Business-process outsourcing
At the front of the back office
How the Philippines beat India in call centres

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IT’S midnight in Manila, and the capital is just waking up to the start of another working day. At the Worldwide Corporate Centre office block, thousands of young Filipinos are crowding into endless open-plan offices. Once seated, they quickly start answering the questions and calming the frustrations of vexed American consumers beginning their own day on the other side of the Pacific Ocean.

These Filipinos are call-centre workers. To outsiders it is hardly a glamorous profession, yet despite the antisocial hours these men and women have every reason to be as well-motivated and cheerful as they seem. They are well paid and know that they work at the heart of their country’s most dynamic industry.

The rise of what is known as business-process outsourcing (BPO) in the Philippines has been nothing short of phenomenal. The very first calls were taken in 1997; today the sector employs 638,000 people and enjoys revenues of $11 billion, about 5% of the country’s GDP. Last year the Philippines even overtook India, long the biggest call-centre operator in the world, in “voice-related services”. The country now employs about 400,000 people at call centres, India only 350,000.
The South-East Asian upstart (population 101m) is unlikely ever to surpass the South Asian behemoth (1.2 billion) across the entire range of outsourcing offerings, which also include all kinds of information-technology services. Yet given the extraordinary growth so far it is hard to gainsay the Philippines’ own projection that its BPO industry could add another 700,000 or so jobs by 2016 and generate revenues of $25 billion. At that point, the industry would make up nearly a tenth of GDP and be bigger in value than the remittances from the 10m Filipinos working overseas.

As in the call-centre business so far, some of these new jobs will come at the expense of India. Yet India’s relationship with the Philippines in back-office work is more complex than the numbers suggest.

The main reason for the success of the Philippine call centres is that workers speak English with a neutral accent and are familiar with American idioms—which is exactly what their American customers want. Of these, many have taken to complaining bitterly about Indian accents (which no amount of “voice neutralisation” coaching seems to have overcome). As a result, the Indian firms themselves have been helping to move jobs to the Philippines by setting up call centres in Manila and other parts of the country. Infosys and Wipro, as well as scores of other Indian firms, now have substantial operations there. And they aren’t drawn to Manila by cheap labour. Wages in the Philippines are slightly higher than in India since the Filipino accent commands a premium.

It also helps that the country has a big pool of well-educated workers. The million or so Filipinos who graduate every year have few other options to choose from, besides emigrating. And working in a call centre is considered a middle-class job (new recruits start at $470 a month).

The big question is whether the Philippine BPO industry, having conquered the call-centre market, can now move up the value chain. To keep growing rapidly—and profitably—it needs to capture some of the more sophisticated back-office jobs, such as those processing insurance claims and conducting due diligence. In these businesses, called knowledge-process outsourcing and legal-process outsourcing, India still rules supreme.

Integreon offers a glimpse of what the future may hold. The firm occupies just a few discreet, very secure offices. It employs 300 people in Manila, 40 of them lawyers who help multinational law firms with
litigation. Familiarity with America helps. “It makes it very easy for us to do legal research for American firms,” says Benjamin Romualdez, the firm’s country manager.

This sort of operation is new in Manila, but Mr Romualdez expects that he can find the skilled workers to double his workforce over five years. Western banks have also discovered the Philippines. JPMorgan Chase now has over 25,000 workers on its own payroll in the country, many of whom do much more than answering phones. The Philippines is set to compete with India across the BPO board.