

VNUNet – The Pros and Cons of Offshoring

By Clive Longbottom, Service Director, Quocirca Ltd

There's been a great deal of interest in the use of offshoring. Last year, the main focus was on labour arbitrage, ensuring that the same business functions could be done for lower prices in a different geography.

Unfortunately, history has shown that labour arbitrage only works for a short period of time. In the early 1990s, it was Ireland and The Netherlands that benefited, but the burgeoning economies of both countries soon drove salaries to a point where cost savings were no longer noticeable.

This is beginning to happen in India. Salaries have risen by as much as 67 per cent in certain areas and job sectors over a 12-month period.

Offshoring was also seen as a means of tapping in to a highly educated and motivated workforce, and this was certainly the case in India when the practice started to become popular. However, as the market matures, we have seen the cream moving to the top and being able to claim higher salaries and better positions, and moving on to different jobs in the increasingly fertile home markets or to similar style jobs in overseas markets.

But the latest intake at many of the offshore bucket-shops is not as highly educated and motivated as one would like; script driven agents abound with little capability to think out of the box.

This is exacerbated by the problems with churn. Many workers in an offshore environment see such jobs as a stepping stone only, and turnover can be very high (in excess of 70 per cent per annum) in some areas. But arbitrage is dynamic, and even Indian firms such as TCS are looking to eastern European countries for cheaper, educated workforces for parts of their offerings.

For many companies looking at offshoring, though, following the arbitrage dynamics as they move around the world negates any cost savings that could possibly be made. So does this mean that offshoring is dying? No. All it means is that it must be done for the right reasons, and with the right controls.

Far-shoring (offshoring to countries geographically removed, such as India and China) has its own particular problems. Time differences can mean that back-office work is done with little overlap between your business hours and the far-shored facility's.

Front-office functions are being carried out at uncivilised local times, which can stress the workers and lower customer satisfaction. Should something go wrong, there is a long distance between the home and far-shored facility which can lead to expensive and long trips to deal with matters if you do not have fully responsible project managers onsite to take control.

Near-shoring gets across the geographical problems to an extent, but basic control issues still need to be addressed. In either case, putting in place an employee of the company on the near-shored facility means that there is someone on hand to deal with any issues.

Ensuring that company culture is understood and promulgated is difficult, but it is your brand that is at risk not the facility's, and you must protect it at any cost. Also, cultural issues cannot be sidelined. With back-office work, the quality of the results speak for themselves, and if the off-shored resources can do the job more effectively, then great.

However, with front-office functions, the natural xenophobia of many parts of the public cannot unfortunately be overlooked. And anglicised names and knowledge of the football/soccer scores along with happenings in the latest soaps cannot always mask the fact that the contact centre agent is in Bangalore or Prague.

At the bottom of offshoring lies the problem that it should never be done for cost reasons alone; it should be done because the company could not do the work any other way. Firms should be offloading such functions if it allows them to create a more flexible company, and that the practice leads to corporate value being increased.

That certain functions should be kept closer to home than others must be borne in mind. Where far-shoring is being used, the controls need to be tighter than if the solution is provided by an internal group.

Finding a company with multiple facilities around the world, and with the capability to follow arbitrage dynamics, may well provide ways to save money. But this should not be the main decision point for offshoring.

About Quocirca

Quocirca is one of Europe's leading independent industry analyst firms. One of its biggest assets is the core team of highly experienced analysts drawn from both the corporate and the vendor communities. This team prides itself on maintaining a bigger picture view of what's going on in the IT and communications marketplaces. This allows all of Quocirca's activities to be carried out in the context of the real world and avoids distractions with fads, fashions and the nuts and bolts of specific technologies. Quocirca's focus has always been the point of intersection at which IT meets "the business".

Quocirca Services

The insight and experience that comes from working as an industry analyst as well as a practitioner allows the Quocirca team to contribute significantly to IT Vendors, Service Providers and Corporate clients. To this end, it provides a range of consulting and advisory services. Details of these, along with some of Quocirca's latest analysis, may be obtained by visiting <http://www.quocirca.com>

Quocirca also provides bespoke primary research services through its daughter company QNB Intelligence. This involves interviewing thousands of senior decision makers on a quarterly basis.