

Benefits of Offshoring IT Services to Sri Lanka





In today's globalised business landscape, offshoring IT services has become a popular strategy for organisations looking to streamline operations, reduce costs, and tap into a pool of highly skilled professionals. While there are numerous offshore destinations to choose from, Sri Lanka has emerged as an attractive option for businesses seeking quality IT services. In this comprehensive guide, we will explore the benefits of offshoring IT services to Sri Lanka. This resource will provide valuable insights to help you make informed decisions about your offshore initiatives.

Quality Without the Price Tag

- Sri Lanka is the optimal destination for businesses wanting to take advantage of cost-saving solutions in today's competitive market
- Sri Lanka has a plentiful supply of experienced IT professionals that can save you time and money
- Already recognised as a 'top destination' for offshoring, the Sri Lankan government has made it priority to continue delivering quality outsourced services

Introduction

The emergence of the “boundary-less” global economy in the early 2000s spurred the growth of offshoring. Offshoring has become a crucial management tactic adopted by organisations to achieve cost-effectiveness, flexibility, and increased productivity and thus, cope with increasing competitive pressure. With new emerging trends in offshoring, organisations are steadily focusing on making offshoring an integral part of their strategy to achieve long-term competitive advantages.

Technology has reshaped businesses, industries, and economies. The digital economy encompasses a broad spectrum of economic and social activities enabled by ICTs. It also presents a continual flux in the texture of the private sector, as business models become driven by data, changing the economic structures, blurring the industry boundaries, and evolving the very basis of competition.

The offshoring of business services continues to see strong growth across borders as companies seek to lower their costs, scale their talent, and become more efficient by using more of the global talent base. In fact, the global market for business services grew from US\$624 billion in 2022 to US\$681 billion in 2023 and is expected to rise at a compound annual growth rate of 8 percent through 2027.

Today, businesses are rethinking their sustainability and continuity strategies more than ever before. The COVID-19 pandemic of 2020 emerged as one of the most challenging crises in recent history, redefining the significance of a boundary-less global economy. In the “new normal”, the importance of offshoring has only skyrocketed for businesses that aim to sustain efficiency and productivity.

The pandemic highlighted that businesses that outsourced their functions were able to remodel, adapt and return to the new normal faster than those who failed to do so.

Sri Lanka: A niche offshore market

Sri Lanka has been one of the most resilient offshoring markets during COVID-19. It witnessed an 8% growth during the first nine months of 2020 despite uncertainties. Even pre-pandemic, Sri Lanka had long been known as a niche offshoring market tackling complex business functions across various industries. The nation's exceptional performance during the pandemic restrengthened the markets' reliability and the ability to ensure sustainable business continuity for global organisations.

Over the past decade, Sri Lanka has been quietly developing into Asia's next IT offshoring destination. The island nation is armed with an adept talent pool, efficient infrastructure, a supportive business and investment environment, and a high liveability index. Investor-friendly policies and a conducive business environment have attracted numerous global giants to set up their operations in Sri Lanka and serve the expanding global markets. In the recent past, this growth has accelerated further due to the knock-on effect of the pandemic, paving the way for higher acceptance of digital technologies at the individual, corporate, industry, and national levels.

Sri Lanka is an offshore development centre and joint venture hub for several Fortune 500 companies from North America, the UK, Australia, Sweden, Norway, and Japan. Well-known customers of the Sri Lankan BPO industry include Google, J.P. Morgan & Co., Microsoft, Emirates, Infor, Qatar Airways, Price Waterhouse Coopers, and Intel. There are several reasons multinational firms choose Sri Lanka for offshore services; however, the main drivers are:

- 1. Price of Talent being typically less than 4 times the comparative cost**
- 2. Quality of Talent through education investments and cultural aptitude**
- 3. Availability of Talent in niche service areas because of education and investment from IT hyperscale providers**

From cost savings to the ability to tap into a well-educated workforce, Sri Lanka is rapidly cementing its reputation for quality offshoring services.



Despite its small size, rapid development in a relatively short period of time, Sri Lanka has established itself as an emerging destination for technology services globally. Since the global offshoring wave at the turn of the millennium, when corporations from western economies expanded their businesses to developing nations to achieve economies of scale, Sri Lanka's ICT industry has grown to become a key industry, owing to a strong education system, a niche talent pool, and robust infrastructure.

