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Rural Sourcing Gains Ground and Adherents

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INTRODUCTION

The concept of “rural sourcing,” whereby U.S.-based service providers establish delivery centers in low-cost regions outside of major metropolitan areas, is gaining increasing interest and credibility as a viable alternative to global offshoring.

Potential benefits include access to relatively low-cost labor, fewer time-zone and cultural constraints, and, in many cases, lower transition costs. For many organizations, especially those in the public sector, the political appeal of maintaining domestic operations can be paramount.

This ISG white paper examines a range of considerations involved in assessing the rural option, and includes insights and observations gained from ISG analyses of outsourced support operations based in rural U.S. locations.



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BENEFITS AND CONSIDERATIONS

As with any sourcing model, the cornerstone of the rural approach is ready access to skilled labor at relatively low cost.

ISG has found that rural sourcing suppliers can leverage wage rates 20 percent to 40 percent lower than those found in metropolitan areas.

Rural-based service centers can also leverage existing infrastructure to achieve further economies through a service delivery “factory” framework of common best practice processes (ITIL and CMM), tools, training, operating models, and knowledge management disciplines. In addition, rural sourcing centers are well-positioned to provide custom application development and testing services.

Software development and software testing are commonly supported in a rural sourcing model. The level of investment by rural firms is often less than the MNCs, so activities that are asset or investment intensive, such as remote infrastructure support, are not good candidates for rural outsourcing.

STAFFING

Over the long term, rural sourcing offers a potential business model to grow domestic IT industry talent, add jobs locally, and expand IT skills in outlying regions.

Rural outsourcers rely on university towns in Alabama, Arkansas, Georgia, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Wisconsin, and elsewhere to produce technically trained students and professionals seeking career opportunities and a lower cost of living. While access to a talent pool is essential, quality of life considerations – such as climate, recreational activities, and quality schools – are becoming increasingly important competitive differentiators for rural providers in their hiring strategies.

For underemployed residents of economically depressed areas, moreover, rural centers provide an attractive entry-level option. ISG recently analyzed an outsourced Help Desk operation based in a Prairie state that served a number of national clients. The service provider established a career path, whereby entry-level agents from the local community worked on smaller accounts doing first-level contacts, and then progressed to more prestigious accounts and more value-added work. The provider’s major client – a major global retailer – was considered a true partner, and provided long-term opportunities to a number of agents.

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An effective alliance strategy is a key element of rural sourcing success. Public/private partnership with state entities and universities with engineering and business graduates allow service providers to staff delivery centers directly from local resources. Campus recruitment programs aimed at engineering and computer science graduates, job fairs, as well as training programs targeted to the local non-university community provide a continuous pipeline of staff with a mix of target skills.

THE POLITICAL ADVANTAGE



A local relationship with a U.S.-based entity can also be key to addressing challenges associated with outsourcing.

The rural approach can also ease data privacy and security restrictions, especially with public and healthcare sector clients. And, from a domestic political standpoint, rural sourcing can be positioned as a way to generate economic growth in areas of high unemployment.

Indeed, local politics is often the strongest driver for rural sourcing initiatives. While large multi-national providers can resolve time zone or data privacy challenges, a local relationship with a U.S.-based entity can also be key to addressing challenges associated with outsourcing.

With political instability a growing concern internationally, rurals can also be seen as less risky. That said, effective disaster recovery plans and processes are still essential. ISG recently assessed a rural operation that was largely caught off-guard by the recent flooding in the Midwest. While the service provider was able to route work to other locations and to home-based workers, the floods exposed the provider's lack of preparedness.

THE LOCAL TOUCH

The location and national origin of help desk agents can have a significant impact on operational performance and on user perceptions of quality.

Satisfaction surveys conducted by ISG for a major global retailer found that help desk users actively avoided dealing with agents in a Mexican operation in order to speak to an agent based in the Midwest. While the most common complaint against the Mexican agents was difficulty in communicating because of accents and "cultural" differences, users also expressed a view that the desk in Mexico "didn't understand the urgency of our needs and issues." In this instance, the provider established an operation in New Mexico to serve Spanish-speaking users in the U.S. that rated highly.

In other instances, ISG has observed that users will try to solve problems on their own or seek a colleague's assistance rather than work with an offshore provider and deal with "someone who doesn't speak English." ISG has strong evidence showing that high levels of "end-user effort," whereby users avoid the help desk and try to fix their own problems, can be a significant drain on productivity.

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THE SCALABILITY CHALLENGE

Perhaps the biggest shortcoming of the rural model is scalability. Even the largest state universities in states like Arkansas, Kansas, Iowa, and Oklahoma produce only a trickle of talent relative to the technical academies of Bangalore and Beijing.

Another issue is process maturity. ISG has observed that rural providers tend to lag in this area, relative to the large offshore providers, and has documented the negative impact that lack of process discipline can have on an outsourcing relationship. (*For more information link to "Heroes vs. Process Discipline"*).

ASSESSING THE RURAL OPTION

Assessing the viability of a rural sourcing approach requires an apples-to-apples comparison against alternatives. In addition to labor arbitrage, factors such as different management and training requirements, impact of different time zones, and savings associated with less travel, must be considered. And whatever sourcing model is adopted, a focus on continuous improvement and optimization of operations through adoption of leading practices and process management models is essential.

