The Resurgence of Rural Sourcing

The Ongoing Debate
Today more than 85% of all CIO’s are beginning to recognize that no single location can deliver across an entire portfolio of applications.

Every business has to balance the risk, labor costs, maturity levels, service categories, government regulations and current political climate when making a decision to outsource all or part of their application portfolio to a vendor. New disruptive technology trends such as Digital Transformation, Cloud, Mobility and the Internet of Things (IoT) have CIO’s looking at alternative strategies to access the right talent to help them achieve their goals and optimize the applications portfolio.

U.S. based rural sourcing is not a new concept, but it is re-emerging as a critical part of a balanced global outsourcing model allowing CIO’s the ability to optimize IT, deal with disruptive technology trends and to meet critical business objectives.

Consider the challenges facing today’s CIO’s: They have to manage the current environment and deliver new to the business:

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<th>CIO Challenges</th>
<th>CIO Business Priority</th>
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<td>Escalating operational costs</td>
<td>Increased revenue from better operations (Optimize IT)</td>
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<td>Lack of available internal resources</td>
<td>Increasing business through digital channels (Digital Transformation)</td>
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<td>Aging workforce</td>
<td>Engaging and empowering resources (Internet of Things)</td>
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<td>Top heavy labor pool</td>
<td>Cost reduction (Optimize IT)</td>
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<td>Poor application portfolio health creating business impacts</td>
<td>Responsiveness to the creation of new markets</td>
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<td>Inability to quickly enhance current applications</td>
<td>Take advantage of emerging technology trends (Cloud)</td>
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Deciding where the work should be performed isn’t all ways easy. It is dependent upon a complex set of constantly changing factors. The best distributed delivery strategy is built to be fluid. It must be adaptive to changing business goals, socio-economic forces and geo-political dynamics. A well-aligned distributed delivery strategy is always supported by a multi-faceted global sourcing plan that provides flexibility to adapt quickly. With the re-emergence of rural sourcing (also known as domestic sourcing) a frequently asked question is “why should I do the work domestically, when I can take it offshore?”

The answer is not always obvious and requires deep consideration. Like offshoring, rural sourcing is one of several solutions that should be utilized as part of a larger distributed delivery strategy. A good distributed delivery strategy takes advantage of all available options in a complementary, integrated, (non-exclusive) manner.

Deciding where work should be performed is highly dependent upon the nature of the work being performed. According to AMERICAN Director of Information Services, John Barnhart, “With the increased resource constraints that accompany a new ERP implementation across five divisions, the way Ciber was able to take the lead and determine what was needed to satisfy the rail car application requirements really made this project possible for us.”

Nature of work

Several factors drive organizations to engage low cost domestic (rural sourcing) solutions as an alternative or complement to offshore work. When the nature of the work requires some or all of the following, rural sourcing may be appropriate:

- Quick ramp-up (fast on-boarding – shorter time to productivity)
- Flexibility to engage at any point within the development life cycle
- Extension of an aging workforce’s intellectual property, productivity and career options
- Proximity and Collaboration (high touch) –to accelerate direct knowledge transfer and inter-site productivity
- Regulatory compliance - security and/or defense contracts with International Traffic in Arms Regulations (ITAR) or Export Administration Regulations (EAR)
- Community relations (US jobs)
- Cost savings relative to current in-house or offsite rates
- Requirements beyond standard outsourcing

Time is often the critical factor. Due to differences in labor law and employment practices, it can take significantly longer to hire new employees in India versus the United States. In addition, studies indicate it takes longer to achieve steady state productivity in an offshore delivery model compared to a rural sourcing delivery model.

Time to Productivity (Onboarding)

Ciber defines “time to productivity” (TTP) as the elapsed time between identifying a need and having a team or team member completing work assignments with limited direction. Accelerating “time to productivity” is essential to meeting the current workload and cost containment demands.

Critical components of accelerating “time to productivity” include; sourcing/recruiting (R), onboarding (O) and knowledge acquisition (KA).

\[ R + O + KA = TTP \]

Identifying opportunities and constraints within each of these components is critical.

