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Offshoring is Inevitable

The inevitable truth is that Offshoring is a natural extension of a shrinking world economy and of fundamental business economics. Business is about maximizing shareholder value. If the board of directors is given a choice of two sets of resources to choose from; one that is less expensive then the other and both at the same level of quality and services. What do you think they will choose? All other things being equal, they will choose the resource of lesser cost. The key element here is *all other things being equal* which is not always the case.

To be fair, technically, we're talking about two decisions here. The first is whether the company will outsource. The second is whether the company will offshore. Outsourcing has occurred in mankind since man existed. It is natural for the craftsman to become an expert in a key area and for the general populace to rely on their expertise. Bakers, cabinetmakers, hunters, dairy producers, cheese makers, wine makers, teachers, doctors, lawyers, etc., to name just a few. Similarly, in business it also becomes as natural to outsource the various components of product and service delivery.

Offshoring is outsourcing to foreign lands. Although Offshoring is a subset of outsourcing, in this book we use the words interchangeably. Many corporations are integrating Offshoring into their outsourcing strategies. The Meta Group[1] predicts that:

- By 2006, Most IT Organizations Will Have an Offshore Strategy and that the Offshore Outsourcing Market will Exceed $10 Billion
- By 2009, the Average Enterprise will Offshore 60% of Application Work

From a fundamental business perspective, there is no difference. If there are better-trained or less expensive resources around the corner it makes sense for a business to use them. In today's world economy, around the corner not only means around the corner, or in another city, county, or state, but also around the world.

In the next four pages, we share a summarized set of comments from our contributors broken down by: key observations, comments on how the United States will be better than worse, positive ROI achieved, and key management thoughts.

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[1] Meta Group Press Release in October 2004

Key Observations

The mantra is "*focus on what you do best and partner to do the rest*."

No longer is "globalization" just a reference in Webster's New World dictionary, but an energy depicting a paradigm of many changing aspects of world economies.

Silicon Valley will remain a terrific place to bootstrap a 1.0 product and drive core product innovation, but the future of startups in Silicon Valley will require all of them to have an offshore strategy.

Outsourcing is a cost effective way to add capacity and diversity to your company on an as needed basis. Successful outsourcing activities enable both companies to grow and improve.

The ability to reduce or eliminate external funding is a tremendous advantage to business owners.

The biggest problem with outsourcing is that more countries didn't discover it, particularly Iraq and North Korea.

American businesses have been using outsourcing to lower cost and improve their global competitiveness for decades. But recently, offshore outsourcing has been blamed for the jobless recovery. Numerous studies on outsourcing shows that the market is continuing to grow.

Not all outsourcing goes to lower-cost nations. Sometimes, high-cost nations like Japan offer the best price/performance.

A good outsource relationship can be like a marriage, particularly when your offshore contractor is working on mission-critical software

Better Than Worse

Ultimately, Outsourcing will create more opportunities for U.S. employees than less. However, the skills that will be valued and required to fill those opportunities are going to be different than those that have been in demand previously.

We need to grasp the potential of billions of new customers for our products and services.

Outsourcing means a lot more than cost savings. It means that we give ourselves the best chance to not only survive but also thrive in this tough economy and provide every U.S. headquarters-based employee the necessary resources to grow and succeed.

Outsourcing to other countries definitely improves their economic situation. But let us also not forget the same consumers are buying into new palm PDAs, Digital cameras and expensive jeans because of their afffordability (and spendable income).

Although software programmers fear Offshoring, low-cost nations face two upcoming challenges: wage inflation and software automation. As open source and modular software become prevalent, these nations stand to LOSE programming jobs to the U.S. and other high-cost nations that use advanced software business models and design methods.

Positive Results

Outsourcing [helps us to] focus on our core competencies while leaving routine jobs to an expert

Outsourcing has created opportunities for entrepreneurs that did not previously exist—it is contributing to business creation.

At the end of the day, it is all about how much of a return a company can get on every dollar of investment. By Outsourcing the project, sales were expanded, leading to additional hiring here in California, as well as higher profits.

Outsourcing has brought justifiable ROI to our customers and enabled our company to respond quickly to increasing market demand.

Outsourcing gave us round the clock coverage where the sun was shining, with well-trained individuals having excellent IT experience.

I could get a better control of my funds by working with outside companies and other agencies in multiple countries.

Versant would not have survived the 90s without the outsourced/offshore development center—the local R&D costs were simply too high.

In Offshoring, we saw a solution to the age-old dilemma that almost all IT start-ups' CEOs face as the company transitions from R&D to revenues – maintain a cost structure to both innovate AND sell!

Our software development center in Sri Lanka allows us to develop better software than our competition can afford in the same time period.

Everything worked in our favor—we didn't have the soft cost of another body at another desk. Our Company turned into a 24-hour operation with the time difference—it was like having someone work the night shift without having to foot the overtime bill.

Productivity rates in both India and China have often exceeded 100% of US productivity, yet the employee costs are significantly lower.

Key Management Thoughts

An outsourcing project can be daunting when you are knee-deep in the transition period; however, once you complete it, you will see that it was all very much worth the effort.

Managing distributed teams remains the critical success factor for a positive outsourcing experience.

Offshoring takes planning, a long-term orientation, understanding and addressing issues across companies, time zones and cultures.

It's just a matter of time. IT staffs are simply pre-occupied with the more routine, but nevertheless necessary, chores of network maintenance and management. It's the urgent vs. the important, and the urgent is winning.

In the full book, we have the complete quotes, observations and case studies from over 25 contributors. Purchase one today http://www.happyabout.info/outsourcing/
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The foreword that follows by Don Tapscott captures essence of the book and out thoughts on outsourcing/Offshoring.

