



**Massachusetts Alliance for
Economic Development**

Outsourcing and Offshoring: Separating Fact from Fiction

June 18, 2004

Executive Summary

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Executive Summary

“Outsourcing and Offshoring: Separating Fact from Fiction”

Newton Marriott Hotel, June 18, 2004

Panelists: **James Buonomo**, *Corporate Vice President*, Nypro China and India
Nypro, Inc.
 Alan Clayton-Matthews, PhD, *Assistant Professor of Public Policy*
University of Massachusetts - Boston
 Brian Keane, *President, and CEO*
Keane, Inc.
 Jack Little, *Co-founder, President, and CEO*
The MathWorks, Inc.

Moderator: **George Donnelly**, *Editor*
Boston Business Journal

Remarks by Alan Clayton-Matthews, Ph.D., University of Massachusetts – Boston

Alan Clayton-Matthews defines outsourcing as moving jobs, services, and manufacturing abroad in order to provide a domestic service or good.

He indicated that three types of jobs are at risk:

- Jobs that can be automated (manufacturers)
- Jobs that can be described simply and easily in writing (programmers)
- Jobs where the clients and providers do not physically meet.

On the other end of the spectrum, personal services, craft jobs (plumbers and carpenters), medical services, construction workers, performing artists, and athletes are relatively safe from outsourcing.

Outsourcing has many costs and benefits; however, a schism exists between those who bear the costs and those who reap the benefits. The main cost is born by the workers who have been displaced by offshoring, but Clayton-Matthews also asserts that, “Offshoring and the globalization economy tend to create new jobs in the United States and particularly in Massachusetts that go to highly skilled and highly educated labor.”

As the worldwide economy expands, low skilled labor in foreign countries comes to the market. This depresses the wages of less educated workers. At the same time, upward pressure is applied to wages of highly educated workers. Clayton-Matthews concludes, “If access to education is not equal, an acceleration of offshoring could result in a class-based society.”

Clayton-Matthews predicts good things in the future for Massachusetts based on its history. Manufacturing wages in Massachusetts reached their peak in 1943. Since then, the state has lost hundreds of thousands of manufacturing jobs, but despite the loss, Massachusetts workers maintain a comparative advantage in highly skilled labor, and Massachusetts wages are 20% above the national average.

Remarks by James Buonomo, Nypro China and India

Nypro, Inc. has a presence in Asia, Latin America, and Europe, but its largest presence is still in North America. In fact, Nypro recently invested \$10 million into a factory in Clinton, Massachusetts.

Following the company vision, “Go where your customers want you to go,” Nypro has expanded around the globe. While it has moved many activities and processes abroad, Nypro does not fit Alan Clayton-Matthews definition of outsourcing. Nypro has moved closer to its customers and makes products abroad that are intended for foreign and not for domestic consumption. Buonomo explains that Nypro took the “global challenge” to benefit their customers and make sure they did not lose any business to competitors. The company has used the global economy to reduce the time to market, to establish systems and procedures so that customers may visit them anywhere in the world, and to introduce lean principles across the network and thus reduce a large amount of waste. “Our goal is to build large customer relationships that value Nypro’s services, that have multiple locations, that are global, and that use a number of our disciplines.”

Companies go abroad to take advantage of lower costs and to exploit a larger, untapped marketplace. Buonomo denies that outsourcing is simply a cost equation. With only 350 million Americans and 6 billion people worldwide, Buonomo can see the potential for consumers abroad. Although not all of the 6 billion can purchase goods now, the goods will become more accessible in the future.

Lastly, companies go overseas for survival. They have a responsibility to their employees, they have a responsibility to market their products and sustain themselves as corporations, but also to continue to grow. They must take part in the global economy. When companies take the “global challenge”, they encourage competition. When you increase competition, you grow markets. With the increased competition and larger markets, the world has become a better place claims Buonomo.

Remarks by Jack Little, The MathWorks, Inc.

Jack Little stresses the importance of having a central location where everyone can meet, collaborate, and work face to face. Mathworks has worked hard to create a “core competency” by finding the right mixture of programmers and engineers. Little emphasizes the “coffee machine” factor, which involves people meeting and conversing in a common area. He suggests that the best innovations and ideas happen when people are not in a strict working environment. These accidental conversations are a major component to developing MathWorks’s inventions. In the spirit of a connected team of workers, whenever MathWorks makes an acquisition, it buys some companies and then always relocates its workers to its Natick office.

