
'Saving Through Outsourcing'- Myth Or Reality? A Case Study Of Madhya Pradesh Madhya Khsetrya Vidyut Vitran Company Ltd., Bhopal

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Introduction

In the current era of business scenario where the customers are enjoying customer driven market there exists paramount thrust on manufacturers or companies to stand up to the expectation of customers for their survival. Today's customer is not only demanding but is also very cost conscious and expects innovative and discriminative products. In order to stand up to the customers demands and expectation the companies have to constantly strive for providing better features in their product, better quality, correct timing of product life cycle and high degree of value for money.

To embrace all the above requirements of the customer under one roof often becomes difficult for the companies or manufacturers, and hence in order to achieve the solution to the above problem the companies peep outside their premises. The business process outsourcing system allows companies to contract for services that are not within the scope of their expertise, so that they can focus their time, money and energy on their core competencies instead of wasting valuable resources trying to gain understanding of areas that are somebody else's expertise.

Business process outsourcing is the methodology, where the company tries to off load the activities which can be carried more cost effectively in the outside market and where it finds that better expertises are available in the market. This is the process by which companies not only save their resources by deploying them into their non core activities but also saves time and money by taking the advantage of expertise available in market.

The development of outsourcing also gave wide scope to the markets to nurture the service providers in more competitive methods. With time these service providers in markets have sharpened their skills to become more cost effective, innovative, better quality and time effective. This has not only increased the markets of service providers but has also provided significant solution to the companies or business houses and has also helped customers to satisfy their demands.

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Today many of the service providers are providing variety of BPO services to many business houses. Common out sourcing activities are (a) Logistics (b) Manufacture of standard parts (c) Packaging (d) Voucher Creation (e) ERP or IT Implementation (f) Maintenance (g) Routine Voucher creation & Bill passing (h) Non value added repeated activities in the organization (i) Designing of special features (j) Supply chain (k) Welfare activities (l) Security etc.

ADVANTAGES OF B.P.O.

(i) Cost effective, (ii) Correct timing (iii) Professional approach, (iv) Reduction in liabilities, (v) Updated Service & Technology, (vi) Vast experience & expert competency of the activity off loaded, (vii) Early solution to teething problems, (viii) Better and easy management.

DISADVANTAGES OF B.P.O.

(i) Synergy of goals, (ii) Scheduling of activities, (iii) Understanding of objectives, (iv) Price settlements, (v) Co-ordination of activities, (vi) Disputes on accountability, (vii) Penalty of breach of agreement, (viii) Reliability & Secrecy of activities/data

IMPLEMENTATION ISSUES OF B.P.O.

Identification of core Business:

Every business house before offloading the activities has to undergo a long term strategic analysis of activities to be outsourced. Clear identification of long term core activity of the business is utmost important because this uncertainty may lead to wrong business decisions. Business outsourcing should not drain away core activities and cash cow of the business as this may endanger the existence of business itself.

Agreement type and Duration

Agreement or contracts between the parties should be crystal clear and should not create any ambiguity or confusion on line of activities and responsibilities between the parties. Often lack of clarity leads to dispute between the parties. Agreement should also clearly mention the duration and extent of responsibility of the parties. Hence, proper shelving

of activities is one of the important criteria for success of BPO process.

Authority or Control

Often there are disputes in the manner the contractor firm gets controlled. It is desirable to frame out the correct scheduling & contract points in agreement itself to avoid such type of problems. Proper check points on cost method, quality & timeliness should be implemented on the outsourced activities so that the desired results are achieved.

Integrity & Credibility

This is one of the most vital issue in BPO. With recent cases of information leakages from some of the Indian BPO's, it is extremely important to have satisfactory study of BPO integrity. The past performance of BPO should also be checked for its creditability on the performance of task assigned. Any selection of unreliable or non credible BPO will put the project out of track.

Differed Priorities

Another issue that may effect the success rate of BPO is the conflict of interest and differences in priorities of BPO companies. Many times the service seeking industry off loads the project with the schedule of its interest but the service providers want to reschedule the project as per their convenience to deal with number of customers. This situation often leads to project delay and high costs. This situation should be carefully handled by managers of both the companies and should be solved in mutual interest.

