

For North American Businesses, the Benefits of Onshore Outsourcing Are Off the Charts

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The discussion about outsourcing continues to be an on-again, off-again affair--onshore and offshore, that is. Certainly, the basic value of outsourcing has been well-documented. Depending on the industry, the benefits can range from dramatic cost savings to reduction of inventory, to the fact that it allows companies to focus on their core competencies. When it comes to some specialized tasks, the advantages of outsourcing are, frankly, not even open to question.

What is still up for debate, however, is whether to adopt an onshore or offshore approach. For purposes of this (or most any) discussion, "onshore" outsourcing refers to the use of an outsourcer located on the same continent as the customer company; "offshore," logically, would be anywhere else - including halfway around the world.

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

Generally speaking, if you stay onshore in the North American market, you can identify talent that has extensive expertise in your domain. For example, if you're developing video games, the United States and Canada can offer a wealth of experience in video-game programming and testing that you can identify and effectively utilize. Or consider the biotech area: 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 you can name - especially telecommunications and networking - is a fact of outsourcing life.

But it's more than just the knowledge base *per se* that is so critical. What the North American market offers is a virtually unlimited number of professionals who not only understand technology, but who know how to commercialize that technology for a specific target customer or marketplace. In other words, they can be instrumental in actually developing products that your customers want and need.

Intellectual Property Protection

Protecting intellectual property (IP) is vital when bringing on an outsourcer to work on a proprietary project. Many countries abroad - most notably in the Far East - have gained a reputation for not fully observing copyright laws and legislation relating to IP protection. This is, of course, 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 a breach of these laws 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 is frequently a better outsourcing option is proximity. When a North

American company begins working with an outsourcer only a few hundred or even a thousand miles away, hopping on a plane for an in-person meeting, generally speaking, is relatively convenient as well as affordable. Taking a trip to India, however, is neither convenient nor economical, which discourages the face-to-face interaction that, while not essential on a daily basis, can become critical if and when a project begins to veer off-course.

Without question, distance issues can be mitigated somewhat through the use of phones, e-mail, instant messaging, and even videoconferencing. However, it's not the same as getting into a room together and being able to discuss a project in a real-time, personal manner.

Time is a close relative of distance. Consider: The two points furthest apart from each other - latitudinally - in North America are separated by just four time zones. Thus, it would be relatively simple to set up a conference call at a time that is well within business hours for both sides. On the other hand, try putting 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. Further, when you're thousands of miles and multiple time zones apart, it's difficult to have those all-important creative juices flowing on a real-time basis.

Language Barriers

One of the most obvious quandaries of an offshore set-up is the language issue. A North American company dealing with a North American outsourcer can rest assured that both parties will communicate in English; the same cannot necessarily be guaranteed when dealing with a foreign outfit, creating an obstacle whose effect cannot be overstated. What's more, even if the outsourcer's key personnel do speak English, they may not be completely versed in some of the quirky phrases and local dialect that can make English much harder 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 - technically. But from a practical perspective, it may sound like a modern-day Tower of Babel.

Design Culture

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

In North America (and Western Europe as well), there is typically a great deal of communication between the outsourcer and the client company. 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 this shape, but if it were a different shape, it would actually go faster." The back-and-forth interaction that takes place can help bring about a trade-off, or a balance, between what the customer wants and what the outsourcer delivers - resulting, ideally, in the highest-quality and most marketable product possible.

Conversely, in other development cultures, particularly in the Far East, the norm is to do what they are told to do. Often, they just keep plodding forward without offering any feedback on design improvements or enhancements. Ultimately, they will deliver a product that is exactly what the specifications called for, but which does not perform as the customer expected it to. The positive pushback - the counsel and advice that should accompany the design services - does not occur, resulting in multiple iterations of the product which, quite naturally, increases the total project cost, while potentially delaying product delivery. Talk to people who have participated in offshore development and they'll likely tell you that they went through three development cycles versus one by doing it onshore. Plus, the later a mistake is identified, the more it is likely to cost to rectify.

Political and Financial Stability

One other hidden value of offshore outsourcing is the political stability in North America. A quick glance at any major newspaper or media outlet will highlight the nefarious actions taking place in many parts of 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.

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.

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.

Total Project Cost

From a dollar perspective, the lure of offshore outsourcing can be particularly potent. Without a doubt, the labor cost is significantly lower in popular outsourcing destinations. The cost of labor in India, for instance, may be only 40 percent to 50 percent of the going rate in Canada; in China, it may be as low as 25 percent of that same cost. From a pure unit labor standpoint, offshore outsourcing - in which workers receive neither the same wages nor the same level of benefits as their North American counterparts - is a tough competitor indeed.

However, as this article has illustrated, there are hidden and not-so-hidden costs that must be taken into account. Language barriers, time zone differences, even the design culture not only create obstacles to timely, effective product development and delivery; they carry hard, actual costs. Language issues can require interpreter services and can result in product development miscues. Lack of proximity will lead to huge travel expenses when a face-to-face meeting is necessary. Projects that progress too far into the design process before a problem is identified - due to lack of outsourcer input - can translate to staggering fees due to extensive revisions.

The cost of overall project management is another variable that must be accounted for. Far less management is usually required on the part of the customer who utilizes onshore resources. This naturally has to do with time, distance, geography, design culture, and other dynamics cited earlier. But it is even more closely correlated to the experience factor than anything else. Because the offshore team is often more inexperienced in the specific development or market area that the customer is seeking, tighter project management and oversight will be required, putting the client company in the position of "hand holding" the offshore talent to ensure that everything flows smoothly.

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

Conclusion

In the right situation, an offshore outsourcing strategy is a perfectly sound tactic: high-volume manufacturing, product testing, fixing a problem versus creating a product from scratch, or any instance in which vigilant project oversight or insightful outsourcer feedback is not required, all fit the bill in this regard.

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 areas 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.