

Outsourcing during an economic downturn: Panacea or Placebo?”



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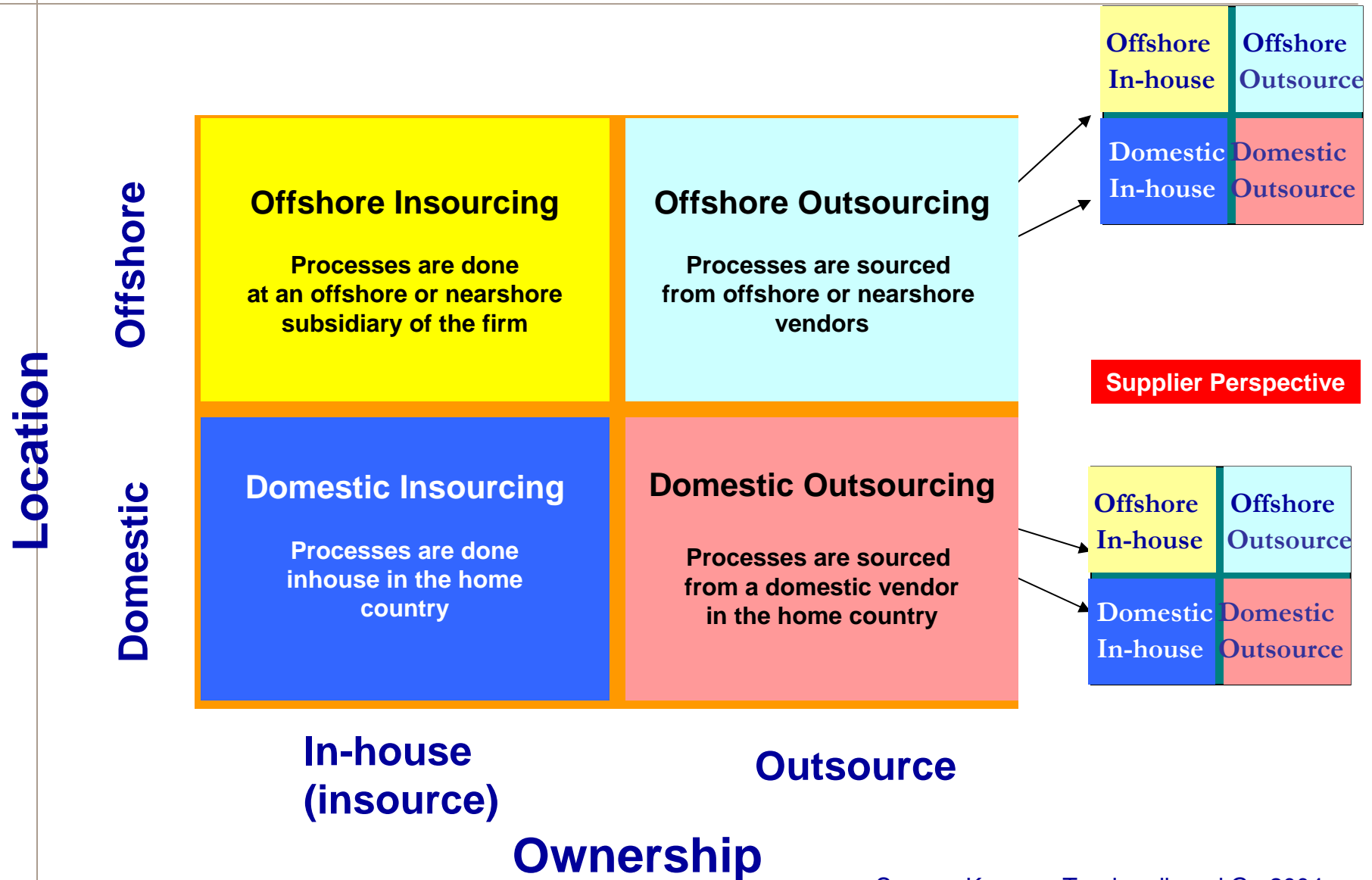


IT & ITES Outsourcing/Offshoring

- Increasing unbundling of the value chain
- Total world market for outsourced routine operational services in 2001 → \$1 trillion (McKinsey, Dun & Bradstreet)
 - To grow at 25% per year (2000 data) (McKinsey)
- IT and Process specific (From Gartner, Forrester)
 - IT outsourcing market: \$150-170 billion → \$210 billion (2009)
 - IT Application outsourcing: \$36.4 billion → \$50 billion (2009)
 - BPO market (call centers, payroll, human resource services, accounts payable, etc.): \$140 billion → \$250 billion (2009)
- BPO to Knowledge Process Outsourcing (KPO)
 - Market research & analysis; financial analysis; life sciences research, etc
 - Expected CAGR of 45% to \$15 billion by 2010 (Source: Evaluateserve)



