

1.0 EXECUTIVE SUMMARY

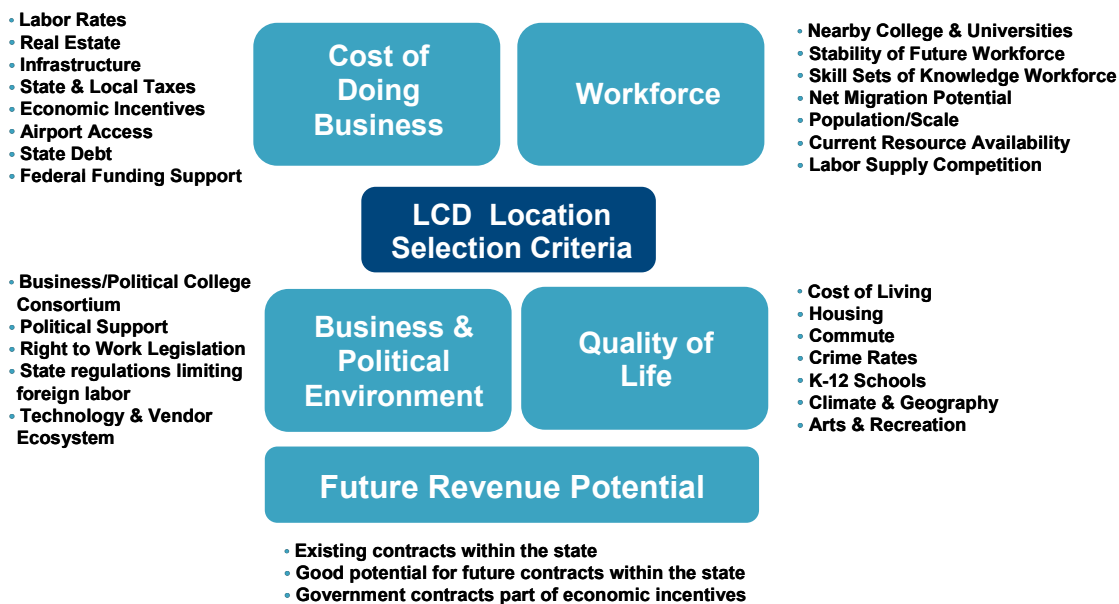
For over two decades, sourcing for services across both IT and Business Process sectors has gone global, with services providers from various countries offering a multitude of competencies. The shift “offshore” has caused vigorous debate among industry, government, and the media on the impact of globalization on the U.S. economy. In response to the controversy and other market drivers, many IT services providers have been considering new U.S. locations as potential sourcing destinations, including lower cost mid-sized metropolitan areas and rural communities. This type of outsourcing is referred to as Low Cost Domestic (LCD) sourcing. Companies considering LCD do so for varying reasons including:

- An alternative to using an offshore location
- To complement global strategies
- To expand services and market reach in U.S. by foreign companies

This guide is intended for use by U.S. state governments, government agencies, and private companies that are interested in evaluating and developing LCD sites. It includes an overview of a LCD selection framework and a model that organizations can use to evaluate LCD locations. In addition, it includes detailed guidelines for how to evaluate individual criteria.

In order to evaluate the potential of setting up a LCD location, we have developed a framework to guide organizations through location selection.

Figure 1: LCD Selection Framework



Of the above criteria, cost of doing business and workforce rank as the most important criteria, followed by business and political environment and quality of life. Future revenue potential comes into play some of the time. When it is a criterion for a company selecting a location, it usually ranks very high. For example, one company we spoke with only considered states where they had a good chance of securing government deals. Another company we spoke with was lured by a large government contract to set up an LCD in their state.

In general, however, when using the model, we have assigned the following importance weightings to each of the four major criteria:

Criteria	Weight
Cost of Business	40%
Workforce	35%
Business & Political Environment	15%
Quality of Life	10%

There is no absolute “score” a locale has to attain to be a viable LCD location. Instead, the model should be used to compare alternative locations within the state as well as competing locations outside the state that are in geographic proximity to potential LCD locations.

In addition, the specific niche or area of expertise that the LCD area will focus on must be considered. Most companies know exactly which skill sets they plan to have in their LCD location prior to starting their search. Therefore, it is paramount that governments are able to define the LCD location attributes by the skill sets of the labor that currently exists in the area. As the government is choosing viable locations, looking at current demand for specific skill sets should play a large role in choosing a specific location to market.

In conclusion, the above framework and model are designed to be flexible. The inclusion of specific sub-criteria may not be necessary, and the weightings may change depending on the specific situation. The important thing is that organizations use the model to compare alternative locations within a state and region as a company would when choosing a LCD location. Using the above framework will help state governments choose the location that will be the most attractive to companies looking to set up a LCD location, and will help private companies evaluate their options.