



How To Determine True Business Value Of Offshore Outsourcing

A question many executives are asking is "how can we tell whether our offshoring efforts are delivering value to our company?"

While you pay offshore vendors much less than what you would be paying a U.S. vendor, some members of your staff complain that offshore productivity is really low, that 2 or 3 offshore personnel are doing the same work that used to be done by one experienced person in the United States. And that's not all: offshore outsourcing entails additional costs for travel, communications, and duplication of equipment and/or software tools, to name just a few expenses. At least some of your staff may be implying-or even loudly proclaiming-that offshore outsourcing is not saving money after all and that it was a bad idea. Even if offshore outsourcing may have saved you money in the beginning, it may not be doing so any longer. After all, offshore labor costs also tend to escalate over time.

The cost of offshoring isn't only about money; it's also about perception. If, for example, your management team must work into the night and arrive at work in the early morning to manage offshore projects, their perception about who is benefiting and who is hurting becomes personal. While added stress on your domestic staff should not be ignored, the way to address this issue is to develop an objective view of all facets of costs:

- Direct labor cost which is the check you write to the vendor on a monthly basis
- Cost of travel both for regular monitoring and for training
- Communication costs: Additional data communication costs; in some cases companies have had to dedicate separate "communication pipes" in order to keep the offshore and local data bases synchronized. In addition, there is the cost of voice communication, video conferencing, e-mail and chat sessions. You need to evaluate how many of these costs are incremental additions because of offshoring.
- Cost of training and quite often, re-training
- Additional equipment and/or software tools you need to provide because you now have an additional location and the same tools/equipment quite often, cannot be shared.

You should, in addition, assess the offshore productivity and factor that in; even if offshore personnel are as competent as the local staff (which is your best case scenario and unlikely to be the case when you are getting started), there will a productivity loss

because of systemic issues. If you are just launching the offshore initiative, add the costs of finding a suitable offshore vendor and launching the offshore operation for the first time.

Compare this against the benefits you are receiving from offshoring - both tangible and intangible such as reduced costs, easier round the clock coverage and so on. This will give you a balanced view of the situation.

Real World Example

This approach was recently applied in an organization with complex software products and a sizable offshore operation. Mid-level managers, Project managers were up in arms about offshoring; complaints about offshoring to senior execs including the CEO were wide spread. When an objective assessment of Business Value along the lines outlined here was conducted, many in the company was surprised to find that offshoring was indeed saving considerable sum of money; however there were issues they needed to address. This resulted in the staff gaining a better understanding of the situation and the need for the company to continue offshoring. Focuses shifted from a perception of offshoring as a bad move to identifying specific issues with the offshore operation and begin addressing them.