Value for Money or Pricing

Pricing or cost of services availed is the most important aspect to be considered while offloading the activities. Careful cost analysis of fixed, variable and overhead should be done before off loading the activity. If off loading charges are more than the in-house cost then outsourcing may lead to loss. In case of narrow gap or gains in offloading the contract should bear proper clause for maintaining profitability of the activity. The opportunity cost of time, quality and global experience/ exposure of service provider should also be analysed to arrive at constructive result.

Consistency

The success of outsourcing of activity depends on the consistency and continuity of performance of the firm carrying out outsourced activity. The firm selected for off loading the activity should have proven track record of consistent supply of services, quality cost effectiveness and correct timing of services. The firm chosen for out sources should also be evaluated for its future goals, targets and investment, so that correct projection of consistency can be made. More the firm is professional better consistency is expected. Firm's delivery in consistent performance may seriously hamper the activities and goals of its customers.

Brand Image

In event of outsourcing the companies should also evaluate their brand image of the product. Many of the commodities in market are there where customer prefer to have a particular brand name only, however when customer comes to know that particular brand of companies is outsourcing activities there reliability on product decreases. Hence, careful analysis of market should also be done before outsourcing.

JUSTIFICATION OF THE STUDY

The term "Outsourcing", is also known as '**The transfer or delegation of some of the operations of the business to an external service providers**'. The purpose of outsourcing is to take the advantage of expertise in non core activities at economic rates so that organizations may reduce their expenses and better quality of services for the profitability and financial soundness of the firm.

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Co. Ltd. (MPMKVVCO Ltd) manages power distribution and retail supply in the central region which comprises of the commissionaires of Bhopal, Hoshangabad, Gwalior and Chambal. The company is facing a net loss since its inception in 2002. An attempt has been made through this study to determine the significance and meaning of outsourcing of different activities of MPMKVCO LTD Bhopal.

OBJECTIVES OF THE STUDY

This research paper has the following objectives:

- (i) To analyse the outsourcing process at M.P.M.K.V.V.CO Ltd, Bhopal.
- (ii) To study, how far outsourcing is helpful in saving of operating cost in M.P.M.K.V.V.CO Ltd, Bhopal.

METHODOLOGY

In this study secondary and primary data's are used. Secondary data's are collected through Business Plan, Annual Report, Budgets etc. Apart from these data the primary sources like opinions & observations of employees in various department of M.P.M.K.V.V.CO Ltd, have been considered.

LIMITATIONS

In this study we have taken only four activities of M.P.M.K.V.V. CO.Ltd as the case study, which is not sufficient because M.P.M.K.V.V. CO.Ltd, deals with number of activities in their business.

ANALYSIS OF CASE STUDY

In this Research Paper we have taken a case study of four activities of M.P.M.K.V.V.CO.Ltd, Bhopal. This case study covers the following activities

- 1.1 Outsourcing of registration of consumer complaints and answering various queries of consumers round the clock in Bhopal city
- 1.2 Outsourcing of 33/11 k.v s/s operation & maintenance
- 1.3 Outsourcing of meter reading & bill distribution (MRBD)
- 1.4 Outsourcing of vehicles

CASE 1.1

OUTSOURCING OF REGISTRATION OF CONSUMER COMPLAINTS AND ANSWERING VARIOUS QUERIES OF CONSUMERŞ ROUND THE CLOCK IN BHOPAL CITY.

In order to resolve the local "FOC" the company having I S O certificate 9000-2001 "**M/s Zoom Developers Indore**" is contracted to establish "**Central Call Centers**" in Bhopal city at all Zonal offices besides at "Misrod, DanishKunj & Mandideep" of (O&M) Circle Bhopal. This company is entrusted with contract vide order no CE/BR/2228 dt.24.03.04 **with financial commitment of Rs.1,84,00,000.00 for a period of two years.**

The project involves Zoom Developers Pvt. Ltd. (ZDPL) implementing a domestic call center in the city of Bhopal for M.P. Madhya Keshtra Vidyut Vitran Company Ltd to handle various electricity complaints across city circle Bhopal and O&M Division.

Project Scope

- 10 Seated Central Call Center interconnected with Single Seated Call center at 26 FOC zone offices.
- Consumer Complaint Handling for **12 Major Types** with **53 Sub types**.
- 24 x 7 Round the Clock Operations with Online connectivity with all zones from central location.
- Comprehensive MIS report generation.
- On Line Web access facility.

