Globalization of Services

The Rise of “The Offshore Nation”

Consuming Borderless Services

7 Secrets of Successful Globalizers

The Old Era of Globalization

I pledge my allegiance to the flag.

...of the People’s Republic of China. And to the slave labor for which it stands—ONE DOLLAR per hour—insignificant!—with benefits and tariffs toward NONE.

The MULTINATIONAL CORPORATE Pledge
Not since the industrial revolution has the global economy experienced such dramatic, transformational changes.

What started with sourcing low cost, low value services has matured to include what companies considered core just 4-5 years ago.

As traditional low-cost locations mature towards higher value added work, emerging low-cost locations fill-in for the lost capacity in a virtuous cycle – impacting economies and societies.

Less than $80B of the $500B potential in services trade has been exploited annually.
The Rise of “The Offshore Nation”

Started with manufacturing

- Imports from China - $20-22 bn (2005)
- 1/10th of US trade deficit with China (2005)
- 8th largest trading partner

Other large importers include Home Depot, Target Corporation, Lowe’s, Motorola, Honeywell etc.

Import from China Greater than GDPs of:
- $15-20 billion – Kenya, Costa Rica, Latvia, Uruguay, Trinidad and Tobago, Panama, El Salvador
- $10-15 billion – Ghana, Bahrain, Jordan, Estonia, Tanzania
- $5-10 billion – Zambia, Nepal, Bolivia, Jamaica, Brunei, The Bahamas

Demand Factors

- Competition within vertical industries in demand markets continues to intensify
- Speed to market is becoming a critical competency for companies across high tech, healthcare, mfg, financial services and CPG among others
- Wall Street continues to reward efficient performers and punish high cost public companies
- The talent crunch is real – whether it’s IT, R&D, Engineering or finance
- Companies constantly re-evaluating what is core and what can be done better, faster, cheaper by others
- Uncertain economic conditions forcing companies to rethink their portfolio
Supply Factors – **Emergence of CoEs**

Emerging Centers of Excellence

**Central & Eastern Europe**
- Poland, Czech Republic, Hungary, Russia

**Latin America**
- Mexico, Costa Rica, Brazil

**Asia Pacific**
- India, China, Philippines, Malaysia

**Engineerin g Services**

**Infra outsourcing**
- Local language skills
- BPO, R&D

**Embedded SW Dev.**

**Customer support, F&A**

**BPO, R&D**

**Nearshore for Europe**

**Nearshore**
- Spanish BPO

**Demand**

**Now starting to see it in services**

**Centers of Excellence Emerging**
- **India**: IT, Back office and analytics
- **Philippines**: Customer Support
- **China**: Embedded software
- **Poland**: European back office
- **Hungary**: European back-office
- **Russia**: Engineering services
- **Mexico**: Spanish language skills
- **Brazil**: ERP support & maintenance
- **Costa Rica**: Shared services
- **Singapore**: Data Center

Large enterprises will increasingly be concerned about de-risking their operations through global diversification.
The Rise of “The Offshore Nation”

India and China – Booming talent pool

Number of IT Graduates 2005

- India: 465
- US: 415
- China: 225
- Russia: 58
- Philippines: 47
- Poland: 40
- Brazil: 27

Rivals talent pool in the USA

The Rise of “The Offshore Nation”

Romance with Wall Street

- WNS: R - $202.8 bn, MC - $1.01 bn
- Infosys: R - $885.3 bn, MC - $10.23 bn
- Wipro: R - $2.15 bn, MC - $21.95 bn
- Accenture: R - $2.38 bn, MC - $16.19 bn
- Cognizant: R - $1.6 bn, MC - $8.09 bn
- TRW: R - $2.52 bn, MC - $22.17 bn
- KPMG: R - $4.4 bn, MC - $39.83 bn
- Deloitte: R - $5.48 bn, MC - $46.83 bn
- Ernst & Young: R - $4.82 bn, MC - $16.4 bn
- PricewaterhouseCoopers: R - $19.7 bn, MC - $16.4 bn
- A. Symphony: R - $17 bn, MC - $17.7 bn
- Dell: R - $470.3 mn, MC - $630.1 mn
- IBM: R - $24.33 bn, MC - $23.42 bn
- Oracle: R - $91.1 bn, MC - $17.7 bn
- Microsoft: R - $17 bn, MC - $17.7 bn
- Google: R - $470.3 mn, MC - $630.1 mn

