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Rural outsourcing on the rise in the U.S.

The rural option offers better intrateam communication than offshoring, better pricing than the huge outsourcing firms

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For years, U.S. companies have been shipping development work and other IT tasks offshore in pursuit of low labor costs. Now a growing number of organizations are taking advantage of lower costs closer to home, by hiring outsourcing providers with operations in rural areas of the U.S.

Hard numbers on the growth of rural outsourcing are difficult to come by because none of the leading IT and sourcing research firms breaks out data specifically on rural outsourcing. But Mary Lacity, professor of information systems at the University of Missouri's College of Business, who has been conducting extensive research on the market, says that in the past year or two there has been huge demand for the services.

One indication of the growth in demand, Lacity says, is that the service providers are quickly ramping up staff. "Suppliers are scrambling to get enough qualified people to make sure they can meet the surge in demand," she says. "So many clients I've heard from are interested in this model." Lacity estimates that there are about 20 rural outsourcing providers in the United States and, based on her analysis of the providers, the total market size is about \$100 million.

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One such provider is Rural Sourcing Inc., based in Atlanta, with development centers in Jonesboro, Ark., and Durham, N.C.

Pros and cons

Rural outsourcing provides the same basic benefits as other outsourcing arrangements: ready access to technology expertise, and resources that the client lacks internally.

But the model offers some advantages, as well as disadvantages, compared with other outsourcing options. On the plus side, rural outsourcing can provide the same or similar cost advantages that

offshoring delivers. Because service providers operate in areas of the country where the cost of living is lower, they can pay lower salaries and therefore keep costs down. That's something that in many cases, outsourcing providers operating in more metropolitan areas of the U.S. can't do.

And unlike with offshore service providers, rural outsourcing companies in the U.S. -- and their clients -- don't have to grapple with the time zone, language and cultural issues that can often complicate offshoring relationships.

Tips for going rural

- Rural outsourcing firms are generally equipped to handle some types of tasks well, rather than possessing a deep knowledge base and resources to handle virtually any type of IT project. Thoroughly research these firms to understand what they can provide and ensure that it's a good match with what you need.
- In general, rural outsourcers haven't fully implemented process maturity models such as CMMI. That means you might not get the level of quality reviews or process improvements that you would with larger outsourcing firms.
- Given the rural areas where project centers are located, rural outsourcers don't always have lots of IT resources waiting for work. Look into how they will recruit and train people for your projects, and how long that will take.
- As in any outsourcing relationship, look at the security, data privacy and intellectual property protection capabilities of the outsourcing provider.
- Put in place a strong governance program to oversee every aspect of the outsourcing relationship, including the contract, service levels, problem resolution and security.
- Structure the outsourcing engagement in a way that allows you to frequently evaluate the quality of work delivered, so you can make quick adjustments when needed.

While it can take up to 18 months to work out all the issues related to offshoring, "with some of the rural outsourcing approaches we're seeing, the proximity to the client can mitigate these challenges," says Steven Hall, partner and managing director at TPI, a Houston firm that consults on a variety of sourcing issues. In other words, it's not so much a matter of saving time, but rather avoiding the hassles related to many offshoring engagements.

Another big advantage is that hiring U.S.-based firms is more politically acceptable for many companies, and it can be more compatible with a firm's mission statement or corporate values. In the case of local or state government IT, agencies can be legally bound to do business with U.S. providers unless none can be found.

On the negative side, rural outsourcing providers in general don't have the financial resources and broad array of skills that large global outsourcing providers have. They also don't have the same level of experience that many years of providing outsourcing services can bring.

"In general, the rural outsourcers haven't fully implemented the process maturity models such as CMMI [Capability Maturity Model Integration]," Hall says. "That means oftentimes you're not going to get the higher levels of quality reviews or process

improvements that we've seen" with bigger outsourcing firms.

Hall says most of the outsourcing engagements with rural service providers are relatively small, typically with a total contract value of less than \$5 million. Nevertheless, rural outsourcing is having an impact on companies' abilities to solve problems and meet immediate needs.

The Rawlings Group, a LaGrange, Ky., company that provides medical claims recovery services for healthcare clients, uses application development services, including .Net programming. It's working with Rural Sourcing, which has provided developers to work on projects related to Rawlings' internal accounts-receivable processes.

Kevin Landgrave, senior vice president of IT at Rawlings, says his firm opted to outsource because it lacks the internal resources to complete development work quickly. The company didn't want to have to deal with the time zone and communication problems often associated with offshoring, he says.

Ramp-up time: Both a blessing and a curse

While the lower cost of services compared with other types of onshore outsourcing is one of the selling points of the model, savings isn't always the biggest benefit, Landgrave says. For companies that would otherwise have to hire resources internally, the real value comes from increased agility and speed of development.



Pedro Villalba, CTO at Emblem Healthcare, says savings associated with using a rural sourcing strategy - compared with higher-priced expertise such as larger outsourcing providers -- has been in the 40% to 50% range for his legacy mainframe work.

"From a cost perspective, rural outsourced resources are roughly the same as the loaded cost of an internal resource but allow us to ramp up and down quickly," Landgrave says. "We are able to meet our deadlines because of the extra programming bandwidth."

But not everyone has experienced the same benefit. In some cases, rural ramp-up time just isn't fast enough to meet a company's needs.

