



GLOBAL SOURCING

MAKING THE RIGHT CONNECTION

An American credit card company now processes all customer transactions in India, a European toy company manufactures its entire product line in China, and a U.S.-based utility company provides customer service through representatives stationed in the Philippines. Whether in Bangalore or Budapest, Manila or Montevideo, this is the brave new world of global sourcing.

Increasingly, employers are facing an array of choices when tapping into skilled talent around the globe. More than simply the tactical outsourcing of basic tasks to drive down costs, global sourcing is a business strategy built around the relocation of work and talent to the locations that offer the most compelling value proposition, including lower labor costs, access to critical skills, and increased productivity. Relying on a mix of company-owned, joint-venture, and outsourcing relationships to

support internal and external customers and partners, multinational companies are using global sourcing to redefine their business processes and the way they manage talent.

Today, global sourcing is primarily a U.S.-based movement, with American companies making up nearly three-quarters of the market. However, the United Kingdom, Western Europe, and, to some extent, Japan and Australia are showing increased activity in global sourcing. According to a recent Hewitt study, just under half of the FORTUNE 500 reported that they currently use a global sourcing model or that they're considering implementing one within the next three years. Gartner, Inc., a leading technology research provider, predicts that one-quarter of all information technology (IT) jobs in developed nations will move to lower-cost markets by the end of the decade.



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“Global sourcing is one of the primary forces affecting how companies compete and work gets done today,” explains Mark Arian, Corporate Restructuring and Change Practice Leader at Hewitt. “Given the number of businesses seeking to offshore work, and the countries actively courting outsourcing relationships, we’re only just beginning to see the impact the movement is having on the economies of participating countries on both sides of the sourcing equation.”

Years ago, the first industries to move to more cost-effective markets were manufacturing, IT development, and call centers. But today’s multinational companies are increasingly moving back-office, knowledge-based, and service-oriented jobs—including telecommunications, business finance, HR, decision analysis, and research and development. According to Hewitt’s

study, IT operations still represent the functional area most frequently sourced globally (67%), followed by customer relations (49%), manufacturing (42%), and supply chain functions (41%).

Accessing Top Talent Around the Globe

Under the global sourcing model, companies manage their talent supply as they do the supply chain for the rest of the business. While cost reduction is often the primary driver and one of the first means of gauging success, Hewitt's study reports, the average operating cost reduction for captive offshore operations is 12.2%—far lower than earlier estimates of up to 60%. The study indicates that companies are moving to a global

location, they need to distill their strategic intent for such a move, consider the wider implications to the business and community, and prioritize decisions and tactics. If an organization fails to consider the wider implications, it may reduce costs in the short term only to miss a potentially significant competitive advantage in the long term."

With a highly educated, English-speaking population, improving infrastructure, and workforce costs approximately 20% to 25% of those in the United States, India is the clear business process leader in Asia, with cities such as Bangalore, Chennai, Hyderabad, and Mumbai serving as major sourcing hubs. In fact, India has seen such

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sourcing model for broader reasons—to improve productivity, to focus on core competencies, to increase flexibility, and to provide a 24/7 staffing capability. Perhaps the greatest benefit companies are experiencing is the ability to tap into the best talent around the globe.

For example, in China, 350,000 engineers graduate each year, compared to the 63,000 who graduate in the United States. In India and the Philippines, the ready availability of lower-cost, English-speaking, and highly skilled talent is attractive to North American companies seeking to relocate work.

A Variety of Location Options

Companies in "pitcher" countries moving business functions today have a wide range of "catcher" locations from which to choose. According to Hewitt's study, the top locations currently used for global sourcing by financial institutions include India, China, Mexico, Canada, and Ireland, while the areas expected to experience the greatest global sourcing expansion over the next three years include Eastern Europe and Southeast Asia.

"After making the decision to move work abroad, the next most important decision for a company to make is where to locate the new operation," explains Anupam Prakash, Global Sourcing Practice Leader—Asia-Pacific for Hewitt Associates. "Today, companies have more choices than ever, but before selecting

obvious benefits of global sourcing that in a reversal of roles, some large Indian companies are beginning to farm out hundreds of millions of dollars of work to Western companies. A study by India's National Association of Software and Service Companies (NASSCOM) estimated that U.S. banks, financial institutions, and insurers have saved \$6 billion in the last four years through relocating jobs to India. In addition, the Philippines is building a solid reputation for handling call centers, medical transcriptions, and animation, while Singapore has developed a niche in back-office processing for financial services companies. China, traditionally known for manufacturing and production, is gaining steadily in the services sector, specifically in IT and software development.