The IT-BPM industry of Sri Lanka has been performing at an accelerated rate for several years. The Government of Sri Lanka has identified the IT-BPM sector as a thrust industry and has prioritised its enhancement to reaching greater heights. Already recognised as a 'top destination' for offshoring, the Sri Lankan government has made it its priority to improve their reputation for delivering quality outsourced services. The Government of Sri Lanka has turned its focus to leveraging the country's booming ICT industry with the aim of transforming the country into a Centre of Excellence (CoE). As a result, an increasing number of corporations are investing in the island nation's IT-enabled services (ITeS) sector for diversified services which are delivered to overseas clients via cutting-edge IT infrastructure.

The Sri Lankan IT/ITeS sector focussed on higher value and niche services to become a Centre of Excellence (CoE), beyond the traditional IT based services to technology products, technology services, and knowledge services. Sri Lanka took advantage of its skilled workforce across various disciplines, while the regional giants like India and the Philippines focussed on large-scale transactional work and call centres. These high-value niche services offered by a diverse talent pool in Sri Lanka became the key differentiator that set apart the country from its large-scale Asian peers. These services were often delivered with considerable time and utilisation of core skills, which the large-scale markets could not tap into.

Why Sri Lanka

A variety of factors influence decisions about where to locate offshore operations, including labour and infrastructure costs, available skills and quality of services rendered, infrastructure, business environment, and political and social risks. Kearney's Global Services Location Index (GSLI) helps companies and government institutions understand and compare the factors that make countries attractive as potential locations for offshoring.

A major focus of the GSLI is highlighting the importance of talent regeneration in maintaining and enhancing the attractiveness of offshore locations. How rapidly a country reskills and redeploys its workforce in response to changing market demands and technological disruptions is influenced by factors such as its education system, labour market conditions, immigration policies, government support, and digital infrastructure. Countries that can quickly regenerate their talent pool have a competitive edge over those that face skills shortages and mismatches.

The impact of emerging global trends and key local disrupters is making the talent supply chain more complex, requiring companies to revamp their talent sourcing and management strategies. A country's attractiveness as an offshore location for business services depends largely on its ability to reskill and redeploy the workforce in response to changing market demands and technological disruptions.

Sri Lanka is quickly emerging as the destination of choice for the ITO and BPO market. Sri Lanka has continued to be recognised in the Kearney Global Service Location Index ranking as an increasingly attractive offshore destination and its capital, Colombo, has been recognised as a global centre of excellence for Information Technology. Sri Lanka has taken strides in expanding access to education and improving the quality of education over the years. The government has made primary education mandatory and free for all children, which has helped to increase enrollment rates and improve literacy levels.

Sri Lanka is well placed to continually adapt to labour requirements and can quickly regenerate talent pools based on the education investments in science, technology, engineering and maths.



Why Sri Lanka

Sri Lanka has been recognised globally as a leader for IT Services, including:

- Leading Locations for Offshore Services, Gartner
- Outsourcing Destination of the Year, National Outsourcing Association
- Ranked among the top 25 countries in the digital-centric scenario on AT Kearney Global Services Location Index in 2021
- Ranked among the top 10 emerging global destinations by Global Services Magazine
- Sri Lanka was awarded the Delivery Destination Award by the Global Sourcing Association (GSA) of the UK in 2019
- Ranked first in South Asia and second in the world by Startup Genome in the Global Ecosystem for Affordable Talent in 2020
- SAARC Season 2020 - Ecosystem Hero of the Year award for Sri Lanka
- Ranked 2nd in South Asia in the Global Innovation Index 2019 by the World Intellectual Property Organisation

Cost Efficiency

In 2004 A.T. Kearney constructed the Offshore Location Attractiveness Index to evaluate countries around the world. The index consists of three major categories including financial structure, people skills and availability, and business environment. Since cost advantage was determined to be the primary driver financial structure is weighted accordingly in the index.

Due to increased competitive processes, companies are constantly seeking new ways to reduce costs. Salaries comprise a significant portion of variable costs, and offshoring of business processes can provide sizeable savings to organisations in developed countries. **The findings indicate that Sri Lanka can save over 70% of labour costs for many roles in comparison to the same roles in Australia.**



Advantages of Offshoring IT Services to Sri Lanka

Sri Lanka stands out as a highly advantageous option for businesses seeking offshore solutions. However, it is not enough to have a low-cost wage structure, the attractiveness of an offshore location is by comparing the relative costs and the quality and the size of the labour force. Professional Services requires educated workers with English speaking ability and technical skills as well.

