Title:
Four Indicators to Watch When Outsourcing During a Recession

Word Count:
1036

Summary:
When making decisions about IT offshore outsourcing, the state of the U.S.
economy looms large. The effect of exchange rates, interest rates, IT employment
levels and even domestic commercial office vacancy rates will affect your
onshore, offshore or nearshore strategy.

Keywords:
offshore outsourcing, IT outsourcing, offshore IT staff augmentation, nearshore
outsourcing, offshore programming, offshore software development

Article Body:
When making decisions about IT offshore outsourcing, the state of the U.S.
economy looms large. The effect of exchange rates, interest rates, IT employment
levels and even domestic commercial office vacancy rates will affect your
onshore, offshore or nearshore strategy. America is growing more and more
dependent on lower cost offshore services. So what is an offshoring decision-
maker to do about controlling cost in this U.S. economic downturn? That depends
on how the economic cycle affects your business. Because consumer spending leads
the economy up and down, recent weakness at Tiffney and Target suggests both
ends of the consumer spectrum are being affected, so we may be early in the
cycle. In his article "Understanding the Economy" (Inc. Magazine in December
2007) Joseph H. Ellis says, "People worry that a recession is coming. But buy
the time one arrives, most economic harm has already happened." He says don't be
afraid to do your own economic detective work. You may gain a new perspective in
cyclical patterns and cause-and-effect relationships you didn't realize existed.
Here are four indicators to consider.

Exchange rates: Analyses of major IT software outsourcing destinations reveals
that most of their currencies appreciated against the US dollar substantially.
This resulted in either a higher cost for clients or lower earnings for offshore
providers. In a country like India that claims 70 percent of the international
business process outsourcing market, the Indian Rupee gained about 11% on the
dollar from an average exchange rate of 44.21 Rupees per dollar in January 2007
to a monthly average of 39.37 in December of 2007.   Currencies in nearshore
outsourcing destinations like Canada and Brazil also saw a sharp appreciation

against the dollar of 15% and 16% respectively from January to December 2007. This represents increased cost to you the buyer or lost revenue to the outsourcer. When reviewing your outsourcing strategy, currency exchange rate risk is something both parties to the agreement need to discuss and not just hope for the best.

Interest rates: Rates can go up, down, or stay the same. Sometimes we overlook the basics. The Federal Reserve seems to be trying to keep interest rates artificially low but that is exacerbating the dollar's decline. The results are always inflationary. Should they fight inflation, interest rates will increase and this will raise the dollar. If you need capital, time may be running out on low cost borrowing even if you can get it. Keep cash at the short end of the yield curve to protect against eventual higher rates. When reviewing your strategy keep in mind that if the government's adjustment to interest rates strengthens the dollar, your offshore services will get cheaper, however, if you use short-term borrowing to make payroll, your cost of onsite services will surely rise.

IT employment: According to the U.S. Department of Labor, Bureau of Labor Statistic's, computer software engineers are one of the occupations projected to grow the fastest and add the most new jobs from 2006-2016. Employment levels for computer professionals are currently at one of the highest points in recorded history with un-employment in this profession reported at around just 2%. It is possible that outsourcing to other countries may somewhat temper this employment growth. Many firms will cut cost by outsourcing to foreign countries that have lower prevailing wages and highly educated workers. However, high quality jobs in software engineering require computer professionals with strong programming skills, systems analysis and interpersonal skills. Therefore rising wage pressure will become a long-term strategic issue, whether you are attempting to staff professionals domestically in a job market at near full employment or you are attempting to staff offshore where experienced professionals are demanding higher wages in their currencies against a weaker trending dollar.

Office space: IT staff augmentation requires additional office space somewhere. On the first Monday of 2008, real estate research firm Reis reported that U.S. office vacancy rates rose for the first time in four years. Completions rose to 19.6 million square feet in the forth quarter, the highest level in almost seven years vs. 8 to 12 million over the last couple of years. This is the first time since the forth quarter of 2004 that effective rent growth has fallen short of asking rent growth and concessions have widened.   In this market it might be cheaper than ever to lease additional office space for an expanding IT services and development team. But facilities are always a part of the cost equation. When developing an offshore vs. onshore strategy look at all your cost including

facilities, utilities, network access, and other costs associated with housing a large or small team. Some emerging markets like Panama have an excellent infrastructure and government policies that are designed to encourage technology businesses to use facilities there.

No matter where you are in the cycle, cutting costs and improving quality is always a goal. Outsourcing can help you to reach that objective. There is a clear growing trend for companies, regardless of their size and industry, to outsource an element of their business. George Schildge, president of CEO of Matrix Marketing Group Inc. believes outsourcing is not a passing fad but clearly a paradigm shift that can change a business model for the better. Two themes for software development trends in 2008, according to SearchSoftwareQuality.com, are that outsourcing will continue to effect more people and business analysts and project managers will need to learn how to face the challenges of distribution across countries and continents. Bas de Baar, project manager and author of "Surprise! Now You're a Software Project Manager" says Different cultures, different time zones different languages, different customs will impact software projects more than in previous years.

Profiting this year will require different strategies. Outsourcing will become a bigger part of the equation so do your homework now and act to stay ahead of the curve.
.
Vision TRE has aggressively sought out IT professionals in Brazil, Panama and Ecuador with first-rate English skills and offers their offshore services in advanced programming skills including .Net, ASP, C++, C#, Microsoft SQL, Oracle Applications, Oracle DBA, Crystal Reports, Visual Basic, network engineering and more to U.S. clients since 2004. We currently have a large reserve of skilled professionals ready to meet any popular programming skill set demand.