“We don’t even outsource tech support. I suppose we could outsource our tech support to a lower cost version and answer those questions overseas. For us, our tech support is our farm team. We hire people right out of college as their first job they do that for about two years, and then they move into positions in marketing and sales. If we were to outsource that, we would lose our farm team.”

Making software is an act of discovery and experimentation. Thus, it does not lend itself to writing a specification. Since software specifications need to incorporate changing requirements, companies considering outsourcing may find that they get what they ask for, but not necessarily what they want. Little compares outsourcing to a new temptation. Some people see it as a shortcut or a way to reduce money and time costs. Companies that go this route lose the concept of team.

Scientists and engineers are everywhere, so there is no particular reason MathWorks is in MA beyond the plethora of highly educated labor. However, there are definite reasons to have several offices around the world. MathWorks has small sales, consulting, and marketing firms worldwide. Unless you have a presence abroad, you cannot market and sell your product there. Outsourcing has enormous consumer benefits and producer benefits. Consumers reap the advantage of a reduced price on goods. Producers open large, untapped potential markets. Also, if a company is bordering on bankruptcy, outsourcing is definitely a solution. As long as the original company remains, it still brings capital back to the United States.

Looking towards the future, Little believes outsourcing will peak soon. In terms of government intervention, there is not too much it can or should to stop this trend. Little believes that promoting math and science education in schools would be the most beneficial way to ease the strain on workers who have lost their jobs due to outsourcing.

Remarks by Brian Keane, Keane, Inc.

Companies are looking to outsource non-core functions, just as they have done in the past with payroll, cafeterias, taxes, legal work, and even complex manufacturing. By turning to other firms who can perform these functions faster, better and cheaper, companies are increasing their global competitiveness.

While many tasks, activities and processes can be moved nearshore or offshore, there are others including customer facing activities, project and program management, and collaborative innovation that are best performed locally close to the heart of the business.

Some misconceptions about offshoring exist; not all jobs are moving offshore. Keane opened an offshore office two years ago in India. This has enabled Keane to increase revenue and job growth within the United States because it increased the competitiveness of our solutions. Similarly, we observe that many of our clients are taking advantage of the cost savings achieved through offshore outsourcing and redirecting the newly available funds to new capital projects and innovation...the stuff that will ensure their competitiveness well into the future. I strongly believe that the greatest strength of the U.S. economy is its free market which helps ensure that companies continuously improve their long term global competitiveness.

Questions

Does the government have a role at all in retraining workers? Should companies have to report to the government when they are outsourcing?

Public policy should focus on education and healthcare. Educational policy should support retraining and enable the workforce to be adaptable. Healthcare reform to make health insurance more transferable would ease the pain of changing jobs. Any tax incentive or policy to discourage offshoring is misguided and will ultimately hurt American companies. It will lead to other countries becoming more aggressive and competitive.

The role of government is to maximize the competitiveness of U.S.-based companies through: education, career/education paths for the long-term (math/science/engineering), and retooling/retraining. The government should invest in sciences, mathematics, and universities. It should also invest in education beyond elementary schools.

The government should take a role to support systemic structural issues, such as healthcare and education. It should also help support U.S. companies' competitive advantage. They must do this even if it means supporting the ability to be competitive or outsourcing for sustainability.

What does the Massachusetts manufacturing environment look like in ten (10) years?

Manufacturing is constantly evolving. We may not have smokestack manufacturing, but Massachusetts will continue to have biotech and other manufacturing. It is important to pick markets with sustainability. One of the biggest fears should be that the loss of manufacturing jobs will become a self-fulfilling prophecy.

Interestingly, the primary drivers of manufacturing employment decline are productivity and automation. The total number of manufacturing jobs in China has also declined. Thus, the problem is not specific to only developed countries like the United States. The reduction in manufacturing jobs is a global issue.

Is it fair to assume the complexity of outsourced jobs will increase? Is there a rush now that will be followed by a retreat/re-evaluation? How does outsourcing go awry?

