



OAO TECHNOLOGY SOLUTIONS®

# **The Onshore Advantage: A Guide to Evaluating IT Outsourcing Options**

**September 2009**

**Cameron Chehreh**  
Chief Technology Officer  
OAO Technology Solutions, Inc.





## Evaluating Strategic IT Sourcing Options

Over the last decade, there has been a significant focus on outsourcing and offshoring critical Information Technology (IT) functions using a variety of outsourcing models and global locations. Business leaders and IT executives now have a myriad of choices available to assist with reducing IT costs, increasing productivity, managing business surges, and shortening timelines to bring products to market. Today, geographic location is more critical than ever to ensure that you meet your organization's IT strategy, project and corporate goals.

***“Previously, clients were willing to deal with substandard work because the labor rate and free rework made it acceptable, but as offshore rates and other costs climb, client tolerance for poor work has dropped dramatically.”***

-Forrester Research, Inc.

Based on a number of offshoring concerns that have been raised over the last few years, North American-based outsourcing locations have become increasingly popular due to a robust civil infrastructure, access to skilled resources, lower security risk, similar time zone access and comparable business culture. These onshore locations meet a variety of financial and business case objectives without the risk of what is referred to as the “hidden costs” of offshoring. Such costs include the additional investments that typically manifest themselves over the course of time, such as business continuity, disaster recovery and security. For example, your organization's outsourcing strategy and business case needs to include the impact of rolling services back to internal resources during connectivity and environmental outages.

## The Outsourcing Baseline Strategy

The principles of onshoring are fundamentally the same as offshoring. Each model leverages labor arbitrage to derive overall IT cost savings. Acquiring labor in lower-cost wage areas has been the catalyst driving IT outsourcing to destinations such as India, China, Eastern Europe, The Philippines, Brazil, etc. However, in recent years inflation, labor turnover, increased cost of living and business taxes have overtaken the original business case associated with these locations and the anticipated benefits have not been fully realized.

If you are considering changes to your outsourcing model or evaluating outsourcing for the first time, it is important to baseline a number of outsourcing options and locations that can provide reduced risk, more predictable costs, higher quality and increased productivity.

The baseline inputs should answer the following questions:

- What is my primary corporate mission?
- How will this support that mission?
- What is the impact to my end customers?
- What are the key drivers for the decision?
- What level of risk am I willing to accept?

North American-based outsourcing alternatives have also become more viable in recent years. Leveraging cost-advantageous regions across the United States and Canada offers numerous advantages when compared to a majority of offshore locations. Organizations are still able to realize sustainable cost savings and meet business case objectives, but with a much lower risk profile than other global destinations.



## The Business Case for Outsourcing

The business case is the most critical part of planning any project in order to provide a complete perspective and agreement for the effort, including the business needs, stakeholder alignment and what results should be achieved. However, input can vary based on business, departments and organizations priorities.

Typically, financial considerations, such as total cost of labor, technology, maintenance, infrastructure, facilities, management, and general and administrative elements must be considered. In addition, there can also be many unique requirements based on the industry, vertical market or customers that the business serves. Specific inputs that define a business case for outsourcing include the following:

- Stakeholder analysis (Who)
- Technology portfolio review (What)
- Desired rate of return (When)
- Regional risk analysis (Where)
- Key business drivers and influencers (Why)
- Process maturity (How)

## The North American Advantage

Lower-cost wage areas within the borders of the United States and Canada offer proven examples of delivering services with reduced costs and lower risk. Below are the four key criteria that comprise the critical decision-making framework for evaluating outsourcing options:

- **Risk** – Offering a lower risk option based on transparency in governance and trade agreements between the US and Canada.
- **Quality** – Delivering high quality support through exceptionally stable infrastructures, such as transportation, electricity and telecommunications.
- **Service** – Providing exceptional service based on similar culture, time zone, language, and education, as well as business strategies and focus on process improvements.
- **Cost** – Leveraging business savings by targeting regions with a lower cost of living and negotiating exchange rates and staff with the latest skills and training.



**Figure 1: Key Outsourcing Decision Criteria**  
*Each criterion must have equal weighting to ensure stability in the outsourcing solution.*

While evaluating the outsourcing options using the Key Outsourcing Decision Criteria (Figure 1), you must have equal weighting for each criterion to ensure stability in your solution. If lowering the cost of IT is the primary requirement for considering an outsourcing option, then you need to make certain that the evaluation criteria for quality, service and risk are comparably balanced.



When considering the outsourcing options available to your company, the following areas should be carefully assessed to provide an objective level of due diligence before you engage an outsourcing firm.



