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Digital Transformation through U.S. Onshoring

Welcome to the future – To meet the demands of digital transformation, prepare to adjust your IT sourcing strategy.

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Introduction

Businesses are now undergoing a digital transformation more revolutionary than the .com era - and this dynamic is virtually unstoppable.

Today's SMAC technologies (**Social, Mobile, Analytics and Cloud**) are driving businesses to create new opportunities with their customers and the global market. This transformation is engaging new technologies requiring IT services solutions to utilize specialized, local teams based on speed-to-market delivery, where the teams have fluency and intimacy in the customer and their culture, as well as the business and its culture. Offshore IT sourcing does not have the necessary capabilities—nor will it—to support these new requirements.

This might seem like a bold assertion, but it is confirmed by IT leadership in the U.S. Digital transformation is the new demand. Since the early 2000s, the supply of Offshore has been plentiful, but with this shift in the U.S., the supply will no longer satisfy rapidly growing demand. Eagle Creek estimates this opportunity will last a minimum of 7 to 10 years. What are the IT challenges surrounding this opportunity, and what are the possible solutions? Which solutions are viable? And could Onshoring be the answer?



The Offshore supply will no longer satisfy growing U.S. demand, presenting opportunities for a minimum of 7 to 10 years.

The IT Problem: Budget

Budget is and will remain the biggest inhibitor to digital transformation.

We have entered an era where new technologies, new applications and new devices are being released at the speed of light, creating a backlog of IT projects that can't be completed due to budget constraints.

There are three possible solutions to consider:

1 Increase the IT budget year-over-year.

This will likely occur, but an economic downturn or the fear of one prevents it from being a permanent or even long-term solution. Digital transformation is a long-term and ongoing investment with or without economic downturns.

2 Reduce technical resource cost to the lowest possible amount.

The cost of technical resources is the primary budget issue of digital transformation. It is not the cost of the underlying or supporting technologies.

3 Achieve greater efficiencies from every technical resource.

Get more productivity from every resource to maximize the output of these resources, which will maximize the effectiveness of the IT budget.

The reality is digital transformation will require all three solutions, but the primary emphasis will be lower cost resources demanding increased resource productivity.

The Solution: Some Options to Consider

IT departments have several options for answering the challenge of IT resource demand.

Although budget is indeed an issue, there are viable options to consider when gearing up to meet the demands of digital transformation:

Employees

You can hire technical resources, who would typically be located in the U.S. For digital transformation, these resources can range in salary from \$75,000 to \$150,000 per year, plus benefits.

Offshore

Hire or contract with technical resources outside the U.S. Because these resources typically reside in lesser developed countries, they cost less.

Onsite contractors

Another option is to contract with U.S.-based technical resources. Historically the most expensive option, these resources are typically paid hourly, reimbursed for travel expenses, and may or may not reside in the geographic location of the business.

U.S. Onshore

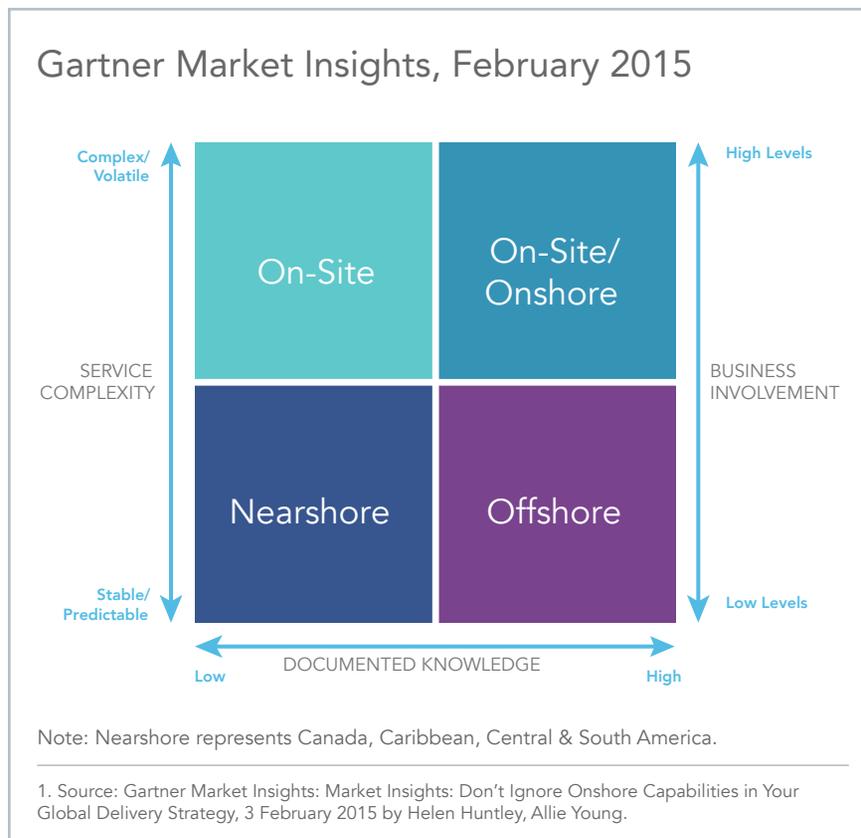
Also known as rural sourcing, onshore, onshoring or domestic sourcing, these resources are typically located in non-urban areas but always within the U.S. They generally cost the same or less than employees, always priced less than onsite contractors, and always more than offshore resources.