There will be more jobs for everyone as income in developing countries rises and foreign economies develop. However, we should be more concerned about the short-term impact – over the next ten years – on U.S. jobs, because in the long run new industries will open up and more goods will be produced providing jobs for people with higher educations.

The success of outsourcing depends on how successfully you manage interfaces. If you do not manage these well, the product comes back to you developed to specifications but it does not meet your needs. Poorly managed outsourcing results in high defects and low quality.

Do you see regional differences? Do companies look at different regions in the U.S. before going offshore?

Regional near shore facilities has become an emerging trend. Keane is working with some clients/government offices on vertical/near shore facilities. Keane explained that some companies that may not feel comfortable with offshore facilities in places like India. Since they still want to take advantage of cost-savings to remain competitive, the company moves to near shore locations, like Nova Scotia. Lack of language/culture barriers and the ability to reach the facility quickly also make near-shore locations attractive.

Conclusion

Outsourcing directly or indirectly affects all people. The problem is that the costs and benefits are not distributed evenly. Workers in jobs that are outsourced must take reductions in their wages or learn a new skill set and start over. However, the process reduces the production cost of the good and thus allows the company to sell the good at a cheaper price. In addition, the company makes larger profits and is able to bring more capital back to the domestic economy. There is no clear way that the government can intercede and prevent this action, nor is it totally desirable. The best option, as Jack Little suggested, might be to increase funding of math and science education so that the local economy is more prepared to absorb the new high tech jobs that will replace the outsourced jobs.

About the Speakers

James Buonomo is a Corporate Vice President, China and India, for *Nypro Inc.* Headquartered in Clinton, Massachusetts, Nypro is a leading global provider of integrated plastic manufacturing solutions. With over 11,000 employees at 61 locations in 17 countries, including 40 manufacturing facilities worldwide, Nypro manufactures products for the healthcare, electronics, telecommunications, consumer, industrial, and automotive industries. Nypro recently opened a \$10 million manufacturing facility in Clinton which will focus on the medical device industry. Nypro is the sixth largest custom precision plastics injection molder with related manufacturing solutions in North America and 23rd largest employee-owned company in the U.S.

Alan Clayton-Matthews Ph.D., is an assistant professor and director of quantitative methods in the Public Policy Program at the *University of Massachusetts – Boston*. UMass – Boston works cooperatively with metropolitan businesses, major public and private sector employers, representatives of state and local governments, and neighborhoods to develop programs to link Massachusetts with economic communities around the world. Alan also serves as co-editor of *Massachusetts Benchmarks*, a joint publication of the University and the Federal Reserve Bank of Boston.

Brian Keane is President and Chief Executive Officer of *Keane, Inc.* Boston-based Keane, Inc. (NYSE: KEA), helps clients improve business operations and IT effectiveness through its Application Outsourcing and Business Process Outsourcing solutions. Keane believes that business and IT improvements are best realized by streamlining and optimizing business and IT processes, implementing rigorous management disciplines, and fostering a culture of accountability through meaningful performance metrics. Keane delivers its services through an integrated network of branch offices in North America and the United Kingdom and Advanced Development Centers (ADCs) in Canada and India).

Jack Little is President, Chief Executive Officer, and a co-founder of *The MathWorks, Inc.* The MathWorks was founded in 1984 in Natick and employs over 1000 people worldwide, with 800 based in Massachusetts. The company develops MATLAB[®], a high performance technical computing environment for engineers using combined company expertise in mathematics, engineering, and computer science. The company also develops and markets an extensive family of add-on product to meet the more specific needs of scientific, engineering applications, and financial services. MathWorks has office in South Korea, Germany, France, Netherlands, Switzerland, Italy, United Kingdom, Spain, and Novi, Michigan. The company has been profitable every year since its inception and is privately held.

About the Massachusetts Alliance for Economic Development

The Massachusetts Alliance for Economic Development (MAED) is a private, non-profit partnership of business, industry leaders, and government dedicated to fostering economic growth in the Commonwealth. Launched 1993 as an outgrowth of recommendations of the Governor's Council on Economic Growth and Technology, the Alliance markets Massachusetts by providing information services to companies seeking to expand within or relocate to Massachusetts. MAED presented this conference in conjunction with the Massachusetts Economic Development Foundation, the 501(c)(3) affiliate of MAED. Information about MAED can be found on www.massecon.com.