Sourcing Options



Source: Konana, Tanriverdi, and Ge 2004



Pre-amble to panel discussions

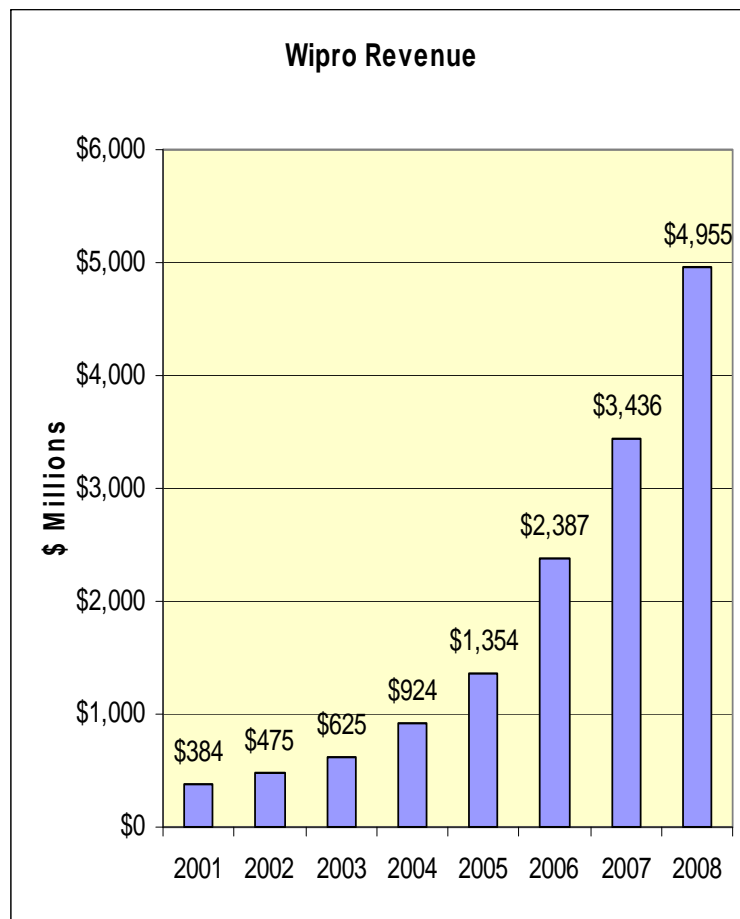
- **Economic downturn (?)**
 - A perfect storm – high oil prices, sky-rocketing commodity prices, subprime/financial mess and credit crisis, and generally high inflation
 - Greater emphasis on cost reduction, productivity growth – often headcount reduction
 - Will this influence greater offshoring of activities to low wage countries?
 - Strategic shift to new markets and lower fixed costs
- **Two possible outcomes**
 - Greater offshore insourcing/outsourcing of domestic firms
 - In search of cost efficiency, talent, and other resources
 - In search of new markets and economic incentives
 - Greater offshore insourcing of “foreign” firms to the U.S. – BP, Shell, Daimler, Toyota, HSBC, Honda, BMW, Nissan, Siemens, DT, Samsung, Novartis, UBS, BASF, CS, Canon, LG, Bosch BAE systems, Infosys Consulting ...



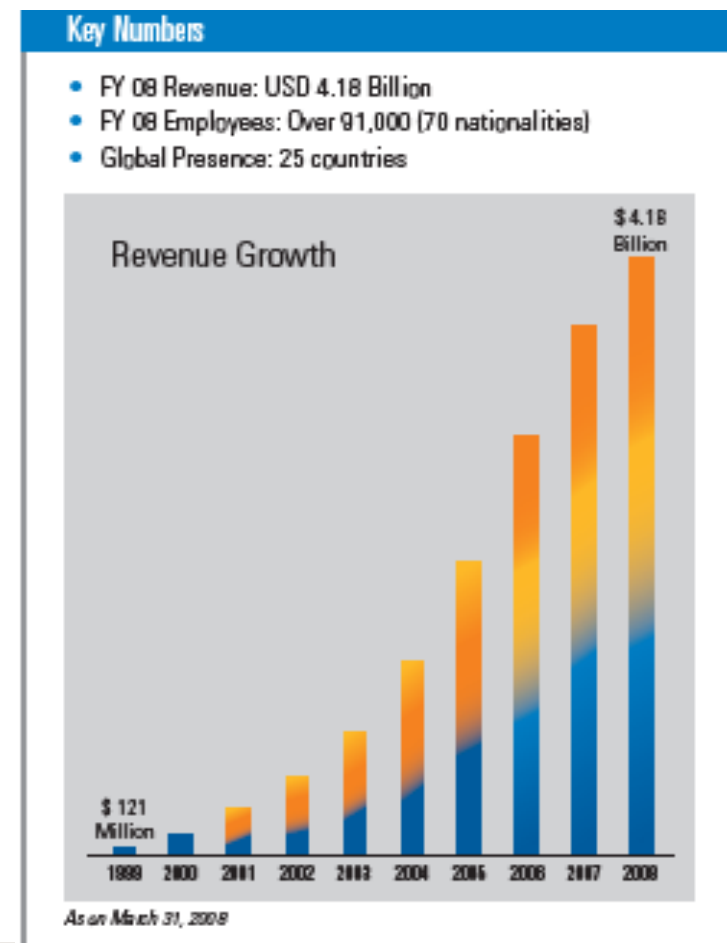
Some facts since 2001..