2006 2008

Revenue

Market Cap / Revenue

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Consuming Borderless Services

Core activity
- Compensation design
- Business research
- Financial planning & Analysis
- Clinical trials
- Equity research
- Engineering design

Non core activity
- HR Support Functions
- Finance/Accounting
- Procurement
- Customer Support
- Telemarketing
- Tech Support
- Back Office Processing
- Product Development
- Sales & Marketing
- Compliance

ITO
- Compensation design
- Business research
- Financial planning & Analysis
- Engineering design

BPO
- Clinical trials
- Equity research
- Engineering design

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17

Consuming Borderless Services

Canada
- Captive FTE – 1000+
- Services – Customer care, Bilingual technical support.
- Locations – Edmonton, Ottawa

Denmark
- Captive - Nordic Business Center
- FTE – 650+
- Services – F&A, Marketing, Local language support
- Locations – Copenhagen

Germany
- Germany

India
- Captive Third Party – Wipro BPO, EXL Services, The Sutherland Group, SITEL
- FTE – 10,000+
- Services – Customer care, Technical support, Sales, Financial back office, IT programming and Application support
- Locations – Bangalore, Hyderabad, Chandigarh, Gurgaon

Philippines
- Captive Third Party – e-Telecare, SITEL, Ambegris, Teleperformance USA, ICT Group, Client Logic
- FTE – 3000+
- Services – Customer care, Technical support, Sales
- Locations – Pasay City

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18
Consuming Borderless Services

- Realized 35% reduction in total cost of IT operations
- Improved nimbleness and agility to effectively respond to business cyclicality
- Resulted in optimization of technology leading to cost efficiency
- Innovative engagement model with flexibility to scale/shrink requirements
- Strategic partnership approach providing a platform for global roll-out

Strategic Objectives

- Diversify risk by offshoring business processes to multiple service providers
- Employ a variety of business models to maintain control, diversify risk
- Foster competition among service providers to ensure continued process improvement
- Move majority of processes (across the value chain) to low cost destinations

Offshoring Model

Model: 3rd Party Sourcing
Type of Services:
- ADM / ASM
- Migrations
- Technical Architecture
- Production support
Location(s): Pune

Model: 3rd Party Sourcing
Type of Services:
- ADM
- Production support
- Testing and data warehousing
- Process consulting
Location(s): Chennai, Pune, Kolkata

Model: Captive
Type of Services:
- Credit research & analysis
- Equity research
- Transaction Processing:
- Foreign exchange trades
- Credit derivatives contracts
- Loan Processing
- Customer care
Location(s): Mumbai, Shanghai
The Rise of “The Offshore Nation”
Consuming Borderless Services

7 Secrets of Successful Globalizers

Secret #1: Embrace Globalization

1. Embrace globalization across the business
2. Ask why it cannot be done elsewhere
3. Mandate it
4. Keep an eye on the future
Secret #2: Welcome It As A Transformation Lever

1. Leadership Commitment
2. Organization Design & Structure
3. Change Management
4. Communications
5. Education & Development
6. Process Redesign

Source: neaIT

Secret #3: Adopt A Lifecycle Approach

1. Source
2. Plan
3. Manage
4. Knowledge
Secret #4: Align Business and Globalization Objectives

- Control
  Ownership preference as influenced by risk & culture factors

- Industry Activity
  Offshore actions of competitors and industry players

- Quality
  Need for consistent quality and service levels

- Corporate
  Business plan, goals and results expected- acquisition, cost structure, growth, flexibility, risk aversion, profitability, cash etc.

- Company
  Affinity for outsourcing & globalization including past experiences

- Social
  Responsibility
  Issues related to job loss, globalization, employee upheaval, etc.

- Risk
  Manage stability, security, privacy, volatility, etc.

- Cost Savings
  Need for reducing cost or fundamentally altering business model

- Why are you looking at globalization?
- What part of your business strategy does it help you execute?
- What are you going to do?
- Is the organization ready for this?

