



Outsourcing:

An analysis of the current state of offshore outsourcing in New York City based companies

Prepared for New Jobs for New York

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Background:

At the request of *New Jobs for New York*, an analysis of the current state of offshore outsourcing in New York City based companies, including near-shore activity in Canada and Mexico, was conducted during the period March 1, 2004 thru May 31, 2004.

The principal finding of the analysis is that the true cost savings associated with outsourcing are not nearly as large as many in the business community believe them to be. Whereas respondents to the survey cite 44% estimated savings, the survey has found that the true savings can sometimes be less than half of that.

This study focused on:

- Use of offshore resources in the areas of Information Technology (IT) and Business Process Outsourcing (BPO) today and future plans/trends
- The primary reasons/drivers that companies have engaged in the use of offshore outsourcing
- The complete cost of offshore outsourcing
- The cost competitiveness of New York resources

The study group:

The 100 largest public companies in New York City were the focus of this study. Data was collected via survey or secondary research from 62 of these companies. In general, all included had over \$1B in annual revenue, more than 3,000 total employees, and had over 100 IT employees.

Summary of Results

It is clear that New York City continues and will continue to be the “capital” of the world in critical areas of business. The New York City economy is vital and growing. According to a

report by the New York City Comptroller, in the first quarter of 2004 -- the economy grew by 7 percent, adding 21,000 jobs, the largest quarterly growth since the final three-month period of 1999. In the context of maintaining their vitality and economic dominance the trend towards offshore outsourcing is clearly evident in the largest New York City based companies. The results of this study indicate that some sorts of offshore outsourcing are inevitable but with a clear understanding of the true economics of offshore outsourcing there are areas in which companies can competitively and should be performing work onshore with New York itself offering opportunities and possible locations. In particular areas in upstate New York have the skillsets available and compensation structure that enable opportunities for companies to have cost-competitive facilities within a few hundred miles of New York City especially in the areas of IT and BPO support.

Finding # 1:

The use of offshore outsourcing in the areas of IT and BPO is growing. The majority of the companies in the study were engaged in offshore activities and that number will continue to grow, as it's the preferred approach for IT and BPO. Of those that were engaged in offshore outsourcing, IT work was the primary focus (80%) and BPO was the secondary focus (36%). Approximately 15% were engaged in both. Primary offshore activity was in India followed by Canada (near shore), Philippines, Ireland, China, and Eastern Europe.

Finding #2:

The primary drivers ranked by companies going offshore are cost savings (90%), skillset availability (64%), quality (41%), worker productivity (34%), and time zone leverage (18%).

Finding #3:

The average amount of cost savings cited by companies with offshore IT or BPO is 44% versus their cost structure in New York City.

Coupling findings 2 and 3 it is obvious that cost savings is the dominant driver of offshore strategy. However, savings close to 44% can be attained using labor resources for IT and BPO in cities such as Syracuse, Rochester, Buffalo, Rensselaer, etc. where salaries for IT and BPO jobs are within 10% to 20% of the true cost of offshore equivalents.

Finding #4:

The true cost of offshore resources is not just the raw salary differential. The myth of ten offshore workers to one onshore worker is simply not true. There are a number of costs that need be added to raw offshore wages to get the complete picture -- planning, transition, start-up, technology and communications, remote management and oversight, and, of course, travel and logistics.

Finding #5:

Companies that are currently going offshore are willing to consider use of equivalent onshore labor with consideration to favorable labor rates, incentives, and skillset availability.

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