For example: if a company requires 100 new team members to address workload. It takes an average of 2 weeks to on-board a senior qualified candidate in the US and an average of 6 weeks in India. The difference in on-boarding time will cost the client 16,000 man hours or 8 man years of productivity.

Normally, four weeks is negligible and manageable. However, in the case of time sensitive large scale ramp ups it represents a significant productivity loss and costly impact to achieving business goals.

Time to Productivity (Knowledge Acquisition)

Studies indicate time to productivity is different between rural sourcing and offshore teams. In many cases US teams become productive sooner. Consider the study that compares India and Tampa application teams’ Time to Productivity via defect trends.

Although not a direct measure of productivity, defects have a direct effect on rework which in turn impacts overall productivity.
Time to Productivity (Skills Shortage)

The US Bureau of Labor Statistics states: “Employment of computer and information technology occupations is projected to grow 12 percent from 2014 to 2024, faster than the average for all occupations. These occupations are expected to add about 488,500 new jobs, from about 3.9 million jobs to about 4.4 million jobs from 2014 to 2024, in part due to a greater emphasis on cloud computing, the collection and storage of big data, more everyday items becoming connected to the Internet in what is commonly referred to as the “Internet of things,” and the continued demand for mobile computing.”

The US Bureau of Labor Statistic also shows that labor force is getting older 45% of the total workforce is over 45 and is expected to grow to 49% by 2060.

Competition to find workers to meet increased demands will intensify as the aging workforce grows and eventually retires. In addition, the aging workforce means escalating operational costs on multiple levels for many companies. These costs are made up of higher salaries, lack of skill internally to address disruptive technology changes, time to market impacts, associated staff transformation training programs, a learning curve impact and quality impacts.

Smart companies deploy various strategies to avoid the impact and manage the risk to the business. Approaches include:

- Extending the careers of legacy workers by creating flexible and desirable work situations
- Implementing IT Transformation initiatives leveraging automated tools to better understand legacy environments and identify transformation opportunities
- Moving work to “pockets of competence” such as retirement communities or economically stressed areas with diverse legacy portfolio clients
- Apprenticeship programs where technical and business skills are transferred through intentional well-managed training
- Consolidating the legacy applications product set (and corresponding vendors)
- Some approaches are more practical and impactful than others.

Rural sourcing plays a significant role in addressing escalating operational cost concerns because the highest concentration of legacy talent still resides in the United States.

Services that fit well into a rural sourcing model are: Application Management – support, maintenance and development, Agile Development Factory, Enterprise Quality and Assurance Testing (EQAT), Custom Applications Development, Talent Transformation Services, and Digital Marketing - Applications Management and Support.

If your operational costs are growing, you have regulatory compliance requirements, are lacking the skillsets, or the need the ability to transform your talent then act now; set a series of strategic actions so you’ll be able to meet critical business goals over the next few years.
Ciber can help

Ciber helps clients overcome the challenges facing companies today, whether you are facing escalating operational costs, skills issues or regulatory compliance requirements. We provide rural/domestic sourcing, offshore and onsite managed solutions. Our US domestic centers have been in operation since 1995 and are strategically placed to optimize the talent requirements of our clients. We have proven qualifications, frameworks, methodology, tools and accelerators to set up your engagement.

About Ciber

Founded in 1974, Ciber partners with organizations to develop technology strategies and solutions that deliver tangible business value. Ciber is an HTC Global Company. For more information, visit www.ciber.com.
Wayne Koepke, has over 30 years’ experience in application management. Mr. Koepke’s specialty is in implementing and managing account transformations. Mr. Koepke has a proven record, with expertise in global management and has managed many large Application Management & Development engagements delivered on a global level with teams as large as 600. A Regional Operations Manager, Client Management Executive, Global Outsourcing Practice Director, Director of Transition Services and an Engagement & Delivery many client verticals, multiple technologies, and services provided to our clients. Mr. Koepke understands ITIL Process, service levels, process implementation and IT operations, he has successfully managed large worldwide implementations, and helped client’s transform their IT operations thru continuous improvement and innovation that have reduced overall support costs and allowed the budget to be diverted to capital expenditures.