

Global Services Insights

Research Brief

Navigating Economic Uncertainty: Leveraging the Services Globalization Advantage

As the US faces an economic downturn in 2008, many corporations are still running their globalization initiatives as if there was no sub-prime meltdown, as if the housing bubble had not burst, or as if inflation and unemployment rates weren't beginning to tell a story of difficult times ahead. Corporations have not yet aligned globalization initiatives to economic reality.

neoIT believes that corporate adjustments to economic challenges will also introduce the next phase of maturation in services globalization. Companies must move beyond casual or inconsistent approaches to global services. Economic challenges will drive leading companies to systemically develop and optimize globalization enterprise wide, leading to a new phase of maturity for global services.

Key Topics Covered

- Aligning globalization initiatives to the current economic cycle
- Futurizing the corporation to adapt to economic conditions
- Understanding globalization options and respective payback periods
- Acting immediately to avoid worst-case scenarios

Facing Economic Uncertainty

During the last economic slowdown in the US (2001-2003), most globalization agreements were staff augmentation contracts, allowing clients to quickly scale up or down. Teams of offshore developers were put under contract to work on client projects, similar to Y2K projects. The panic of the dot-com bust left many companies scrambling for cost savings that could be immediately realized through globalization.

In recent years, the balance of global services contracts shifted to “managed services” – projects with specific results or service levels. Moreover, many companies have disparate global-services agreements across business units and geographies. The equation is more complex than simple staff displacement. But the opportunity is also much greater.

Corporate functions can be located anywhere around the globe and operating units are likely to be located in distant countries. The combination of technology and globally-optimized processes makes the distance transparent. neoIT calls this a “futurized corporation.”

A futurized corporation becomes flexible, capable of adapting to changing business processes, legal or regulatory requirements, labor requirements, and, most importantly for this paper, adapting to economic cycles.

Acting Now

A key observation of business analysts is that during an economic downturn, strategic-thinking companies take actions that position them as leaders when the economy recovers. Within each market, a company is either positioned to improve or to fall farther behind. Taking no action is the worst possible choice.

Companies should act now to leverage the benefits of globalization and optimize their global supply chain. Whether globalization presents new business benefits or merely reduces operating costs, either choice requires action.

Unlike the last economic downturn, customers and service providers have deeper understanding and sophistication about leveraging the global model. The environment is ideal for further evolution and reaching the next level of services

globalization. Specifically, companies should be considering the following to prepare for and successfully navigate through upcoming economic challenges.

Business Imperative #1: Reduce Costs. The most common requirement during a downturn is the need to reduce costs. Budgets are often reduced or capital expenditures frozen. Assessing your globalization portfolio is an immediate method for changing operations, lowering costs and optimizing spend. While the range of savings varies between companies, initiating or re-aligning your globalization efforts with current economic realities before a recession lays the groundwork for savings throughout an economic downturn.

Business Imperative #2: Manage Demand. Friction and misalignment of information technology with business units is a frequent source of waste. Improving alignment and coordination allows companies to reduce redundancies, leverage shared services, or improve chargeback methods. An audit of demand management processes will identify improvement opportunities that will insulate against recessionary impacts.

Business Imperative #3: Manage Delivery. While many companies recognize the need to effectively govern their existing or emerging global services footprint, few invest appropriately to generate optimum results. As a result, “value leakage” impacts productivity, speed to market, expected savings and team morale. As budgets remain flat or shrink, one key lever organizations can pull to become more efficient is the global governance organization. Conducting a review to ensure current efforts reflect leading practices and align to the organization’s objectives can provide near-immediate positive impact.

Business Imperative #4: Expand Business. An economic downturn is an opportunity for certain firms to restructure or acquire new lines of business while valuations remain attractive. The IT and other back office organizations should be prepared to extend services and add value to acquired and restructured organizations. Speed-to-integration is always critical to creating shareholder value and, in an economic downturn, becomes increasingly crucial. While entering a potential recession, leading executives should evaluate new technologies, processes, or capabilities and look for opportunities to improve

value. A portfolio audit should be on the short list of every company that anticipates pressure from economic change.

Business Imperative #5: Renegotiate Contracts. Existing contracts often have outdated terms or conditions. Prices can be standardized, the contract length extended, or myriad other actions taken to improve pricing or protect against specific risks. Companies should conduct an evaluation of services contracts to determine contractual terms that will insulate against the conditions of an economic downturn.

