Domestic Outsourcing: Keeping Business Processes in Your Own Backyard

DATAMARK, Inc. White Paper in association with the Outsourcing Institute

SYNOPSIS: Whether called domestic outsourcing, rural sourcing, right sourcing, right shoring, onshoring or “Alternatives to India” (ATI), the growing shift of outsourcing buyers now seeking domestic or near-shore alternatives is changing the market.

Such “backyard” solutions can reduce costs, eliminate time zone and travel issues, improve efficiencies, and diversify buyers’ sourcing portfolios. This paper will explore the causes, effects, opportunities and outcomes for buyer organizations hoping to capitalize on this trend.
A Rethinking of Outsourcing Models

Outsourcing is an industry beset by constant change. In the 1990s and early 2000s, companies capitalized on offshoring as a means to reduce costs by maximizing the new-found “labor arbitrage” model. Lower costs elsewhere translated to cost savings for rote, non-core chores handled in markets like India, China, and the Philippines.

Yet for many companies, promised cost savings never materialized; they were escalated by higher-than-expected ancillary costs, like travel, work disruptions, and re-dos of assignments or tasks done incorrectly by the outsourced organization. Moreover, excessive travel from the U.S. to Near East and Far East centers led to burnout among project managers and road warriors.

Cultural disconnects between buyer and provider resulted in projects that fell short of buyer expectations, both those negotiated and anticipated. In all, higher cost and missed delivery targets resulted in greater buyer costs on the back end. Moreover, infrastructure (e.g., electricity, Internet) can be unreliable; inconsistent job definitions create inconsistent personnel skills and definitions; and frequently, labor “job hopping” for higher wages led to up to 150% turnover per year, which harms delivery time, product quality and perceived customer service. The persistent worry of geopolitical instability, including crisis, disease or health issues, often left buyer executives fearful of disruption in service or workflow.

Atop it all, buyers have realized that savings promised or expected from offshore labor arbitrage is not worth disruption to business. Among the issues at play: Overseas inflation that has topped 15% per year for 3-4 years has flattened the cost play, versus low inflation in the U.S.

Finally, operational managers more focused on process are now decision makers, versus price-focused CFOs who formerly made the decisions. Thus, “cost” has given way to “value” realized in productivity, scalability and cost improvements. That said, budget accountability is more closely watched, and costs versus savings versus expected or promised results are being tracked.

These issues, along with concerns over internal or buyer client data security and privacy, has led some to consider new sourcing options.

Discovering a Closer Solution

One option has domestic U.S. buyers looking closer to home. Whether called domestic outsourcing, rural sourcing, right sourcing, right shoring, onshoring or “Alternatives to India” (ATI), this shift toward such “backyard” solutions as on- or near-shore alternatives can reduce costs,
eliminate time zone and travel issues, improve efficiencies, and diversify buyers’ sourcing geographic and geopolitical portfolios. Companies now are “repatriating” services closer to home.

At DATAMARK, in the past decade 80% of business went offshore (including India and Mexico). More recently, as buyers have sought onshore solutions, the ratio is balanced at 50% offshore, 50% onshore.

Onshoring solves some issues. Time-zone differences are minimized, as the work-day generally falls within or closer to the buyer’s own day. Cultural differences are reduced, including consumer dissatisfaction or frustration with contact center agents’ language or accents. For the buyer organization, working hours, holidays and vacation are aligned. For example, Americans work, on average, 1,700 product hours a year, vs. 1,600 for Indian workers and 1,300 for Europeans. Maternity leave is longer overseas. Summer “holidays” can mean a month or more off for provider staff.

Among relationship managers, onshore is preferred if:

- Proximity can aid relationship / engagement management in determining success of the project
- Project focus is dynamic (like healthcare or other regulatory-focused projects or industries)
- Ongoing process is forecast to constantly escalate to higher level process engagement

Onshoring has benefitted from other market realities. Use of deeper technologies (Internet, mobile devices, and apps) drives productivity among workers – even with fewer people doing the work. High unemployment has created a rich talent pool. High-skill talent now exists in local time zones, allowing for greater collaboration and interaction needed during key day parts to ensure greater speed to market or issue resolution. Domestic call centers avoid language / dialect barriers, especially for more challenging ITO, BPO, call centers higher up the buyer value chain.

“Rural sourcing” also can mitigate costs. Metropolitan markets historically have been the destination of choice for the workforce and technology infrastructure needed for outsourcing solutions. Yet, as those markets have risen in cost, a rural sourcing alternative provides a large employee base often found at a lower cost than a metro area and a reliable broadband infrastructure. Basing a center in a Tier 4 market dramatically lowers cost while tapping into a loyal, high-skilled workforce, one with more longevity – meaning less disruption – than found in offshore markets.
Availability of home-based workers / teleworkers reduces reliance on costly and traditional work locations, increases worker satisfaction, reduces worker turnover, opens access to wider skilled labor pools, and enables crowd sourcing or staffing a part-time call center to tap into a lower-cost resource of offshoring with a higher-value benefit of domestic sourcing.

For those bringing work back onshore, another debate has emerged: Onsite vs. Off-site. For some companies who seek to onshore, on-site / facilities-managed is preferable to off-site, as services are kept in the building, with outsourcing providers to manage the processes. Managers first must weigh whether the facility is large enough to accommodate functions, or whether the organization has sufficiently trained staff with appropriate skill sets. Another solution is to engage in a facilities-managed solution, where an outsourcing provider manages and staffs the function onsite.

**Vendor Measurement & Accountability**

Holding outsourcing providers to the terms of the agreements is vital to the success of any agreement. Measurement, delivered via a variety of tools, processes or solutions, can help ensure buyer expectations are being met. At its core, measureable value found in home-shoring engagements requires a new form of metrics as value is derived via a transition from traditional metrics, like Time & Materials. The goal is to craft deals based on value, managed service, pay-per-unit or pay-per-transaction, versus T&M. After all, T&M does not drive process improvement. SLA-based agreements should focus on improved process and encourage the supplier to improve the value proposition.

The goal should be to approach promises made in an outsourcing agreement beyond labor costs and shift to a more holistic view of cost-benefit. The approach can help buyers realize and value the resources necessary to complete the tasks. It balances and counterchecks provider resource proposals. It can help mitigate against high attrition rates, which can significantly alter the value proposition, and can help measure different productivity factors to maintain delivery levels. It also may help identify any high-risk propositions from the provider, which then may need further analysis and accountability. Ultimately, it may help answer ‘Is that feasible?’ based on provider proposal.

**Conclusion**

For many outsourcing buyers, the cost-saving promises anticipated from offshoring providers have evaporated as cost realities have taken form. For others, cost-saving never materialized at all. As both offshore and onshore market realities evolve; as costs overseas rise or savings not materialize; or as the cost-benefit analysis of such “intangibles” as frustration, burnout, do-overs or other personnel issues take root, buyers are left to consider closer-to-home onshoring or near-shoring solutions. With the right analysis and metrics, many will discover that a suitable solution can be found right in their backyard.
About DATAMARK

DATAMARK is a leading provider of digital mailroom management, data entry, document processing, customer contact center and business process re-engineering solutions for Fortune 500 companies, government agencies and other large organizations. Founded in 1989, our company is the strategic business process outsourcing partner for Top 10 companies across several industry sectors, including transportation and logistics, healthcare, insurance, banking and financial services. With onshore and offshore centers, DATAMARK delivers process optimization, technology and Enterprise Content Management solutions to help organizations achieve efficiency and profitability in all back-office business functions.

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