To ensure a meaningful comparison, service level agreements and productivity measures included in the total cost of outsourcing (TCO) assessment should be the same for a rural outsourcer and a traditional or offshore outsourcer. Blended rates should account for the percentage of work completed offsite, which is likely to be higher in a rural model than in a traditional offshore setting.



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THE COMPETITION QUANDARY

For clients and service providers pursuing a rural option, the level of competition within a given market is a critical consideration. As the market is still in its relative infancy, in many outlying areas a rural provider can be the only game in town. This can prevent turnover and keep salaries down, as staff have few alternatives.

On the other hand, in areas where several players vie for talent, service providers have access to higher levels of experience and are more likely to leverage benefits from process and standardization.

Over time, of course, competition will intensify in even the most remote areas, and the rural model will be subjected to the inevitable pricing pressures of outsourcing economics.

This consideration raises the question of who will ultimately prevail in the rural arena – the early adopters and specialists? Or the established major players?

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ISG believes that the Tier 1 global service providers with U.S. delivery centers will have an advantage over rural outsourcers because of the former's ability to integrate processes and tools (such as test automation) and to provide scale and leverage that are difficult for smaller firms to achieve. Further, as emerging markets such as healthcare expand, the large players can be expected to grow investment in domestic locations.

CONCLUSION

A small but rapidly growing market, rural sourcing complements a multi-provider strategy and provides risk-mitigating diversification that may address business and/or be a good prelude for offshoring. To date, rural sourcing has been financially viable and politically savvy with respect to job creation and retention. As with any sourcing strategy, however, the rural model requires a structured approach to contract management and governance.

Potential Benefits of Rural Sourcing	Potential Risks of Rural Sourcing	Rural Sourcing Success Factors	Rural Sourcing Firms
Time-zone proximity enhances cycle times and, coupled with integration with global delivery networks, enables round-the-clock support.	Lack of scalability	Proximity to universities and/or access to experienced pool of workers in key industries (e.g. finance, automotive, healthcare, etc.)	Aelera www.aelera.com
Ability to meet demand for U.S.-based services driven by regulatory, U.S. citizenship, data privacy, time zone and/or corporate culture requirements	Process and governance immaturity	Favorable relationships, including recruitment and training programs, with area colleges and universities	CrossUSA www.cross-usa.com
Stable workforce and reduced attrition - turnover rates of around 5 percent		Travel connectivity	Eagle Creek Software Services www.eaglecrk.com
		Quality of life considerations (public schools, recreation, climate)	Onshore Technology Services www.onshoretechnology.com
		Cost-of-Living (relative to urban centers)	Rural America OnShore Outsourcing www.ruralamericaonshore.com
			Rural Sourcing Inc. (RSI) www.ruralsourcing.com
			Xpanxion, LLC www.xpanxion.com

A RURAL PROVIDER'S PERSPECTIVE

“The scalability question is certainly the biggest question in the long-term. However, I think there are two demand-side forces that make the question much easier to get one’s head around. First, I believe that we are opening up outsourcing to an entirely new market of mid-size firms that have never needed the scale that Tier 1 suppliers are exclusively focused on.



These new clients are realizing that outsourcing can be within their reach both from a size and a risk point of view. These clients are driven as much or more by the access to "new skills" as opposed to the "number of skills." In other words, as we are on the precipice of an entirely new IT journey with mobilization, social networking, device proliferation, real-time analytics, etc., the mid-size IT shops are having a difficult time keeping up with the technology needed to compete in not only the world of today, but also tomorrow.

Secondly, both providers and buyers in the industry have matured into a better understanding of what their overall portfolio requires. They are much better at answering these questions: Which tasks are prescriptive? What is core? What development needs to be more collaborative? And so on. As one client put it to me, 'I'm not looking for the economies of scale in my IT shop, I'm looking for the 'economies of skill.'

The analogy that comes to mind is Costco. Who among us hasn't gone in there and bought the 100-pound sack of apples because they were so cheap only to realize a week later that 50 percent of the bag has gone to waste and must be thrown out? We never needed 100 pounds of apples, but that was how it was packaged, and the cost seemed reasonable.

In terms of maturity of the processes, I absolutely agree that these are essential. However, size and scalability do not necessarily guarantee compliance. Or if they do, they can sometimes restrict nimbleness and innovation. This is where we can provide a superior alternative that can be structured more closely to what makes sense for the client's individual needs, not just something with a lot of checks and balances that becomes monolithic and bureaucratic. In fact, we have a client where we are responsible for supporting a CRM package, and a global Tier1 provider supports another enterprise application. Our structure, responsiveness, and SLA reporting are all being used as example targets for future incorporations with other providers."

ABOUT THE AUTHOR

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Kathy enjoys building trusting relationships and working with clients to transform and optimize IT service delivery functions. She works with businesses to develop digital strategies and workplace services migration plans, leveraging emerging technologies, XaaS and Office 365. Kathy creates go-to-market packages for vendor management, governance and bid management for global sourcing initiatives and establishes business-driven critical service level measures for applications and infrastructure. As part of ISG's knowledge management team, Kathy works with ISG's product leaders, focusing on construction of ISG's knowledge assets and next-generation sourcing approach. In her 20 years of experience, Kathy has implemented and supported numerous transitions and transformations for IT outsourcing delivery models.



ABOUT ISG

ISG (Information Services Group) (NASDAQ: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including 75 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry’s most comprehensive marketplace data. For more information, visit www.isg-one.com.

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