- The Indian IT-ITES industry has grown at a CAGR of over 28 per cent since FY 1999-2000.

Wipro Revenue Growth



Infosys Revenue Growth

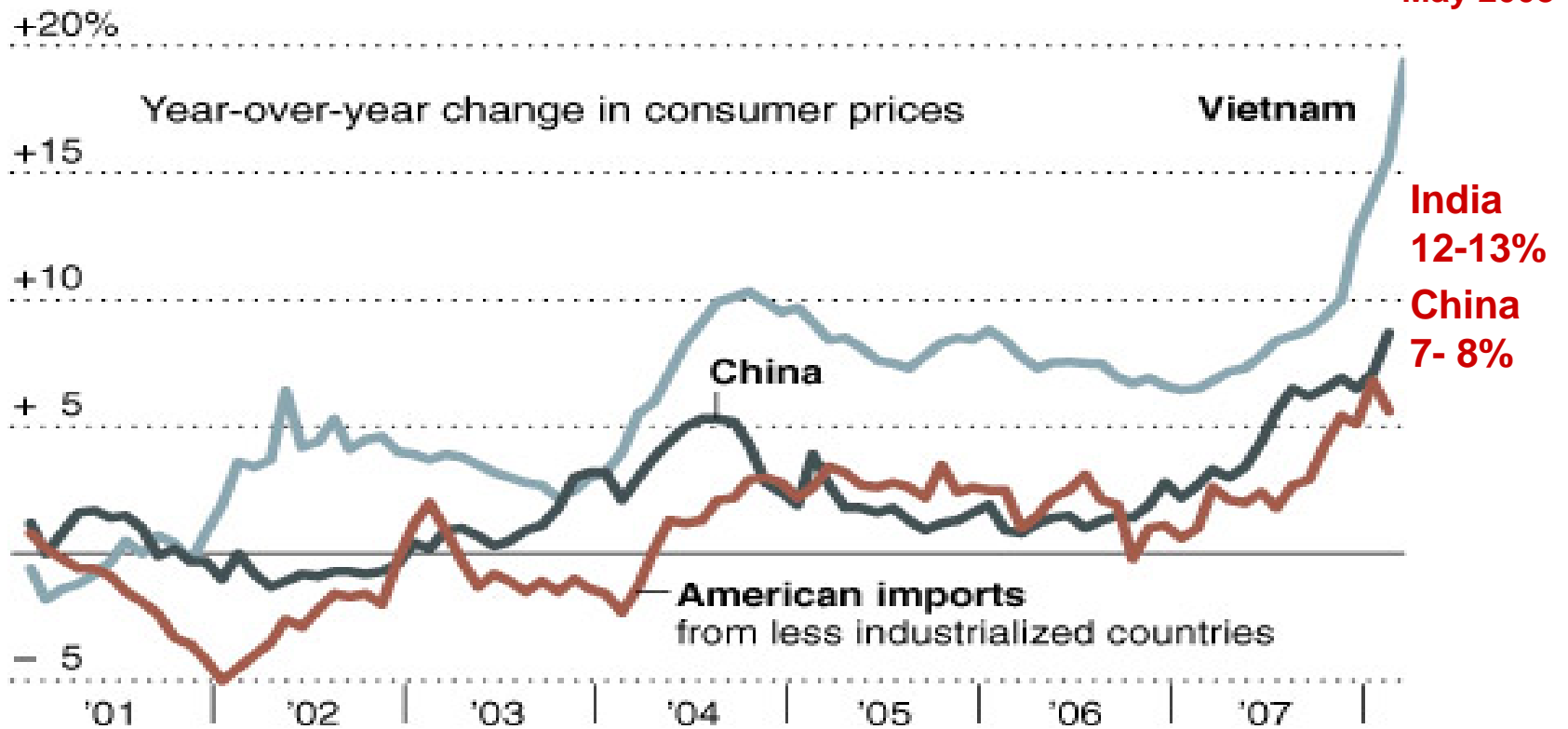




Inflation

Price Pressures

Labor and raw materials costs are rising in many developing countries, particularly in Asia. Some of those costs are being passed along, leading to rising prices for American imports.



