

Straight Talking – Outsourcing won't Save you Money

By Clive Longbottom, Service Director, Quocirca Ltd

Although the outsourcing market has matured rapidly in the last couple of years, we still encounter many companies that see outsourcing as a cost-saving exercise. These companies are often the ones who then lay blame at the outsourcing provider's door, saying the savings weren't big enough (if they existed at all), that the outsourcing company was inflexible, that it didn't respond to the company's needs and so forth.

But hang on - why should outsourcing be any cheaper? In the olden days, an organisation could identify specific tasks which could be outsourced and shared with other companies, so gaining a degree of cost savings.

For example, break/fix outsourcing was successful because companies realised it was not cost effective to have trained engineers sitting around waiting for a PC or server to break - and that as these devices became more resilient, paying a professional to sit around and do crosswords didn't make sense at all.

By outsourcing the function, the outsourcing company could share these skills around, ensuring the engineer had a higher degree of utilisation. Each company would pay for, say, 25 per cent of the engineer's nominal time and the outsourcing company would share the engineer between, say, six companies - so everyone is nominally happy.

Now let's look at task outsourcing. A company that is task oriented will have internal resources that spend all day just doing repetitive tasks. Outsourcing, therefore, has no gains in utilisation - a dedicated resource is still required. Thus the only possible way that savings can be made is if the resource costs less - even with all the overheads of the outsourcing company and the contract management as well.

The fact many companies didn't see this as an issue speaks volumes. In many cases, for those businesses which raced to India to get skilled resource that was available at 40 per cent of the UK cost, history has begun to repeat itself.

In the 1990s, the Celtic Tiger of the Irish economy was driven by the availability of cheap, highly skilled labour. However, as more companies dived in to the market, these cheap, highly skilled people were rapidly soaked up. This left two groups - expensive, highly skilled labour (which rapidly replaced the cheap, highly skilled resource by paying reasonable salaries) and cheap, less skilled labour.

Those companies that have been successful in Ireland are those which decided making the most of a good base of skilled labour at a competitive market rate was better than seeing brand and quality fall through the use of poor quality but cheap resources.

The same has happened in the Netherlands; to an extent in the Philippines; is now happening in India; and will undoubtedly happen in China and in Eastern Europe. As the first round of skilled workers are hired up, pay rates will automatically rise and the cream of the skills crop will move around in the global market to gain the top salaries.

Sure, Ireland is a country of some four million inhabitants and India is somewhat bigger, with more than one billion. But these billion people are not all IT experts and never will be. Even with the massive efforts being put in place to skill up as many people as possible, the market is reaching a level of saturation.

In China, where 350 million people are being taught conversational English, we shouldn't see this as being 350 million people who will suddenly be part of a cheap labour force that will be either available to use in an offshoring manner, nor as a massive overwhelming threat to how we do business in the West.

Again we are seeing high wage growth in the larger Chinese conurbations and a growth in the perceived needs of the more skilled inhabitants, who now want home and car ownership, and a lifestyle comparable to similarly skilled people they come across in the West. This will soon drive Chinese costs up - not to be the same as

the West but to a point where the overheads of outsourcing specifically to China make it less appealing.

Quite telling is how IT services companies such as India-based TCS are setting up offices outside of India in other emerging markets to chase lower salaries. The old model of going to an Indian outsourcer for Indian resources on a labour arbitrage basis (i.e. utilising a resource in one geography for differential pricing) is not sustainable in the long term. Salary rate rises have been consistently in the double-digit range for the past few years, and some of the top skills are moving to the US or to Western Europe.

The fact TCS and other Indian outsourcing companies such as Infosys and Wipro also no longer want to be seen as 'just' cost-effective offshoring companies but as serious global systems integrators means the cost argument is being placed on the back-burner as much as possible.

Sure, we can expect new offshoring companies to appear in China, North Africa and elsewhere as time goes on. But globalisation means wage inflation is happening much more quickly. Whereas Ireland took around 10 years to go from an emerging, low-cost outsource provider market to a level playing-field, it's looking like India will have done it in less than half that time.

So - is this the end for far-shoring? Not in the least. As long as people outsource for the right reasons - i.e. that skills are not available locally to carry out certain tasks and/or that certain tasks are better carried out by companies that specialise in them - then it may not matter where the task is carried out. However the cost has to be a secondary consideration.

In the end Quocirca is a strong believer in outsourcing if it's about letting those who really understand an area do the donkey work and enabling an organisation to concentrate on business strategy. But because of this, our advice is to outsource for strategic reasons - not to save a little money in the short term.

About Quocirca

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with first hand experience of ITC delivery who continuously research and track the industry and its real usage in the markets.

Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to advise on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

Quocirca works with global and local providers of ITC products and services to help them deliver on the promise that ITC holds for business. Quocirca's clients include Oracle, Microsoft, IBM, Dell, T-Mobile, Vodafone, EMC, Symantec and Cisco, along with other large and medium sized vendors, service providers and more specialist firms.

Details of Quocirca's work and the services it offers can be found at

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