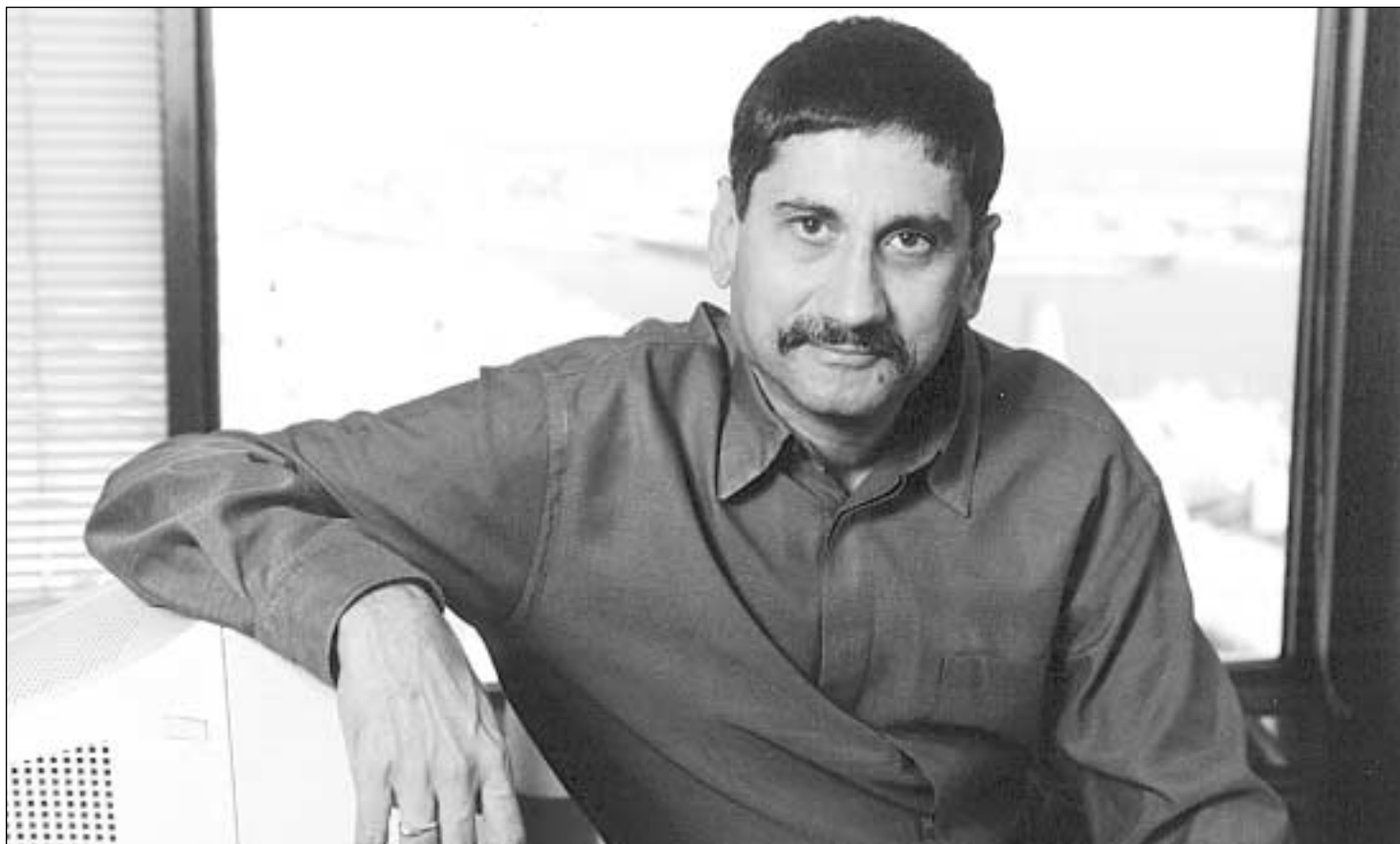


Brave new world of outsourcing



Ashok Kalle, president, Pathways Communications

By Patrick Boake

Outsourcing is not only now a permanent feature of the global economy but the practice is also being taken up by small- to medium-sized enterprises (SMEs). It is spilling out of traditional channels like financial services, call centres and IT into sectors such as professional services and medical transcription.

The tectonic plates of the global economy are shifting and Canadian high tech businesses will have to adapt.

