

# INTERNATIONAL BUSINESS MANAGEMENT



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## Short Description

## INTERNATIONAL BUSINESS MANAGEMENT case study

## Description

### CASE IV

### BPO-BANE OR BOON ?

Several MNCs are increasingly unbundling or vertical disintegrating their activities. Put in simple language, they have begun outsourcing (also called business process outsourcing) activities formerly performed in-house and concentrating their energies on a few functions. Outsourcing involves withdrawing from certain stages/activities and relaying on outside vendors to supply the needed products, support services, or functional activities.

Take Infosys, its 250 engineers develop IT applications for BO/FA (Bank of America). Elsewhere, Infosys staffers process home loans for green point mortgage of Novato, California. At Wipro, five radiologists interpret 30 CT scans a day for Massachusetts General Hospital.

**2500 college educated men and women are buzzing at midnight at Wipro Spectramind at Delhi. They are busy processing claims for a major US insurance company and providing help-desk support for a big US Internet service provider – all at a cost upto 60 percent lower than in the US. Seven Wipro Spectramind staff with Ph.Ds in molecular biology sift through scientific research for western pharmaceutical companies.**

**Another activist in BPO is Evalueserve, headquartered in Bermuda and having main operations near Delhi. It also has a US subsidiary based in New York and a marketing office in Australia to cover the European market. As Alok Aggarwal (co-founder and chairman) says, his company supplies a range of value – added services to clients that include a dozen Fortune 500 companies and seven global consulting firms, besides market research and venture capital firms. Much of its work involves dealing with CEOs, CFOs, CTOs, CLOs and other so-called C-level executives.**

**Evalueserve provides services like patent writing, evaluation and assessment of their commercialization potential for law firms and entrepreneurs. Its market research services are aimed at top-rung financial service firms, to which it provides analysis of investment opportunities and business plans. Another major offering is multilingual services. Evalueserve trains and qualifies employees to communicate in Chinese, Spanish, German, Japanese and Italian, among other languages. That skill set has opened market opportunities in Europe and elsewhere, especially with global corporations.**

**ICICI Infotech Services in Edison, New Jersey, is another BPO services provider that is offering marketing software products and diversifying into markets outside the US. The firm has been promoted by \$2-billion ICICI Bank, a large financial institution in Mumbai that is listed on the New York Stock Exchange.**

**In its first year after setting up shop in March 1999, ICICI Infotech spent \$33 million acquiring two information technology services firms in New Jersey – Object Experts and Ivory Consulting – and Command Systems in Connecticut. These acquisitions were to help ICICI Infotech hit the ground in the US with a ready book of contracts. But it soon found US companies increasingly outsourcing their requirements to offshore locations, instead of hiring foreign employees to work onsite at their offices. The company found other native modes for growth. It has started marketing its products in banking, insurance and enterprise source planning**

among others. It has ear——- \$10 million for its next US market offensive, which would go towards R & D and back-end infrastructure support, and creating new versions of its products to comply with US market requirements. It also has a joint venture – Semantik Solutions GmbH in Berlin, Germany with the Fraunhofer Institute for Software and Systems Engineering, which is based in Berlin, Germany with the Fraunhofer Institute for Software and Systems Engineering, which is based in Berlin and Dortmund, Germany, Fraunhofer is a leading institute in applied research and development with 200 experts in software engineering and evolutionary information.

A relatively late entrant to the US market, ICICI Infotech started out with plain vanilla IT services, including operating call centers. As the market for traditional IT services started weakening around mid-2000, ICICI Infotech repositioned itself as a “Solutions” firm offering both products and services. Today, it offers bundled packages of products and services in corporate and retail banking and insurance, among other areas. The new offerings include data center and disaster recovery management and value chain management services.

ICICI Infotech’s expansion into new overseas markets has paid off. Its \$50 million revenue for its latest financial year ending March 2003 has the US operations generating some \$15 million, while the Middle East and Far East markets brought in another \$9 million. It now boasts more than 700 customers in 30 countries, including Dow Jones, Glaxo – Smithkline, Panasonic and American Insurance Group.

The outsourcing industry is indeed growing from strength. Though technical support and financial services have dominated India’s outsourcing industry, newer fields are emerging which are expected to boost the industry many times over.

Outsourcing of human resource services or HR BPO is emerging as big opportunity for Indian BPOs with global market in this segment estimated at \$40-60 billion per annum. HR BPO comes to about 33 percent of the outsourcing revenue and India has immense potential as more than 80 percent of Fortune 1000 companies discuss offshore BPO as a way to out costs and increase productivity.

