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**EXECUTIVE FORUM ON  
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**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?  
IMPLICATIONS FOR STRATEGY- MAKERS**

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**Information and Communication Technology Services  
A Growing Opportunity**

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## **INFORMATION AND COMMUNICATION TECHNOLOGY SERVICES, A GROWING OPPORTUNITY**

### **Introduction**

After the hype created in the 90's about Information and Communication Technologies (ICT) as the panacea for underdeveloped countries to get on board the progress wagon, many things have changed. To begin with, most of these countries have found that reducing the digital gap has proved to be harder than anticipated. Everyone agreed that ICT posed plenty of opportunities, but getting hold of them was a different story.

The opportunities brought by the Y2K syndrome and the dot-com boom contributed to create an excessive enthusiasm about ICT. Many economic policy makers perceived ICT as a big opportunity to have a significant impact on productivity, exports, education and the general wellbeing of citizens.

Several countries launched impressive projects to support the development of the ICT industry in their respective economies. Very attractive incentives to investment on ICT were made available in different countries, especially in Asia and Latin America.

In year 2000 the burst of the dot-com bubble sent ripples across the industry, the NASDAQ lost 61% of its value and many internet companies went bankrupt. In the minds of many people, especially in USA, technology lost its glamour as a destination for them and their children. With the effects of the dot com burst still present on the ICT industry, the downturn in the world economy hit again and as if all this was not enough, the terrorist strike of September 2001 gave the final blow.

All these events contributed to the shape of the industry as we know it. In a natural selection process, only the strongest survived. The lessons learned by investors and entrepreneurs gave place to new solid enterprises, highly competitive, ready to explore new opportunities with good chance for long-term survival.

The market was also marked by the events in the recent past of the industry. Companies became more cautious with regard to investing in technology and many countries changed their perceptions about ICT. Some countries even reconsidered the place of ICT in their priority list.

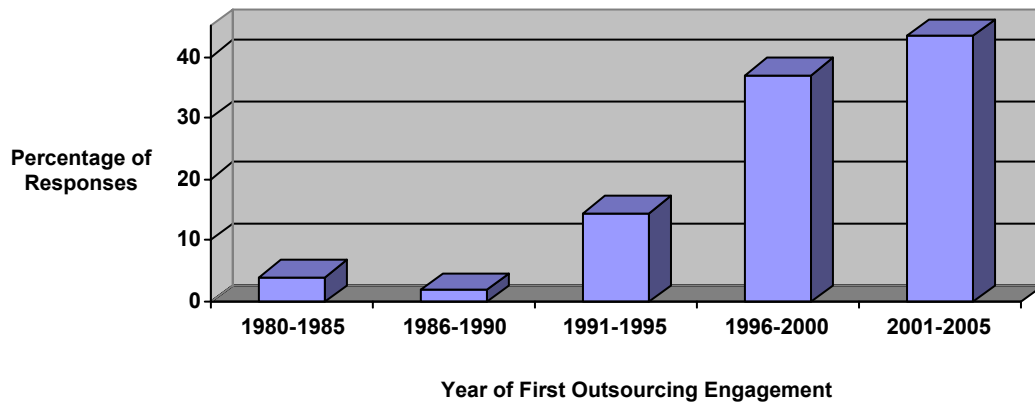
At present, ICT markets are more complex and selective, the initial wave of companies using technology, mostly large firms have already been able to make ITC work for them, whereas recent adopters are still adapting. Outsourcing has been considered the magical formula to allow organizations to concentrate in the core business, but after some time with mixed results, outsourcing is not part of the business strategy of the majority of the larger firms in the world.

According to Forrester Research, only 3-5 % of Fortune 1000 companies are in the full exploitation phase of outsourcing. Another 10-12 % are classified as "committed", with a clear strategy and organization ready for global sourcing. Then there is about 25 % of "experimenters", which are those with some outsourcing experiences of varying success, but without an integrated plan. The remaining 60% are classified as "bystanders".

