

View through Mosaic Glasses:

Summary, Opinion, and Thought Provoking Questions on Leading Marketing and Business Issues - April 24, 2003

The Cusp of a Revolution: How offshoring will transform the financial services industry, Research Report from Deloitte Consulting, April 2003

Authored by: Chris Gentle, Director of Research Deloitte Consulting

Summary:

Two factors are driving the movement of functions offshore: the sheer pressure to reduce costs to remain competitive and business-continuity issues following the September 11th attacks. The reality for many companies is that while they relocate offshore for cost, they stay for quality. Moving to a lower-cost location doesn't necessarily trigger a fall in the quality of the inputs or in customer service. Indeed, many companies discover that not only is cost reduced for many business processes, but efficiency and effectiveness often improves significantly.

The following demonstrates the size and scope of offshoring in the financial-service sector alone.

- \$356 billion of cost will be relocated offshore within the next 5 years
- Bottom-line cost savings could exceed \$138 billion for the world's top 100 financial-services companies by 2008
- Global headcount migration to offshore locations could exceed 2 million.

The value proposition for offshoring becomes even more compelling in the future for companies to remain competitive. The benefits include: enhanced ability to capture and accelerate cost savings; upgrade delivery quality; improve operational efficiency and effectiveness; build organizational resilience; and enhance reaction to competitive pressures.

The study prescribes the following to catch the wave of offshoring because the benefits are so potentially transformational:

- **Decide which functions to offshore.** The prediction is, within 2 years, a significant increase in all types of offshore business processing will occur – IT, Operations (finance and accounting, processing and administration and operations), and Contact Operations (call centers and contact support).
- **Choose a location wisely – India and beyond.** India has dominated the early market for offshore processing, notably in the IT and software-development areas. The study suggests that India is likely to continue as the key offshore destination, although other countries also are in the running.
- **Select the right business model to participate offshore.** One size does not fit all – build the correct blend of in-house, partnerships, and outsourced activities to put your offshore business strategy on a solid foundation.
- **Develop an offshore strategy and involve the CEO.** Your offshore strategy must emanate from the CEO. Former GE CEO Jack Welch had a simple and powerful message around this issue – 70:70:70. The formula suggests that 70% of processes were outsourced, 70% of outsourced business process went offshore, and 70% of offshore facilities were to be located in India.

Mosaic View: Opinion by Martin McLaughlin, Managing Partner of Mosaic Partners LLC

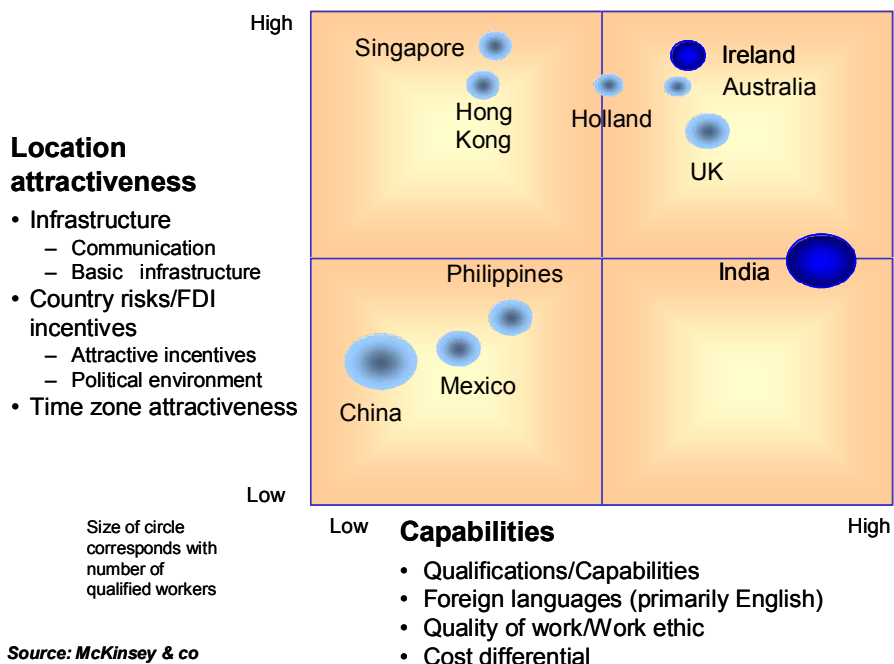
What happens on Wall Street today directly impacts actions on Main Street tomorrow. The pressure on financial-service institutions to perform, in a depressed equity marketplace with mature product offerings, accelerates their adoption of emerging business models. Offshoring provides great promise for transforming the way all companies conduct business – by drastically reducing their cost structure while improving the overall efficiency and effectiveness of non-core business processes. Once proven, these same business models become adapted and adopted across most industry sectors.

As the study describes, the benefits associated with the offshore wave are becoming increasingly more visible – driven by cost savings and quality. Our opinion is that a strong - yet invisible undercurrent exists with the power to sustain the waves of offshoring for decades into the future. Combining the forces of a knowledge economy with globalization has set the stage for a cross border war for talent.

- Today, 20% of the U.S. population is above the age 60 - in 25 years this will increase to a 25%. Within 15 years, U.S. professional workforce shortage will peak to 15 million.
- Within 15 years Europe will see a shortfall of a million professionals in IT alone.
- Germany is already facing a shortfall of about 200,000 engineers.

The preceding data highlights a huge challenge for companies unwilling to embrace and plan for the inevitable. Overcoming the pending talent shortage should be at the top of every CEO's agenda. Leveraging the offshore business model should be near the top of every CMO's agenda.

In a study conducted by McKinsey & Co. it appears that India is well positioned against other competing offshore business models – using location attractiveness and capabilities as measurement criteria.



The Mosaic View is country independent, but you should be dependent on understanding your value creation engine ([create value, deliver value and communicate value](#)) prior to making any decisions regarding offshore business processing.

Questions to Put the Pieces Together:

Create Value

- What do your customers value most as it relates to your total solution?
- What is core to your organization?
- What makes your solution relevant to customers and different from the competition?
- How do your people create value for customers?

Deliver Value

- What control mechanisms do you have in place today to ensure that business processes are predictable and repeatable?
- What processes are value-added customer facing and which are non-valued back-office?
- Are your business processes world-class in terms of quality, cost and time?

Communicate Value

- How will you overcome the short-term PR backlash from sending American jobs offshore?
- How does the offshore business model fit with your corporate brand and your people brand?
- Is your culture conducive to experimentation and learning through the process?

For more information regarding this topic, please e-mail Martin McLaughlin at mmclaughlin@mosaicpartners.com, or visit www.mosaicpartners.com or call 610.999.9788.

About Mosaic Partners LLC

Who We Are

We are a niche professional services partnership that enables marketing organizations to **create** value-added solutions for their customers.

What We Do

Our vast experiences and network enables us to **deliver** superior value to our sales and marketing relationships through:

- Consulting Solutions
- Training Solutions

How We Are Different

While others talk about the products they offer - we continually **communicate** about the experience we create and the results we deliver!