1. EXCEPTIONAL TALENT POOL

Sri Lanka boasts a robust talent pool of skilled IT professionals who are well-versed in the latest technologies and industry best practices. The country has made substantial investments in education and training programs focused on producing top-notch software engineers, programmers, system administrators, and other IT specialists. The workforce demonstrates strong technical proficiency combined with excellent problem-solving abilities. The number of IT graduates continues to increase rapidly with growth of over 30% per year.

2. COST EFFICIENCY

One of the primary motivations behind offshoring is cost savings without compromising quality or efficiency. Sri Lanka offers competitive labour rates compared to many other offshore destinations such as India or China while maintaining high standards of service delivery. The lower cost of living in Sri Lanka translates into reduced operational expenses, making it an attractive location for cost-conscious businesses.

3. CULTURAL COMPATIBILITY

Cultural compatibility is a crucial factor when offshoring IT services to ensure effective collaboration and seamless communication. Sri Lanka enjoys favourable cultural compatibility with many Western countries, particularly the United States, the United Kingdom, and Australia. English proficiency is widespread among IT professionals in Sri Lanka, ensuring clear communication with an easy-to-understand neutral accent.

Advantages of Offshoring IT Services to Sri Lanka

4. INTERNATIONAL CONNECTIVITY

Sri Lanka has international connectivity through four major global submarine cable systems; SEA-ME-WE 5, SEA-ME-WE 4, SEA-ME-WE 3 and the Fiber-Optic Link Around the Globe (FLAG). There is further connectivity via four regional submarine cables: the Bharat Lanka, Dhiraagu, Bay of Bengal Gateway, and Maldives Sri Lanka cable systems. All eight cable systems connect to five landing stations owned by three telecom operators, SLTMobitel, Lanka Bell and Dialog Axiata. The South East Asia-Middle East-Western Europe 6 project was recently proposed, and it is expected to provide an additional 12 Tbps bandwidth capacity, strengthening the existing connectivity backbone. Sri Lanka ranks 7th globally in terms of affordable data connection meaning internet connectivity is widely adopted and underpinned by 4G coverage across the entire island nation.

5. HIGH-QUALITY EDUCATION

Sri Lanka has a high ratio of undergraduates and postgraduates making it a competitive talent pool to choose from. There is also an established workforce of IT professionals with extensive work experience. Sri Lanka has a 96.3% literacy rate, allowing organisations to tap into a skilled and competitive workforce. The strong emphasis placed on mathematics and science in the school curriculum couples with English proficiency ensuring there is a large pool of skilled, qualified IT professionals with global experience.

Government support for education in Sri Lanka is very high, with 5.4% of GDP being spent on Primary Education. The Sri Lankan education system is based on the UK education system ensuring students develop strong English communication skills and has a literacy rate which is the highest in South Asia.



Advantages of Offshoring IT Services to Sri Lanka

6. ENGLISH PROFICIENCY

Sri Lanka is a Commonwealth country, which means the laws and regulations are very similar to those in the UK, Australia, Canada, and NZ. English is the primary language of higher education and the commercial sector with all graduates being fluent in English and with a neutral accent. The colonial past has endowed the country with a large English-speaking population along with a cultural affiliation for all things English.

7. EASE OF DOING BUSINESS

Sri Lanka has seen notable improvements in the World Bank's Ease of Doing Business index, rising 11 spots to stand among the top 100 nations across 190 countries. This places Sri Lanka 13th within Asia for overall business-friendliness and establishes it as a solid contender on an international level. Sri Lanka has been identified as a highly cost-competitive destination. There has been low wage appreciation in comparison to other global sourcing destinations such as India and the Philippines.

As a result, costs are over 30% cheaper than other offshoring locations.

Conclusion

Offshoring IT services can bring numerous advantages to organisations seeking cost-effective solutions without compromising quality or expertise. When comparing offshore destinations, Sri Lanka emerges as an exceptional choice due to its exceptional talent pool, cost efficiency, cultural compatibility with Western countries, advantageous time zone overlaps, and supportive government policies. By leveraging these benefits offered by Sri Lanka's offshoring ecosystem, businesses can unlock new opportunities for growth and innovation while optimising their IT operations.

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