While still in the early stages of offshoring work abroad, European companies are viewing Eastern Europe—including Bulgaria, Romania, and Hungary—as an attractive prospect, due to its proximity, significantly lower costs, and language and cultural similarities. IT costs in Romania are one-tenth of the costs in Western Europe, and the addition of Hungary, the Czech Republic, Poland, and Estonia to the European Union may help Eastern Europe play a significant role in the future of global sourcing.


In addition, with the large Latino population in the United States, several U.S. companies are eyeing offshoring opportunities in Latin America. Uruguay, Mexico, and Costa Rica all feature

prominently for outsourced work, thanks to their relatively low costs, populations with multilingual skills, and readily available talent.


“Mature organizations are now looking at global sourcing as a strategic move rather than a tactical one,” explains Kiran Karnik, President of NASSCOM, with whom Hewitt partners on multiple strategic initiatives. “Large U.S. and European firms are conducting meticulous assessment, planning, and due diligence around offshoring initiatives before embarking on them. Specifically, more attention is being paid to the selection of suitable locations, assessment of talent pool and skills, ensuring cultural alignment, and building robust people- and process-management practices.”

number of key factors. After a rigorous analysis of potential locations, Gillette opted to expand their South Asia HR Shared Services Center in India. Beginning with the Learning and Development function, the expanded Regional Shared Services Center provides HR services to all employees in the AMEE region.


To date, results have been impressive. By 2004, the AMEE Learning and Development team had delivered 105 programs across 25 locations in four languages, covering 1,300 employees, with an overall satisfaction rating of 4.5 out of 5. Throughout 2004, Gillette experienced process improvements and cost savings in compensation and benefits, talent acquisition, learning and



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Selecting the Right Location for The Gillette Company

Selecting the right location was one of the primary challenges facing Boston-based consumer products giant The Gillette Company when they sought to support more of their non-U.S. employees from a new offshore shared HR services organization. After successfully locating an HR shared services organization outside New Delhi, India, to support Gillette's 900 employees in India, Nepal, Bangladesh, Bhutan, and Sri Lanka, Gillette decided to build a Regional HR Shared Services Center to serve employees not only in India and South Asia, but also in Russia and the Republics, Central and Eastern Europe, the Middle East and Africa, Turkey, and the Mediterranean region. Having successfully partnered with Hewitt Associates for the initial initiative, Gillette engaged Hewitt to help identify the appropriate location.

“Given the fact that Eastern Europe, the Middle East, and South Asia are now all potential candidates for delivering cost-effective work, making our decision was not easy,” explains Arun Sehgal, Director of Africa, Middle East, Eastern Europe (AMEE) HR Shared Services for Gillette. “We had to consider several factors, in addition to costs, such as talent availability, IT infrastructure, HR bench strength, and vendor base.”

To help identify the most strategic location, Hewitt used their comprehensive location database to benchmark each potential site on a

development, and employee communication.

Due to the immediate success, in November 2004, Gillette expanded the scope of the AMEE global service center to include China and Japan.

HR and the Future of Global Sourcing

With continued technological innovation and globalization, the flow of work around the world will continue to accelerate. Amid the momentum, however, significant organizational, cultural, and talent management challenges remain. Not all companies that have moved to the global sourcing model are successful, and some have moved functions abroad quickly only to bring them back home soon after. Because of these challenges, companies are involving HR early on to help with strategy and execution.

“With IT and finance often driving the move overseas, people issues—including talent development and broader cultural differences—are sometimes overlooked in the beginning,” explains Arian. “Ironically, those people issues can delay ramping up, costing the organization time and money, and seriously threatening the success of the move. Companies that view global sourcing as part of a broader workforce management strategy—and work through the myriad of cultural differences present in everything from conference calls to performance reviews—will be better positioned to reap the long-term rewards of global talent sourcing moving forward.” **H**