# Will Offshore Outsourcing Return Home?

By Ron Babin, COP and Mary Lacity, COP

The sourcing community has spoken much about the possibility that service automation and rising protectionist sentiment will lead to massive reshoring of business services. But what is the reality?

In this article, we seek to answer the question, "To what extent are organizations reshoring services as a consequence of automation, rising protectionist sentiment and/or other factors?"

Using data from a variety of sources, including our own survey administered at OWS17 in San Antonio, we conclude that the effects of reshoring will be uneven within and across buyer and supplier communities and will vary across business services. We first present the evidence, then we revisit the many factors that contribute to relocation decisions.

**Table 1:**
Intentions to Re-shore Offshore Outsourced Services

| | To a Great Extent | Somewhat | Very Little | Not at All | Total |
|---|---|---|---|---|---|
| Customers | 5 | 19 | 17 | 6 | 47 |
| Providers | 8 | 22 | 18 | 2 | 50 |
| Total | 13 | 41 | 35 | 8 | 97 |
| Percent | 13% | 43% | 36% | 8% | 100% |

Source: Outsourcing World Summit, 2017, n=97

*Breaking these figures down by community, the respondents from the buyer community reported that 11 percent were reshoring to a "great extent," 40 percent were reshoring "somewhat," 36 percent were reshoring "very little," and 13 percent were not reshoring at all (see Figure 1). Interestingly, the providers reported slightly higher percentages, with 16 percent reporting reshoring to a "great extent," 44 percent reshoring "somewhat," 36 percent reshoring "very little," and only 4 percent not reshoring at all (see Figure 2).*

**Figure 1:**
Extent to which buyer organizations reshoring services
(n = 47 clients responding)

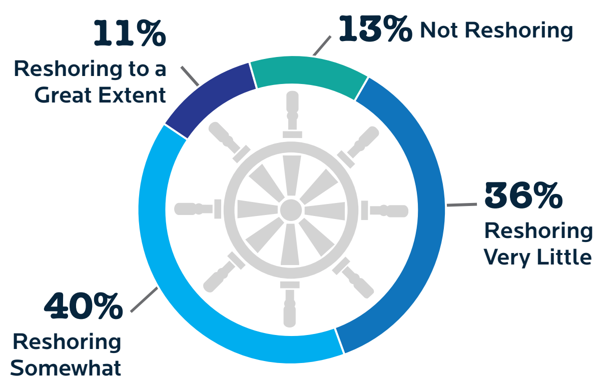
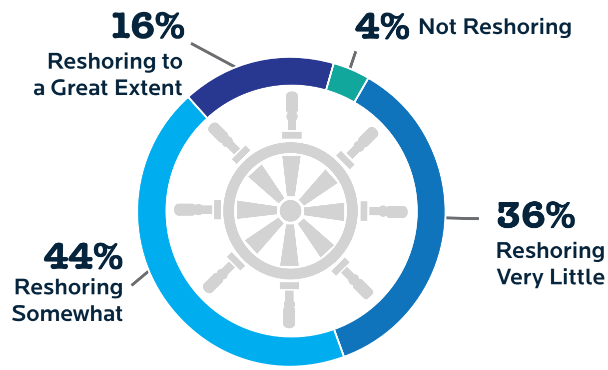



**Figure 2:**
Extent to which provider organizations are reshore services
(n = 50 providers responding)



## Offshoring Trends Vary by Service

*In a related survey, Horses for Sources (HfS) polled 454 organizations about their offshoring intentions . Overall, the survey reported that offshore outsourcing growth over the next two years will be markedly less than in 2014, but the results varied greatly by business service. Specifically, BPO offshoring services will likely decline for finance and accounting services and for human resource services. However, there will be continued growth for traditional ITO offshore services such as application maintenance and development, and IT and network infrastructure support.*

## Examining the Evidence: Many Factors Affect Relocation Decisions

*The evidence shows that reshoring/offshoring activities vary across organizations and service sectors. This makes perfect sense to us, as location decisions are quite complex and are not driven merely by labor arbitrage or by automation or even by Donald Trump. Organizations consider a broad range of variables when deciding where to locate (or relocate) services, including:*

- *Financial factors such as wages, infrastructure costs, taxes, and switching costs*
- *Skills factors such as the availability of talent, educational pipeline, language capabilities and maturity of service delivery*
- *Ease of doing business factors such as cultural compatibility, regulatory environment, time zone differences, and ease of travel*
- *Political environment such as government stability, visa availability, labor laws, infrastructure quality, degree of ethnocentrism, and protection of intellectual property*
- *Social factors such as interpersonal relationships, social capital, and trust with local individuals and organizations*
- *Business strategy factors such as strategy shifts, reasons for being in a certain locations such as selling products or services in that country, and dedication to corporate social responsibilities activities such as impact sourcing*

*We assert that any one factor is not likely to tip the scales toward reshoring. Rather, it is when a number of these factors converge that organizations consider a relocation.*