Figure 1: Imperatives Globalization Maturity

	Before	After
Outsourced	<ul style="list-style-type: none"> • <u>Reduce Costs</u>: Shift labor to global destinations • <u>Manage Demand</u>: Use providers to standardize business expectations • <u>Expand Business</u>: Provide services for new business 	<ul style="list-style-type: none"> • <u>Manage Demand</u>: Expand scope of services leveraging globalization • <u>Manage Delivery</u>: Check deliverables & processes • <u>Renegotiate Contracts</u>: Improve pricing & terms
Shared Svs/Captive	<ul style="list-style-type: none"> • <u>Reduce Costs</u>: Centralize functions for efficiency • <u>Manage Demand</u>: Shared services improve results • <u>Expand Business</u>: New business needs leverage existing infrastructure 	<ul style="list-style-type: none"> • <u>Manage Demand</u>: Improve team efficiency • <u>Manage Delivery</u>: Increase globalization • <u>Expand Business</u>: Shift shared services into business unit

Return on Globalization

Generating “return on globalization” can be an elusive endeavor. Globalization initiatives are fraught with strategic, operational, execution and financial challenges ranging from organizational buy-in and change management to proper contracting, market and supplier selection, knowledge transfer and payback periods. Moreover, the benefits to be gained from globalization vary with each company. A firm that is already mature in leveraging globalization will realize different benefits from a company that has not yet initiated global strategies. Benefits from globalization are neither automatic nor immediate. Companies must continue to

prepare management and employees alike to work in a global environment. Cost savings are sometimes delayed until after the transition period or process changes are complete. While most companies will find some savings to be immediate, others can be delayed by transitional costs. The uncertainty about “time to savings” should motivate executives to proactively begin globalization assessments rather than waiting for economic pressures to force rapid, reactive decisions.

Globalization can also be riddled with operational level challenges such as identifying the scope of work, selecting the right operating model or service providers, or conducting a thorough due diligence. Under pressure to complete a contract and realize cost savings, companies under duress often bypass critical steps in the procurement process. These skipped steps can create terms, conditions, or prices with negative implications that last through the downturn and into the economic recovery.

Achieving “return on globalization” requires proactive measures, the right blend of expertise and experience, and a rigorous, tested approach to generating results. To achieve the appropriate return, as with any return, requires prudent investment of time, resources and attention to making globalization work for your organization.

Conclusion

As we enter a period of economic uncertainty in the United States, it is imperative for companies to reassess their globalization initiatives, re-balance their portfolios and ensure that these initiatives are aligned with current market realities. Organizations that neglect to do so or delay will face mounting financial and operational pressures in the next several years. Those organizations that can manage this transformation effectively, optimize their operational costs, build flexibility into their global services supply chain and fully realize their return on globalization will position themselves to weather the current storm and emerge as stronger competitors.

About neoIT

neoIT is a management consulting firm that helps leading corporations improve and grow their business by capitalizing on services globalizationSM. Through a blend of strategic advisory services and hands-on execution support, neoIT provides advice and management expertise on the globalization of Information Technology (IT) and Business Process Outsourcing (BPO) services. For more information, visit www.neoIT.com.

neoIT Global Offices

neoIT Global Headquarters

2603 Camino Ramon
Ste. 200
San Ramon, CA 94583
Telephone: 925.355.0557
Facsimile: 925.355.0558

Asia Headquarters

Phoenix Towers, 5th Floor
No 16 & 16/1, Museum Road
Bangalore 560 025, India
Telephone: +91 80 4018 2000
Facsimile: +91 80 4018 2010

neoIT Philippines

8/F Pacific Star Building
Senator Gil Puyat Ave. cor Makati Ave.
Makati City, Metro Manila, 1200, Philippines
Telephone: +63 (2) 811-5519
Facsimile: +63 (2) 811-5545

www.neoIT.com

Email: info@neoit.com

About the Authors

Eugene Kublanov
CEO, neoIT

A services globalization pioneer, Eugene has been a trusted advisor to F1000 executives across financial services, technology, healthcare and media & entertainment. He is an industry thought-leader whose opinions are often sought and quoted by CIO magazine, Computerworld, CNET and the Wall Street Journal.

Dean Davison
Vice President, Research

Dean Davison has worked in both the supply side and the demand side of the services economy. Dean spent nearly 10 years at META Group where he held several leadership roles from 1995 to 2005, rising to become a vice president and functioning as a lead analyst for outsourcing services.