

GLOBALIZATION OF THE SERVICES INDUSTRY

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During the last decade, we have experienced the quiet, unheralded development of a pivotal event in the history of global economics. Much attention has been paid to globalization, and how much cheaper it is to build Nike shoes in Vietnam. However, globalization of the services industry is taking place without much hoopla.

Global trade has always been about transporting goods from cheaper locations of production. That's what the colonies were all about- suppliers of cheaper materials and products for consuming markets. Vital to this cheap sourcing was transportation across the globe.

Seafaring nations such as Great Britain, France, Spain, and The Netherlands were quick to take advantage of their competitive edge in building ship and crafts that could traverse oceans. This maritime talent combined with their military might helped these nations to establish global empires that assured consuming markets a consistent and protected supply of cheap goods and raw materials.

The colonial supply of products was soon extended to labor with despicable and inhuman attempts to draw upon these colonies for low-cost labor through slave trade and bonded labor. However, these practices gave way to more humane methods of attracting labor and talent through controlled governmental immigration policies.

GATT, NAFTA, MFN and other inter-governmental agreements have assured a steady flow of cheaper products across national borders to consuming nations. During the last decade, telecommunications and Internet-based technologies have opened the spigot for the flow of cheaper knowledge-related and other services from overseas markets.

Nowhere is this more visible than at technology and IT firms, whose products and services have very short lives. These firms have been at the leading edge of new, effective practices in harnessing global resources to enhance their competitive edge.

The Wall Street Journal (November 8, 2002) reported that a leading candidate in reducing costs is IT-related services. Forrester, a Cambridge, MA, technology-research firm, said that "a growing base of companies are shifting a range of IT, back office, customer service and sales operations offshore to cut their costs by upwards of 50%."

One of the most effective offshore locations is India. The Institute for Development Policy and Management, The University of Manchester, estimates that IT-related revenues generated by India will exceed \$7 Billion in 2002, growing to about \$50 Billion in 2008.

More attractive is the low cost of operating in India. BusinessWeek (November 18, 2002) reported that India's biggest strength is its huge supply of high-quality, low-cost English-speaking engineers. Each year, India graduates 220,000 engineers. The average wage is \$12,000, with a PhD commanding up to \$30,000 a year, about one-fifth the price in the U.S. Some companies that have shifted research work to India report savings of up to 60%.

Thanks to its software export infrastructure and low-cost smart-labor, India is a prominent location for global Remote IT-enabled (RITE) Services. RITE Services is managing outsourced business processes and services that are delivered over public or private networks to help clients improve business performance.

Many global companies have embraced RITE Services, and according to KPMG India (*IT enabled Services in India: A Focus on Competitiveness; 2002*), the global RITE Services industry

is expected to exceed \$600 Billion in 2005. India's export of RITE Services (excluding software services) to USA alone is expected to grow from about \$870 Million in 2001, to \$4 Billion by 2005.

This growth is fueled by many US and other global firms' strong intent to incorporate India's cost advantages in knowledge-related services. When Jack Welch was at the helm of General Electric, every operating and strategic plan review required operating units to include plans for RITE operations in India- to magnify the purchasing power of GE's cash.

Many US and European firms have set up remote operations in India, including global giants such as Texas Instruments, Intel, Oracle, Microsoft, Motorola, World Bank, Citibank, GE, Conseco, American Financial Group, AIG, British Airways, AXA, Aetna, Ford Motor Company, Cisco, SAP, Nestle, Philip Morris, Eastman Kodak and many others.

This migration to overseas workforce has begun at the low-end of the knowledge spectrum. However, as these service providers learn and mature, through "economies of knowledge", they move up the knowledge value-chain and create competition for hitherto specialty services.

For example, Scandent Group Ltd. (headquartered in The Netherlands, with operations in the US, Europe, India and Singapore) has developed innovative RITE processes, such as project administrative support services (PASS), successfully implemented at a major automotive firm in the US. PASS can be applied to projects in the oil and gas industry, to significantly increase productivity of project staff, with impact on costs and schedules.

Similarly, Scicom (headquartered in India) has been working in the background with major Oil Companies and Oilfield Service Companies. Scicom focuses on high-end software support and development for the oil and gas industry. Scicom's expertise in visualization, data-management, across multiple platforms and frameworks, not only find applications in seismic interpretation, data processing, drilling, geology, and production but also in medical imaging and semiconductor testing industries.

According to Dr. Vik Rao, Vice-President, Halliburton Energy Services, "Scicom has the talent, specific domain knowledge, and secure processes and infrastructure to deliver sophisticated solutions rapidly, at the lowest cost, at significant savings. Their value propositions were so compelling that we quickly went from pilot to a long-term goal driven relationship, for maximum savings and improvement in productivity,"

"Very simply, Scicom delivered quality solutions on schedule, with processes and methodologies that turned distance into a non-issue," he added.

Executives in the Oil & Gas and other industries are now in a budget season of blunted pencils and worn out erasers, as revenue and production numbers are raised and costs reduced, through iteration after endless iteration. Once again, they have to deliver more with lesser resources in an environment of hyper-competition. In their eyes, RITE Services just became more attractive.

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