Each of these options have pros and cons. For example, although offshore is cheaper, quality is often an issue. Since they are the only option, what is the best course of action?



What Will NOT Work

Why offshoring, employees, and onsite contractors will not meet the demands of digital transformation.



Gartner recently released a grid that defines which technical resource solution should be engaged for a particular type of technology being deployed. Digital transformation is in the upper left and right quadrants. Note that “Nearshore” represents Canada, the Caribbean, Central America and South America. What is the logic behind these conclusions?

Offshoring

Eagle Creek asks every IT department the same question: On a scale of 1 to 10, how effective are your mid-level managers in managing offshore resources? Without hesitation, the answer is always the same: “We’re a 2 or 3.” Typically, these companies have 7 to 15 years of offshore experience.

If new technologies were measured on a similar scale but by complexity, digital transformation would be considered a 9 or 10, compared to technologies that have been traditionally sent offshore for the last decade and are considered to be at a 2, 3, 4 or 5. If offshore hasn’t been successful with easier technologies, the more difficult technologies of today don’t have a chance.

Onsite Contractors

As stated earlier, onsite contractors are the most expensive resource an IT department can engage. This differential will only continue to increase with the demands of digital transformation. Unless you have an unlimited budget, it is impossible to solve an IT backlog problem with onsite resources.

However, they will play a role in digital transformation; Eagle Creek estimates that, for every four to six remote resources (either onshore or offshore), there will be a requirement for one onsite or employee resource because these resources have a greater depth of knowledge.

Employees

Most IT departments prefer the Employee option, but this, too, has its challenges when it comes to meeting the demands of digital transformation:

- There are too many technologies within an IT department to staff all positions internally.
- Many of these positions require unique to semi-unique skillsets.
- Often the position is engaged for a limited period of time, e.g. an implementation.
- The positions referenced in the above three points will probably disrupt the pay scale of most IT departments because they are generally paid 25% more than a similar grade of employee.
- The cost of training is too great when all factors are considered.

Employees will only make up **25%** of digital transformation resource requirements.

Onshoring: The Logical Solution

When you compare the options with the demand of digital transformation, the choice is clear.

"Onshore delivery is no longer just an offshore alternative.

