

# Rise and Fall of Outsourcing

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## Abstract

*Before 1995, the Indian Car Finance Market was closed to foreign investors, so the Car loan industry was dominated by NBFC's. The NBFC's are very professional and used a lot of promotional strategies to attract the customers. They are the first players to use the outsourcing concept for sourcing their business. They appointed agents in all the districts for sourcing their business. But after 1995, Foreign Banks entered the Indian Banking Industry. Also a series of foreign car manufacturers like Ford, Hyundai, Daewoo, Toyota, entered the car market at the end of 20<sup>th</sup> century. Due to competition in the car market increased and the car prices came down, this paved a way for the increased demand in the Car Loan Industry. Also due foreign banks entry in the market, the interest rates were very competitive and the foreign players used outsourcing concept for tapping the market. But the foreign banks adopted this outsourcing concept in all the areas of their business (sourcing, processing & Collection).*

*But after 2002, the Outsourcing concept started declining on introduction of Dealer DSA*

*concept and also on introduction of In house concept. The In house concept picked up in the last two years and in 2005 almost the entire DSA concept came to an end and the sourcing business was taken over by the In house team itself. Also in processing business the outsourcing concept came to an end due to various problems. So the processing procedure was undertaken by the bank itself. So only the collection business is still prevailing with the outsourcing concept. So, almost the entire outsourcing concept has taken a new outlook which made a come back of the old dogs (In sourcing) in the same street.*

## Introduction

Business process outsourcing (BPO) is an emerging concept followed by management to control cost and increase their volume of business. To day, Outsourcing has become a more acceptable way of life and the focus has shifted to developing & adopting an outsourcing model that is best aligned to a company's overall strategy & culture. Many of the activities currently being outsourced, such as information system, business processes and internal audit, are integral

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to the functioning of the organization, virtual to supporting core businesses and create dependencies upon service providers.

According to a study by Ross Research, Financial services organization made up approximately 25% of the year 2002 outsourcing contracts. Though most of the deals took place in the first half of the year 2002, financial services will continue to be the prime focus in the future among outsourcers- both large & small. Mid-sized financial services, like more organizations are looking harder than ever for ways to reduce costs. There has also been much consolidation in this industry- not just among Major Corporation but also mid-sized enterprises leading the new and much larger institution to turn to outsourcing providers that wring out costs, eliminate redundancies and make operations run more effective for their customers.

In order to circumvent the disadvantages of outsourcing namely – losing strategic control and their ability to innovate & respond to changes in market conditions, banks are tuning themselves into the practice of “In sourcing”. The practice of offshore processing centers owned by the bank is now gaining momentum, as it is also cost competitive.

## **BPO in car finance industry**

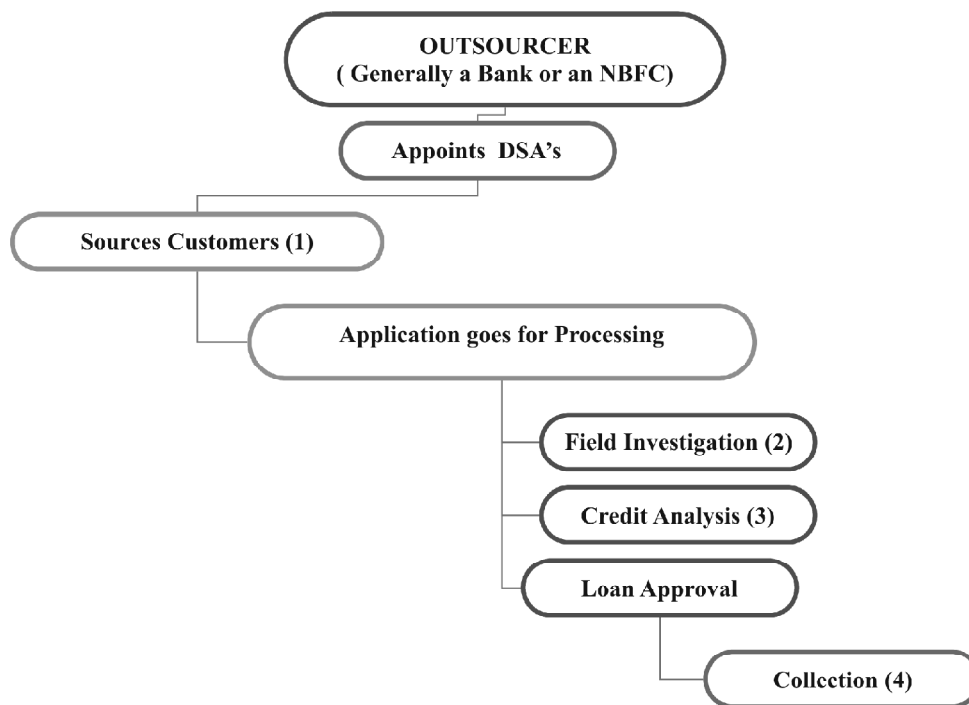
BPO in car finance industry emerged in the year 1998, when CITI Bank started its car finance operations in Chennai city. Before 1995, the Indian market was closed to foreign investors, so the

