

note 1-428-762
January 5, 2009

Note on The Services Shift: Managing the Global Sourcing of Services

The global economy has undergone substantial changes in the past 20 years. It is likely to change even more over the next 50 years. This is, in large part, due to globalization, which has made economic linkages among countries more extensive. In 2006, the U.S. trade-to-GDP ratio was 28.0%, compared with 11.1% in 1970 and 20.4% in 1990.¹ In 2006, U.S. companies committed \$60 billion to new manufacturing foreign direct investment (FDI): a jump of 66 percent over the previous year.²

Consequently, today's global business environment is increasingly competitive, creating staggering new challenges for businesses. It is characterized by increased *volatility* and *greater uncertainty*. These forces have compelled companies to look offshore for solutions to at least some of their problems. Why? Offshoring allows companies to lower their costs to compete, improve the quality of products and services, develop new offerings, and—over the long term—create toeholds in the economies and markets that will be important for years and decades down the road.

According to recent estimates from McKinsey & Company, the combined potential market for global offshoring of information technology (IT) and business process outsourcing (BPO) was around \$300 billion in 2005. India has been at the center of this offshoring revolution. Current (2008) estimates of Indian exports are around \$40.8 billion of services.³ However, in recent years, other countries have positioned and marketed themselves as attractive alternatives to India. China, Southeast Asia, Central and Eastern Europe, and Latin America have all emerged as viable exporters.

The euphoria over offshoring business activities arose primarily due to the opportunity for companies to reduce labor costs, as wage rates overseas were substantially lower than those in the U.S. However, today, companies are looking to offshore not only simple labor activities, such as call centers, but also “core” processes, such as R&D and engineering in the automotive industry and product design in telecommunications—all in the effort to improve company performance and create competitive advantages in the marketplace. It is crucial, therefore, that managers understand—and embrace—offshoring, for it may determine the success or failure of their companies—and of their careers.



Published by GloLens, a division of the William Davidson Institute at the University of Michigan.

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