

The Threat & Opportunity of Offshore Staffing

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Changes are part of life and present opportunities for some and problems for others. The old saying “the only constant is change,” is true. We have seen numerous changes in staffing over the years, some for the good and others which were not so good. Back some 40 years ago “perm” staffing was primarily paid for by the applicant (APF), not the employer (EPF). Those firms moved into EPF as the market shifted and survived; those that did not were marginalized to rural pockets and have virtually disappeared. About 30 years ago “temp” entered the picture and many perm companies were very concerned about this new entrant into their market — and fought it. The majority of those firms got into temp and prospered, while others did not adapt. Of those that didn’t, some continued to prosper while the rest fell by the wayside. There are similar situations regarding temp-to-hire, the Internet and a host of other changes.

Today we are witnessing acceleration in the area of offshore staffing, where staffing can be performed via the Internet from remote locations. The only requirements are that the job be done in English and at the specs requested. Staffing has become an international business for a certain portion of our industry’s requirements, and in some cases it can be done for literally pennies on the dollar (10% is rather typical). The offshore market is now estimated at \$13 billion and will continue to grow rapidly by most accounts. Some functions are more amenable to offshore staffing than others, with IT and back office functions being good examples, although offshore will make inroads into many other sectors. The larger the client, the more it becomes a candidate for at least some offshore staffing due to the substantial savings potential. Many companies have even set mandates for how much of their staffing needs will be met via offshore. Even State and Federal Governments have become users of offshore contract labor for budgetary reasons. Even as they complain about the loss of jobs, they are helping to fuel the problem. They may also at times be transferring technology which is vital to our National Security.

The recent wave of the internationalization of staffing began in 1989 with the introduction of Maquiladora Legislation where a free trade zone was set up to facilitate the use of low cost Mexican labor (primarily LI). NAFTA followed in 1992 which further impacted staffing for all of North America, most particularly again in LI. We now are seeing offshore labor penetrating the higher end of the staffing industry and economy in general. This is due to both the economics and political pressures from companies benefiting from low costs, and is not likely to disappear. This time it has gone

way beyond LI and low wage rates (and high margin) jobs. As in most systems, it will probably reach equilibrium. A real issue should, however, be “what should one’s strategy be regarding offshore?” Here are some options:

A. Stay as a niche player. This is appropriate where offshoring may be more trouble than it’s worth. Most small staffing companies (under \$3-5 million) can probably diversify their client base sufficiently and have only a few temps on assignment at any given facility and not be a huge threat by offshoring. It may limit one’s growth options, but may be an effective strategy for most small staffing firms.

B. Get into high value-added services. These would be projects too complex to be effectively coordinated offshore. It is almost axiomatic that the more communications and interaction that exist, the greater the potential for errors. You may remember the Mars Lander Project where two different engineering teams (one working in metric units the other in English) did not communicate well. Their “units” got mixed up and disaster followed. The Mars Lander thought it was a hundred miles off the surface of the planet and it was only 60 miles up — consequently burning up in the atmosphere, costing the taxpayers several hundred million dollars.

C. Work in a staffing area where a physical presence is required. This includes such areas as nursing and assembly work (as long as your client stays put). The economies represented by the Internet will not help when being on site is truly a requirement. With reference to nursing, it is certainly not possible to insert an IV from 5,000 miles away. You may find a local niche where you provide the staffing portion of the process that requires a physical presence in a chain of labor events. An example would be where you provided the client relationship side for an offshore system and the back office or IT work is performed offshore.

D. Learn how to participate in the offshore process. Remember the old saying “if you can’t beat ‘em join ‘em.” If your survival depends on being competitive in an arena that is not described above, you may need to become a player in offshore. The question is, how do you go about that? Get educated on the offshore concept—who are the players, what are the keys to success, how can you enter this business on a small project and low risk basis, how much money is needed, who do I need to hire to manage this process, etc. Answering these questions takes time, but those who need to dig deeper will get the answers.

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