### **Outsourcing**

Outsourcing has been a business strategy for centuries; core process focus, cost, economic downturns, scalability and fast changing markets have been some of the most important reasons. Today, the presence of ICT in almost every activity of the organizations and its ever-increasing complexity, have made outsourcing an increasingly used tool for competitiveness (See Graph 1).

**Graph 1. Outsourcing History**



Source: Diamondcluster 2005 Global IT Outsourcing Study

In recent years, sourcing relationships, especially offshore outsourcing or offshoring, have been plagued by thousands of problems, but the evidence suggests that the marketplace is maturing and both clients and vendors are becoming more aware of the fundamentals needed to develop a long term relationship (See Chart 1).

**Chart 1. Buyers' Satisfaction Level with Outsourcing**

	<i>Buyers</i>		<i>Providers</i>	
	<b>Onshore</b>	<b>Offshore</b>	<b>Onshore</b>	<b>Offshore</b>
<b>Satisfied</b>	81%	62%	84%	86%
<b>Neutral</b>	11%	30%	16%	7%
<b>Dissatisfied</b>	8%	8%	0%	7%

Source: Diamondcluster 2005 Global IT Outsourcing Study

As the sourcing relationship gradually matures, more complex processes are being outsourced, from software application developments over business processes to IT enabled services. The companies in the full exploitation phase are continuously ramping up their outsourcing and thus improve their competitiveness, making gap separating them from the “bystanders” wider and wider. From this, is evident that companies can remain bystanders only for so long, before falling in line or else going out of business.

The effects of outsourcing, i.e. the migration of tech jobs overseas, in the economies of USA and Europe have created a wave of protectionism. But most of this alarmism is based in gross, not net losses of jobs, overall most jobs will remain unaffected. Close to 90 % of jobs in USA require geographical proximity and for that outsourcing is not an option. The more complex processes of production such as marketing, research and development are much more difficult to be outsourced. It is not a coincidence that these are exactly those activities that generate high wages and large profits to the American economy.

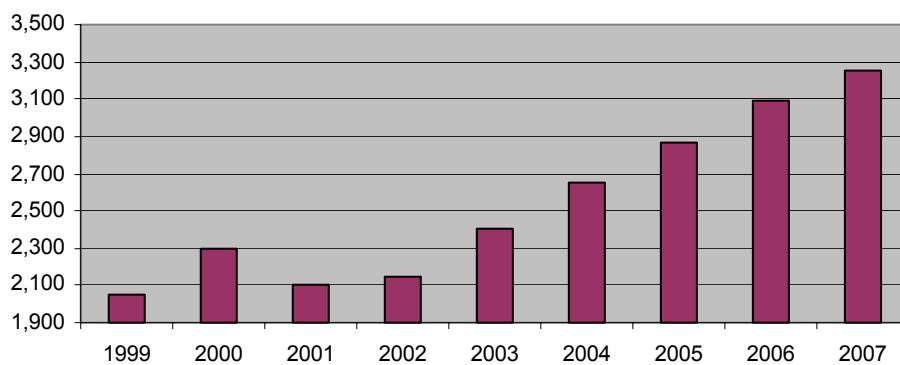
Regarding jobs sent offshore, even in the worst-case scenario, the impact on American jobs is likely to be negligible. If we consider Forrester’s prediction of 3.3 million lost jobs spread across 15 years, or 220,000 jobs per year it may sound quite impressive. But considering total employment in the USA at around 130 million, and the creation of 22 million jobs between now and 2010, outsourcing would affect only 0.2 % of employed Americans.

On the other hand, outsourcing is counterbalanced by job creation in the high-end service sectors. McKinsey Global Institute has estimated that for every dollar spent on outsourcing to India, the USA receive between \$1.12 and \$1.14 in benefits. As an example, Delta Airlines outsourced 1,000 call center jobs to India in 2003, but the \$25 million in savings allowed the company to add 1,200 reservation and sales positions in the United States.