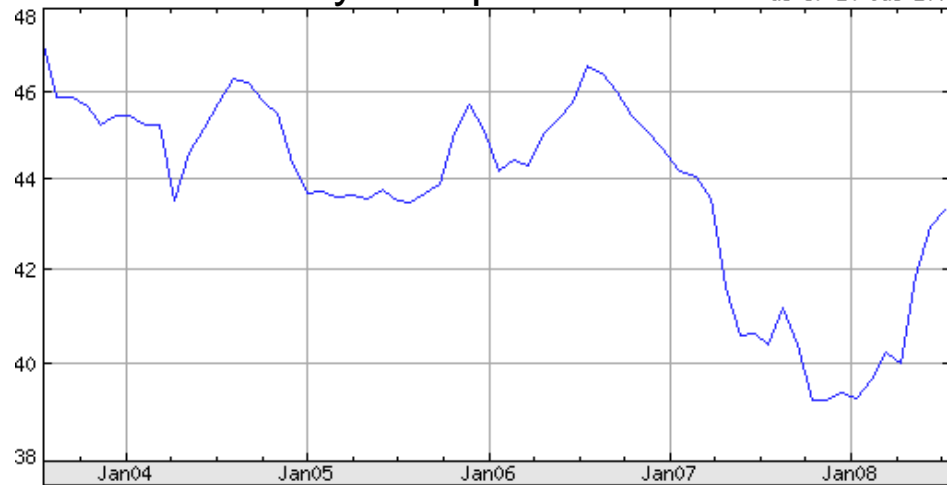
Source: Vietnam General Statistical Office; China National Bureau of Statistics; India Labor Bureau, via CEIC Data

THE NEW YORK TIMES



Exchange Rates

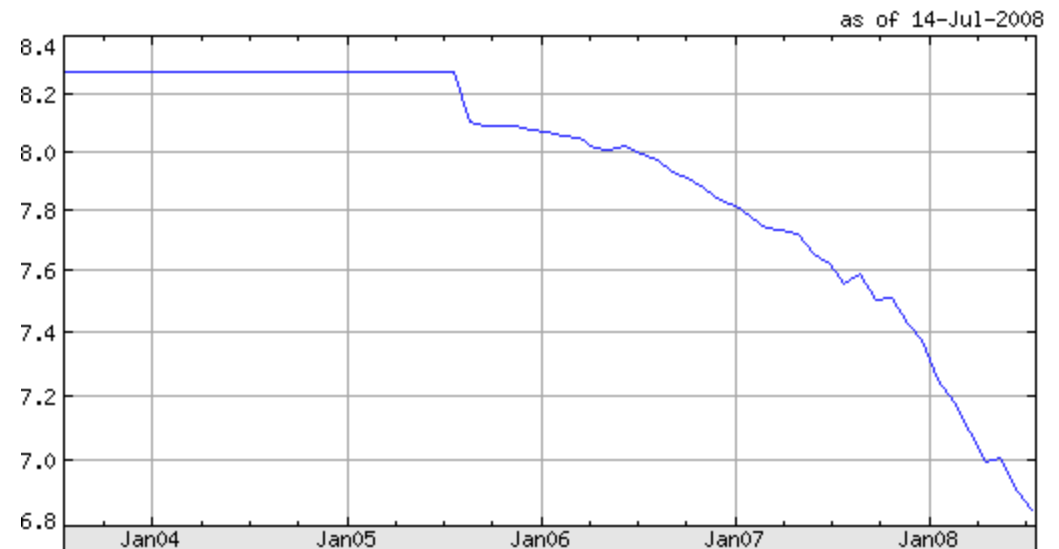
Indian Currency – Rupee to Dollar as of 14-Jul-2008



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Chinese Currency – Yuan to Dollar as of 14-Jul-2008



