Adding value through offshoring

For decades, offshoring involved little more than moving call centers to countries with lower labor costs. But today's new generation of offshoring increasingly features value-added services.

July 1, 2011

By [Joan Enric Ricart]

The U.S. sitcom *Outsourced* is based on an all-too-real premise: An American manager named Todd suddenly finds his departmental functions being outsourced to a call center in Mumbai.

“Todd, we decided to restructure Order Fulfillment.”

“Restructure how?”

“Offshore the whole department.”

(Laughs.) “Good one.”

“I’m not kidding. Check out this spreadsheet. Any American job that’s done on the phone or online is going overseas. The savings are incredible.”

“You can’t outsource Order Fulfillment. Our catalog is patriotic knick-knack. If a factory worker from Wisconsin calls the 800 number to buy this and gets a person from another country, they’ll flip out. You expect me to walk in there and tell everyone, ‘I’m sorry, your job has been outsourced'?"

"I'll do it."

"So I'm fired, too?"

"No, not at all. We need you in India. Someone has to train the new guy."

"What does this new guy get paid?"

"Half a million… rupees. That's $11,000 a year to do your job. As in, eight for the price of one."

In real life as in fiction, the arguments made by numerous companies to offshore services in the '90s usually followed this same script. Those years saw offshoring as little more than simply moving call centers to countries with lower labor costs.

But things have changed. Today's new generation of offshoring increasingly features valueadded services, such as highly complex software projects or specific R&D functions. Gone are the days of simple cost reduction, which favored the routine use of call centers and overseas software developers for minor projects.

Two of Spain's biggest banking groups, BBVA and Santander, exemplify the new and improved offshoring trend.

Less than a decade ago, BBVA was running its entire back office out of Madrid. Five years later, it had relocated these operations, first to the southern Spanish city of Malaga, before outsourcing two-thirds of its operations to lowcost destinations such as Buenos Aires, Mexico City and Lima. BBVA is currently doing the same with its remaining administrative activities in the other geographic areas where it operates.

Santander has taken a much more radical approach. Since 2000, the banking group has progressively transferred software development, computer centers and business operations to
three subsidiaries. These, in turn, were given the freedom to concentrate, outsource or transfer part of those activities as they saw fit, but always under the supervision of the banks. At the same time, Santander has developed a single, shared technology platform and common processes, among which offshoring is just one facet of an overall operating strategy.

This article is based on studies conducted by the Offshoring Research Network, which is associated with IESE's Center for Globalization and Strategy. For companies interested in moving operations overseas, our research shows that offshoring has become a critical component of a business strategy aimed at creating value.

For those who have not yet made the leap, an understanding of the current state of offshoring is essential. First, we explain the factors that have contributed to transforming this business practice. Then, we weigh up the benefits and risks, before sharing some of the tools that will help you to define a successful international offshoring strategy suited to your organization.

This article is published in IESE Insight Issue 10 (Q3 2011).

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