

Outsourcing: A Boon or Bane?



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Disclaimer

My employer Paalam is an IT outsourcing company

Paalam uses software engineers in India and other countries (such as Malaysia, Jamaica and Canada) to execute our client's projects

I am personally biased in favor of free and fair trade

Agenda

- Outsourcing – Definition
- IT Outsourcing (and BPO) versus Manufacturing
- Impact on You, Company, Industry, Country, World
- Econ 101 – Adam Smith, David Ricardo
- Trends in 1990-s and 2000-s
- Enablers of and Detriments to Outsourcing
- What To Outsource and What NOT to Outsource
 - that is the question
- **Q&A** – let us make this the main section

Outsourcing – Definition

- Outsourcing (within USA)
- Offshore outsourcing
- Offshoring / Near-shoring / North-shoring

- Onsite, off-site, offshore
- Contract, Joint Venture, Subsidiary
- BOT – Build, Operate, Transfer
- PMO (onsite) and ODC (offshore)

- Is it new? Even Columbus was in international trade!
- Manufacturing side is dominated by China
- IT side is likely to be dominated by India
- Call Center side is by Canada and the Phillipines

Impact on You, Your Company, Industry, Country, Globe

- You
 - Software Engineer
 - End-User
 - Management – CEO, CFO, CIO – you have a fiduciary responsibility to act in the best interest of the shareholders. Code of ethics to follow (like PIMA's)
 - Elected Official – Public Policy – you have responsibility to provide social stability and welfare
- You (continued)
 - Age (middle management)
 - Ability to Learn
 - Cost and Time Expended in Training
- Your Company
 - Non-IT Firm
 - IT Outsourcing Firm
 - IT Offshore Outsourcing

Econ 101

Comparative Advantage

- Adam Smith, David Ricardo
- Two Islands and Two Products example
- Free and Fair Trade is Good for Everyone
- Protect Few IT Jobs Now, Lose the Company
- Productivity Improvement is the only sustainable way to retaining higher wages
- Better Place to Invest: Safe and Secure
- Competitiveness
- Ideas and concepts still come out of USA
- WTO – World Trade Organization

More Macro Level Facts

- USA is a net exporter of IT
- India exports only \$18 billion of IT/ITES
- However, 30% growth rate
- Still, India is an insignificant trading partner
- Significant savings to American companies, forcing some Indian politicians to question their “coolie” software factories
- Wipro, Infosys, TCS, Satyam – much smaller than IBM, Accenture, Deloitte
- Geo-political / strategic point of view, India is our ally in balancing China in Asia

IT History

- Main Frame – Cobol – batch processes
- PC – Spreadsheets – user controls
- Client Server – GUI/enterprise-wide appln.
- Internet – from anywhere
- XML – tight integration with partners

Trends in 1990-s and 2000-s

- ERP in early 90's
- Y2K related spending in mid-90's
- Dot.com euphoria in late 90's
- HI-B visa increased from 65K to 200K/year
- Less loyalty between Employer/Employee
- NASDAQ crash in 2000
- 9/11 Terrorist Attack in 2001
- Abuses by CEO/CFO's and Wall Street
- Collapse of Enron, Adelphia, Worldcom, Global Crossing, Tyco and so on
- ROI / Payback within 1 year to get funded

Enablers and Detriments

- the Internet and Telephony
 - VoIP, Skype, Video Conf.
 - WebEx, NetMeeting, IM, VPN
- IT is now Plug-and-Play
 - XML, Web Services
- Transportation
- Globalization
- Remote Backup
- Income Arbitrage
- Exposes Best Practices
- Economy of Scale
- Ability to Balance Load
- Lobbying
- Poor Legal System
- IP Protection
- Business Ethics
- Less Face-to-Face
- Travel Time & Cost & Health Risk
- Cultural Difference
- Time Difference
- Currency Risk
- Bad Press
- Employee Morale
- Fear of the Unknown
- Lobbying

What to Outsource and What NOT to

- Outsource only Non-Core activities
- BPO of Poor Process makes it only worse
- Repeatable labor intensive activity with minimal time needed for instructions
- Not too small
- With well defined milestones where tracking is easier
- Privacy, Confidentiality and other risks are minimal

To Outsource or Not To Do

- Nothing to Fear But Fear Itself
- The Only Constant is Change (other than death and taxes, of course)
- Again, Productivity Improvement is the only way to retaining higher wages
- However, an advanced economy like ours MUST provide safety net, and make the shock reasonable
- Change is never easy
- Often you train your replacement
- 30% of population was in agriculture in 1920

To Outsource or Not To Do

- Software is becoming an “utility”
- However, software is key in defense
- We depend too much on our systems – Cyber-Terrorism is a major concern
- Corporations fly their own flags – can we trust them to do the right thing? Quarterly earnings drive their decisions. (GM and Standard Oil destroyed LA public transit)
- Accenture gets sweet deal from Cayman

Q&A

- Thank you for your attention
- Your Comments Please
- Thanks in advance for your comments
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