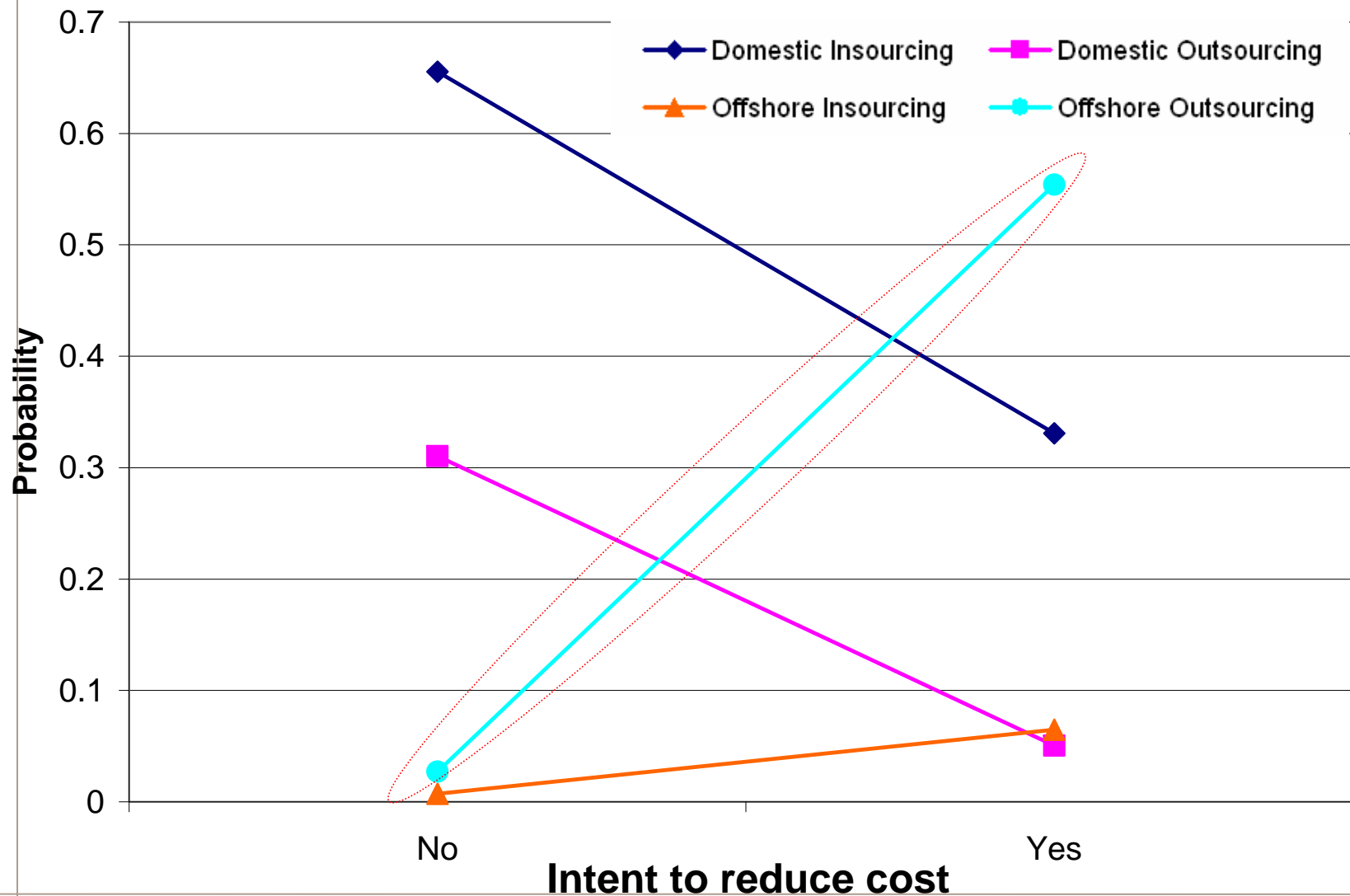
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Survey results: Intent to Reduce Costs

