

Thursday, October, 18th 2012 – Hotspots

1) Poland feels the outsourcing heat as Romania, Ukraine step up the competition

2) The innovation race : How not to be left behind .

3) What is behind Apple outsourcing strategy ?

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Thursday, October, 18th 2012 – Hotspot n°1

Poland feels the outsourcing heat as
Romania, Ukraine step up the competition.



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Outsourcing in Eastern Central Europe

- The outsourcing market in Eastern Central Europe keeps growing, thanks to the rise of new markets for BPO (business process outsourcing).
- Countries in the region with lower wages are stepping in to pick up the slack.
- Poland remains the biggest outsourcing destination in Eastern Central Europe; however, it's facing new competition.
- Regarding Romania, thanks to its lower wages, Romania's outsourcing industry is growing quickly.
- Between 2008 and 2012, 11,438 jobs were created in Romania as a result of outsourcing 40 projects

Emerging destinations

- Growth in Romania's outsourcing market has had a chain reaction on the industry's location: companies are no longer located exclusively to the capital Bucharest.
- For companies with cost arbitrage on their minds, Poland is facing competition from not just Romania, but Ukraine too — the value of its IT outsourcing market hit \$1bn in 2011.
- Strong presence of local centers providing services to Polish corporates. Annual employment in this sector is growing at a steady rate of about 20 %.
- Share of Polish employment in relation to the entire CEE region is increasing, reaching 38 % at the end of 2011.

Other countries in Central Europe, including the Czech Republic, Slovakia and Hungary, remain stable in terms of outsourcing developments.

Thursday, October, 18th 2012 – Hotspot n°2

The innovation race : How not to be left behind



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Introduction

- Analysis of **Innovation Economics: The Race for Global Advantage** by Robert Atkinson and Stephen Ezell.

"Innovation is the introduction of new goods, new methods of production, the opening of new markets, the conquest of new sources of supply and the carrying out of a new organization of any industry"

J. Schumpeter

Competitive advantage to companies and countries
=> global business matter

US = 1st innovative economy: culture of Innovation for centuries

But US innovation advantage is fading => Why?

➔ Outsourcing : “ practice used by different companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally “. INVESTOPEDIA

Summary

- US experience an Innovation appetite decline:
 - 2.8% of US GDP in R&D (vs 4.3% Israel)
 - US patents quantity decrease

Main reasons: 2 American policy failures

- “Innovation Mercantilism” (Robert Atkinson and Stephen Ezell)
- Lack of awareness from the US

However America's system for decentralized innovation is still powerful

Still, the Americans need to react:

- US leadership's declining in several areas
- Innovation is generated by fragile ecosystems
- Need to implement a wise policy to benefit from the rise of the competitors

Outsourcing: aspect of us decline innovation?

- US R&D jobs outsourced in emerging markets
- Only three of the top ten companies receiving US patents in 2009 were based in the United States
- Apple's example : "Outsourcing in China is due to a lack of American engineers" Steve Jobs

Thursday, October, 18th 2012 – Hotspot n°3

What is behind Apple's outsourcing strategy ?



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Bad Apple? What's behind

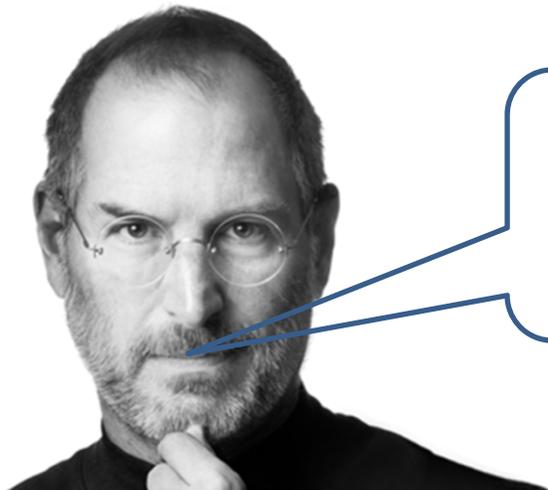


Sales : 70 millions iPhone
30 million iPads
60 million others



108 249 millions \$
Earning before taxes: 34 205 millions \$

Employees : 40 000 in the US
20 000 overseas
230 000 subcontracts



Mr Obama, those jobs
aren't coming back.

Designed in California ! But Made in China....

	Cost	Gross margin
Made in China	178.45\$	72 %
'Proudly' made in the USA	270.85\$	57 %

Labor cost for an 'Made in China' iPhone : 7.10\$

iPhone Adds \$1.9 Billion to US Trade Deficit

Could Apple do it?

In millions \$	China	US
Revenue	108 249	108 249
COGS	64 431	70 731
Selling expense	9 613	9 613
Tax	8 283	8261
Net Income	25 922	19 644
Net Margin	23.94 %	18.15 %
EPS	27.68	20.98

Using P/E ratio, the estimated Apple share price if iPhone manufacturing were in the USA will be 488\$.

This was the stock price only 8 months ago!

It is the profit maximization behavior of Apple rather than competition that pushes Apple to have all iPhones assembled in the PRC.

Asian Development Bank

In the case of Apple, outsourcing manufacturing is not about keeping costs to customers down – they are still paying huge prices for the latest handset or tablet computer. Nor is it about the company's survival: it would still do tremendously well were it to bring those factories back home. No, in the case of Apple, moving jobs offshore has become a way of directing ever more money to those at the top of American society. **Outsourcing is not about competition, it's about maximizing dividends.**

Aditya Chakraborty, The Guardian

Apple amazing numbers : 100 billion \$ in cash, 400 000 \$ profit per employee (more than Goldman Sachs), Tim Cook's stock option last year 376.3 million \$.

Apple reasons for outsourcing : more flexibility, can ship worldwide, more qualified workers, proximity with other high-tech firms and primary components.

Just think of the way Henry Ford raised wages so Ford workers could buy his cars.

Source : Apple: why doesn't it employ more US workers?, The Guardian