself utilizes China for BPO. Genpact anticipates India will expand its offshoring to China by nearly 30% in the next few years.¹ This paper will outline why enterprises should consider China for BPO and discuss the challenges companies should be aware of before outsourcing BPO to China.

Why Consider China for BPO?

Scale and Quality of Labour Pool

At an estimated 23 million higher education graduates, China's potential labour pool is astronomical compared to other nations.

China's most significant advantage is the sheer size of its labour pool. The ability to scale is extremely important in the BPO market and no other country but India today has been able to meet that demand. China graduates 8.3 million students from high schools annually. With an estimated 23 million graduates from more than 1,800 higher education facilities, China's potential labour pool is astronomical compared to other nations.²

In addition to size, the quality of labour in China makes it well suited for the BPO market. As China is already a big player in the manufacturing space, many of the managers coming into the industry are already well trained in process management, quality management and managing large numbers of resources. In terms of the workers themselves, China has a pool of high school graduates who are very suitable for BPO work but traditionally could only get manufacturing jobs. Working in the BPO service sector is much more desirable than working on a manufacturing floor and therefore attracting and retaining talent is significantly easier than in India.

Competitive Wages

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The actual wage rate of Chinese BPO workers is much lower than other outsourcing destinations. For example, BPO workers in China average far less than comparable workers in India.³ Workers from other BPO countries such as the Philippines, South Africa and Eastern European countries are all more expensive than Chinese BPO workers.³ In addition, it is much more common for workers in China to get paid for how much work they accomplish versus by the hour. Therefore, companies who outsource to China have a much easier time measuring productivity and their corresponding real cost savings from offshoring.

Government Investment in BPO

Recently, the Chinese central government started to invest in strengthening the BPO services market in China. Outsourcing has been declared a National Priority by the Chinese Government. For example, the continuing 1,000-100-10 Project, established 10 outsourcing cities such as Shanghai, Beijing, and Dalian⁴. This also includes encouraging 100 global corporations to outsource to China and developing 1,000 large and medium-sized outsourcing enterprises with international qualifications for sourcing needs.⁵

Outsourcing has been declared a National Priority by the Chinese Government. This year, a BPO task force has been formed by the Central Government.

As part of these initiatives new technology parks are being built just for the BPO industry. For example, M&Y Global Services was one of the original inhabitants of the High and New Technical Industrial Development Zone in Daqing that was established specifically to promote fast development of service outsourcing industry in the region. Another recent example is the Yangzhou province opening a new state-of-the-art call centre technology park in April of 2010. The Yangzhou government built this park in just 4 years from conception to operation. It includes state of the art facilities ready for companies to move in including Avaya contact centre infrastructure built in. Another recent sign of dedication is the commitment at the central government level. Prior to 2009, there was no central organization promoting BPO, only regional government and technology park associations. This year a task force has been formed to look at BPO from a central standpoint and an official department has been formed to promote call centres specifically.

With continued government support, the Chinese market is maturing quickly and will become an alternative to other outsourcing destinations for many types of BPO work.

BPO Specific Education

In addition, the Chinese government has funded the development of technology universities that offer education specifically for the technology sector, including BPO. Chinese companies and educational institutions have invested in high schools and colleges designed to teach BPO skills. Examples include the Beijing Jade Bird Information Technology Training Centre and Shanghai Zhanjiang Institute for Education. Furthermore, the Chinese government provides grants to companies who set up their own feeder colleges. M&Y Global Services has such a college in Daqing city that focuses on teaching data entry operator skills. The government also helps to subsidize companies for initial training of new hires. For

example, the Chinese government subsidizes every college graduate hired by an outsourcing company by 4,500 Yuan or approximately US\$650.⁶

Excellent Infrastructure

The Chinese government has dedicated an enormous amount of resources to improving China's infrastructure. Today, China has high-tech infrastructure that rivals other developed countries. With new airports, highways and incredibly affordable broadband internet access, China's infrastructure makes it an easy place to do business. In addition to China's impressive infrastructure, the entire transportation industry has been improved. Unlike India, which suffers from congestion, over-population and cramped roads, the Chinese government has sped up travel within China significantly. For example, instead of weaving through traffic, travellers to China can now take a MagLev train from the Shanghai airport to downtown. Instead of worrying about hotel reservations and costs, visitors can choose from daily flights from major Australia, European and US cities and world class hotels or more affordable accommodations.

Telecom and Transportation facilities are now being built in anticipation of business as opposed to previous infrastructure meant to catch up to demand.