Car loan industry was dominated by NBFC's & Nationalised Banks. The Nationalised banks was always rigid, so the other customer preference on Nationalised banks was very less, on the other hand NBFC's are very professional and used a lot of promotional strategies to attract the customers. They opened branches where ever they saw the opportunity and also they are very profitable, since they charged more on customers.

But after 1995, the government of India was in to LPG, which paved the way for the entry of Foreign Banks & foreign players in the auto industry. Maruti, Ford, Hyundai, Daweoo, Toyota, were the series of foreign players ruled the Chennai market at the end of 20<sup>th</sup> century. Due to competition in the car market, car prices came down and also due to foreign players in the market, lot of people got jobs with high compensation, So lot of companies bought cars for their office use and also provided cars for their top line executives which increased the sales of cars and also it increased the car finance opportunity. Also due to foreign banks in the market, the interest rates were very competitive and the foreign players used BPO strategy for sourcing & other processes.

## **Car Finance BPO Model**

In this industry almost all the processes are being outsourced. The 3 major core areas of car finance industry was Sourcing, Processing & Collection. The model is explained below:



The model clearly describes about the car finance processes undertaken by any bank or an NBFC. Here the numbers 1 to 4 denotes the various processes being outsourced in this industry. Since all the processes being outsourced there was an high risk taken by all the outsourcers and also the processes has to be highly monitored on a day to day basis.

### Objectives of the study

1. To study the operations of sourcing in car finance outsourcing industry.
2. To find the various pricing strategies of outsourcing agencies.
3. To study the various performance & rewards factors of outsourcing agencies.
4. To study the problems faced by the outsourcing agencies.

### Research Methodology

Type of research – Descriptive research

#### Sampling design

All the executives working in the DSA are identified as samples for the study.

#### Sampling Population

All the Direct Sales Associates are taken for the study and a census survey was undertaken among all executives working in the DSA's. About 160 samples were collected.

Tools used for analysis: Factor analysis and cluster analysis were used to analyse & interpret the data.

## Summary of Findings

1. Most of the outsourcing executives have an UG level educational qualification.
2. Most of the Outsourcing executives are paid with an average salary of 5000-10000.
3. Most of the outsourcing executives had an experience of 1-3 years.
4. Almost all the executives are satisfied with the operations but only certain executives are dissatisfied with time taken for approvals and with interest rates.
5. It was found that all the In house executives subvent up to 4.5% for all the cases and sometimes even more by taking prior approval.
6. The DSA says that dealer DSA affect their business to a great extent.
7. The DSA's say that the Dealer DSA affect their business by providing extra accessories and also they give more discounts.
8. It was found that regular change in interest rates and tight credit policy are the major problems in this outsourcing industry.
9. It was found from the research that the satisfaction level was 50-75%.
10. From the factor analysis, four factors were identified such as payout factor, payout mismatch factor, boss factor & pricing factor.
11. from the cluster anlysis, 4 clusters are identified and from the analysis of the clusters it was found that most of them said change in interest rates was the main problem and it was said by executives whose educational is UG level and was having an income level of 5000-10000 with 1-3 year of experience.

## Conclusion

From the research it was found that the DSA concept was slowly getting diminished in this industry. Initially the industry used In sourcing concept and later due to competition the financing institutions used DSA concept but later they found lot of problems in the DSA concept, so again the institutions are returning to the In sourcing concept. So it was an rise and fall of outsourcing concept in this car finance industry.

