



INFORMATION TECHNOLOGY  
ASSOCIATION OF CANADA



ASSOCIATION CANADIENNE DE LA  
TECHNOLOGIE DE L'INFORMATION

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## The Issue: *Offshore Outsourcing*

Business process outsourcing describes the practice of contracting out specific, generally non-core business functions to external suppliers and service providers who can demonstrably perform these functions more efficiently and economically than the contracting company. Business' perennial quest to reduce costs, improve productivity and maintain competitiveness has enshrined outsourcing as a fundamental 21<sup>st</sup> century economic reality.

The global nature of modern commerce has broadened this quest and produced the phenomenon of off-shore outsourcing. This entails contracting with an outsourcer in a different country or even a different continent, to fulfill business functions. Off-shore outsourcing takes advantage of lower wage rates, exchange rates or other strategic differentials to offer services on a basis that makes them highly competitive with those offered in the client's country.

The primary allure of offshore outsourcing is cost reduction. A Global Insight study conducted for the Information Technology Association of America estimated that the cost saving accruing to U.S. use of offshore outsourcing of software and IT services in 2003 was \$6.7 billion.<sup>1</sup> But, offshore suppliers can also offer other strategic resources such as economical access to new technology or the capability to conduct around the clock operations.

Virtually all business functions can be outsourced. The practice of contracting professional services such as legal and accounting is familiar to most businesses. But with the globalization of trade, it is increasingly rare to find a fully integrated manufacturing operation. Components are crafted all over the world and assembled wherever it makes economic sense to do so. Many nations have had the foresight to recognize this emerging reality and base miraculous economic achievements on excellence in one or two specific areas of expertise. Taiwan, for example, is responsible for about 70

percent of the world's semiconductor foundry business. And China shows evidence of a clear plan to challenge that supremacy.



The knowledge economy is clearly every bit as subject to the economic realities of outsourcing as the industrial economy. Canada, Latin America and the Caribbean have built substantial industries around call centres and customer care facilities. India has made a strategic and sustained bid to offer excellence in software design and development. This plan initiated nearly a decade ago has grown India's IT and IT-enabled services industry significantly. Revenues for this sector are expected to grow from \$12 billion in 2003 to \$62 billion in 2009 – and produce 1.5 million new jobs in the process.<sup>2</sup> Other successful ventures have demonstrated that document production can be outsourced, systems engineering can be outsourced, even the basic research and development that fuels a company's capacity to innovate can be conducted in labs offshore. (China, which graduates more science professionals than any other country, is well positioned for leadership in offshore R&D).

<sup>1</sup> "The Impact of Offshore IT and Services Outsourcing on the U.S. Economy and the IT Industry," ITAA, March 2004, page 3.

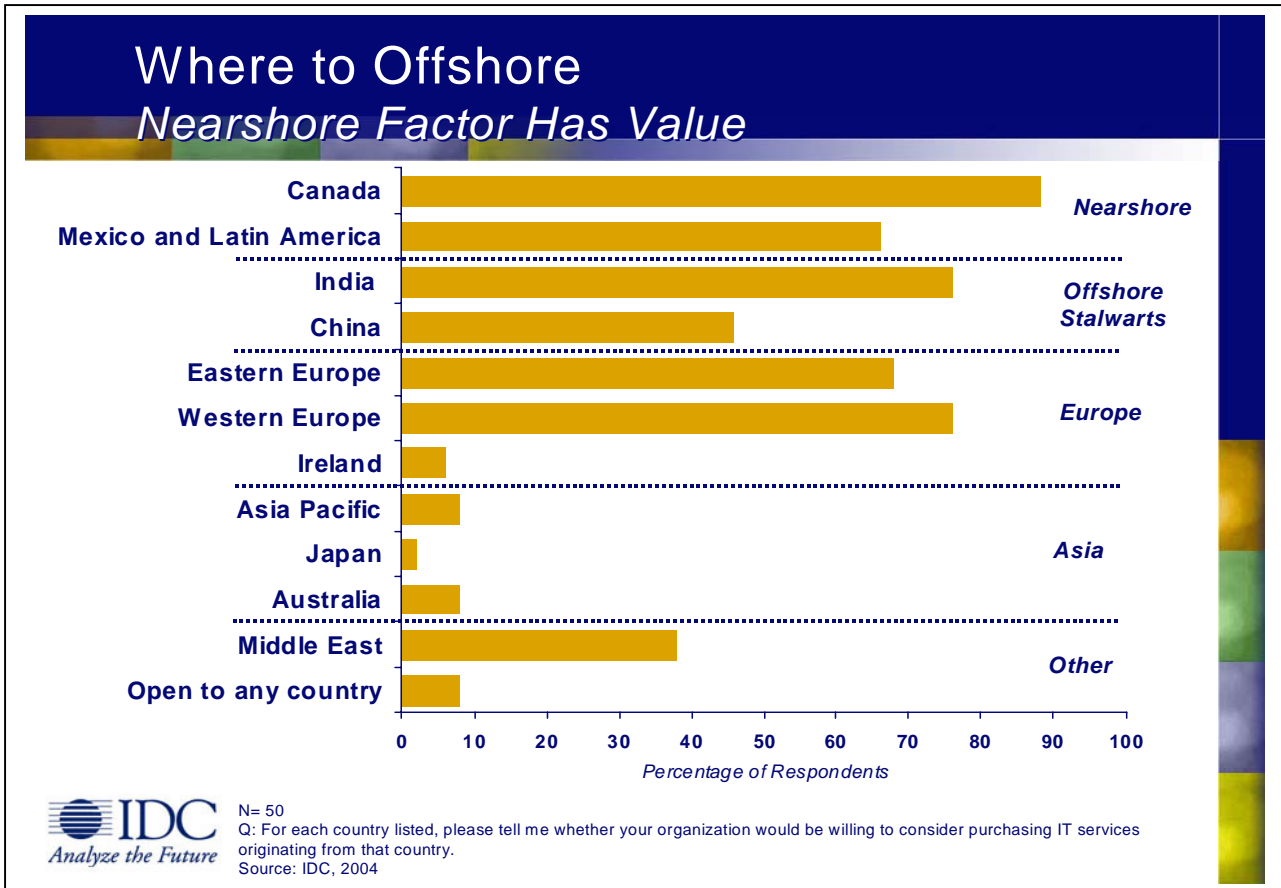
<sup>2</sup> "A Fine Balance: The Impact of Offshore IT Services on Canada's IT Landscape," Robert Scott and David Ticol, PWC, page 2.