Recently, with the WTO and Beijing Olympics boosts to the economy, the Chinese government has continued to improve Telecom and Transportation facilities. These facilities are now being built in anticipation of business as opposed to previous infrastructure meant to catch up to demand. China's National Development and Reform Commission (NDRC) reported that the government spent RMB 367.6bn (US\$54bn) on infrastructure in 2009.⁷

Real Investment in Green Facilities

Responding to global trends, China has taken great strides to combat its negative environmental reputation. One of the major steps they are taking is developing "Eco-Digi Cities" that are entire technology cities designed with zero carbon footprint goal. These cities are not only for rich, private investors but are also being constructed in poorer areas. Some examples of these developments include Rizhao, Huangbaiyu and the in-process Tianjin Development.

Focus on English Fluency

Since 1988 English has been a required language in Chinese schools from the 6th to 12th grades. Therefore, graduating students now are more fluent and versed in English than their parent's generation. In addition, growth of the internet and worldwide media has increased the usage of English in Chinese youth's lives beyond rudimentary levels. For example, there are 350 million Chinese internet users that read in English.² The number of English speakers continues to grow as the Chinese government has invested heavily in teaching English to future generations. Currently the government is investing more than US\$5.4 billion in English education in universities.⁸ As a result, Chinese youth's English writing skills are strong, making China a great choice for data driven BPO services such as data capture and back office services.

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China as the Hub of East Asia

Importantly, China plays a large role in the inter-Asian market as an IT and BPO service provider. As rapidly as China is evolving, it still remains a key provider of BPO services to other Asian countries like Japan and Korea.² Japan in particular, has invested a huge amount of money in China and continues to rely on China for a variety of its sourcing needs.

China also has a significant number of captive centres that serve as technology or services hubs for global companies' Asian businesses. For example, the province of Chengdu is home to shared services centres for companies such as DHL, GE, Cisco, Siemens and Maersk. India itself has recognized the importance

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of this geography and has started to do more work with these shared services centres as evidenced by Air China recently starting direct flights between Chengdu and Bangalore. India has also started to outsource work to China where applicable. The large Indian vendors are sending work to their own centres but also have partnerships with local vendors to subcontract IT work where appropriate. Many global deals require ability to service China and the greater East Asian area, and China is recognized as the best place to meet those requirements.

Asia is becoming increasingly important to global companies because it will be the centre of future growth as the United States and Europe have stagnated. As a result, many global companies are expanding operation in China and many mid-size companies are looking to set up operations in Asia. As China is already a hub for Asian outsourcing, many European and North American companies are looking to establish services organizations in China to service their Asian business. China is well suited to be an Asia hub because of its ability to scale, low cost and language capability. For example, millions of Chinese already speak Japanese, Korean and Vietnamese in addition to Chinese.⁵ This makes China an ideal place to establish Asian-based call centres.

Leveraging Outsourcing to Enter the Chinese Market

As the Chinese market becomes more desirable, more U.S. and European companies will want to enter the market. However, many are weary of entering the Chinese market on their own because the way of conducting business in China is very different from western business standards. Chinese service providers understand this and are willing to engage in creative partnerships to help their clients enter the Chinese markets. For example, a major global bank had set up a joint venture with a local Chinese bank to enter the credit card market in China. The joint venture decided to use M&Y Global Services to perform virtually all the back-office processing associated with the joint venture because they needed someone who had proven global standards in processing but also who could ensure that processes were designed for the Chinese market. M&Y Global Services was able to help them enter quickly by scaling their operations to 900 FTE in just 2 months.

Challenges with Outsourcing BPO to China

English Language Fluency

Lack of English language fluency is the biggest reason companies do not think of China when offshoring BPO. Many companies think that the language barrier is too difficult to cross. As mentioned before, China is making great strides to increase English language fluency especially with the younger generations. While it may take a few years for these measures to be fully felt, the language gap that existed before has certainly been dramatically reduced in recent years. For example, there are currently 350 million Chinese that can speak English and that number is growing on a daily basis. Yet the key will be to outsource the right processes to China. For example, data driven BPO work such as data entry and document management are well suited for the Chinese workforce. However, at this time, customer-facing voice operations are only appropriate for other East Asian markets where language fluency in China is high such as Japanese, Korean and Vietnamese.

Data Privacy and Protection

IP protection is probably the largest concern foreign companies have when working with Chinese companies. However, this is not as large of an issue for BPO as it is in IT or core product development. Protecting data is a much larger issue on the BPO side.