## Perfect Storms Wash Some Services Ashore

*Now let us examine which converging factors might be driving those extreme cases of reshoring. We asked outsource providers why they were reshoring, allowing multiple drivers to be identified.*

**The top three reshoring drivers were:**

1. **48%** *Client requirements/expectations*
2. **43%** *Government encouragement/policy*
3. **25%** *Service automation (e.g. RPA, CA) that can be done onshore*

### Client requirement for onshore services

*Why might client requirements rise to the top of the drivers? From a number of case studies we've conducted, several clients have reported what we call "offshore fatigue." After so many years abroad, the romance of quarterly travel to exotic venues diminishes for many client managers — this would move the "ease of doing business" lever to reshoring. Other clients might just prefer to shake things up (business strategy factor), seeking the next great jump step in performance that can be facilitated by a change of venue or providers, making the switching costs worthwhile (financial lever). Some clients may simply wish to locate services closer to customers to improver service quality and responsiveness (skills lever).*

### Government encouragement/policy

*Government encouragement/policy shifts was the second most frequently cited reshoring factor in our survey. Our own survey is supplemented by other data collected at IAOP's OWS17. An interactive poll of the audience (n = 250) during a main session showed that 66 percent agreed that the "Current global political environment will impact their sourcing strategy." Further, "Public Policy Driven Disruption" was identified as most significant by 13 percent of the audience. Concerning government encouragement or policy shifts, the Trump influence and so too the exit of Britain from the European Union and the rise of right wing parties in other European countries are indicative of a more nationalist, protectionist mindset for global leaders. These influences are causing great uncertainty and may be enough to significantly move the political environment levers for some organizations.*

### Automation

*Our survey found 25 percent of providers citing service automation as driving reshoring decisions. From presentations at OWS17, Genpact, a global business process outsource provider, anticipates a 65 percent decline in business process service labor by 2020, driven by service automation. KPMG, an outsourcing advisor, predicts a loss of over 5 million jobs in major developed and emerging economies by 2020, because of service automation. KPMG suggests that service automation can deliver 30 to 50 percent cost reduction on human labor intensive tasks, significantly moving the wage lever in favor of reshoring. Some people argue automation has the potential to impact offshore outsourcing in the same way that physical robots have impacted the manufacturing industry, such as automobile production. The net impact will be fewer human workers, but the few workers and the robots will likely be onshore — so the argument goes.*

[1] State of Operations and Outsourcing 2017

[2] How Computer Automation Affects Occupations: Technology, Jobs, and Skills, Boston University, School of Law, Research paper No.15-49, October 2016

*continued ...*


## Snapshots Versus Movies

*Service automation certainly reduces the number of FTES needed to perform a set volume of existing work. However, surveys are only snapshots at a given moment in time, and the assumptions that underlie them rarely hold over time. We argue that the net effects of automation on jobs and relocation decisions are impossible to predict in the long term. There are too many moving parts. Technology's effects unfold in a dynamic political, social, economic and physical world.*

*Consider what happens to job loss predictions when the notion of increased productivity and rising consumer demand come into play. Economist James Bessen , for example, showed that long term affects of automation increased job growth in some cases. He studied automations that initially eliminated up to 98 percent of jobs, but then the productivity gains from automation allowed prices to plummet, which subsequently increased demand to the point that more net jobs were created. He has several good examples: bank tellers, weavers and graphic designers. He noted that ATMs did not kill bank teller jobs; there are more bank tellers now than ever because ATM efficiencies allowed more branch offices to open since each branch required fewer staff. Automatic looms initially killed jobs, but then productivity of cloth manufacturing skyrocketed, then prices dropped and demand for cloth rose steeply; instead of the average human owning one or two outfits, people began to buy many clothes. The number of net weavers increased after automation for several decades. Today, service automation, blockchain, cloud and mobile technologies might cause financial services costs to plummet, and may indeed bring the third of the planet's population that currently lacks access to financial markets to the party.*

*Finally, we would be remiss if we did not identify the growth in new jobs created by or in parallel with service automation: new jobs to deal with data analysis, regulatory compliance, innovative new digital services, etc. As one bank CEO recently commented regarding AI: "We have eliminated 50 to 70 percent of typical jobs in banking over the last 20 or 30 years, yet [the bank] employs 80,000 people now compared with 20,000 people 20 or 30 years ago." As automation replaces old jobs, new jobs are created.*

## Conclusion

*Location (and relocation) decisions require the consideration of many factors. While client preferences, government policies, and automation may be enough to sway some organizations to reshore activities to a "great extent," the majority of buyer and provider organizations are only relocating services to a moderate extent. However, this may be the beginning of a reversal of the offshore trend that began almost two decades ago; we will examine this potential trend further, to see if these snapshots become a full movie.*

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[3] Government, Business Leaders Launch AI Initiative, The Globe & Mail, March 31, 2017, p4