



## YOU CAN'T GO HOME AGAIN? THE MERITS AND CONSIDERATIONS OF ONSHOREING VS. OFFSHOREING

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At a time when the national and global economic markets are in turmoil, long-held assumptions are now being debated. For years, companies made the decision that to go abroad was to go cheaper, and going cheaper was better. Despite the uproar on the domestic front, "offshoring" became an increasingly popular strategic choice for employers. Today, labor costs are rising overseas, domestic customers are dissatisfied with service provided from abroad, and commodity prices have wreaked havoc with logistics. The collapse of the capital markets has made it harder for companies to plan long-term. The biggest obstacle to future success is the increased uncertainty on what is in store for us. Will the stock market recover? Will the bailout be the antidote? Will the recession last longer than normal? How will the global economy fare?

### THE CRYSTAL BALL IS MURKY

The volatility of energy prices is a particular concern. In July 2008, oil prices were at \$140 per barrel. As of January 2009, oil prices had dropped precipitously to \$38 per barrel. It is impossible that oil prices were affected by such a huge swing in supply and demand in just six months. The oil speculation and its harmful effects have been hurtful to the overall economy. The volatility of prices makes long-term planning very difficult. Therefore, it is even harder for manufacturers and distributors to plan business activities. The "unknowables" disrupt companies' relocation and expansion efforts. The hesitation to act stunts growth throughout the economic pipeline.

"Home is not where you live but where they understand you"

-- Christian Morgenstern

### POTENTIAL TRENDSETTER: ONSHOREING

The great American writer, Tom Wolfe has said, "You can't go home again." Well, companies are testing Wolfe's sentiment. Kathy White, founder and CEO of Rural Sourcing

told Information Week "If we can outsource to India, why can't we outsource to Arkansas?" She said that offshoring may be good for some companies but onshoring can work for others. "I never said offshoring is bad," White said. "I just feel there is also a place for onshoring at a low cost." She worked with local universities and set up an internship program for potential workers as a way of improving retention. White pointed to Wal-Mart and Southwest Airlines as two companies that built national businesses with low labor costs. As for executives who would be attracted away from urban centers, White argued that having more disposable income and enjoying a better quality of life are great enticements for families.

The price of the dollar is a consideration too. The weak dollar helps make it possible to bring jobs back to North America. The exchange rates make it more expensive to manufacture in other countries. Despite currency comparisons, companies are noting that wages in China are accelerating at a fast rate. The Indian rupee gained more than 11 percent against the US dollar in 2007. There are upsides beside financial considerations. HR offices have hailed greater management control, as well as easier methods to implement policies and procedures.

The hidden costs of offshoring are knowledge transfer, quality, attrition, time and cultural differences. A typical frustrated customer said on fastcompany.com, "My Dell hard disk crashed and it took three calls before I could understand what had to be done. I love my Dell, but I am less than thrilled with their technical support in India."

The Information Technology Association of America (ITAA) said in a study that companies can "kill two birds with one stone" by outsourcing the labor force, domestically, and keeping jobs available for US workers. This method is dubbed lower cost domestic (LCD) sourcing. This onshoring alternative could be a beneficial tactic for business owners. Onshoring focuses on finding labor in rural or exurban areas in order to keep costs down. While the work is outsourced from company headquarters, it is still within the United States and alleviates concerns over data privacy and security. Government agencies stand to benefit, too. The need for domestic IT talent is great and government agencies are unable to hire specialized talent in China and India. Therefore, cost-effective LCD locations could be better options. ITAA noted that "The U.S. is still the dominant supplier of IT resources and remains desirable on every sourcing selection criteria except absolute labor costs. There are many lower-cost rural and midsize cities that have a talented IT workforce, with colleges and universities eager to collaborate with prospective employers on IT-oriented curricula."

### THERE ARE CHALLENGES

AT&T CEO Randall Stephenson has spoken out about the difficulties of his company's onshoring activities. The company had moved 15,000 jobs to India over a five-year period. It negotiated with a union to bring 5,000 of those jobs back to the United States. Stephenson said that while concessions on wages were granted, the problem was finding suitable candidates to fill those jobs. The problem Stephenson said, "We just don't have people here with the right skills. We're setting up a training program."

So, for companies that consider technical capabilities the most important aspect of their work force then onshoring may not be a preferable option. Labor costs are not the only reasons why a company went offshore.

### THE ADVANTAGES OF ONSHORING

But, Christopher Derrington of Rural America IT believes that skilled jobs can be placed in the United States. His company has placed workers in places like Bowling Green, Kentucky, Two Rivers, Wisconsin and Nelsonville, Ohio. Derrington feels that the work sent offshore to places like India are unnecessarily costly because of the spotty workmanship, language barriers, missed deadlines and time zone differences. His company, according to the Cincinnati Enquirer, was formed after he realized that he could hire IT talent in rural Wisconsin.

ITAA has lauded Virginia and Colorado for highlighting their rural communities as desirable destinations for IT job placements. The group asserted, "We can retain and attract good jobs, wages, tax revenue and other economic and productivity benefits if government, industry and civic leaders united to help localities become more competitive and attractive for IT business."

Many companies with household names have decided to hire American workers instead of looking for candidates in Bangalore or Mumbai. Northrop Grumman opened an information technology center in Corsicana, Texas. Despite moving to a small-town, the company recruited for IT specialists and software engineers. The LA Times noted that it cost Northrop 40% less to have the work done that it would have in Los Angeles. They were pleased with the efforts. "We're getting very high quality and dedicated workforce" boasted Thomas Shelman, Northrop's IT Defense Group and more importantly, creator of the company's onshoring development. In Corsicana, the starting salary for a software engineer is about \$42,000 as opposed to having to pay \$56,000 in Los Angeles or McLean, Virginia.

Now that rural communities have high-speed broadband connections, companies are no longer hesitant to set up in remote locations. Xpanxion, moved their operations from Pune, India to Kearney, Nebraska. The software development company, based in Atlanta, was displeased with how the substantial time difference was hampering communications.

Accenture listened to its many clients who demanded that outsourcing services be performed by professionals

in the United States. Consequently, the company built a document-processing center on an Umatilla Indian reservation in Oregon.

Dan Sernett, of Ernst & Young, was not surprised by these developments. He told the LA Times that offshoring is “not a slam dunk as it was several years ago.” Local communities benefit by seeing white-collar jobs come to their area. The local economy diversifies and enjoys a larger tax revenue base.

As the titans of Wall Street are humbled, the allure of offshoring jobs fades away and the adaptability of the American worker endures it may not be so quaint anymore to quip, “There’s no place like home.”

#### ABOUT THE AUTHOR:

Thomas Galvin is an Analyst for the Labor Analytics Group (LAG) and studies labor markets across the nation. His responsibilities include acquiring essential information and working with the group in providing clients with site selection advisory services. Thomas interacts with employers, economic development councils and staffing agencies in support of the group’s market evaluation efforts.

Prior to joining CBRE, Thomas was an associate with the redeveloper RockWater Partners. Thomas worked directly with the president, analyzed potential transactions and played a key role in business development. Prior to RockWater, Thomas was development manager for Foursite Development. His responsibilities involved the construction management of a state-of-the-art storage facility, C3 Modern Storage.

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