Foreword by Don Tapscott

This book makes a valuable contribution to a much-needed public debate, with senior executives offering insights into why offshoring is a key component to America's long-term economic health and job creation and is not, as critics claim, the cause of job losses. Offshoring is essential to corporate competitiveness, and competitive corporations are the foundation of economic growth.

Offshoring is a predictable consequence of changes to the deep structures of the corporation in a global economy. The sure-fire route to massive structural unemployment is to try and stop or slow these changes from occurring.

Corporations are undergoing a radical transformation, and public policy must accommodate this. Most of this change can be traced back to information technologies, particularly the Internet. If companies in the US can exploit the Internet to access cheaper or better production inputs elsewhere—and this will increasingly be the case—then they should. If we don't let them, they will become uncompetitive, and we will all suffer a lower standard of living.

Prior to the Internet, most corporations strove to perform as many functions as possible in-house—from soup to nuts. It was called "vertical Integration," and it made sense because the cost or partnering was greater than the cost of doing things inside the boundaries of the firm.

The Ford Motor Company of the 20th century is a telling example of a vertically integrated corporation. At one point, the company owned steamships, power plants, forests, and virtually all other inputs critical to automobile building. Henry Ford concluded the best way to run his company was to shield his production processes from marketplace disciplines, which was a curious conclusion for a capitalist. Almost all other companies followed his lead.

This is no longer true, thanks to new information and communications technologies centred on the Internet. The Net is a, rich, global information infrastructure that grows relentlessly in functionality and bandwidth. Its most important effect is to dramatically lower transaction and partnering costs between companies. Many industrial age firms thrive today by transforming their business architectures around the Net. These companies focus on their core competencies—where they can have a unique leadership position—and

partner via the Internet to complete a business model. The mantra is "*focus on what you do best and partner to do the rest*."

In a global economy with global networks, partnering is global. In almost every industry today, regardless of the good or service sold, large companies have knowledge work or administrative functions they can now do with less expense or with better quality overseas. The corporation is unbundling on a global basis and the tonic of the market is being brought to bear on every business function of every firm.

I call this new form of wealth creation the business web. In a business web, the time and cost of moving from an idea to execution are dramatically reduced. Projects can be reduced to bite-sized pieces and farmed out via the Internet to specialists around the world with virtually no additional cost. Knowledge value can be added to a product or service - through innovation, enhancement, cost reduction, or customization - at each step in its lifecycle. A characteristic of today's best managers is their ability to deploy and integrate the output of specialists scattered around the world who will likely never meet. The products and services produced this way are the world's best and most cost-effective.

The idea of a global labor market is not new. Most clothing, for example, is produced offshore because wage rates are far less in countries such as Malaysia or China. But these are relatively unskilled jobs that we haven't worried about losing.

But courtesy of the Internet and the business web model of production, we now have a global labor market in knowledge work – higher level professional and management jobs. Good, well-paying jobs such as computer programming or accounting can now be performed better at a small fraction of the cost in well-educated low-paying economies such as India.

So we can choose. We can congratulate ourselves on our successes to date but announce we are no longer interested in the competitive process. We throw up legislative barriers to offshoring and outsourcing. Or we can choose to compete through investing in evermore higher-value jobs.

Choosing the path of legislative barriers would be an enormous mistake. Consider what would have happened if we had tried to protect the domestic computer industry. Most PCs today are built in low cost countries such as China, Mexico, Korea, and Singapore. If US companies like IBM, HP, and Dell were forced to manufacture their products in the US, they would be priced out of the world market. Since nobody would buy them, the next logical step in the illogical process would be protectionist measures to stop the import of more price-competitive PCs. This would have the effect of making all other businesses less competitive, since they would be paying more for their computers than other companies

around the world. The call would go up for more protectionism. The vicious cycle would expand and accelerate – resulting in economic decline and structural unemployment.

Legislative barriers to offshoring are a prescription for long-term economic decline. Corporations need to be clear on this fact of life and shift the public debate to the real issues.

For example, there is evidence that in this new environment, competitive corporations are a necessary but insufficient condition for job growth.   Given the massive upheaval in domestic job markets many of those displaced by offshoring don't have the knowledge and skills that are required for the new emerging jobs. What are the implications for public policy? What should governments be doing in terms of investing in R&D, education, infrastructure and other areas to ensure that the transition to the new model of the global firm is conducted as smoothly as possible?

These are the discussions we should be having, and the contributions that follow offer much food for thought.

Don Tapscott *has authored 10 books on technology in business and society, most recently (co-authored with David Ticoll),* "The Naked Corporation: How the Age of Transparency Will Revolutionize Business."

"Outsourcing has improved the quality of life for our employees and increased our profitability and competitive advantage. Any rules that inhibit it would damage our business and reduce our ability to provide high-quality and satisfying jobs."

~Bahar Gidwani, *CFA &CEO*, Index Stock Imagery, Inc.
The Independent Choice for Your Imagination,

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Detailed Bio on Mr. Levy: http://ecnow.com/ml_bio.htm
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ECnow.com's media coverage: http://ecnow.com/media/

- **Silicon Valley Executive Business Program http://SiliconValleyPACE.com/**

- **CEOnetworking http://CEOnetworking.com/**

- **ECnow.com http://ECnow.com/**

- **Value Framework® http://ValueFrameworkInstitute.org/**

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"Outsourcing gave us round the clock coverage where the sun was shining, with well-trained individuals having excellent IT experience."
Dr. Marguerite Raaen, Director of Information Systems, National Cancer Institute commenting on her results while she was at IBM

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