

Peter Schumacher, Value Leadership Group Inc.

## "Offshoring strategy should create differentiation and greater business value"

From the USA, **Peter Schumacher** is the president & CEO of the Value Leadership Group, an international management consultancy focused on strategic offshoring. His work addresses difficult strategic and operational issues in the areas of growth, corporate strategy, organizational transformation, alliances, and business model innovation. Peter holds an MBA in finance and strategy from the Leonard N. Stern School of Business at New York University.

**Offshore Update: What is offshoring strategy?**

**Peter Schumacher:** "The essence of strategy is about being different. I mean, consciously doing something 'differently' from competitors to achieve sustainable advantages and superior performance. So offshoring strategy, like business strategy, should create differentiation and greater business value."

**O.U.: Are you saying that cost cutting isn't offshoring strategy?**

**P. Schumacher:** "The enormous opportunity for savings, while important in itself, can lead companies and managers to focus only on labour savings and arbitrage opportunities. While cost advantages are easily achieved in offshoring, they offer little or no long-term competitive advantage. If you can cut costs offshore, your competitors can too and sooner or later they will."

**O.U.: What are some of the advantages companies gain with an offshoring business strategy?**

**P. Schumacher:** "Best practice companies - regardless of size - are those that leverage offshoring to do things they would not be able to do otherwise. Offshoring allows you to reconfigure your value chain and acquire new capabilities and competitive strengths. You can entrepreneurially rethink your business by leveraging other firms' resources, increasing the range of your strategic options, and implementing organizational innovations. The value derived from synergies between these activities, in sum, helps build real competitive advantage. This is very different from most offshoring relationships today that are largely simple supplier-buyer relationships."

**O.U.: Can you share with us an example of a company that is doing this?**

**P. Schumacher:** "Let me highlight the offshoring strategy of an innovative consumer business from the Nordics. This company built a compelling value proposition around an offshore-enabled business model that is fundamentally different from its traditional competitors. Their brand and value proposition stand for 'affordable luxury' - not the lowest price, as

many people might have assumed. By thinking about offshoring strategically, this company found a way to capture an entirely new customer segment. Offshoring enabled them to reframe their opportunity space and successfully take their business beyond the traditional boundaries of their industry."

**O.U.: What are some of the strategic offshoring opportunities CIOs should be thinking about?**

**P. Schumacher:** "In many companies the role of the CIO is changing from that of a technologist to a new role that requires a much stronger customer-orientation and business strategy capabilities. Just think of sectors like publishing where the physical paper is being replaced by a digital one. Within just a few years these 'old industries' have become state-of-the-art digital technology companies. Publishing is not the only industry where these transformations are occurring. In many other industries, the role of the CIO is becoming much more of a co-creator who develops integrated solutions with business, suppliers, and the customer. So companies are looking to their IT department to contribute more business value. Offshoring can help CIOs achieve this goal. How? Let me give you three examples. One, offshoring can help open up strategic opportunities for innovation and value creation because solutions previously unaffordable become economically feasible with offshoring. So the lower cost of offshoring enables more projects to exceed the hurdle rate. Two, the significantly larger talent pool in India, across many technology and increasingly important analytical disciplines, allows companies to bring innovative services to market faster at lower cost. Lastly, offshoring allows companies to leverage global talent pools to provide seamlessly integrated offerings of consistently high quality to internal and external customers around the world. When seen as an integrated value system these individual advantages carry a big punch that becomes difficult to imitate. Coming back to the intent of strategy - what sets best practice companies apart are not the specific activities performed offshore, but the degree to which these activi-



• **Peter Schumacher**, president and CEO of the Value Leadership Group

ties are embedded in the DNA of the business. It is this tightly integrated web of high value activities that can create effective differentiation and greater business value."

**O.U.: Why should companies focus on these questions now?**

**P. Schumacher:** "I think the most important insight is that a new global economic paradigm is taking shape, triggering a broad and fundamental shift in the underlying competitive dynamics of business, even those that are local. Simple cost cutting, and other tactical responses, will not solve the puzzle. As the rules of the game change, an offshoring business strategy should be part of any blueprint for action."

**O.U.: How should companies approach this challenge?**

**P. Schumacher:** "Articulating the intent for a strategic offshoring approach really starts at the top of the organization. The executive mindset needs to be open to entrepreneurial globalization to seek, recognize and exploit new strategic options for offshore-enabled growth and innovation. Clearly, offshoring represents an opportunity for discontinuous change that can create significant new value. Our view is that, companies that are not thinking about this strategically are likely to miss this opportunity."