Services Up gradations

Call center initiated additional services for facilitating more effective & efficient use of Consumer Care Center and Consumer Care Representative for MPMKVCO LTD Bhopal and their consumer. These services include:

- * Renovated Cheque Collection
 - * MPMKVCO Ltd Bhopal Officers and Consumer Related Information Center
 - * Load Shedding and Outage Management Information Center
 - * SMS Complaint Escalation
 - * New Connection, Load Enhancement, Name Transfer & Meter Reading Processing.
 - * Miscellaneous DTP Work
- Daily CAC Report
 - RC/DC Register
 - Temporary Receipts
 - Attendance Sheet of Line men
 - Transformer Records
 - Meter Reading Reports

- Meter Change Reports
- High Amount Readings
- Miscellaneous DTP Work

Cost Effectiveness

M/s Zoom Developers has established the call centers at all 26 complaint centers Plus One Central Call Centre in Zonal Office 33/11KV substation of Bhopal City with all facilities viz Centrex phone facilities, computers to register the F O C's etc. These call centers work round the clock in three shifts (One Shift of 8 Hours). The C C R Customer Care Representative (Person on Duty) registers the complaint of consumers and furnish the down loaded report to officer-in charge in following schedules :

- | | | |
|------------------------|---|-------------|
| a) F O C in charge | - | Daily |
| b) Divisions in charge | - | Weekly |
| c) Circle-in-charge | - | Fortnightly |
| d) Regional in charge | - | Monthly |

The report includes the time of complaints and time taken to resolve the complaint depending upon type of complaint. The down loaded complaints are regularly analyzed by the concerning officers for consumer's satisfaction in accordance with guidelines regarding time limits as prescribed by MPERC (Madhya Pradesh Electricity Regulatory Commission) located at Shivaji Nagar-Bhopal ; covered under "Electricity supply code-2004" amended from time to time. **If this work could have been performed by the departmental minimum staff (well conversant with computer software) minimum requirement of operators could have been 27 locations x 3 shifts(plus one reliever for each call center) = 26x4+ 1 x 10= 114 no. employees** If minimum perks of one employee are taken Rs.7000.00 p.m. the establishment expenditure (salaries only) the financial involvement could have been Rs.7000.00 x 114 =Rs.7,98,000.00 p.m. Besides establishments of 27 computers with all down loaded reports, the cost of computer could have come to Rs.35000.00 x 27 Nos.= Rs.9,45,000.00 (One Time Expenditure) excluding regular maintenance & Printer accessories.

- 1) The yearly expenses on the employees Salary would be
- = **Rs 7,98,000 x 12**
- = **Rs 95,76,000**

2) Amount expected to be incurred on stationary for giving various reports @ Rs 1500 per month per call center

$$= \text{Rs } 1500 \times 27 \times 12$$

$$= \text{Rs } 4,86,000$$

3) Net working charges, Maintenance charges plus sms charges @ Rs 2000 per month per call center

$$= 2000 \times 27 \times 12$$

$$= \text{Rs } 6,48,000$$

4) Interest on initial infrastructure expenditure (Rs 9,45,000) @ 6% per annum

$$= \text{Rs } 56,700$$

Total expenditure per annum will be

$$= 95,76,000 + 4,86,000 +$$

$$6,48,000 + 56,700$$

$$= \text{Rs } 1,07,66,700$$

The company has assigned the work to M/S ZOOM DEVELOPERS PVT LTD

@ 1,84,00,000 for 2 years i.e. for 1 year
Rs 92,00,000 / Annum

Net Saving per annum = Rs 1,07,66,700
– Rs 92,00,000 = Rs 15,66,700
due to Outsourcing

CASE 1.2

OUTSOURCING OF 33/11 K.V S/S OPERATION & MAINTENANCE

To feed the required load of Bhopal city 240 M.W The MPMKVCO LTD has installed 47 nos of 33/11 KV S/S .The DISCOM (CZ) has issued technical specifications to outsource the 33/11 KV Substations vide NO. CMD(CZ)/247 dt.06.07.03. The contractor has to follow all conditions which are incorporated . **The entrusted contractors are being paid with perks of Rs.12,550.00 p.m./ s/s inclusive of all. At present 20 nos of s/s of Bhopal city have been outsourced to different contractors**

