

REAL WORLD CASE 2

Global Exchange Services and Allstate: Challenges and Solutions in Offshore Systems Development

Cost pressures top just about every company's list of reasons for sending greater amounts of IT work offshore. IT labor rates in India, the Philippines, and elsewhere are as much as 70 percent lower than those in the United States. As such, they're simply too compelling to ignore, IT executives say. But equally compelling is the potential of losing control over foreign technology workers and the quality of IT projects based thousands of miles away. So Allstate Insurance Co. and Global Exchange Services Inc. (GXS) are among a small group of U.S.-based Fortune 500 companies that have set up and staffed their own IT centers in lower-cost countries like India, Ireland, India, and Hungary to address the twin issues of cost and control.

GXS. In this "offshore-insourcing" model, foreign IT workers aren't contractors but employees of the U.S.-based companies. They receive the same training, use the same software development tools, and adhere to the same business processes as their IT counterparts in the United States. The big difference is that they're paid a lot less. For example, for every \$100 that GXS (www.gxs.com) spends on an IT employee in the U.S., it spends just \$30 on an employee in Bangalore, India, where it employs 230 IT workers. "Manila is even less expensive—perhaps 30 to 40 percent less than India," says Tasos Tsolakis, senior vice president of global technology at GXS.

By shifting about 70 percent of GXS's internal IT projects and 40 percent of its IT work on customer-facing applications to offshore centers, Tsolakis estimates that he has saved about \$16 million a year for the past three years. At the same time, he says, GXS has been able to ensure quality and meet software delivery deadlines, because the offshore employees and projects are managed using the same quality control processes that the company applies in the United States.

"Clearly, the labor rate is the big driver for hiring employees abroad, but you need to treat them like your regular U.S.-based teams. Every development tool and testing tool I have here, my resources in Bangalore have. It's critical that they feel a part of your team. They're first-class citizens like everyone else is," Tsolakis says, adding, "That's how you can really create synergies and optimize resources."

Allstate. Allstate (www.allstate.com) has 650 offshore IT employees who work in Belfast and Londonderry in Northern Ireland. The centers in those cities were set up in 1998 and 1999, respectively, as a result of the IT labor shortage in the United States caused largely by a crush of Y2K work and the then-thriving dot-com economy. "We had an additional issue in that we had a large number of software contractors working for us here in Chicago and they were extremely expensive. With the labor crunch and Y2K, we had a ratio of 50 percent of contractors who were constantly leaving for higher-paying jobs," recalls Mike Scardino, assistant vice

president for finance at Allstate. Cost savings was one of the big advantages of hiring offshore employees, and it remains so.

The company is also retaining critical business knowledge and intellectual capital that used to walk out the door with departing IT contractors. "In the insurance business, there's a tremendous amount of business knowledge that goes with programmers. You can't just bring somebody in who knows Cobol," Scardino says. "Now, the business knowledge stays with the employees. That's a huge benefit and a big driver in terms of our ability to maintain our existing applications and to develop new ones."

GXS. Keeping U.S.-based IT workers informed of the company's plans for distributing various IT projects is a critical component of managing onshore/offshore IT groups. "The U.S. teams ask, 'What's the future for me, and why should I stay if you're moving work offshore?'" says Tsolakis. "You need to give an overall direction and plan. It's important to address this upfront. If you don't do that, you end up losing some key resources that you don't want to lose."

Tsolakis also says that on-site management, preferably by a local national, works best at offshore regional IT centers. GXS's Bangalore facility is managed by an Indian executive who reports directly to Tsolakis. "We have a whole infrastructure, including an HR person in Bangalore helping with recruiting and a finance person. This is because it's important to mesh the local culture with the U.S. culture," he says.

Allstate. For IT executives considering setting up and staffing an offshore IT center, Scardino advises that they first "make sure the economics of the local environment are sustainable, that there's talent, that there's a quality workforce and that those things aren't going to change." For all of these reasons, Northern Ireland was an ideal location for Allstate, Scardino says. "And part of the success of being in Northern Ireland is also because people in the United States are willing and able to go there. Routinely, we have people on the ground over there and people from Northern Ireland are over here," he says.

Case Study Questions

1. What are the business benefits and limitations of sending software development offshore? Use the companies in this case as examples.
2. What are the business value and limitations of the insourcing model of offshore software development? Use GXS and Allstate as examples.
3. Should U.S. companies send their software development and other IT functions offshore? Why or why not?

Sources: Adapted from Julia King, "The Best of Both Shores," *Computerworld*, April 21, 2003, pp. 37–38; and "IT's Global Itinerary," *Computerworld*, September 15, 2003, pp. 26–27.