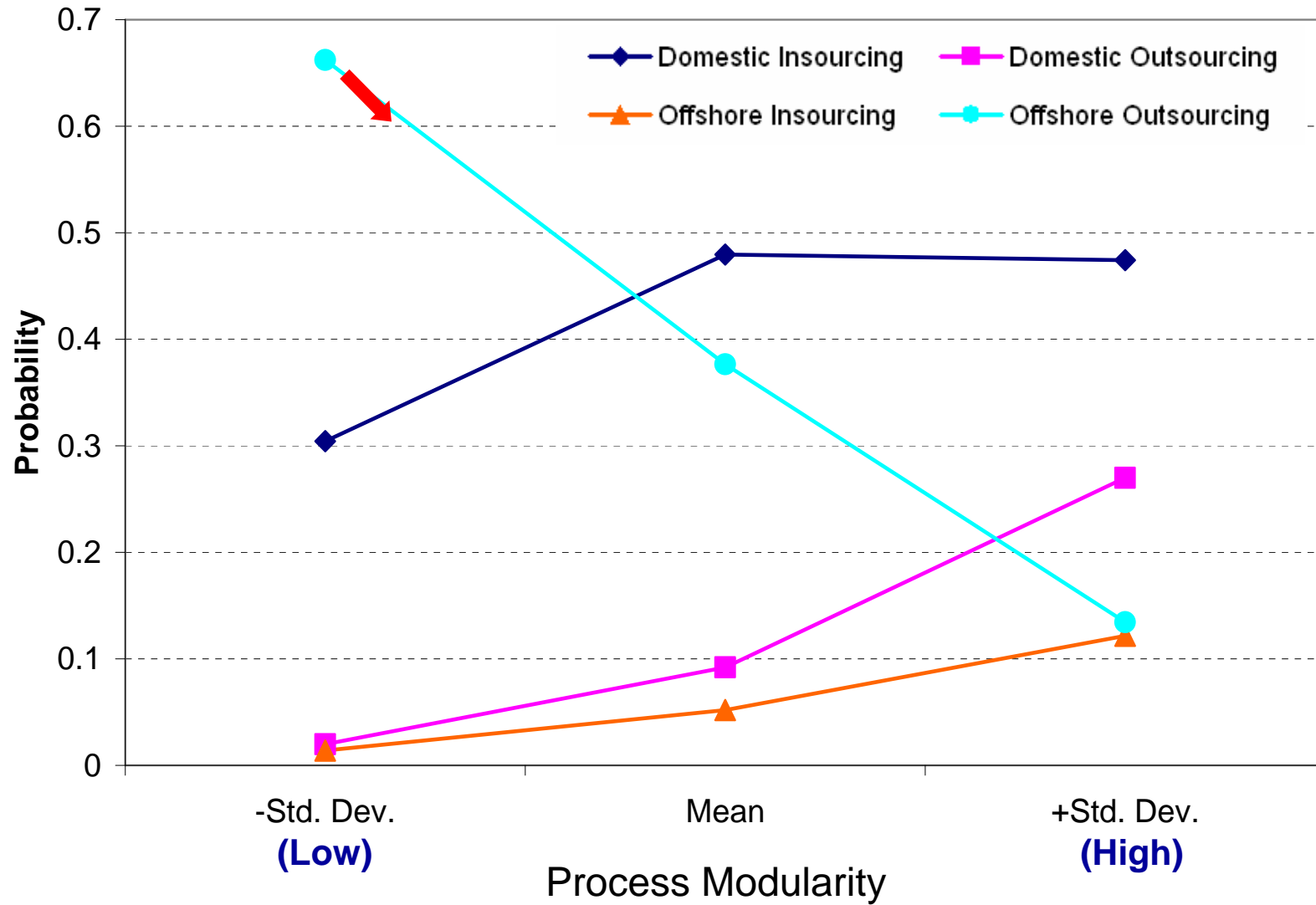
Source: Choice of sourcing mechanisms, Tanriverdi, Konana, and Ge, ISR 2007





