Domestic Sourcing of IT Services: Market Niche or Scalable Business Model?

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WANTED

Willard Mitt Romney
Outsourcer-in-Chief

CHARGES:

- Having an economic agenda that is of, by, and for the wealthiest One Percent of Americans
- Pioneering the shipping of American jobs overseas
- Profiting from companies that shipped American jobs overseas
- Shipping American jobs overseas as governor of Massachusetts
- Pledging to protect tax breaks for companies that ship jobs overseas
- Supporting a budget plan that protects tax breaks for companies that ship jobs overseas

For more information on how Mitt Romney amassed a quarter-billion dollar fortune by bankrupting companies, laying off workers, and shipping American jobs overseas, visit: thinkprogress.org/economy/2012/06/22/504480/romney-outsourcer-china/
Obama Effectively Hammered Romney on Outsourcing in ‘12

The Washington Post
“specialized in relocating jobs done by American workers to new facilities in low wage countries like China and India”

APPROVED BY BARACK OBAMA. PAID FOR BY OBAMA FOR AMERICA.
Outsource to Buffalo Rather Than Bangalore
Galaxe Solutions – Offshore Outsourcing Firm Featured at Obama Insourcing Summit Help Troubled Detroit With Jobs
Senator Clinton Takes Credit for Bringing Tata Consultancy to Buffalo – 2003

Since ‘03 Tata Brought Tens of Thousands of H-1B Guestworkers to Replace Americans - Hires Virtually No Americans
• Significant Interest From Policymakers
  o Rhetorical or Real? – Maybe motive doesn’t matter

• BUT Few Actual Changes in Policy
  o They Are Focused on Manufacturing
    • Select USA To Facilitate FDI
    • Advanced Manufacturing Program (AMP)
    • National Network for Manufacturing Initiative

• Trade Policy
  o Trade Promotion Authority & Trans-Pacific Partnership
Reshoring/Insourcing
Is It Happening?

• No Gov’t Efforts to Measure Offshoring vs. Reshoring - Anecdotes
  o BCG report builds on Businessweek article
  o General Electric highlights its reshoring of appliance mfg to Lexington KY but downplays its offshoring

• Trade Data Provide Partial Insight Into Manufacturing Offshoring/Reshoring
  o Goods trade surplus/deficit provides a scorecard
    • Indicates that offshoring is overwhelming any reshoring

• Services Trade Data Mismeasured By Order(s) of Magnitude
  • Services Offshoring continues to grow in scale and scope
IT Services As A Target for Reshoring?
5415 Computer Systems Design & Related Services

• Surprisingly Little Attention Given to IT Services
  o Has ship sailed? Can’t compete?
  o Lack of US talent?

• Sector is Large & High Paying
  o 1.8 million people employed (OES 2014)
  o Accounts for 26% of All Computer Workers in US
    • 1.0 / 3.8 million computer occupations
    • $87,430 mean wage for comp occs in 5415

• Wide Variation in Firm Size
  o Self-employed to IBM (250k?) – More Scalable?
IT Services Offshoring and Offshore Outsourcing

• Leading Sector in Services Offshoring
• First Mover
  o Wage differentials are large and persist
    • Wages in India $5,000 to $12,000
    • Wages in US $70,000-$125,000

• India IT Services Exports (NASSCOM) Have Grown 550% Over Past 10 Years
  o $55bn (est) 2015 vs. $10bn in 2005
Reasons for Moving Back

- **Disadvantages of Offshore**
  - Offshore fatigue
  - Cultural differences
  - Time zone differences

- **Advantages of US Domestic**
  - American wage stagnation
  - Providers sourcing from low cost geographies
  - Agility is in more demand - tasks require frequent interaction

- **Policy**
  - Economic development incentives
  - Access to guestworker visas
  - Procurement rules

- **Risk Mitigation**
  - Data security (Financial and Healthcare)
Research in Progress

• Planned Interviews
  o Executives from Domestic Sourcing Firms
  o Analysts
    • Services Advisory firms (Gartner, Forrester, Everest)
    • Financial Research analysts (Wells Fargo, CLSA)
  o Clients
    • Do they have any preferences
    • Market niches
  o Economic Development Organizations
    • Has IT Services fallen off the radar?
Preliminary Findings

• Profitable & Growing Firms
  o Founded in 2010, grown from 100 to 600 over past 5 years

• Learn from Offshoring Success
  o Create software “factories” – large development centers
  o Boot camps and workforce development

• Java Developer - Commoditized
  o Offshore billable rates $25-$30 /hr
  o Domestic sourcing billable rates $50-$58 /hr

• Can’t Compete on Price
  o For standard work – offshore model works well
  o Can’t sell based on “quality,” “innovation,” “productivity”

• Lesson - Target Specific Markets
  o “Emerging” technologies like SAP Hybris & Hana
  o High-touch – face-to-face interaction
  o Agility – frequent iterative interaction
Preliminary Findings

• Workforce Development
  o Boot camp and heavy investments
  o Better workers are poached (system wide training deficit)
  o Better workers want to be in more higher cost geographies

• Economic Development Orgs – Mixed Bag
  o Louisiana courting IT – very heavy incentives
  o Other states not well organized

• Talent Paradox
  o Need good workers
  o Better workers are poached
  o Students’ parents were outsourced
  o Government subsidies for workforce training was very helpful ($6k)

• Cheap Workers on Visas Undercutting Business Model
  o “Unfair” competition from firms use cheaper guestworkers rather than hiring Americans
RevAmerica 2015 is the only industry event focused on U.S. Domestic Sourcing of IT and BPO services, and is the follow up event to the inaugural, highly successful Momentum 2013 conference.

As the U.S. becomes an increasingly attractive location for IT and business services, RevAmerica 2015 gives attendees the opportunity to learn more about this business model from industry experts, policy makers, service providers and practitioners. There will also be plenty of opportunities to network and get a chance to visit service delivery centers in the greater New Orleans, LA area.

RevAmerica 2015 aims to educate buyers, service providers and government agencies about U.S. outsourcing and covers major themes such as:

- Why onshoring of IT and BPO is gaining traction
- How companies are incorporating onshoring into their global sourcing strategy
- What types of IT and BPO services are being carried out in the U.S. and which service providers are delivering them
- Which U.S. regions are attractive for service delivery operations and why

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