Data protection as opposed to IP protection is a much larger issue on the BPO side. Chinese companies are getting international accreditations for quality and security such as ISO 27001.

China has not traditionally been concerned with protecting IP or data in the past. However, there is a movement not only by the government but by companies as well to change their image and practices in order to secure international business. One of the major things that Chinese companies are doing is getting international accreditations for quality and security such as ISO 27001. In addition, there are specific government laws in place that establish personal information protection. While a comprehensive protection law is currently being developed, for now the laws from the Constitution, Principles of Civil Law and Criminal Law together guarantee personal information protection.⁹

Companies considering outsourcing to China should look for companies that have international business experience. Chinese companies that do business with international companies many times have contractual obligations to follow the companies' base country's data protection requirements, international standards of physical security and data protection laws. Frequently these countries have established data protection agreements that define security aspects for both parties. Companies that do a significant amount of international work are much more likely to have these embedded into their normal operations than Chinese companies who focus on primarily domestic work. Chinese companies also frequently establish data protection agreements that define security aspects for both parties.

Maturity of Market

Another major challenge for China is that the BPO market is still young. Therefore, much of the talent is still fairly inexperienced. However, BPO companies in China understand this and are beginning to take measures to mitigate this issue. Most significant is that Chinese companies are now recruiting

PMI anticipates the number of certified Project Management Professionals (PMPs) in China will grow 700% over the next 5 years, from 25,000 to 200,000.

talent worldwide to bring in skill sets not readily available in China. For example, M&Y Global Services sends some of their experienced UK and Australian managers to China on a permanent and temporary basis.

Second, the Chinese government is aggressively funding world-recognized training and certifications to help bring the Chinese BPO market up-to-speed quickly. For example, PMI has entered China, providing project management courses and certifications to mid-level and senior managers. PMI anticipates that China will be a global leader in Project Management Professionals (PMPs), advancing from 25,000 to 200,000 certified PMI professionals, a 700% increase, over the next 5 years.¹⁰ Another example is the launch of the Service Capability & Performance (SCP) standard in China. SCP is a standard used by technology companies focused on the professional services and support area. Many government organizations are subsidizing Chinese call centres to enable them to become SCP certified.

Lastly, the number of outsourcing suppliers in China is increasing significantly. Chinasourcing has over 4,000 member companies listed on its site, including approximately 400 listed in the Call Centre and Data Entry categories.

Awareness Issues for Chinese BPO

The major impediment to the growth of the Chinese BPO market is that there is little awareness that a market even exists. Despite government programs and international investment, many global businesses do not know where to look for Chinese BPO services. However, a handful of providers have started to market them in international geographies. Recently, the Global Services 100 ranked several Chinese BPO companies on the GS100, including M&Y Global Services. Chinese companies and the government still need to do better in terms of marketing themselves outside of China so that minimally, foreign companies become aware of the suppliers available in China.

Conclusion

The China BPO market will continue to grow and mature. With government support, the market will mature quickly and become a viable alternative to India for many types of BPO work. In particular, companies should consider China when outsourcing a variety of data driven work which requires English reading and writing skills. In addition, Chinese companies can be used for voice services to service East Asian markets.

Most importantly, however, companies should not look at China for the same reasons they would look at India for BPO. China is a key strategic location for any global business and offers some unique advantages that can help companies grow their businesses. Specifically, China can serve as a low-cost hub to service a global company's East Asian operations. Second, companies can leverage their Chinese suppliers to help them enter the Chinese marketplace, a key growing market over the next 20 years. This foreign investment, along with China's continued focus on growing and strengthening the BPO industry within the country, will ensure China continues to become a viable BPO option for many global companies.



About M&Y Global Services

M&Y Global Services is a global provider of BPO services focused on the U.K., Australasian, North American and Chinese markets. Founded in 2001, M&Y pioneered the BPO offshore outsourcing industry in China becoming the first Chinese company to offer true BPO services to international clients such as HSBC and Nielsen Group. Today, at 2200+ employees, M&Y is the only Chinese BPO with a credible track record of servicing the international outsourcing community. M&Y was recognized in the Global Services 100 in 2010 and Global Outsourcing Top 100® for 2009 and 2010, while its CEO, Matthew Cule, was named a "Rising Star" by Wales Business Insider. M&Y works with a variety of customers worldwide in the financial services, manufacturing, retail, construction, transportation, telecommunications, logistics, utilities, and non-profit sectors.

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