Business Process Modularity

Source: Choice of sourcing mechanisms, Tanriverdi, Konana, and Ge, ISR 2007





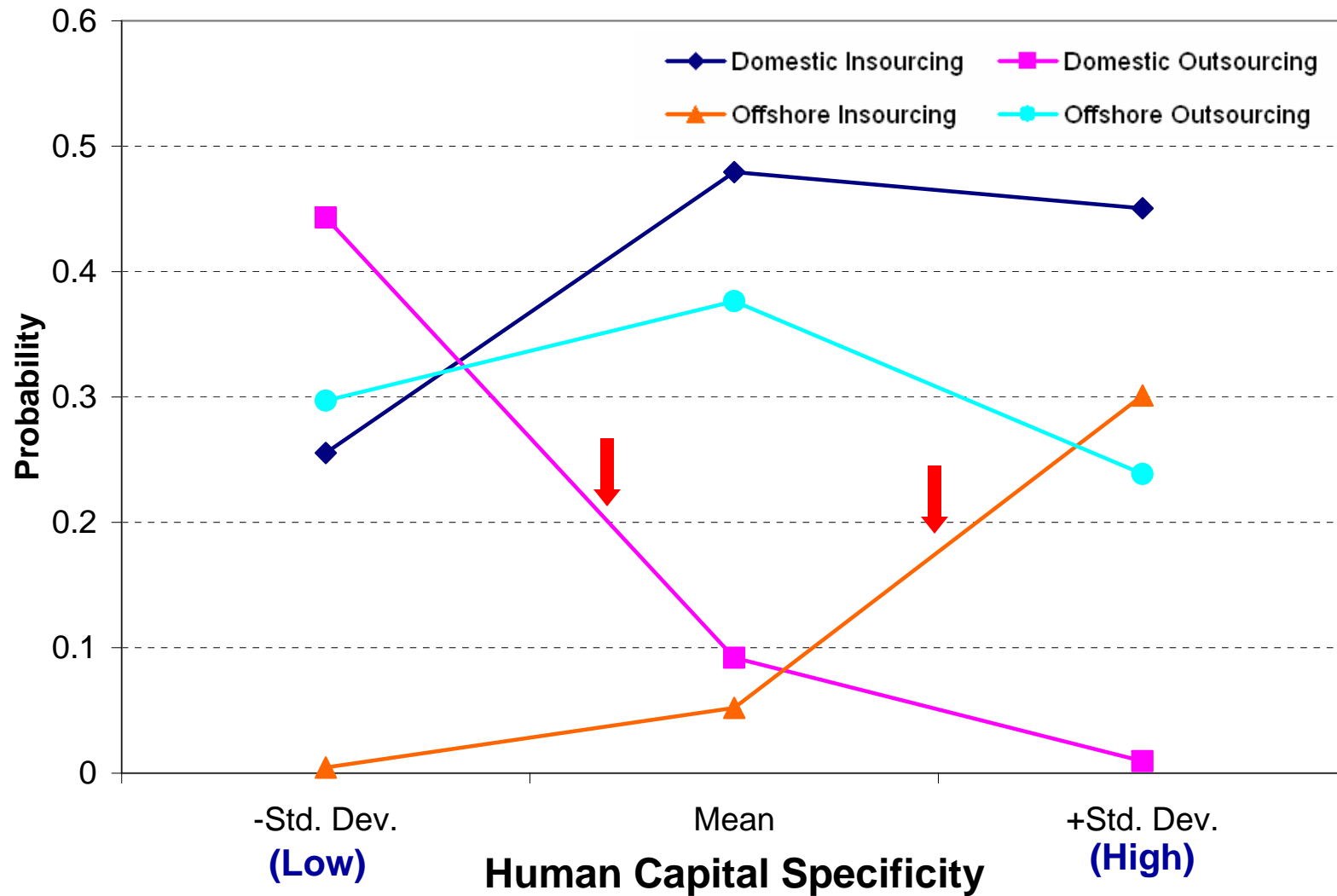
Offshore Capabilities

- Infosys -- “Modular Global Sourcing, the next generation of strategic services outsourcing, applies the fundamental concepts of modularization to business process and IT application and infrastructure services sourcing decision making, implementation and ongoing management.”
- Wipro – “Wipro will assist in development, implementation and support of modular, scalable, and global ERP, B2C, B2B, and E2E solutions catering to the extended enterprise.”



