

Why It Makes Sense To Outsource

Every minute your employee spends on an activity that does not directly add value to your customer's solution is a cost that can not be saved. However, many organizations look at outsourcing not just as a cheaper option, but as the only viable option for many of their activities.

Outsourcing used to be a tactic to improve operations and financial performance of troubled organizations. Today's outsourcing has evolved to be a preferred method of doing business by companies for numerous positive reasons

Today, having an offshore component is becoming a crucial element for being competitive in a global economy. Offshore outsourcing derives its power by marrying technology-enabled services with labor arbitrage. The idea is to move a job or function from a high cost to a lower cost location outside the country. The magnitude of the resulting cost savings is just too compelling to ignore.

The question often enough is not, "Should I go offshore?" but, "Where should I go?" Indian and Pakistani service providers are the most noticeable. They have worked hard to build a brand around their offshore capabilities. But there are other options for offshore outsourcing, including China, the Philippines, Eastern Europe (particularly Poland), Russia, and South and Central America. Of course, U.S. neighbors Canada and Mexico provide offshore options for American companies. They are more colloquially referred to as "near shore" alternatives as opposed to the other "far shore" choices. However, for my money, Indian and Pakistani outsourcing options are preferable at the moment, due to the following elements.

Talent

Just as the Gulf has its natural resources in crude oil and South Africa in diamonds, Indian and Pakistani natural resources lie in their abundant technically skilled manpower. India and Pakistan (combined) constitute the world's second largest exporter of software (after the US), and are the sources of many management and technical start-ups in Silicon Valley. Thanks to their large English speaking scientific and higher education institutions, specialist computer institutions, and low costs of software talent, India and Pakistan have more software companies with ISO 9000 certification than any other country in the world.

Infrastructure

Currently, India and Pakistan are undergoing a massive infrastructure enhancements that are creating fundamental transformation. Office buildings in high tech zones in these countries have reached or even surpassed global standards.

In the technical realm, globally falling telecom costs have been a driver in offshore outsourcing. India in particular has worked hard to install telecommunication capabilities that support its competitive advantage. For example, falling telecommunication costs have helped India's call center capabilities, as evidenced by the fact that GE, Accenture, IBM and others have thousands of people working in these centers. Currently, telecommunication costs

in India are equal to the cost of the labor, making it an attractive location for customer relationship management (CRM) activities.

Education

India has one of the most developed educational systems in the world. As a whole, Indian universities are producing an enormous supply of outsourcing employees, creating a deep source of highly-skilled technical labor for years to come.

The Indians and Pakistani are well-suited to international outsourcing. One-third of their college graduates speak more than two languages fluently. Many Indians and Pakistani are conversant in up to six languages. Almost all of these talented people speak English.

Cost

Of course, currently, labor arbitrage is the major driver for Indian and Pakistani technical attractiveness. Roughly comparable professionals in these countries earn a great deal less than their counterparts in America and Western Europe. This lower cost of labor has always been the attraction in India and Pakistan; however, it has only been the recent technology changes and infrastructure improvements that have made offshore outsourcing economically viable for the American market.

Quality

Indian and Pakistani service providers claim high quality work and point out their CMM Level 5, Six Sigma, ISO 9000 and BS 7799 certifications. Of course, proper governance is important in all outsourcing engagements to ensure buyers received the quality implied in the certifications.

The Indian and Pakistani governments realize that offshore outsourcing is a major economic driver for their economies. For that reason, the governments offer comprehensive packages of tax incentives, and are backing telecom deregulation to support the growth of this sector. Their bureaucracies understand the importance of getting things done rapidly. Such swift action are encouraging foreign companies to do business with these countries.

Caveats

Presidents and CEO's have to measure the political risk of outsourcing to an Indian or Pakistani company rather than more geographically or politically intimate providers in Canada or Mexico. Offshore outsourcing is a highly charged emotional issue, especially in unionized work forces, and particularly in light of current political uncertainties. These elements must be assessed rigorously to avoid either significant service interruptions or public relations/labor relations disruptions.

Culturally, the natural divide between East and West seems to apply to offshore outsourcing. Japanese and Korean companies prefer to send their work to Chinese service providers. The Indians and Pakistani are appealing to Americans and Western Europeans.

At the end the day, excellent technical service at the lowest cost can be the determining factor for your company.



George Noceti is a management consultant to CEOs of rapidly growing businesses. He can be reached at: g.noceti@att.net