

Rural Sourcing: Leveraging the Infrastructure of Rural America

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Today's financial crisis has devastated many areas of the U.S. economy, especially the United States' job market. In November of 2010, the unemployment rate reached 9.8 percent. It has since dropped to around 9 percent; however, 13.7 million people remain unemployed (U.S. Bureau of Labor Statistics). What is further alarming is even this number could be misleading, as many economists attribute the drop to the fact that discouraged workers have stopped looking for new jobs, which means they are no longer counted as part of the labor force or included in the unemployment rate. This rate is expected to remain above 9 percent throughout 2011, which will lead to a further decrease in consumer spending; thus, making it extremely difficult for the economy to recover from the current recession.

All regions of the United States have felt the negative impacts of this recession. Typically, rural areas have been hit the hardest. In February 2009, the unemployment rate in metropolitan areas was 8.7 percent and 8.9 percent overall in the U.S.; however, this rate soared to 9.8 percent in non-metropolitan areas (McBride). This fact, along with a continuously high unemployment rate expected throughout 2011, shows that a change must be made. Change is imperative to decrease the unemployment rate in order to have some hope of economic recovery from this recession. A sound proposal to decrease the unemployment rate, especially in rural areas, is to implement rural sourcing. The United States utilized a similar economic strategy immediately following World War II, a lesson we can build upon to rid ourselves of the "Great Recession."

According to Saturn Systems, rural sourcing is "an attractive alternative to outsourcing information technology services overseas or to firms in major metropolitan areas" (Saturn-Systems). Instead, this work is outsourced to mid-sized American cities away from large urban centers. Also known as rural outsourcing, near-shoring, or onshoring, rural sourcing sends jobs,

usually IT work such as software development, from high-wage areas to parts of the United States where wages are lower than the total cost of shipping jobs overseas. Currently, there are about twenty rural sourcing firms in the United States. Some of these firms include Saturn Systems, which operates in vibrant, mid-sized American cities and draws talented individuals from universities; Rural Sourcing, Inc., which opens centers near small cities with universities and largely hires recent college graduates; and Onshore Technology Services, which takes underemployed and dislocated workers who have lost manufacturing jobs and puts them through a bootcamp-style training program to make software developers out of them. These businesses, many of which were started by entrepreneurs through grants and their own funds, are looking to expand their operations into other locations.

There are numerous advantages to rural sourcing. First, the cost of living is much lower in rural communities. This provides companies with lower infrastructure and employment costs. A second advantage is faster response times. Rather than having to fly overseas to visit an organization on-site, most have to travel only a few hours. Third, it provides for more convenient hours. Owners and managers no longer have to worry much about time zone differences. Next, there are few communication barriers, as language and cultural differences are no longer an issue. Security is a further advantage, as the company and its interests are fully protected by United States' federal and state laws. Lastly, it provides for a stronger economy. When businesses keep their IT work in the United States, this creates and preserves jobs which helps strengthen the economy.

Businesses can save from 30 to 60 percent by choosing to outsource to rural areas rather than metropolitan areas (Smith). It may still be cheaper to send the work overseas, however, hidden overhead costs such as cultural dissonance, language problems, costs of transportation

and supervision, lack of understanding of American business practices, and problems with trying to communicate over multiple time zones narrows this cost savings gap. Further, wages for Chinese factory workers have jumped 15 percent a year in the past decade and shipping costs are up about 71 percent (Davidson). Chinese raw-material costs have also risen. While these costs have increased, U.S. salaries have remained flat. This provides further support for why it may no longer be such a cost savings to outsource overseas. This becomes especially true when one looks at additional benefits that rural sourcing offers: it allows for lower inventory costs and fewer shipping hassles because businesses no longer have to worry about delays, and it allows engineers to work closely with production managers and assembly-line workers to create higher quality products, which has become a great concern with products that are made overseas.

Rural sourcing creates a win-win situation for both the company and the community. The community is in need of jobs, and rural sourcing not only helps create jobs in the rural area, but it also helps retain talented workers and sustain a middle class. Many students graduate from college and have to move away to find work in their chosen field; this is known as the “brain drain” effect. Rural sourcing allows these graduates to stay in their hometowns and still earn a decent salary. Employees at Eagle Creek’s new Siebel Project Center in Valley City, North Dakota will earn salaries between \$30,000 and \$75,000, with the norm in the \$45,000 range. This compares with an average annual statewide salary of \$22,000 (King). For the company, rural areas offer a cheaper cost of living compared to urban centers; thus, allowing businesses that outsource work to these areas to pay less.

There are very few drawbacks to rural sourcing; however, one shortcoming is that rural sourcing providers generally do not have the expertise needed to take on a wide variety of IT projects. They are better suited to handle specific tasks well (Violino). A second drawback is

there are currently not enough rural sourcing companies to meet the demand for its services, as over the past few years, the size of the rural sourcing market has grown to \$100 million. This is why **establishing a central rural sourcing industry organization** is crucial to leveraging the concept of rural sourcing in the United States. The organization should be associated with the International Association of Outsourcing Professionals (IAOP) with the main objective being to increase the awareness of the rural sourcing concept and to push its initiatives and policies nationwide. It will do this by offering a consortium to entrepreneurs willing to start these rural sourcing businesses, as well as, advice on the best locations in which to open and operate them. The organization will also help identify the necessary training programs to ensure continuous availability of qualified workers.

As mentioned previously, there are approximately 20 rural sourcing firms in the United States, and they are all looking to expand. Hard numbers of the impacts resulting from these rural sourcing companies are difficult to come by, as this is a new market; however, *Globalization Today* predicts it as one of the top 10 trends of 2011 (p.124). Further, many of these companies are growing at astonishing rates and continue to hire more and more workers. For example, CGI's U.S. Centers of Excellence has created more than 500 quality jobs, with an additional 250 or more expected to be created through 2012. The company's center in Lebanon, Virginia alone is projected to generate more than \$68 million in annual economic activity for the region. Rural Sourcing, Inc., founded in 2004, employs 70 people, the majority of whom are in Jonesboro, Arkansas. The company has another center in North Carolina and is in the process of finalizing the location of a third center. The company's CEO, Monty Hamilton, hopes to continue to expand his company, as it is currently profitable and is experiencing an annual growth rate of 300 percent. His company's goal is to open 30 centers and create 3000 new U.S.

IT jobs (Smith). This shows that rural sourcing may currently be just a small niche; however, with these growth rates, rural sourcing could become an extremely popular trend in years to come.

The United States will greatly benefit from **establishing a central rural sourcing organization to leverage the concept of rural sourcing**. It will keep jobs in the U.S. rather than abroad which will decrease the unemployment rate. Rural Sourcing Inc.'s CEO, Monty Hamilton, states, "If the fledgling rural sourcing industry could capture 10 percent of the jobs currently being sent offshore, it could keep 50,000 to 60,000 people employed in this country" (Smith). Additionally, the jobs created through rural sourcing provide decent wages to workers. This will not only help decrease the poverty level in rural areas and help sustain a middle class, but it will also increase consumer spending, which, in turn, will boost our economy. Further benefits for the United States of rural sourcing are that it increases the competitiveness of the American workforce and also helps protect the security of our nation. During these difficult economic times, our country needs a way to lower its unemployment rate and boost its economy, and rural sourcing is a great way in which to do this.

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