

Fact or Fiction?
The Top 5
Offshoring Myths



A White Paper
For IT Professionals

Introduction

Offshoring. Outsourcing.

From CNN to blogs to talk radio, we all have heard a lot about offshoring and outsourcing. With information overload, it's not easy to sift through all the data out there to see what's fact and what's fiction, especially when it comes to offshoring.

1. Offshoring and outsourcing are one and the same.

FACT: Offshoring and Outsourcing are two similar, yet different business solutions.

Outsourcing involves moving any form of business process from an internal company function to an external source. Outsourcing ramped up in the 80s, with companies beginning to move some back office functions to external contracts. Since then, outsourcing has grown to be a vital part of government and private industry infrastructure.

Offshoring on the other hand, takes outsourcing a step further by moving the functions to a different country.

Typically these countries have a lower median income and more room for economic expansion, thus increasing savings potential for the buyer. India claims the most offshoring business, with China a close second.

According to Gartner, countries such as Ireland, Canada, Russia and Mexico are gaining presence as offshore providers.

Both offshoring and outsourcing have positives and negatives associated with them. But, to keep things simple, we're only going to focus on offshoring.

2. Offshoring creates huge financial savings.

FACT: Offshoring can save money, but companies must proceed with caution.

Be aware of hidden costs, which may cause you to save less than you thought. Sure, saving money sounds easy when a desktop support person in Delhi earns a mere \$5.50 per hour, compared to his/her American counterpart, earning \$25 per hour. However, offshoring is simply, well, not that simple. According to Stephanie Overbly from CIO Magazine, businesses considering offshoring need to examine something she calls "a new TCO—the total cost of offshoring."

The process for offshoring involves steps, which can each hold hidden costs:

- **Selecting a vendor**
- **Transitioning your workforce**
- **Third-Party Oversight**
- **Cultural Implications**
- **Getting Started**
- **Long-term Management**

Just remember, it is important to view offshoring as a long-term investment and payoff; don't assume you'll see any savings within the first quarter or two.

FACT: While it's true offshoring is on the rise with no signs of stopping, it does not mean every IT job is at risk.

It's all about the types of jobs that are staying and the types of jobs that are going. According to the US Bureau of Labor Statistics, more IT jobs are around today than during the dot.com boom of the 90s. Furthermore, a study performed by the Association for Computer Machinery cites the annual job loss attributed to offshoring as about 2 to 3 percent of the IT workforce; a relatively small number when compared to the fluctuations of job loss and creation occurring yearly in the US.

Nevertheless, IT offshoring is on the rise, and it's important to understand which jobs are going.

Jobs that will remain in the US revolve around high-end IT management, research & development and analysis. Other functions include:

- **Relationship management with end users**
- **Multi-disciplinary work**
- **Manual requirements (data fixes, interventions)**
- **Highly integrated applications**
- **Creative decision-making**
- **Information security**

Jobs being outsourced to countries like India are lower-end, standardized jobs:

- **Help desk support**
- **Call centers**
- **Programmers**
- **Network management**

Some research points out that countries – China and India in particular – are developing high-end research talent. However, this is still in embryonic stages, especially compared with the plethora of US based knowledge and infrastructure.

While it may be relieving to see high talent IT jobs staying stateside for the time being, much of the work outsourced used to be performed by entry-level employees. The challenge for new IT workers is to enhance their skills and gain experience as quickly as possible. Companies should also be aware of the potential gaps created in their at-home workforce, although repercussions may not be seen for quite some time.

3. IT Offshoring will continue to increase, causing all related jobs to move overseas.

Fact: Like the hidden costs in offshoring, there are factors which can hinder project completion.

As illustrated in Myth 2, there are several steps involved in offshoring. If the process is not rigorous – or the function(s) being offshored are not clearly defined – gaps in performance are likely. While it's true a company can benefit from a veritable 24-hour work day as American employees sleep while their counterparts start working on the other side of the globe, it doesn't always mean the work is moving a company any closer to its end-goal.

According to Gartner, “no one provider is doing a stellar job on truly standardizing delivery across the globe and across its client base.” In order to ensure steady delivery, a company must invest. This also requires a watchful management eye, with clear deliverables, KPIs (Key Performance Indicators) and timelines, all measured against client needs. Gartner also discovered companies often find themselves creating offshoring situations which do not align with the overall strategic business goals, generating a gap in IT deliverables for end-users.

4. IT offshoring helps companies complete projects in a timely manner.

FACT: Offshoring is becoming increasingly more complex, with risks ranging from the initial contracts to security once the services are performed offshore.

This shouldn't stop you from offshoring. Rather, it means companies should simply proceed with caution. As in any business venture, you need to know all risks in order to mitigate them. True, offshoring continues to grow and many companies cite financial savings. However, it's necessary to put all your ducks in a row, as it were, and ensure you're offshoring savvy will keep your company from getting burned.

For offshoring to be low-risk on every level, it needs to be carefully managed. As more influencers become involved, get key decision makers included and engaged throughout the process. Gartner notes, buyers have more options of providers and can demand higher levels of expertise; therefore, follow-on business, contract expansions and cost renegotiations are increasing.

Companies often rush the process in outsourcing/offshoring, and therein lies the risk. As we've noted in Myths 2 and 4, there is a timing factor. If a rigorous offshoring process is in place, then risks can be considerably mitigated and financial gains can be possible.

5. Offshoring has Evolved into a Low-risk venture.

Final Thought

As you well know, the final story on offshoring and outsourcing has yet to be written. There's a lot left to learn in this dynamic market. While we face decisions on when and how to offshore, we can't lose sight of the importance of attracting and retaining greater quality talent.

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