Cost Effectiveness of outsourcing

If same work would have been performed

departmentally minimum 3 operators + 3 (semiskilled labours) for operation may be required. Only the wages could have costed bare minimum of
Rs. 7000. x 6 = Rs 42000.00/month/s/s

$$\text{Total cost for 20 s/s} = \text{Rs } 42,000 \times 20$$

$$= \text{Rs } 8,40,000/\text{month}$$

costing on outsourcing 20 s/s

$$= \text{Rs } 12,550 \times 20$$

$$= \text{Rs } 2,51,000/\text{month}$$

$$\text{NET SAVING} = \text{Rs } 8,40,000 - \text{Rs } 2,51,000$$

$$= \text{Rs } 5,89,000/\text{month}$$

ANNUAL NET SAVING = Rs 5,89,000X12
due to Outsourcing = Rs 70,68,000/-

Thus only one activity i.e. outsourcing of 33/11 k.v s/s operation & maintenance caused a yearly saving of Rs 70.68 lacks besides no permanent financial liability on the company and getting standard performance through contractors.

CASE 1.3

OUTSOURCING OF METER READING & BILL DISTRIBUTION (MRBD)

In Bhopal City there are Total 2,48,840 no of Consumers on LT Side . The work of Regular Monthly reading of those consumers and the distribution of printed bills to them is a big task , previously this work was carried out through departmental employees as per norms of the board one person can take 1500 readings per month. It means that for taking regular monthly reading of 2,48,840 consumers , one hundred sixty six employees are required.

COST EFFECTIVENESS :

This work of (MRBD) has been recently outsourced by MPMKV LTD. on the following rates.

Meter Reading @ Rs 1.50/ bill
Bill Distribution @ Rs 0.75/ bill

Total Cost of (MRBD) per Consumer = Rs 2.25
Therefore Cost of (MRBD) in Bhopal City for 2,48,840 consumers = **Rs 5,59,890/month**

If this work would have been performed by departmental employees then the Salary of 166 employees @ 7000 per month (min.) = Rs 11,62,000

Net saving per month = **Rs1162000- Rs559890**
= Rs 6,02,110

Net saving per annum = Rs 602110 X 12
due to outsourcing = **Rs 72,25,320/-**

Annual Net saving due to outsourcing of (MRBD) work only = Rs72,25,320/-

Thus only one activity i.e. MRBD'S outsourcing caused a yearly saving of Rs 72.25 lacks besides no permanent financial liability on the company and getting standard performance through contractors.

CASE1.4 OUTSOURCING OF VEHICLES

Besides above, the circle has adopted to engage the vehicle on hire basis with driver without any liability on company on part of fuel, maintenance of vehicle, salary of driver etc. @ Rs.13700.00 per month including 2000 KMs running per month and Rs.4.25 for extra KM above 2000 km, up to 2500 km. The vehicle remain on duty round the clock for FOC'S with extra driver on payment of extra Rs.1500/month only.

**COST EFFECTIVENESS OF OUTSOURCING
(ASSUMING 2500KM RUN PER MONTH)
COST FOR OUTSOURCED VEHICLE**

- 1) Rent/Month Rs 13700/- PM UPTO 2000 KM
= Rs 13700
- 2) Extra KM @ Rs 4.25 / KM For 500 KM (2000 To 2500 KM)
= Rs 2125
- 3) Diesel cost variation charge from base year Dec 2002
@ Rs 0.1/KM of milage covered x cost difference for 2500 km running will be = 2500 x 0.1 x (Rs 38.42- Rs 22.12) **= Rs 4090**
(here Rs 38.18 is cost of diesel / ltr in current month say june 06 and Rs 22.12 / ltr is diesel cost in the reference yr Dec 2002)
Total running cost of vehicle per month for running

in two shifts and up to 2500km
=13700+2125+4090+1500 = Rs 21415

If the same vehicle is purchased by company and run with his own driver in two shifts up to 2500 km, per month then the expenditure would have been