Offshore outsourcing has emerged as a controversial, even political issue in the United States. Many business and political leaders see offshore outsourcing as a beneficial economic force. For example, a Global Insight study, conducted for the ITAA reports. "While global IT software and service outsourcing displaces some IT workers, total employment in the United States increases as the benefits ripple through the economy. The incremental economic activity that follows IT outsourcing created over 90,000 net new jobs in 2003 and is expected to create 315,000 net new jobs in 2008." But opponents suggest that while outsourcing may improve corporate profits, its beneficial impacts on producing high paying knowledge jobs, improving balance of trade and reducing deficits are still to be proven.

**Canada's Place in Global Outsourcing**

Limited data exists to definitively assess the degree to which Canada is currently a net beneficiary of

offshore outsourcing. Those who have studied the matter suggest that Canada is currently a net creator of outsourced jobs – citing approximately 150,000 employed in call centre activity and 20,000 performing IT outsourcing.<sup>3</sup> Canada has many natural advantages that make it an attractive place to outsource. Its wage rates for some jobs compare favourably with the United States. This advantage has been further enhanced by favourable currency rates of exchange. Canada shares linguistic and cultural similarities with the United States. Its business practices are comparable. It is politically and economically stable. It has a well-educated workforce. And it enjoys a sound communications and transportation infrastructure contiguous with the United States. Indeed, Canada's broadband network is one of the most sophisticated in the world, furnishing Canada with unique proficiencies in the outsourcing of business processes based on advanced networks and network management.

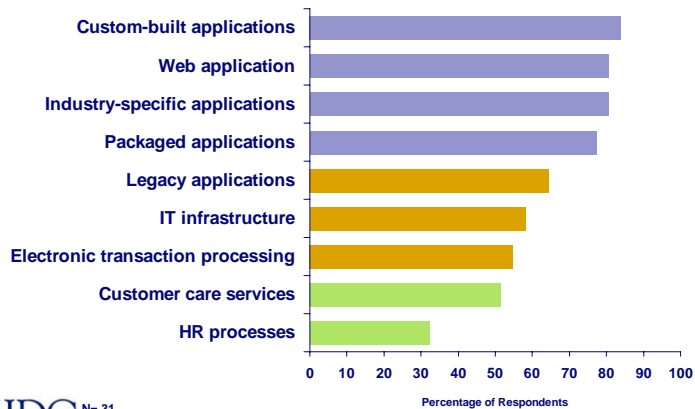


<sup>3</sup> "A Fine Balance," page 1.

## Canada as a Nearshore Alternative Opportunities for US Penetration

Canada is seen as being strong in:

- 1) complex, leading/ bleeding edge IT developer skill sets
- 2) subject matter expertise along industry/process lines



 IDC  
Analyze the Future

N= 31

Q: What kinds of IT services would your organization be willing to contract with a provider delivering services from Canada?

Source: IDC, 2004

Canada's attributes and its proximity and familiarity seem to score reasonably well with outsourcing customers. IDC recently conducted a study on offshore outsourcing that shows Canada is a preferred choice. Meanwhile, countries such as India, are reaping the benefits of strategies that have been in place for years. The key question for Canada is: Can it expect to maintain its advantage in the absence of a concerted national strategy?

In fact, there is a good chance we could actually lose our position. As Canadian business grows more and sophisticates itself about the benefits of outsourcing, we can expect growth in the migration of jobs outside Canada. Even if Canada is indeed a beneficiary of outsourcing today, that condition could change rapidly. The PricewaterhouseCoopers report, for example, suggests that 75,000 Canadian jobs could disappear by 2010.<sup>4</sup> Whereas a progressive, collaborative and timely national strategy could produce significant new job growth.

### The Challenge for Canada

Offshore-outsourcing presents a two-fold challenge for Canada. First, we must seize the business opportunities the global outsource market makes available now for Canada. And, second, we must ensure through appropriate long range strategic planning, that Canada is positioned to ensure that it offers services that a global marketplace will value. This requires the integration of labour force management, industry and export strategies at provincial and federal government levels. It requires collaboration between the two levels of government.

And it requires close collaboration between government and industry.

ITAC believes that Canada has the potential to position itself as a leader in the global offshore outsourcing marketplace. But achieving this leadership requires a national strategic plan. Such a plan would articulate Canada's brand attributes and identify key areas of expertise. IDC data, for example, suggests that Canada's expertise is recognized in areas such as complex, leading-edge IT development and for its capacities in developing industry specific and process specific applications.

We believe that if we move aggressively now to create and implement a long range plan that engages government, industry and academe, we can achieve this leadership position. We believe that this will ensure a "strong economy, with well-paying and meaningful ready at the forefront of the next big technological revolution" – the vision for Canada expressed in the February 2004 Speech from the Throne.

To do so requires a concerted focus from industry itself. The members of ITAC are committed to provide that focus.



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<sup>4</sup> Scott and Ticoll, page 1.