Offshoring and outsourcing – why me and why now?

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Whaling – an example of offshoring?
Outsourcing – factory ship 1928
Advice from a US Executive

- Be very clear about what your goals and objectives for the effort are.
- Talk with a LOT of people who’ve done this before..
- Go there first
- Establish some checkpoints along the way.
- Be prepared to pull the plug if the execution or results veer way off course.
- Be PATIENT- a successful effort is measured in years of deployment not months.
Outsourcing and offshoring

- Outsourcing and offshoring are a means to an end that should complement an organizations’ strategy
- Agility is everything in business today
Outsourcing and offshoring—defined

- Captive onshore – customer service many banks in USA e.g. PNC
- Onshore outsourcing- software applications management in USA e.g. Halliburton
- Captive offshoring- IT services e.g. DHL (German company) offices in Prague
- Offshore outsourcing- what we will focus on today e.g. AAAS, AGU, Elsevier, AACR
What is the scale?

- **Forrester Report in 2002**

  “...3.3 million white collar jobs in the USA (500,000 of them in IT) would shift offshore by 2015”
Risks and benefits

Benefits include:
- Cost savings
- Scale and flexibility
- Tap new market opportunities
- Focus on core operations
- Price flexibility

Risks include:
- Control
- "Flexibility"
- Language
- Time differences
Why Move Offshore?
“11% of worldwide service employment could in theory be performed remotely’
Supply of talent exceeds demand

### Table: Suitability Varies Markedly Between Countries and Seems Especially Low in Nascent Global Resourcing Markets

<table>
<thead>
<tr>
<th>Countries</th>
<th>Engineer</th>
<th>Finance/accounting</th>
<th>Generalist</th>
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<tbody>
<tr>
<td>Russia</td>
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<td>India</td>
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<td>8</td>
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<tr>
<td>Mexico</td>
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<td>25</td>
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</tbody>
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All suitability rates are empirically based on a total of 83 interviews with HR professionals working in each country.

* Mexico is the only country where interview results (higher number) were adjusted since interview base was thinner and risk of misunderstanding high.

Source: Interviews with HR managers, HR agencies and heads of global resourcing centers. McKinsey Global Institute analysis.
What happens to one dollar spent offshore? (source: The Economist and MGI)

### Everyone’s a winner
Benefit per $1 of US spending sent offshore, 2002 est

**United States**
- Savings accruing to US investors/customers: 0.58
- Imports of US goods and services by providers in India: 0.05
- Transfer of profits by US-based providers in India back to US: 0.04
- Net direct benefit retained in US: 0.67
- Value from US labour re-employed: 0.45-0.47
- Potential net benefit to US: 1.12-1.14

**India**
- Labour: 0.10
- Profits retained in India: 0.10
- Suppliers: 0.09
- Central government taxes: 0.03
- State government taxes: 0.01
- Net benefit to India: 0.33

Source: McKinsey Global Institute
What about job losses at home?

- Outsourcing conserves profitability and thus US jobs
- BLS stats show that job growth in higher value sectors
- US manufacturing input has increased despite job losses
- Opportunity to redeploy labor in higher value added occupations (including IT)
- Liberalized competitive economies with flexible labor markets cope with the (natural) process of job creation/destruction
- US has the highest rate of re-employment of any OECD country
- China and India “stealing US jobs” – many jobs only viable in low wage environment
- Technology also replacing jobs
How well is it working?

- Average cost savings 19% but a realistic target is 30% (source: Ventoro report)
Reasons for offshore outsourcing failures
Success or failure hinges on the performance of the person in charge of the implementation

“...in the end there were too many gray areas and our vendor wouldn’t work with us to get this done”..

☐ or put correctly?

“I failed to adequately explain what we expected and what we needed prior to signing contracts
Where are the savings?

- Internal Process Improvement: 46%
- Vendor Execution: 45%
- Employee Cost: 9%
What are the characteristics of organizations that have a high success rate in offshoring? (source: Ventoro report 2005)

- Take time to identify a quantifiable business problem and establish that an offshore solution is the best solution.
- Carefully plan and execute in order to achieve an ROI.
- Realize it may be a long and difficult process requiring preparation and hard work.
- Quality of onshore and offshore teams must be the best available and staff must be given the tools and skills needed.
What about geo-political issues?

- Offshore outsourcing does not fail due to geo-political country issues
- Common sense is important!
- Cultural differences do have an impact and must be anticipated and the differences managed
For publishers why does offshoring make sense?

- Increasing volume of research articles published each year
- Pressure on library budgets
- OA discussions rumble on
- Complexity of publishing increases
  - Result is downward pressure on costs and pressure to respond flexibly to changing market conditions
- Submissions up 35%
- Articles published up 25%
- Pages published up 33%
- Costs up 11%
Library Budgets under pressure

University of California

- Library materials budgets have actually declined since 2000–01, from $65 million to $62 million in 2002–03.
- Most UC libraries have been directed by their campus administrations to plan for permanent budget cuts ranging from 5 to 10 percent in both 2003–04 and 2004–05.

“These budget cuts come at a time when the cost of acquiring library materials continues to increase at a rate that outpaces inflation. In preparing its budget request for 2003–04, the University estimated that costs for serial subscriptions would increase by more than 8 percent, and that an increase of 4 percent would be required to maintain the buying power of the overall library materials budget.”
Scholarly library challenges are publisher challenges too and include:-

- Diminishing budgets
- Proliferation of information, and issues of dual formats
- Lack of a unifying technology to manage and preserve the online component
- High expectations among users for speed, access, discovery and support services
- Rapid changes in IT
- Interdependence of campus libraries in sharing information sources

NOTE: Asia-8 includes South Korea, India, Indonesia, Malaysia, Philippines, Singapore, Taiwan, and Thailand.
Share of scientific and technical articles with international co-authorship, by country/region: 1988, 1996, and 2003

EU = European Union

NOTE: Asia-8 includes South Korea, India, Indonesia, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

NOTE: Three years of article citations, lagged by 2 years.
What does this mean?

☐ How to remain competitive within the **global** marketplace for research information?

☐ How to interact effectively with authors for whom English is not their first language?
Outsourcing checklist  (source: HBR)

- Make an outsourcing decision based on strategic goals
- Retain domain knowledge
- Design an exit strategy
- Communicate fully with current employees
- Build joint company-vendor teams
- Invest in a robust selection process
- Define appropriate performance measures
- Provide the right incentives
- Assess insurance coverage
References

- Ventoro “Offshore 2005 Research” by P. Hatch
- McKinsey Global Institute “Exploding the myths about offshoring” by Baily and Farrell April 2004
- NSF: Science and Engineering Indicators 2006 Chapter 5: Academic research and development
- The Economist “Relocating the back office” Dec 11th 2003
Thank you

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