Human Capital Specificity

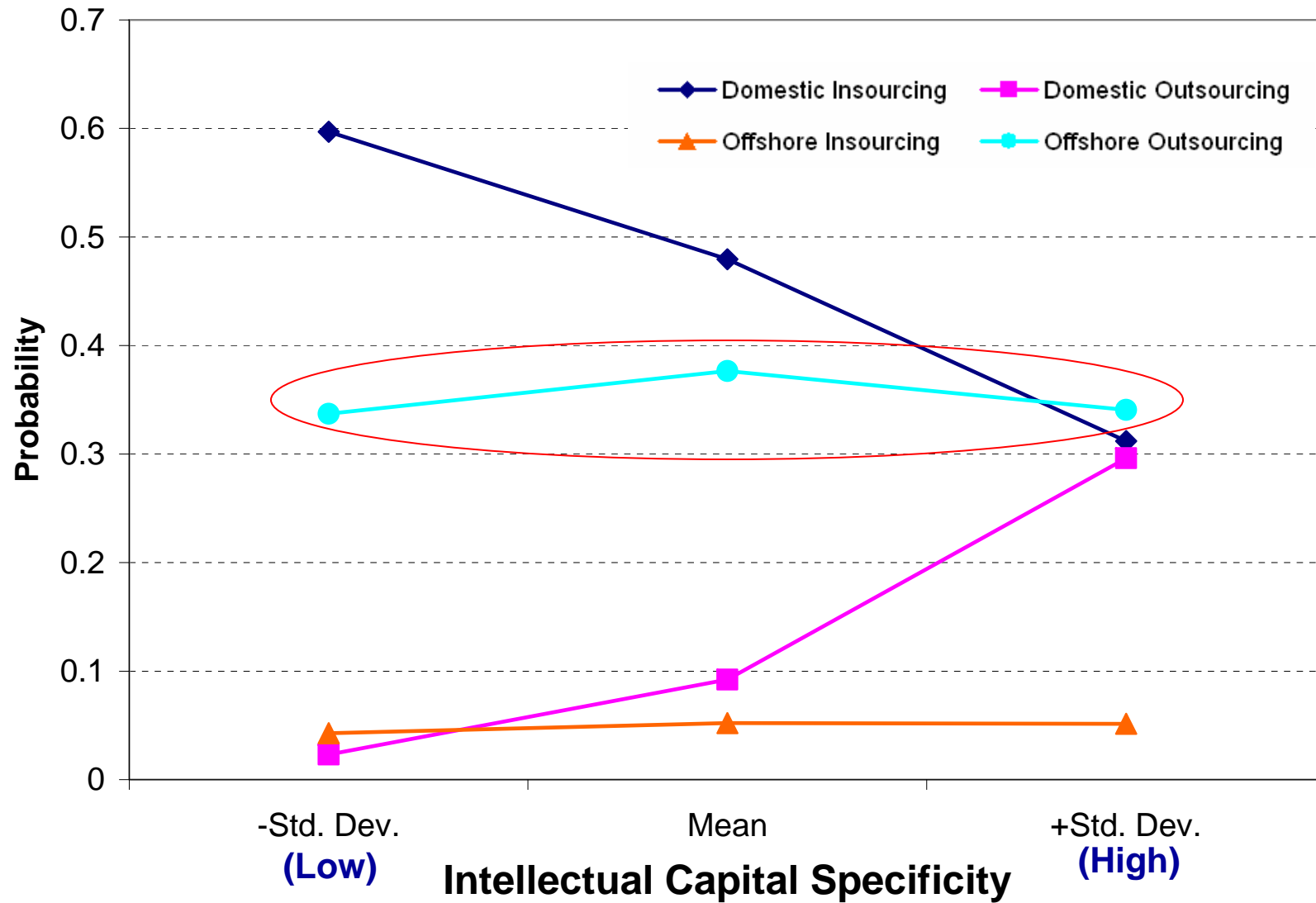
Source: Choice of sourcing mechanisms, Tanriverdi, Konana, and Ge, ISR 2007





Intellectual Capital Specificity

Source: Choice of sourcing mechanisms, Tanriverdi, Konana, and Ge, ISR 2007





Organized Complexity?

- **Gartner study (2006)**
 - Outsourcing increasing but with lower levels of satisfaction
 - “Outsourcing more but enjoying it less: what’s the real problem?”
- **Deloitte Study (2005)**
 - 64% brought some outsourced services back in-house
 - 75% of sourcing relationships did not yield desired outcome
- **DiamondCluster International Survey (2005)**
 - Abnormal termination of outsourcing contracts more than doubled (51%) compared to last year
 - “Companies are learning that the tremendous cost-savings outsourcers have been promising are actually very difficult to achieve. And they are learning more about the cost of losing good people and the value of their institutional knowledge.”
- **Dun & Bradstreet survey (2000)**
 - 20% of outsourcing fail in the first two years, and 50% within five years
 - “.. supplier didn’t understand what they were supposed to do.”



Questions for the panel

■ General questions

- Economic downturn puts pressure to lower costs and increase productivity – Do you see an impact on your global sourcing strategy due to these reasons? How and why?
 - Or, does it strategically make sense to have presence in other emerging markets for growth reasons?
- Is global sourcing simply an evolution of business practices that will continue to increase with maturity and greater learning, or connected in some ways to economic cycles?
- There are different models for sourcing. They co-exists, but do you see a shift in a particular model like offshore insourcing? What are the risks and benefits?
- Do you experience talent crunch and salary inflation in places like India and China create too much risks?

■ Questions for Sean/Kent -

- How does outsourcing/offshoring decisions are impacted by high inflation, dollar depreciation, and high oil prices?
- How do you manage risks under these turbulent economic uncertainty?

■ Questions for Jikku

- As an entrepreneur how does downturn impact your need for offshoring or outsourcing?
- There are different types of vendors – Tier 1, 2, 3 and so on. Considering various types of risks (like inflation, quality), how would you view sourcing from non-Tier 1 vendors from other countries like India?



The End