Source: neoIT

Secret #5: Assign The Best People

- The best that fit are selected and assigned to launch and manage the program
- Strong participation from the CEO and C-Level Executives
- Attention and recognition by senior management makes it attractive to lure the best talent
- Team Secrets strategic learning
Secret #6: Implement A Strong Governance Model

- Resource Management
- Performance Management
- Financial Management
- Contract Management
- Organizational
- Functional
- Operational
- Governance
- Relationship Management

neoIT M5 Framework

Secret #7: Embrace A Continuous Improvement Mind-Set

- Are our globalization efforts healthy?
- Onsite Operations
  - Strategy
  - People
  - Operations
  - Technology
  - Compliance
- Offsite Operations
- Programs such as Six Sigma are part of the ongoing operations
## The 7 Secrets

1. **Embrace Globalization**
2. **Welcome It As A Transformation Lever**
3. **Take a Lifecycle Approach**
4. **Align Business And Globalization Objectives**
5. **Assign The Best People**
6. **Implement a Strong Governance Model**
7. **Embrace A Continuous Improvement Mind-set**

**Source:** Atul Vashistha & Eugene Kublanov, neoIT

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## The Futurized Corporation

**Roadmap to becoming a “Futurized Corporation**

**Case Study**

**Key Takeaways**
Listening to the Pundits

Unprecedented division of services labor… leveraging centers of excellence… managed as a global portfolio

...taking into account capabilities, human capital, infrastructure, political risk, currency fluctuations, cost of labor, productivity, taxation, security and legal environment ......to produce the optimum, networked services value chain.
Evolution of the Futurized Corporation

<table>
<thead>
<tr>
<th>Past</th>
<th>Present</th>
<th>Future</th>
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<tbody>
<tr>
<td>Location of Talent</td>
<td>Location of Talent</td>
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<tr>
<td>Approach to core competencies</td>
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<td>Approach to partnerships</td>
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<td>Intellectual Property (IP) leverage</td>
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<td>Key strategic skills</td>
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<td>Key operational skills</td>
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<td>Parameters for differentiation and competitive advantage</td>
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<td>Sourcing attitude</td>
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The Building Blocks of The Futurized Corporation

Core

VISION

STRATEGIC EXECUTION

The Concept of SOBA ……….
Redefining Core

Core activity
- Compensation design
- Business research
- Financial planning & Analysis
- Animation and graphic design
- Clinical trials
- Equity research
- Engineering design

Non core activity
- HR Support Functions
- Finance/Accounting
- Procurement
- Customer Support
- Telemarketing
- Tech Support
- Back Office Processing
- Product Development
- Sales & Marketing
- Compliance

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Service Oriented Business Architecture (SOBA)

Services A
From SP X

Services B
From SP X

Services C
From SP Y

Services D
From SP Z

Services E
From own Captive

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Value Chain of The Futurized Corporation

Evolution of Business Functions

- **Investment Analytics for an Investment Bank**
  - In House Research
  - KPO
  - Online Expert Research as a Service

- **Game Development for a Gaming Company**
  - In House Development
  - Outsource Testing & Art Asset Development
  - In House: Conceptualization & Design Only

Execution – Complete Alignment
The Futurized Corporation

Roadmap to becoming a “Futurized Corporation

Case Study

Key Takeaways

Roadmap to Becoming Futurized

1. Assess SOBA Readiness
2. Develop a Services Globalization Competency
3. Restructure as a Utility Operational Model
4. Virtualize the Services Supply Chain
5. Leverage Economic Value of the Service Network
Content

The Futurized Corporation

Roadmap to becoming a “Futurized Corporation

Case Study

Key Takeaways

Case Study: Virgin Mobile

[Diagram showing Virgin Mobile's service offerings and brand positioning]
Future of Procurement???

7E7 Structures Work Share

- Boeing: 35%
- Japan: 35%
- Vought/Alenia: 26%
- Other: 4%

Content

The Futurized Corporation

Roadmap to becoming a “Futurized Corporation

Case Study

Key Takeaways
Key Takeaways

- Embrace Globalization
- Leverage Talent Globally
- Learn how to work globally
- Agility is key to long term success

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