## **Business Culture**

When choosing an outsourcing partner and location, you must not only evaluate how your two organizations will interrelate, but also consider all customer-facing interactions. Because business and work cultures are not the same around the globe, a cooperative team environment is important for achieving a successful outsourcing relationship, recognizing savings and integrating successful processes across both organizations. Working in a similar business culture enhances the value of the relationship by leveraging the following synergies:

- **Workforce** – North America typically offers improved workforce stability and lower turnover rates, while also providing higher work quality and consistent service delivery.
- **Management** – Similarity in management culture allows organizations to focus on strategic business issues rather than tactics. Ongoing project oversight is less complex when the outsourcing company's language, management style and communication are compatible.
- **Service Delivery** – Customer service can be defined at a framework level to permit better decision support during customer interactions. This provides the flexibility to operate outside of highly rigid scripts, thereby increasing customer satisfaction and reducing issue escalation.



## **Economic Diversity**

North American-based locations offer a very stable economy that is highly diversified due to its business mix. Diversity is important because it protects the entire regional economy when fluctuations occur in one sector, such as increases in wages, inflation and cost of living. If you have chosen to outsource to a provider located in a region that is unbalanced economically, it may be difficult to achieve agreed-upon service levels without impacting the quality of service delivery. Therefore, the decision must be based not only on cost savings, but also the potential risk to revenue and end-customer satisfaction. Choosing an outsourcing location with a diversified economy provides a stable platform and allows the provider to maintain cost controls, reduce cost rates for services, and recruit staff with critical skill sets.



## **Social, Political and Environmental Consideration**

In today's world, social, political and environmental risks are very real concerns when you are considering outsourcing options. Uncertainty also raises the risk profile of certain global regions and translates into inherent risk being passed on to any company or organization acquiring outsourced services. Political, governmental and economic support provides the benefit of stability and the ability for an IT outsourcing provider to deliver consistent and reliable services.

The political approach of each global location creates the foundation for the business community and requires the proper due diligence to determine the most appropriate outsourcing solution for your organization. For example, one of the distinct advantages of outsourcing using Canadian-based resources are the existing trade agreements and a cross border business community that is well-established and thriving. The overall stability of this onshore region provides a long-term and low-risk outsourcing solution.



## Time Zone Access

Overseeing an outsourcing provider that has a similar cultural background and business time zone significantly reduces the administrative burden, risk and cost of the total solution. An onshore capability not only provides access to critical resources at a reduced cost, but also removes the additional management requirements associated with other global locations. As an example, when managing systems outages or unplanned events, the ability to access staff that has similar shift schedules allows issues to be resolved quickly and without the risk of shift transitions.

However, if you are dealing with a service location in a remote region, time zone differences and shift schedules that are out of sync may pose challenges in resolving issues in a timely manner. When outages occur, they become more complex and costly to resolve over time and it can take much longer than acceptable to achieve a final resolution. In these scenarios, the increasing service cost and management burden may not be measurable until you evaluate the total cost of ownership and take into account the overtime expenses, additional resource requirements and the additional management oversight for mitigating critical situations. The result produces a lower overall satisfaction of the outsourcing experience and increased costs.



## Civil Infrastructure

Mature infrastructures, such as transportation, electricity and telecommunications systems, ensure a solid platform for high quality service delivery. Mature infrastructures and the continued investments in enhancing the systems are the norm in North America, thus enabling an outsourcing provider in these locations to provide high quality service for existing, expanded and new service offerings.

Dealing with a provider in locations that lack a robust civil infrastructure can bring about major challenges for the outsourcing provider. For instance, should there be a major outage affecting a mass transit system that limits the outsourcer's ability to provide continuity of service or to quickly pull in additional resources, the provider must create an alternative means of transportation for the IT workers to reach the work location and access IT systems. The risk of such infrastructure outages or any limited access to critical systems within these remote regions translates into unforeseen costs that undermine the original business case, which ultimately impacts the outsourcing partnership.



## Security

With the constant threat of cyber crime, securing critical business data and infrastructure requires stringent process adherence, procedure governance, and compliance audits. An IT outsourcing provider within close proximity helps to reduce the overall cost, complexity and execution of site visits, reviews and audits.

Typically, an onshore IT solutions provider also takes less time and effort to execute audits based on the service delivery location. When coupled with the reciprocity framework that is in-place between the United States and Canada, the ability to secure critical corporate data is more efficient and provides savings in terms of regulatory compliance and cost-avoidance.

## Summary

If you are considering changes to your outsourcing model or evaluating outsourcing for the first time, it is important to begin with a solid business case by determining what is critical to your businesses success. Balancing this due diligence with the four primary outsourcing criteria (risk, quality, service and cost) will help you meet your business objectives.

