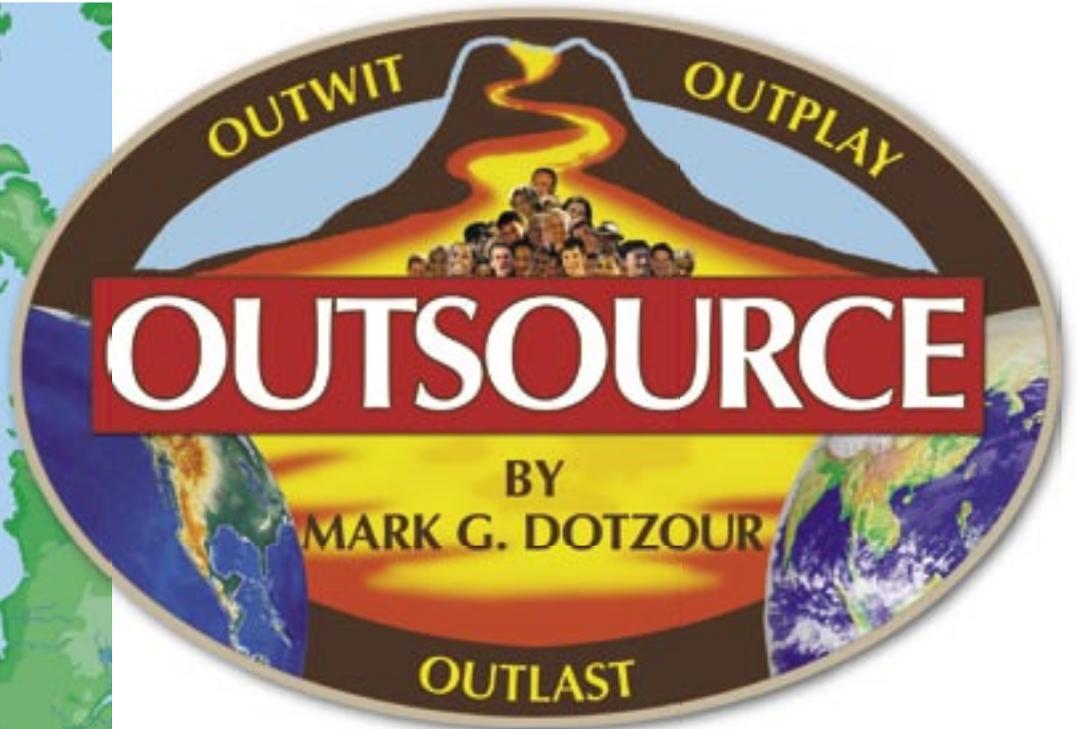


A Reprint from *Tierra Grande*

Recession in 2001. Collapse of the stock market. Information technology sector bust. All were bitter pills for office markets, not just in Texas but nationwide.

Vacancy rates have soared and rental rates have swooned. The good news is the economy is beginning to recover. Employment is on the rebound, but the pace is slow and office building owners and leasing agents are frustrated.

Why is the office market lethargic? One reason is the growing trend of *outsourcing* and *offshoring*. Many jobs have been affected by this trend. This article explores what may lie ahead for other jobs now housed in America's office space.

Outsourcing and offshoring are business strategies implemented to save money by allowing a firm to focus on its "core competency," a key talent that creates profit and is difficult for competitors to imitate. In a real estate business, for example, the core competency is matching buyers with the right properties and sellers with the right buyers.

But for both large and small businesses, this core competency is not enough by itself. Other skills are required for the business to be operational. The website must be managed. Payroll checks must be cut, and bills must be paid. Offices must be cleaned and the landscape maintained. The business owner can hire employees to do these specialized tasks or hire another firm to do the work.

If a firm is hired, the jobs have been "outsourced." If a company hired to do the work uses employees in other countries, the work has been "offshored."

Firms outsource to spend more time on their most profitable activities and less time on less profitable work. Firms send work offshore to lower costs.

A.G. Lafley, CEO of Procter and Gamble, puts it this way: "Branding is a core capability. We concluded in a lot of areas that manufacturing isn't. Therefore, I let the businesses do more outsourcing.



We concluded that running a back room wasn't a core capability. You do what you do best and can do world class."

Work Suitable for Outsourcing, Offshoring

Three types of work are particularly subject to offshoring. Call centers are moving to Canada, India and the United Kingdom. The favorable Canadian dollar exchange rate in recent years has made Canadian labor costs attractive to U.S. businesses. However, John Tilley, executive vice president of Collectcorp, a third-party debt collection company, reports that in India wages for a college-educated call center worker are about \$6,500 to \$10,000 per year, a fraction of the cost of labor in both Canada and the United States.

Information technology (IT) jobs make up a second frequently outsourced category. Collectcorp does its computer programming in Sri Lanka. Other IT jobs are moving to India, the United Kingdom and China. And human resources jobs are moving to India, Ireland and Singapore. The Philippines and Israel are other preferred offshore destinations.

Four major business functions lend themselves to outsourcing, according to IBM:

Customer relationship management (customer care, order management, eCommerce, service after the sale, warranty service, billing and payments, customer analytics and call center operations).