**Table 1 : Factor Analysis**

Attributes	Mean	Std. Deviation	Initial Eigen Values
Advertising Support	4.01	0.583	1.675
Various Schemes	3.84	0.781	1.3
Dealer Relationship	4.04	0.690	1.102
Corporate Sales Call	3.44	0.741	1.022
Time Taken for approvals	3.69	0.809	0.923
Time taken for Disbursements	3.55	0.830	0.771
Interest Rates	3.71	0.796	0.639
Subventions	3.69	0.737	0.568

**Table 2 : Component Matrix**

Attributes	Component							
	1	2	3	4	5	6	7	8
Advertising Support	0.660	0.128	-0.132	-0.116	-0.534	-0.019	-0.309	-0.369
Various Schemes	-0.031	0.594	-0.564	0.031	-0.032	0.521	0.233	0.004
Dealer Relationship	0.453	-0.272	0.381	0.520	-0.288	0.222	0.415	0.012
Corporate Sales Call	0.418	0.029	-0.206	0.653	0.492	0.012	-0.355	-0.007
Time Taken for approvals	0.094	.0740	0.066	0.233	-0.188	-0.538	0.123	0.212
Time taken for Disbursements	0.021	0.479	0.715	-0.114	0.065	0.381	-0.288	0.117
Interest Rates	0.579	0.192	0.167	-0.357	0.521	-0.117	0.323	-0.288
Subventions	0.716	-0.203	-0.188	-0.341	-0.013	0.045	-0.040	0.539

The principal component matrix was extracted using Principal Component Analysis and also using Varimax with Kaiser Normalization Rotation method.

**Table 3 : Factor Analysis with respect to Sourcing**

Attributes	Mean	S.D <sup>t</sup>	Eigen Values
Physical Work Conditions	4.09	0.742	2.236
Freedom to choose	4.07	0.753	1.386
Fellow Workers	3.93	0.732	1.050
Your Boss	4.39	0.635	1.018
Targets Fixed	3.63	1.232	0.985
Opportunities	3.76	0.797	0.847
Present Pay	3.39	0.847	0.817
Job Security	3.30	0.963	0.636
Incentives Offered	3.31	0.971	0.598
Chance for Promotion	3.43	0.798	0.425

**Table 4 : Component Matrix**

Attributes	Component									
	1	2	3	4	5	6	7	8	9	10
Physical Work Conditions	0.581	-0.278	0.222	-0.129	0.043	0.013	0.518	-0.429	0.249	0.052
Freedom to choose	0.692	0.023	-0.162	0.380	0.352	0.452	-0.091	0.038	0.269	0.023
Fellow Workers	0.052	0.696	0.276	0.220	-0.142	0.390	0.244	0.260	0.293	-0.052
Your Boss	0.633	-0.418	0.021	-0.024	-0.310	0.189	-0.206	0.320	0.082	0.375
Targets Fixed	0.536	0.225	0.531	0.028	-0.002	-0.345	0.148	0.164	-0.460	0.002
Opportunities	0.323	0.243	-0.535	-0.320	0.501	0.010	0.349	0.225	-0.064	0.141
Present Pay	0.433	0.453	-0.385	0.278	-0.278	0.229	-0.103	-0.383	-0.289	0.109
Job Security	0.343	-0.186	0.295	0.145	0.651	0.480	-0.254	-0.103	-0.083	-0.067
Incentives Offered	0.274	0.532	0.169	-0.493	0.097	-0.230	-0.456	-0.165	0.251	0.095
Chance for Promotion	0.692	0.023	-0.162	0.380	0.352	0.452	-0.091	0.038	0.269	0.023

**Table 5 : Cluster Analysis**

	Cluster		Error		F	Sig.
	Mean Square	Df	Mean Square	Df		
Regular change in Interest rates	86.089	5	0.684	154	125.906	0.000
Competitive schemes	43.682	5	0.794	154	54.989	0.000
No rewards for high performing executives	36.622	5	1.008	154	36.323	0.000
Incentives not paid regularly	53.966	5	0.759	154	71.066	0.000
Processing time	46.354	5	1.131	154	40.978	0.000
Tight Credit Policy	63.613	5	0.941	154	67.604	0.000

**Table 6 : Number of Cases in each Cluster**

CLUSTER	1	31
	2	34
	3	22
	4	31
	5	18
	6	24
VALID	160	