- 1) Running expenses for 2500km (assuming vehicle average 10 km/ ltr and diesel cost @ Rs 38.18 / ltr) **= Rs2500x3.85**
= Rs9625 / pm
 - 2) Driver salary Rs 7000 x 2
= Rs14000/ pm
 - 3) Road tax & insurance (Rs7000 pa + Rs11000 pa)
= Rs 1500/ pm
 - 4) Maintenance & lubricants
= Rs 1500/ pm
 - 5) Interest on vehicle cost (Rs 480000/pa)
= Rs 3200/ pm
- Total cost = Rs (9625+14000+1500+3200)**
= Rs 28325
NET SAVING / PM / VEHICLE = Rs (28325-21415)
= Rs 6910/ pm

ANNUAL NET SAVING PER VEHICLE
= Rs 82920/-

There are thirty hired vehicles in Bhopal city Net annual saving
= 82920 x 30
= Rs 2487600/

Total net annual saving due to outsourcing of vehicles
= Rs 24.87 lacks

FINDINGS

Undoubtedly Outsourcing Services is a strategic decision as the decision to outsource for any organization is critical. Thought to outsource Outsourcing Services, is not irrelevant but one needs to seek as to how it can be of strategic importance. For instance an organization that is engaged in the manufacturing of bearings, its core competency lies in the manufacturing bearings but the organization is not able to focus entirely on its core competency as it has to deal with various business issues such as documentation, official work like preparing invoices, data entry, inventory management, accounting and

finance etc. Now the company wastes a lot of valuable resources that if used elsewhere can give exceeding benefits. So what the organization does is, takes care of the outsourcing business issues, it outsources such non-core activities like finance and accounting to Outsourcing Services provider that has expertise in such activity using Outsourcing Services.

MPMKVVL has accepted & Implemented the concept of outsourcing and has saved large amount Approx (Rs.1.83 CRORE / Annum) in different cases.

In first case of M/S Zoom Developers the **net saving arrived Rs. 15.66 lacks per annum** and in second case that is outsourcing of 33/11 kv substation **net saving arrived Rs 70.68 lacks per annum** and in third case outsourcing of meter reading and bill distribution **net saving arrived Rs 72.5 lacks per annum** and in fourth case outsourcing of vehicle **net saving arrived Rs 24.87 lacks per annum. The total saving arrived Rs 1.83 crore per annum in only four activities of one city that is Bhopal under MPMKVVCOLTD** . This saving may further be increased by increasing outsourcing in same as well as other fields in different areas under MPMKVVCOLTD. This saving definitely reduced the cost factor and company can work for better avenues.

SUGGESTIONS

On the basis of study it is revealed that MPMKVVCOLTD. has an increasing trend regarding its operating cost, so it is better for the company to have certain saving or cost reduction in its operating cost, Company should effectively implement "Outsourcing" in their business.

In this light, The following suggestions are offered for consideration.

- MPMKVVCOLTD Bhopal should increase the area of outsourcing in their business
- In present scenario to use the services of experts in non core activities it is also suggested to implement outsourcing in other areas of the company .
- Use of new technology and innovation is only possible by outsourcing .
- Outsourcing should be continue and maintained in the MPMKVVCOLTD Bhopal

CONCLUSION

Business process outsourcing is emerging as a sole key success factor in modern business practice. India due to its cost effectiveness is emerging out an hub for the global industries to outsource its activities.

Over past decade India has witnessed heavy foreign direct investment in field of business process outsourcing. In the current scenario of competitive environment it is difficult for business houses to survive without effective outsourcing. Companies who are able to outsource the activities effectively and timely are gaining new heights in the business. Similarly companies who are able to move along with the time and are able to provide professional services to customers at correct time, correct place, correct quality & at correct cost are establishing themselves as renowned service or system supplier. It is needless to mention that outsourcing has become key result area of today's business. If the business house is able to synchronise its activities with the outsourced service providers, the success for the business becomes guaranteed.

At last we have concluded that M.P.M.K.V.V.CO Ltd, used outsourcing service in their business resulting large amount of Saving and Cost reduction, which will lead to better avenues of the business. This gives company a technical and functional edge on the competition without Capital Investment. This study also cleared that there is large amount of saving due to outsourcing. So, outsourcing is not a myth, but it has real existence in M.P.M.K.V.V.CO Ltd, Bhopal.

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