### **Forecasts**

After the slump in 2001 – 2002, ICT spending has started a solid growth phase, and according to World Information Technology and Services Alliance (WITSA), it will continue growing in the following years (See Graph2).

**Graph 2. Global ICT Spending  
(\$US Billions)**



Source: Digital Planet 2004

ICT software and services account for around one third of total spending or \$870 billion in 2004. The expected growth of the different market segments is listed in Chart 2.

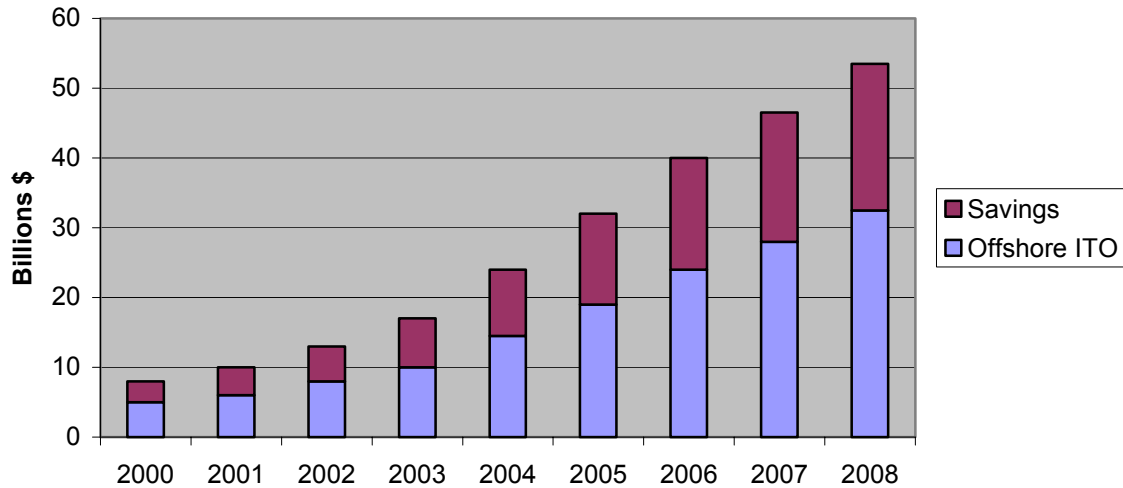
**Chart 2. ICT Spending by Market Segment  
(\$US Billions, Percentage Growth)**

Market Segment	2003	% Growth 99-03	% Growth 03-07
Consumer	574.6	7.0	8.4
Finance, Business	404.6	3.1	7.8
Government	398.1	5.9	8.4
Manufacturing	318.8	1.2	7.1
Trade	255.6	0.9	5.7
Transport, Comm.	196.5	5.6	8.3
Services	160.5	4.8	11.7
Utilities	40.5	4.3	7.5
Construction	27.9	-1.0	6.9
Agriculture	8.7	-6.3	4.0
Mining	7.0	-2.9	5.8

Source: WITSA, Digital Planet 2005

Regarding offshore of IT software and services, the United States dominates the market with around 70% of total spending. According to Global Insight, the likely spending amount will be \$31 billion by 2008 (See Graph 3).

**Graph 3. Estimated Offshore ITO Spending and Potential Savings**



Source: Global Insight

The total estimated spending in offshore of IT software and services in 2008 will be close to \$45 billion.

### **Conclusions**

Offshore IT software and services outsourcing will continue growing at a fast pace in the following years. As the marketplace gets more mature and the companies in the full exploitation phase ramp up their offshoring, the benefits in productivity and competitiveness will be more noticeable. For companies without solid outsourcing programs, competition faced in global markets will be very difficult to survive.

There will be plenty of opportunities in the ICT service marketplace in the following years, but grabbing those opportunities will be a very tough task. Some countries are making good use of a head start and will continue to do so. Some are already implementing good ICT industry development programs and/or taking advantage of factors like geographical location. But most of the countries committed with the development of their ICT industry require the participation of both public and private sectors along with the support of international organizations with the knowledge, experience and reach to devise the best practices.