Human resources (staffing, recruiting, employee benefit administration, staff training and education, expense accounting, payroll and data aggregation).

Finance and administration (cost accounting, accounts payable/receivable, project accounting, intercompany billing, credit and collections, internal and external financial reporting, general accounting, budget and forecasting, insurance claims management and back office banking operations).

Procurement (strategic sourcing, supplier relationship management, purchasing, contract management, global sourcing and travel services).

This has major implications for commercial property owners. The outsourcing-offshoring trend started with manufacturing, but as this list of frequently outsourced functions shows, it now is affecting the kinds of businesses that lease large amounts of office space.

Competition Sparks Cost-Cutting

American companies are implementing or considering business outsourcing because they are under intense pressure from competitors from all over the globe. Changes in business practices continue to increase. Keeping up with the latest versions of business software requires capital and expertise. Stockholders demand continuously increasing profits. This forces companies to constantly look for ways to cut costs.

Suppose a small company originally hired a teenager to create its website. The company has thrived and now requires more expertise and reliability in that position. The website management is outsourced to a local third-party firm that charges \$200 per month.

Now suppose a foreign firm offers the same service for

The next wave of offshoring is likely to include payroll, employee benefits, purchasing and accounting functions.

\$45 per month. The owner goes with the lower-cost firm.

Why is the foreign firm so much cheaper? Because employees in places such as India and the Philippines work for much lower wages.

Reflecting on the competitive pressures on global companies, Deborah Kops, managing director and global head of transformation of Deutsche Bank, says that like all other private companies, Deutsche Bank is an “optional company.” Customers have the option to use this bank or choose from among many others. These types of companies must continuously strive to provide world-class goods and services at the lowest possible price.

Two of the biggest names in the outsourcing business are IBM and Accenture. At a conference on outsourcing, CEO of the Everest Group, Peter Bendor-Samuel said, “There isn’t a board of directors in the Fortune 500 that isn’t considering offshoring. American labor may cost from four to seven times the cost of similar Asian workers. They have to take advantage of the cost savings; otherwise, other firms will do it cheaper and take their market share.”

Jobs Going to India

Many firms are moving jobs to India. The biggest players are Infosys Technologies, Wipro Technologies and Tata Consultancy Services. Cities such as Bangalore and Hyderabad are quickly becoming the new Silicon Valley for IT and IT-enabled services (any business function that makes use of the high productivity of new information technology).

According to an article in *CIO Magazine* (Nov. 15, 2002), the cost advantage of offshoring IT jobs is significant. Average annual salaries of IT programmers are:

United States	\$63,331
Canada	\$28,174
Ireland	\$23,000 to \$34,000
Israel	\$15,000 to \$38,000
China	\$ 8,952
Malaysia	\$ 7,200
Philippines	\$ 6,564
India	\$ 5,880
Russian Federation	\$ 5,000 to \$7,500
Poland and Hungary	\$ 4,800 to \$8,000

The next wave of offshoring is likely to be IT-enabled services, also referred to as business process outsourcing. This includes human resource functions such as payroll, employee benefits, purchasing and accounting.

Higher skilled jobs are starting to migrate to India as well. Compudyne Winfosystems — a Bangalore firm — created special effects in the American movies “Independence Day,” “Men in Black” and “Swordfish.” The starting

salary of an offshore graphic design artist is around \$5,000 per year.

According to news releases on the Infosys website, higher-end financial services jobs are starting to migrate as well. Top offshore business school graduates earn about \$12,000 per year, compared with nearly \$100,000 in the United States. Ernst and Young sends tax returns to India for processing, and about 50 other American companies send about 35,000 tax returns offshore.

With an economy larger than Germany’s, India is the largest competitor in offshoring. It is now the fourth largest economy in the world, behind the United States, China and Japan.

American companies are India’s primary customers and American Express, Hewlett Packard and GE Capital, which now has more than 20,000 employees in India, were offshoring pioneers in the country. Currently, 70 percent of Indian firms receiving offshored work are subsidiaries of U.S. companies. The other 30 percent are third-party firms.

Smaller firms are considering offshoring as well. Global firms such as Nortel, Prudential, Target, AT&T Wireless, Bank of America, EDS and Best Buy now use Indian companies for a variety of services.

Infrastructure, Security Needed

Rapid business growth has created challenges for India. Additional infrastructure is needed, including expansion of roads, airports, power and telecom services.

Data security and privacy issues are paramount. Some firms are thinking about prohibiting employees from having writing instruments and paper, cell phones and cameras in the office.

U.S. companies that want to offshore face their own challenges. Several states are considering some form of protectionism to limit the use of foreign workers. Collectcorp’s Tilley remarks, “We are frightened of the legislation that is being considered at the state level in the United States.”

To maximize profits, stock prices and market share, companies must be able to offer quality goods and services at the lowest possible price. If they do not, other companies will. As more and more companies reap cost savings from outsourcing and offshoring, others will follow or be driven out of business. ♣

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Tierra Grande (ISSN 1070-0234), formerly *Real Estate Center Journal*, is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year.

Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University.