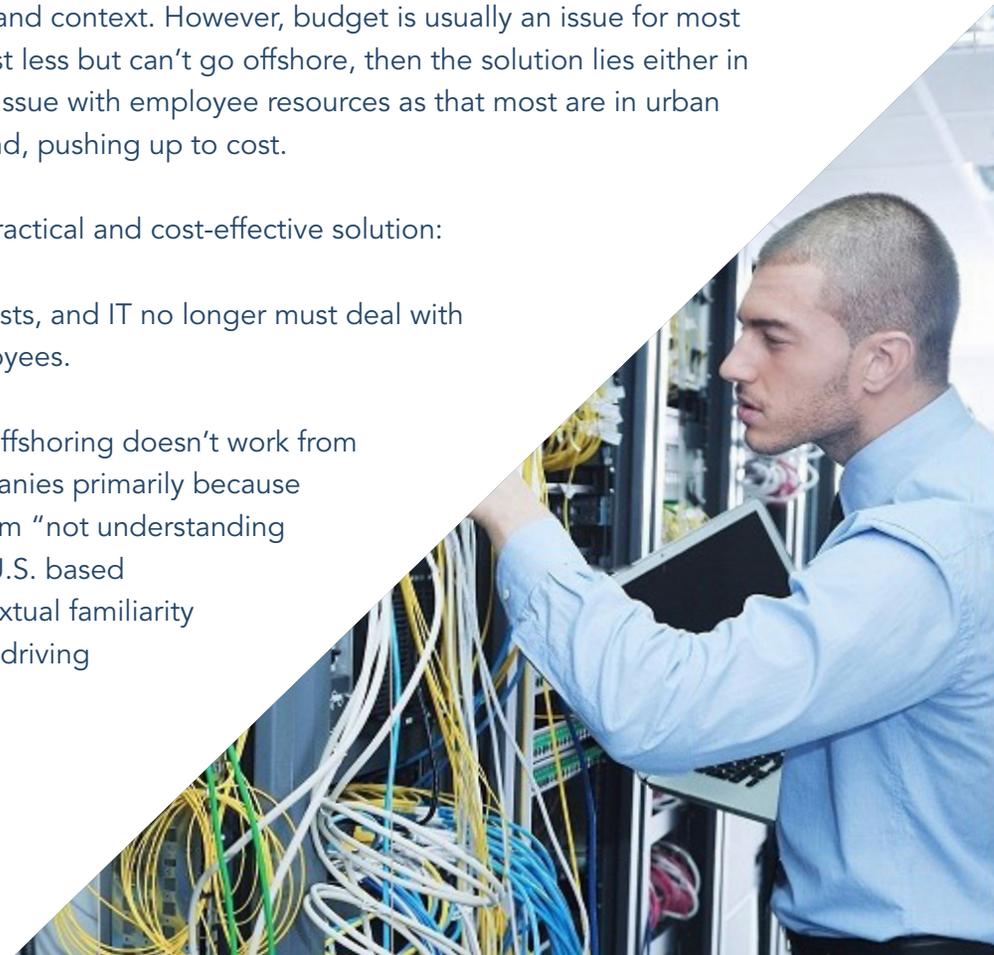
The onshore/on-site delivery option has become an imperative within a provider's global delivery strategy."

- Gartner

Digital transformation is driving the need for skills that are new, more expansive in range, and deployed in a model with proximity and context. However, budget is usually an issue for most companies. If IT projects need to cost less but can't go offshore, then the solution lies either in hiring employees or onshoring. The issue with employee resources is that most are in urban areas, where there is a higher demand, pushing up to cost.

That leaves onshoring as the most practical and cost-effective solution:

- There are fewer IT infrastructure costs, and IT no longer must deal with recruitment and retention of employees.
- Quality is another consideration. Offshoring doesn't work from the perspective of most U.S. companies primarily because of quality concerns, which stem from "not understanding the business." History shows that U.S. based consultants possess inherent contextual familiarity and can learn "the business," thus driving quality.



Successful Onshoring: 3 Key Components

Look at resources, environment, and financial assistance when setting up an onshore hub.

The key components to success in onshoring can be divided into three categories: resources, environment, and financial assistance.

1 Resources

Your technology hub must be located in a non-urban environment, not a major metropolitan area. However, this hub must become a desired destination for millennials; it is this age group that will make up the majority of resources, and graduates from good schools produce better onshore consultants. Also, these technology centers must become importers of people from outside the state.

2 Environment

Technology hubs must reside in non-urban areas for the simple reason of Resource Return on Investment (RROI). In a non-urban environment, for the cost of the first year's employment, a "raw" resource can be trained to become productive. By the third year, the RROI becomes positive. By contrast, in an urban environment, hiring and training costs are at least 20% higher, and the possibility of turnover within the first two years is at least 40% greater.

3 Financial Assistance

A resource technology hub is built on three key processes—recruiting, relocation, and training. There are no shortcuts, cost-cutting techniques, or volume reductions. Economic development must be directed at subsidizing these processes; therefore, an educational adjustment process needs to take place between the economic development community and the organization building the hub.

Conclusion

It's time to make the move to onshoring.

It is clear that there are a finite set of choices as to how to solve the services issues emerging from the adoption of promising digital technologies and strategies. Companies must adapt to these changes. Frameworks exist to help guide these changes and provide a template to help achieve balance in services and sourcing models.

Harnessing the opportunity presented by digital transformation is about technology AND expertise as well as the formula you use to balance the deployment of such expertise. Developing mobile applications, deploying purchased solutions, integrating and supporting them requires a new balance of in-house and partner resources with the right skills.

U.S. businesses have engaged in offshoring for the last 15 years and have concluded that it cannot provide 100% of the required technology services solution for the future. U.S. Onshoring allows organizations to best manage price, quality, and risk in software development, deployment, and support. It enables the advancement of digital initiatives while accommodating limited budgets, permitting reduction in the backlog as well as the application of the right skills using the most effective methods.

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To learn more about Eagle Creek Software Services and how we can help deploy the right skills at the right location at the right price, visit www.eaglecrk.com or give us a call at **877-258-6252**.



Learn more at www.eaglecrk.com

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