

Rural Outsourcing Gains Momentum in US

By Pankaj Mishra, Economic Times, India
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BANGALORE: Smaller US firms such as Rural America Onshore Sourcing and Xpanxion are attempting to build a sustainable rural outsourcing model in the US at a time when offshore locations such as India are facing a backlash and unemployment rates have touched an all time high.

Xpanxion, an Atlanta-headquartered software firm, which shifted its software testing work from Pune to Nebraska few years ago is among a handful of such firms seeking to create a more comfortable and cost effective alternative to offshore outsourcing.

“The decision for us to execute on our cross-sourcing model in a US rural community was based on lower operational costs and a lower cost of living in rural areas of the US as compared to larger metropolitan cities such as Atlanta , Boston, or San Francisco,” Paul Eurek, founder and CEO of Xpanxion told ET in an interview last week.

Customers such as NCR, Coca Cola and Goldleaf Financial Solutions are outsourcing software projects to Xpanxion. At a time when political lobbyists such as Senator Chuck Grassley are leading a campaign against offshore outsourcing by American firms, some customers might prefer to outsource smaller projects to local providers and avoid being seen as supporting the outsourcing of US jobs.

“They offer lower costs than traditional US labour markets , potentially less risk (political and other) than offshore, closer proximity (and perhaps quicker and cheaper travel to the customer site than an offshore worker),” said Ron Hira, assistant professor of public policy at the Rochester Institute of Technology.

While cost advantages of delivering a project from a location such as Corsicana , or Kearney (Nebraska) could be almost 20-40 % cheaper when compared with Los Angeles, outsourcing experts such as Ms Hira argue that rural sourcing will still remain a niche market because not many customers are located in the rural locations. “The wage differentials are simply not compelling enough for rural sourcing to take significant market share,” Ms Hira said.

“If you need to be onshore it is more likely because you need to be co-located with the customer and the customers aren’t in rural locations,” she added. According to the US department of labour, the unemployment rate during December 2008 rose from around 6.8-7 .2% with almost 2 million workers losing their jobs between September-December.

Meanwhile, firms such as Xpanxion are seeking to increase rural sourcing not necessarily for cost advantages, but for ensuring that some of the cultural and communication issues of offshore outsourcing are addressed. “The initiative to shift some of the technical work from our centre in Pune was a strategic business model change intended to inject American business domain, culture , and quality standards into the daily engineering activities of our offshore development team,” Mr Eurek added.

“Xpanxion took into account the strong work ethic of the US rural population and the virtual absence of employee turnover.” Apart from software development projects, some rural sourcing firms such as Rural America Onshore are offering back office services. Christopher Hytry Derrington, CEO of Rural America says rural sourcing is increasingly gaining momentum in the US.

“There are numerous firms now looking at creating captive centres within rural areas as well as start-ups looking to offer services via this rural model,” he said. He added that his firm will expand its operations from three development centres in Wisconsin, Ohio and Kentucky currently to around 18 by 2011.