Another potential area is ITES/BPO industry. According to a NASSCOM Survey,

**the global ITES/BPO industry was valued at around \$773 billion during 2002 and it is expected to grow at a compounded annual growth rate of nine percent during the period 2002-06. NASSCOM lists the major indicators of the high growth potential of ITES/BPO industry in India as the following :**

**During 2003-04, The ITES/BPO segment is estimated to have achieved a 54 percent growth in revenues as compared to the previous year. ITES exports accounted for \$3.6 billion in revenues, up from \$2.5 billion in 2002-03. The ITES-BPO segment also proved to be a major opportunity for job seekers, creating employment for around 74,400 additional personnel in India during 2003-04. The number of Indians working for this sector jumped to 245,500 by March 2004. By the year 2008, the segment is expected to employ over 1.1 million Indians, according to studies conducted by NASSCOM and McKinsey & Co. Market research shows that in terms of job creation, the ITES-BPO industry is growing at over 50 percent.**

**Legal outsourcing sector is another area India can look for Legal transcription involves conversion of interviews with clients or witnesses by lawyers into documents which can be presented in courts. It is no different from any other transcription work carried out in India. The bottom-line here is again cheap service. There is a strong reason why India can prove to be a big legal outsourcing industry.**

**India, like the US, is a common-law jurisdiction rooted in the British legal tradition. Indian legal training is conducted solely in English. Appellate and Supreme Court proceedings in India take place exclusively in English. Indian legal opinions are written exclusively in English. Due to the time-zone differences, night time in the US is daytime in India which means that clients get 24 hour attention, and some projects can be completed overnight. Small and mid-sized business offices can solve staff problems as the outsourced lawyers from India take on the time consuming labour intensive legal research and writing projects. Large law firms also can solve problems of overstaffing by using the on-call lawyers.**

**Research firms such as Forrester Research, predict that by 2015, more than 489,000 US lawyer jobs, nearly eight percent of the field, will shift abroad.**

**Many more new avenues are opening up for BPO services providers. Patent writing and evaluation services are markets set to boom. Some 200,000 patent applications**

are written in the western world annually, making for a market size of between \$5 billion and \$7 billion. Outsourcing patent writing service could significantly lower the cost of each patent application, now anywhere between \$12,000 and \$15,000 apiece – which help expand the market.

Offshoring of equity research is another major growth area. Translation services are also becoming a big Indian plus. India produces some 3,000 graduates in German each year, which is more than in Switzerland.

Though going is good, the Indian BPO services providers cannot afford to be complacent, Phillippines, Mexico and Hungary are emerging as potential offshore locations. Likely competitor is Russia, although the absence of English speaking people there holds the country back. But the dark horse could be South Africa and even China.

BPO is based on sound economic reasons. Outsourcing helps gain cost advantage. If an activity can be performed better or more cheaply by an outside supplier, why not outsource it ? Many PC makers, for example, have shifted from in-house assembly to utilizing contract assemblers to make their PCs. CISCO outsources all productions and assembly of its routers and switching equipment to contract manufacturers that operate 37 factories, all linked via the Internet.

Secondly, the activity (outsourced) is not crucial to the firm's ability to gain sustainable competitive advantage and won't hollow out its core competence, capabilities, or technical knowhow. Outsourcing of maintenance services, data processing, accounting, and other administrative support activities to companies specializing in these services has become common place. Thirdly, outsourcing reduces the company's risk exposure to changing technology and / or changing buyer preferences.

Fourthly, BPO streamlines company operations in ways that improve organizational flexibility, cut cycle time, speedup decision making and reduce coordination costs. Finally, outsourcing allows a company to concentrate on its core business and do what it does best. Are Indian companies listening? If they listen, BPO is a boon them and not a bane.

## *Questions*

- 1. Which of the theories of International trade can help Indian services providers gain competitive edge over their competitors?**
- 2. Pick up some Indian services providers. With the help of Michael Porter's diamond, analyze their strengths and weaknesses as active players in BPO.**
- 3. Compare this case with the case given at the beginning of this chapter. What similarities and dissimilarities do you notice? Your analysis should be based on the theories explained in this chapter.**

## **Details**

- 1. Case study solved answers**
- 2. pdf/word**
- 3. Fully Solved with answers**