North American-based outsourcing helps companies maintain better control of quality, cost and delivery of service to their customers. These onshore locations provide better stability, increased security and reduced risk of the “hidden costs” that you may encounter with other popular offshoring locations. Supported by an established civil infrastructure, access to critical talent and economic diversity, North America offers a variety of outsourcing locations that provide a lower risk, high quality outsourcing solution.

## Contact For More Information

### **Cameron Chehreh**

*Chief Technology Officer*

#### **OAOT Technology Solutions, Inc.**

7500 Greenway Center Drive, 16th Floor  
Greenbelt, Maryland 20770-3522

**Office:** (301) 486-0400

**Fax:** (301) 486-0415

**Toll Free:** (888) 486-2302

**Email:** [cchehreh@oaot.com](mailto:cchehreh@oaot.com)

**Website:** [www.oaot.com](http://www.oaot.com)

## About the Author

Cameron Chehreh is the OAOT Chief Technology Officer (CTO) and Senior Vice President and General Manager of the Strategic Business Solutions line of business. He is responsible for leading the company's Applications Outsourcing expertise and providing a full complement of application, architecture and IT alignment services for our customers. He also leads the Human Capital Management Solutions division, providing IT Staffing services and supporting customer requirements through rapid access to today's top talent. As CTO, he manages the expansion of the company's Global Managed IT Services and Solutions portfolio to address a wide range of customer challenges. His technical and business expertise has established him as an IT Industry thought leader. He was a guest speaker at a Gartner Conference on the topic of Case Management and Service-Oriented Architecture (SOA) strategies.

Cameron began his career in the staffing industry as an Account Manager for the Maxim Group. At Tek Systems, he provided helpdesk and field location support, and was the PeopleSoft technical lead. Following this, he held positions as Senior Applications Engineer at USinternetworking and Enterprise Architect for Commercial, off-the-shelf (COTS) solutions at Digex, Inc. During his tenure, Digex was recognized with *CIO 100* and *Infoworld 100* awards, and ranked #11 on the prestigious list for systems integration projects.



DAO TECHNOLOGY SOLUTIONS®

Immediately before joining OAOT, Cameron was the acting Chief Technology Officer and Enterprise Solutions Architect for Northrop Grumman Information Technology's Enterprise Resource Planning (ERP)\Customer Relationship Management (CRM) division of the Civilian Agencies group. As Technical Director, he designed and implemented an application-focused Center of Excellence with core technologies from Oracle, PeopleSoft, Siebel, SAP and Microsoft that supported rapid prototyping solutions. Cameron holds a Bachelor of Science degree in Audio Engineering and Mass Communications from Middle Tennessee State University.

## About OAOT

OAOT ([www.aoat.com](http://www.aoat.com)) is a global leader in Managed IT Services and Solutions to Fortune 500 corporations, global outsourcers and government agencies. The Company's core competencies include applications outsourcing, data center and infrastructure management and staffing solutions. Headquartered in Greenbelt, Maryland, our 1,600 worldwide employees are located throughout the United States, Canada and Europe.

## OAOT Onshore IT Services Expertise

Onshore IT outsourcing services are at the very core of OAOT's business success. For more than 36 years, we have been recognized for providing access to best practices, gaining process efficiencies, reducing financial impact and improving operations by leveraging our Managed IT Services experience. We consistently meet stringent service level agreements and provide cost savings from day one, typically reducing our customers' IT costs an average of 21 percent on an annual basis.

Our OAOT Canadian offices are located in Toronto, Ontario and Moncton, New Brunswick. These locations serve as onshore Applications Outsourcing and Infrastructure Support Services Delivery Centers. Additionally, we provide onsite or remote services, as required.

Below are a few examples of our program and project management expertise:

- **Laptops division of a worldwide consumer goods company** – our company operates a Mainframe-based order management system (Data Warehouse running DB2® and Multiple Virtual Storage) that tracks orders and discounts for the laptop and small systems lines of business.
- **One of the world's largest automobile manufacturers** – we developed and currently maintain a globally deployed, web-based warranty management system. OAOT streamlined access to the manufacturer's warranty information and helped prevent duplicative claims by implementing a single, consolidated solution to run across Java, J2EE and windows-based platforms.
- **Canadian-based Independent Software Vendor (ISV)** – OAOT currently provides Software as a Service (SaaS) and application management services. We are developing and modernizing code on a Java-based platform in support of software products.
- **International telecommunications and mobile device provider** – we ran the global billing system, consisting of a suite of applications that generates all billing information for all divisions of the company, across 120 global locations.
- **Leading manufacturer of agricultural and landscaping equipment** – our company-delivered application management services, including legacy business applications, sales and dealer online system and development and support for custom-built Enterprise Resource Planning (ERP) applications.