Pedro Villalba, senior vice president and CTO of Emblem Healthcare, a New York-based provider of healthcare insurance, has used services from CrossUSA in Burnsville, Minn., since 2004. Emblem has worked with CrossUSA on some 50 projects related to its mainframe applications.

"Based on the rural areas where the project centers are, they don't have tons of IT resources just waiting for work," Villalba says. "Cross must recruit, often relocate and train the resources for the work we need, hence the importance of holding on to the resources."

But this is the only downside of rural outsourcing he has experienced, Villalba says.

Emblem has been able to move rural teams from one project to the next. "We see a big improvement in the area of work quality and productivity, because CrossUSA understands our business, and the resources don't have to keep relearning to be effective," Villalba says.

Diversified skill sets

In addition to gaining access to development resources, Landgrave says, Rawlings benefits from the fact that Rural Sourcing workers have flexible schedules and diverse programming skills, and have easily blended into Rawlings' existing teams and processes. "The primary plus of Rural Sourcing for us has been how seamlessly resources have integrated into our development life cycle," he says."



Matt Ross, president of FormShare, says he's had a good experience with rural outsourcing during a three-month contract and is now looking to extend the relationship for a longer term.

Another customer, FormShare LLC, is a Miamisburg, Ohio, provider of paperless workflow applications for schools. In May 2010, FormShare began outsourcing application development work to Rural America OnShore Outsourcing Inc., which operates development facilities in Ohio, Kentucky and Wisconsin.

FormShare relies on Rural America to maintain its current applications and help create new features and enhancements, says Matt Ross, president of FormShare. The company's products allow schools to eliminate or reduce their use of paper documents.

Prior to hiring Rural America, FormShare primarily used in-house developers to maintain and enhance applications. "When we had [development] in-house, we found that the team was too small, and in a lot of cases there was a single point of failure, so if something happened to a single developer, we would lose a lot of their knowledge with them," Ross says.

Savings is key

Rural America offers a subscription plan that gives clients the option of the short-term use of its services -- even for as short a period as a few months -- which include application integration, Web site development, business analysis, legacy application support and maintenance, and testing. With the flexibility enabled by the payment plan, FormShare can bring on more resources during busy times and reduce when there's less need, Ross says.

In the past, FormShare had augmented its staff with outsourcing services from larger service providers, but the expense was higher than what Rural America costs. Ross estimates that his company is saving 10% to 15% by going with a rural outsourcing option for its development projects.

After having worked with the rural outsourcer on a three-month contract and seeing that it's a good fit, FormShare is now working on a longer-term contract. Ross would not specify how long that engagement would be.

For his part, Villalba says savings associated with using a rural sourcing strategy -- compared with higher-priced expertise such as larger outsourcing providers -- has been in the 40% to 50% range for his mainframe/legacy work.



Retention rate another plus

Customers point out that another benefit to rural outsourcing is the generally high employee-retention rate. In the areas they operate, rural providers are typically considered employers of choice, and IT talent tends to stay with them.

In the case of Rural Sourcing, "retention is so high that we are able to use the same people over and over, which protects the investment we make in teaching them our environment and methodologies," Landgrave says. This is vastly different from his experience with offshoring, he adds. "We've had offshored resources leave their company because the company down the street offered better chairs!"

Emblem's Villalba is also a fan of rural sourcing's lower turnover rates. "Because the rural sourcing model has such low turnover, we protect the investment in knowledge these resources gain while supporting us," he says.

"One of the objectives we had in partnering with CrossUSA was to build a team of experts with experience working on complex mainframe applications critical to the business objectives," Villalba explains. "Because of the expense associated with developing these teams in [New York] and the potential for turnover -- and the obvious turnover associated with other sourcing models -- we felt that Cross offered the best price and workforce stability model for our long-term needs."

Keeping in touch is easy

Rural Sourcing developers work on Rawlings teams, attend daily meetings by phone, and securely access Rawlings information and systems remotely so they can participate "in the team's processes as if they were in our building," Landgrave says.

For its part, FormShare briefly considered offshore development services but opted against it. Ross had used offshore services in the past and didn't have good experiences. "There were miscommunication problems and a time delay working with resources in India," he says. "We lost a day's worth of time really quickly. By the time you factor all of that in, plus the quality issues, the savings really weren't there."

“ When I looked into offshore businesses, I found there was no vision, creativity or a real understanding of the American market.

John Sabet, President, Charleston Alexander Diamond Importers

He says the quality issues were related to “sloppy work” and to design flaws caused by miscommunication that were uncovered during testing.

A key to the success of the current engagement, Ross says, has been staying in constant communication with developers and making sure they know what’s expected.

Regular contact is especially important because the Rural America workforce generally doesn’t work at FormShare’s site.

“They’ve got developers across the Midwest. We have processes in place not only to communicate with them, but to document processes so we can be very clear and have something to hold people accountable to.”

‘Getting it’

Another Rural America client, jewelry retailer Charleston Alexander Diamond Importers in Bethesda, Md., began outsourcing mobile application development and Web development, among other functions, in 2009.

Rural America has been particularly effective in helping the retailer revamp its Web site and e-commerce operations, says John Sabet, president of Charleston Alexander.

“When I looked into offshore businesses, I found there was no vision, creativity or a real understanding of the American market, and I found myself having to outline in great detail every little thing [that] needed to be done and manage every detail,” Sabet says. “With Rural America, I was basically presented with my finished product and only had to tweak a few things, not micromanage the building of a huge e-commerce site.”

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