



Nordstrom, Inc: Knowledge Management Outsourcing Advantages



Edgardo Donovan
Touro University International
ITM 503
Dr. Tom Swanson
Module 5 – Case Analysis
Monday, June 26, 2006



Nordstrom, Inc: Knowledge Management Outsourcing Advantages

"Upscale retailer Nordstrom Inc. is moving its design and manufacturing operations into cyberspace with the help of outsourced industrial-strength applications."

(Girishankar)

Nordstrom, Inc., decided to outsource the full-life-cycle development to offshore IT developer Infosys for a variety of reasons that included the need to quickly build an extranet presence on the online channel to defend market share from more technologically savvy competitors, the desire to save money, and to avoid taking ownership of an internal a technical team over the long term. Nordstrom is one of the many companies that in recent years have wanted to expand their products and services to the online channel without directly getting into the online infrastructure development business.

Nordstrom has decided to build a company extranet streamlining the entire workflow and supply chain within a single online entity. The extranet would be able to coordinate design and manufacturing while automating just-in-time supply and procurement decisions as much as possible. Three databases will hold information on all Nordstrom garment styles worldwide. The database will contain data on raw materials and manufacturing. Development approval tracking will track approvals of garment supplies and materials. Browser-based presentation will read the web databases based on selection criteria entered by the user. Reports created using garment details will be presented to buyers. The customer information application will let buyers create worksheets using retail data and purchase order information while the tracking application will monitor the entire production process.

"Offshore sourcing for IT software applications and maintenance has become very popular over the last ten years. It started during the dot com boom years which overlapped with the Y2K situation. These two conditions created extra demand for IT people which exceeded the available work force in this country. Afterwards the dot com bust which accompanied an economic slow down drastically reduced the budgets for IT. Companies looking for ways to develop new software applications and to maintain existing applications within their budget realized the opportunity to send work overseas. The reason this looks very promising for an organization is the availability of talented IT workers at much lower cost and the maturity of the telecommunication networks and their applications on a world wide basis. This is also aided by the improved methodology in world wide sourcing and global project management, service level agreements, and confidentiality contracts." (Kakumanu)

•
•
•
•
•
•
•

During the dotcom years of the 1990's companies, many of which were lavishly funded by ambitious venture capital firms, spared no expense towards hiring the most cutting edge information technology development professionals available in the market. As a result, hundreds of thousands of people entered the IT development industry in the United States and Europe. However, once the boom subsided and the speculation cycle was over companies needed to drastically cut back on their IT expenses.

This led many to search for cheaper solutions abroad now made easier to implement by the ubiquitous nature of the Internet and the common development platform known as the web browser. It is easier today thanks to the Internet for IT professionals to work from great distances thus not needing to be on sight or to have as many meetings with upper management. By not being constrained within a LAN environment being able to navigate freely with the proper security credentials between extranets, web sites, Virtual Private Networks, and Intranets tasks such as data entry, code debugging, quality assurance, and even application development can be accomplished via great distances thanks to email, video conferencing, and the web browser from places as far away as Bangalore, India..

"Some companies, such as GM, use off shoring primarily as a tactical tool to help cut costs," said the report. "Others, such as Toyota, see the off shoring of product development in more strategic terms to help open up new markets and boost overall productivity and quality. But challenges remain, particularly cultivating qualified engineers. India has nearly 1,400 engineering schools but just a handful provide world-class training. Only a fraction of graduates are qualified to work in specialized fields." (Yee)

Indian firms have been involved in outsourcing projects for European and North American companies since the early eighties offering an interesting mix of risks and rewards. Given the state of the economy in India where life is much cheaper, it is has always been anywhere from two to eight times more cost effective to develop IT related projects over there. Potential talent is in no short supply there given that along with China it is the country that graduates the greatest number of engineers in the world

"Additionally, language and cultural barriers may become a problem (Brewin). Differences between the outsourcing company and the company contracted can cause friction and inefficiencies. These barriers can prevent the necessary trust to be formed between the two companies, thwarting any significant collaborative efforts. Both companies need to respect each other's corporate and national cultures and find mutually beneficial ways to overcome these obstacles." (Kakumanu)

There are risks associated with outsourcing a project of this magnitude to a firm operating out of India. Despite the many engineers India graduates every year few have the competent real world experience to necessary to effectively work on such projects. Even though this problem has been getting better as India attracts more outsourcing projects over the years, there are still significant challenges regarding cultural and language barriers which can create friction and inefficiencies. Furthermore, by giving up control to a non-exclusive third party a firm may find a short/long-term solution to a particular business challenge but loses an opportunity to achieve a greater competitive advantage over its rivals by creating a dedicated in-house solution which is more efficient than what the available outsourcing providers may offer.



Nordstrom, Inc., decided to outsource the full-life-cycle development to offshore IT developer Infosys for a variety of reasons that included the need to quickly build an extranet presence on the online channel to defend market share from more technologically savvy competitors, the desire to save money, and to avoid taking ownership of an internal technical team over the long term. Nordstrom is one of the many companies that in recent years have wanted to expand their products and services to the online channel without directly getting into the online infrastructure development business.

BIBLIOGRAPHY

I. Works Cited

Kakumanu, Prasad. Outsourcing: Its Benefits, Drawbacks and Other Related Issues. Journal of American Academy of Business, 2006.

Yee, Amy. Engineering 'Next Frontier' of Outsourcing. Financial Times, 2006.

Girishankar, Saroja. Nordstrom Outsources To Develop Speed. Internetweek.com, 1999.

II. Works Consulted

Kakumanu, Prasad. Outsourcing: Its Benefits, Drawbacks and Other Related Issues. Journal of American Academy of Business, 2006.

Yee, Amy. Engineering 'Next Frontier' of Outsourcing. Financial Times, 2006.

Girishankar, Saroja. Nordstrom Outsources To Develop Speed. Internetweek.com, 1999.

Stewart, Thomas. Knowledge is Today's Capital: Strategy & Leadership., 2003.

Malhotra, Yogesh. Knowledge Management for the New World of Business. Brint.com 1998.

Barclay, Rebecca. What is Knowledge Management. MediaAccess.com.1997.

KM-Forum.org. What is Knowledge Management. 2002.

Santusos, Megan, Srmacz, Jon. The ABCs of Knowledge Management. CIO Magazine 2001.

Wilson, T.D. The Nonsense of Knowledge Management. Information Research, 8(1), paper no. 144, 2002.

Choo, Chen Wei. The Knowing Organization. 1999.

Shein, Esther The Knowledge Crunch. CIO Magazine, 2001.