

Weighing the benefits of onshore outsourcing

Paul Gasparro

April 17, 2009 The discussion about outsourcing continues to be an on-again, off-again affair -- that is, onshore and offshore.

Certainly, the basic value of outsourcing has been well documented. Benefits range from dramatic cost savings to reduction of inventory and allowing companies to focus on core competencies. What is still up for debate, however, is whether to adopt an onshore or offshore approach.

While each approach has distinct merits, it is instructive to examine specific outsourcing scenarios to determine which line of attack is optimal. For example, if you are a North American company seeking to outsource development of a prototype for a new high-tech offering, or software development for a major upgrade to your company's flagship product, the onshore strategy is a significantly better method. Let's examine the rationale.

Practical experience: Talent available onshore is extensive in certain domains. For example, if you're developing video games, the United States and Canada offer a wealth of experts. Or consider biotechnology: the competency of the human capital in this area is beyond reproach. In fact, the availability of expertise in North America for virtually any high-tech sector -- especially telecommunications and networking - is unsurpassed.

But it's more than just the knowledge base that is critical. The North American professionals not only understand technology, but know how to commercialize that technology for specific customers and markets. In other words, they can be instrumental in developing products your customers need.

Intellectual property protection: Protecting intellectual property (IP) is vital when using an outsourcer to work on a proprietary project. Many countries abroad -- most notably in the Far East -- have a reputation for not fully observing copyright laws and legislation relating to IP protection. This is clearly a concern when dealing with any proprietary information; it is magnified when the IP revolves around a company's core competency or technology foundation.

While breaches can occur anywhere in the world, it is less likely to happen in the North American market, where the legislation is not only stronger to begin with, but is enforced with far greater passion.

Location, location, location: One of the key reasons why onshore outsourcing is frequently a better option is proximity. When your outsourcer is only a few hundred miles or even a thousand miles away, you can hop on a plane for an in-person meeting. Taking a trip to India is neither convenient nor economical, which discourages the face-to-face interaction that, while not essential on a daily basis, can become critical if a project begins to veer off-course.

Time is a close relative of distance. In North America you are never separated from your outsourcer by more than four time zones, so it is relatively simple to set up a conference call. Now try booking a call between New York and China. It is likely to mean that at least one of the parties will be forced to get up too early or go to bed too late.

Language barriers: One of the most obvious quandaries of an offshore setup is the language issue. Even if an overseas outsourcer's key personnel speak English, they may not be versed in the quirky phrases and local dialects that can make English hard to comprehend.

It's been said of America and England that they are two countries separated by a common language. If a North American company elects to use an overseas outsourcer, both parties may be speaking English, but from a practical perspective, it may sound like a modern-day Tower of Babel.

Design culture: Besides language, there is a difference in design cultures -- the actual product development approach - that can make offshore outsourcing less attractive.

In North America (and Western Europe as well), there is typically a great deal of communication between the client and outsourcer. For example, the marketing person might say, "I think this product should be this shape." An experienced North American outsourcer could counter with, "I know you want it that shape, but if it were this shape it would actually go faster." The interaction can help bring about a trade-off or balance between what the customer wants and what the outsourcer delivers -- ideally resulting in the highest quality and most marketable product possible.

In some cultures, particularly in the Far East, the norm is to develop what you are told. Often, that means plodding forward without offering feedback. Ultimately, this will result in a product that meets the specifications, but which does not perform as the customer expected.

The creative pushback -- the counsel and advice that should accompany the design services -- does not occur, resulting in multiple iterations that increase project cost while potentially delaying product delivery.

Political/financial stability: All it takes is a quick glance at any newspaper to see the turmoil around the world -- a terrorist attack here, a coup d'etat there. What's more, many foreign countries are suffering through economic crises that make the current problems in the United States pale in comparison.

Needless to say, these instances have ramifications that are far more worrisome than the effect they might have in the outsourcing community. Still, these are elements that must be considered before looking abroad for assistance in bringing a product to market. In a research report published by Black Book Research and Brown-Wilson Group, Canada ranks as one of the top 10 safest countries in the world to do outsourcing. India ranked in the bottom 10.

Total project cost: From a dollar perspective, the lure of offshore outsourcing can be particularly potent. The cost of labor in India, for instance, may be only 40% to 50% of the going rate in Canada; in China, it may be as low as 25% of that same cost.

However, the cost benefit has to outweigh all the issues outlined above. And there are often hidden costs. If there are language issues, for example, you may have to incur the cost of interpreter services.

The cost of overall project management is another variable that must be accounted for. Far less management is typically required when using onshore resources because of the dynamics cited. But it is even more closely correlated to the experience factor than anything else. Because the offshore team may be less experienced in the specific development or market area the customer is seeking, tighter project management and oversight will be required.

It should also be noted that in Canada, R&D tax credits cut as much as 70% of the cost of developing technology. This allows companies to counter the low labor costs that offshore outsourcers use as one of their competitive advantages.

In the right situations offshore outsourcing makes sense, such as in high-volume manufacturing, product testing or fixing a problem vs. creating a product from scratch. But if you're a North American company designing a brand-new product, creating a prototype, or doing something that's out of your company's primary area of expertise, you should be looking at onshore very seriously. With an experienced staff, close proximity, negligible time difference and real-time interaction, the discussion of onshore vs. offshore should be an open and shut case.

Gasparro is co-founder and vice president of business development for MapleWorks Technology. He can be reached at: paul.gasparro@mapleworks.com