



COVID-19: Re-shoring – As India eyes Manufacturing, Services get Re-shored

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Covid-19 pandemic has disrupted global supply chains, both in the manufacturing as well as in the services sector. Strict confinement and restriction of movements have resulted in closure of manufacturing facilities, especially in China which has established itself as the biggest manufacturing hub in the global supply chain over the last couple of decades. US-China trade wars followed by disruptions has caused large corporate to review and reassess their supply chains both in terms of manufacturing as well as services.

Back in India both government and businesses have been talking as to how this is a great opportunity for India to capture a large proportion of that manufacturing shift away from China as manufacturing superpowers rebalance their reliance on China. But the superpowers are not only looking at re-shoring just manufacturing, services too will be re-shored, going forward. **India, especially its business-process management and outsourcing sectors (BPM/BPO), need to be worried.**

The sudden lockdown announced by the government to stem COVID-19 infections actually brought to abrupt halt the operations of BPO/BPM companies in India that handle critical functions for some of the world's largest corporations. The IT and BPO employees were not allowed into their offices to carry out the much needed and vital work of supporting many of these large corporations including the online and financial systems, that they were heavily dependent on.

The government in its naivety assumed that the work can be seamlessly carried out from home. BPM companies are caught between mobility curbs and client protocols that disallow work-from-home (WFH). Client protocols governing sensitive information such as financial transactions, customer information and databases for banks, credit card, insurance customers etc., disallow transfer to a work-from-home (WFH) mode or remote access of data outside the secured firewalls.

Restrictions on commute and normal activities in the country created logistical nightmares for the managers of call centers and other back office operations for foreign corporations. Companies faced great challenges in organizing thousands of computers and internet connections to employees at short notice. Also, many employees live in crowded housing with poor-quality broadband or internet connectivity and even though some of them have been able to work from home, the family dynamics in Indian middle class does not make it an ideal option.

In a recent interview to NDTV, Dr. Raghuram Rajan pointed out how banking services of some of the large US banks with BPM and back offices in India were interrupted due to the sudden lockdown. He said that post-

COVID-19, these banks are most likely to re-shore their critical processes and services maybe to Oklahoma or Tennessee.

With sudden and abrupt stoppage of work, many outsourcing partners have already decided to take the work back in-house or on-shore it and will stop outsourcing their work altogether. Others are likely to review and reassess post the pandemic and may opt for different strategies including part outsourcing and part in-house. Australia's Telstra and Optus and Britain's Virgin Media, all of them having offshore units in India have already announced plans to recruit hundreds of staff back home.

Another change emerging from the current disruption is fast-pacing the adoption of automation and use of Artificial Intelligence (AI) by many businesses. There will be wider use of AI to handle tasks currently performed by human beings and hence will also take BPM/BPO jobs away from India. AI does not strike, it can work 24/7, throws up fewer complications and provides better business process continuity in event such as current lockdowns. Telstra which was planning to slash customer service calls by two-thirds by 2022, now intends to accelerate its use of AI.

According to Nasscom – the trade association of Indian IT BPM industry, the Indian IT BPM industry is currently estimated at US\$ 191 billion that employs 4.4 million professionals and contributes about 8% of India's GDP. Indian BPM industry includes several large players like Genpact, Cocentrix, EXL Service, Infosys, Wipro etc. Back-office firms located in India service airlines such as British Airways and KLM, banks such as Bank of America and Citibank and industrial giants such as GE and Caterpillar.

Even as the bigger BPM organizations work on riding out the current crisis and to rework their operational strategies to best service their customers, a large chunk of small and medium outsourcing companies are more likely to lose business. These SME players do not have the equipment, infrastructure, financial wherewithal or management tools to let their employees work from home. In current lockdown, they have almost no staff and are having great difficulties trying to deliver work to their customers – both domestic as well as international.

International businesses utilizing the expertise of India's BPMs will begin to factor in geographical and human risks into projects in a much more sophisticated way. Corporations will reassess their work requirements and are likely to take the work back in-house or re-shore to other destinations, at least the business continuity and critical process to begin with. **The decisions of the Indian government in the next few weeks have the potential to impact the entire Indian BPM services while the decisions leading to disruptions will albeit remain in the corporate memory for a long time.**

So even as the clamor for capturing manufacturing re-shoring away from China continues to grow and enthrall people in India, our policy makers and the government may do well to take confidence building measures to minimize the impact of outsourcing services jobs getting re-shored out of India. First we save your own backyard before we leap to our neighbor's... *Because not only outsourced manufacturing is getting re-shored, the Services too are being re-shored.*

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