"A Fine Balance," a recent study by PricewaterhouseCoopers (PwC), states that other outsourcing supplier countries have now matured their processes to the point that Canadians are being beaten at their own game. It warns that unless steps are taken, 75,000 or more of the 550,000 IT jobs in Canada could move offshore by 2010.

Ashok Kalle, president of Pathways Communications, a network and e-commerce company in Toronto, says that employers may not be able to ignore the cost-savings from outsourcing.

"No employer in their right mind would pay more to their employees just to keep them happy," reckons Kalle. "They pay what the equilibrium of the market demands.

"Employment costs are either the largest or the second-largest cost elements that any company deals with in North America. The differential typically between doing something locally and doing something overseas is on the order of 30 per cent," says Kalle.

"So if you can get a 30 per cent savings on your costs and maintain the quality, why would you not do it?"

India is by far the biggest outsourcing destination in the world and possibly the best example of why outsourcing is here to stay.

"The advantage for a country like India—if you're only talking about the labour market—is in many urban centres you have a large base of highly-educated, English-speaking people," says Kalle. In the urban areas, it has one of the highest

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per capita numbers of colleges and universities anywhere."

According to the PwC study, India graduates one million mainly English-speaking people every year and projects an increase in revenues from IT and related services from US\$12 billion in 2003 to US\$62 billion by 2009.

Kalle describes the outsourcing boom in India as huge. "I went back after several years and the economy is completely transformed. It's a revolution."

He says outsourcing is not a one-sided phenomenon and foresees savings from outsourcing producing benefits for the

local economy in the form of "better revenues, better profit margin and better share prices. I think the benefits in the long term are going to be that Canadian goods will be cheaper. They'll be more competitively-priced and we will be in a better position to sell more to other markets because of a reduced cost base."

A new Deloitte Touche Tohmatsu study about telecom sector outsourcing called "Making the Overseas Call" points out the practice is coming under fire from trade unions, anti-globalists, politicians, the

media—and sometimes—the outsourcing organizations' own employees claiming that it sacrifices the jobs of local workers to exploit underpaid, non-unionized workers.

Kalle maintains the backlash and job-loss predictions come with breaking new economic ground.

"My honest view is that it's not a bad thing at all. If you remember when computers were first introduced, people thought jobs were vanishing," he recalls. "There was a lot of trepidation about, 'Oh my God, what's going to happen to my job?' But you know what? Industry

became more efficient. Would you turn the clock back and say no more computers?"

Former Progressive Conservative MP Sinclair Stevens says larger US companies will move operations offshore to wholly-owned subsidiaries rather than outsource to third parties, and Canada's high tech employers and employees can benefit from the outsourcing trend by targeting SMEs in the US.

Under the auspices of the Toronto branch of the Royal Commonwealth Society of Canada, Stevens is heading up a program called the Commonwealth Advantage. The purpose of the program is to help Canadian companies and those in the Commonwealth countries build alliances to leverage Canada's proximity and trade ties with the US.

"Canada is in a unique position in the world. We have tremendous trade channels going into the US but we've also got these traditional connections to the Commonwealth," says Stevens.

The Commonwealth is comprised of 53 countries on every continent and makes up 25 per cent of the world's population (approximately 1.7 billion people).

"We've got, generally speaking, a common language, legal system and head of state with Commonwealth countries," continues Stevens. "The other interesting thing is that if you combine the GNP on a parity basis, the Commonwealth is the second-largest economy in the world."

"If we could look upon ourselves as a conduit between the second largest economy in the world and the largest, we're in a great spot," he adds.

"We have an advantage of being near the Americans. The Canadian Consul-General offices in the US are almost like advance selling offices," says Stevens. "When you're dealing with American SMEs, in all likelihood they can't have a wholly-owned subsidiary overseas."

"A very natural fit for the Americans is to deal with an outsourcing company in Canada, and the degree to which that work is going overseas is secondary. As far as the American is concerned, he's dealing with the management level here in the same time zone," adds Stevens.

Kalle agrees: "There is a natural progression," he says. "People in the mid-size market are beginning to look at outsourcing. We have got some small customers and they are delighted we are able to save them money. The more down-market you go, the more price-sensitive they are."

"In the end, if I came to you and said I can get something done with a 30 per cent cost-saving, at the same quality or even better, you've got to have a really interesting reason to turn me down," says Kalle.

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