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Hot Spot for Tech Outsourcing: The United States

By **STEVE LOHR**   JULY 30, 2017

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Employees at the Techtonic Group in Boulder, Colo. The company once relied on offshore services, but has made nurturing local talent a priority. Ryan David Brown for The New York Times

For years, American companies have been saving money by "offshoring" jobs — hiring people in India and other distant cubicle farms.

Today, some of those jobs are being outsourced again — in the United States.

Nexient, a software outsourcing company, reflects the evolving geography of technology work. It holds daily video meetings with one of its clients, Bill.com, where team members stand up and say into the camera what they accomplished yesterday for Bill.com, and what they plan to do tomorrow. The difference is, they are phoning in from Michigan, not Mumbai.

"It's the first time we've been happy outsourcing," said René Lacerte, the chief executive of Bill.com, a bill payment-and-collection service based in Palo Alto, Calif.

Nexient is a domestic outsourcer, a flourishing niche in the tech world as some American companies pull back from the idea of hiring programmers a world away.

Salaries have risen in places like South Asia, making outsourcing there less of a bargain. In addition, as brands pour energy and money into

same continent.

Mark Orttung, the chief executive of Nexient, which is based in Newark, Calif., but set up centers in Michigan and Indiana to tap workers who didn't want to leave the Midwest.
Jason Henry for The New York Times

Many of these domestic outsourcers are private, little-known companies like Rural Sourcing, Catalyte, Eagle Creek Software Services and Onshore Outsourcing. But IBM, one of the country's foremost champions of the offshore outsourcing model, has announced plans to hire 25,000 more workers in the United States over the next four years.

As a result, the growth of offshore software work is slowing, to nearly half the pace of recent years.
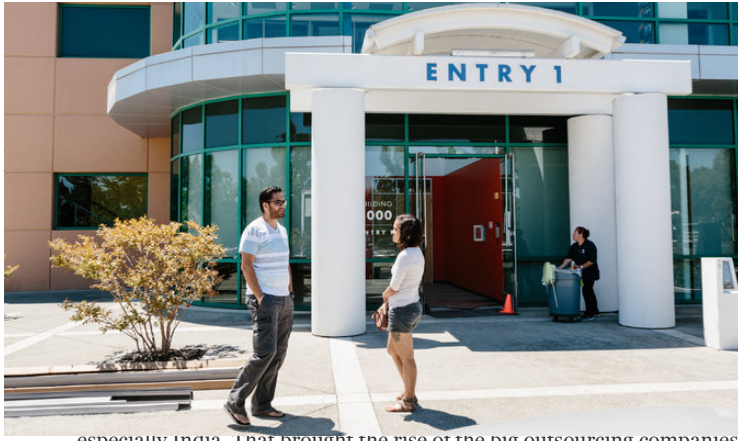
"The nature of work is changing," said Vishal Sikka, chief executive of Infosys, an Indian outsourcing giant. "It is very local. And you often need whole teams locally," a departure from the offshore formula of having a project manager on-site but the work done abroad.

"It's not enough to have people offshore in India," he added.

Infosys announced in May that it planned to hire 10,000 workers in the United States over the next two years, starting with centers in Indiana and North Carolina.

The offshore industry is not imperiled, analysts say. But from 2016 to 2021, the offshore services industry will have average yearly growth of 8 percent, the research firm IDC estimated. The rate in the previous five years was 15 percent.

"Domestic sourcing is here to stay, and it's going to grow rapidly," said Helen Huntley, an analyst at the research firm Gartner.
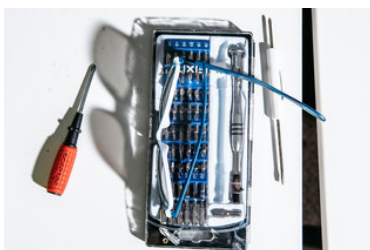
especially India. That brought the rise of the big outsourcing companies like Tata Consultancy Services and Infosys.

Offshore services companies still excel at maintaining the software that runs the essential back-office systems of corporations. But today, companies in every industry need mobile apps and appealing websites, which can be made smarter with data and constantly updated. That software is best created by small, nimble teams, working closely with businesses and customers — not shipped to programmers half a world away.

Nexient, which has its headquarters in Newark, Calif., has three delivery centers in the Midwest: in Ann Arbor, Mich.; Okemos, Mich.; and Kokomo, Ind. It employs 400 people, up from 250 two years ago, and plans to hire a few hundred more over the next year, Mark Orttung, the company's chief executive, said.

The company's business model is fairly typical for onshore companies. On projects, it will send members of a team to the client for a couple of weeks to study the business and meet their counterparts. Bill.com even interviewed and shared in the selection of five Nexient engineers who would work on the joint team.

Mr. Lacerte of Bill.com had farmed out technology work over the years, but the headaches of navigating time zones, cultures and language often outweighed the cost savings. Those problems went away when he hired a domestic outsourcer.

A set of tools at the desk of a Techtonic apprentice. Techtonic began the apprentice program in 2014, and has hired 90 percent of the graduates.
Ryan David Brown for The New York Times

Nexient has set up its centers away from the coastal high-tech hubs, like the Bay Area and New York, to tap skilled people who want jobs in the technology economy without leaving the Midwest, where living costs are far less.

Monty Hamilton, a former Accenture consultant, took over Rural Sourcing in 2009, when it had just a dozen employees. Today, the company has 300 workers in four delivery centers: in Albuquerque; Augusta, Ga.; Jonesboro, Ark.; and Mobile, Ala. The payroll will reach about 400 people by the end of the year, Mr. Hamilton said.

"Every business now realizes it's a digital business," he said. "They need technical help, and that's really driven the demand for our U.S.-based

Politics seem to be playing a role, too. The American onshore companies say they are seeing a postelection spike in client inquiries, as President Trump lobbies businesses to create more jobs in the United States and seeks to curb immigrant work visas.

"The election has brought a lot of attention to these issues and to us," Mr. Orttung said. "But nobody buys because of that."

Rising labor costs abroad also make domestic sourcing more attractive. A decade ago, Mr. Hamilton said, an American software developer cost five to seven times as much as an Indian developer. Now, he estimates, the gap has shrunk to two times. The standard billing rate for his engineers is $60 to $70 an hour, compared with $30 to $35 in India, Mr. Hamilton said.

Nick Seeber, a senior developer at Techtonic, which plans to expand to 10 new cities in the next three years. Ryan David Brown for The New York Times

But the sales pitch made by onshore companies is not about raw labor costs. Instead, they claim the ability to deliver excellent work more efficiently than the offshore providers and less expensively than large technology services companies.

Cambia Health Solutions, which has its headquarters in Portland, Ore., is a health insurer with two million members. In recent years, it has moved beyond insurance to provide consumers with online tools to shop for doctors and specialists, for example, and to sort through drug options based on effectiveness, prices and user reviews.

information officer. And the insurer has enlisted the help of Catalyte, an onshore outsourcer. "They can ramp up quickly," Mr. Rotival said.

Catalyte, based in Baltimore, has doubled its work force in the last two years, to 300 people. To accommodate rapid growth, Catalyte is scouting locations for two new centers, which the company hopes to open by the end of this year, said Michael Rosenbaum, founder of Catalyte.

Training is a vital capability for all the onshore companies, but few have gone as far as the Techtonic Group in Boulder, Colo. Once a committed offshore outsourcer, Techtonic has made nurturing homegrown talent the centerpiece of its business. In 2014, it set up a training academy that feeds graduates into its Department of Labor-approved apprenticeship program for software engineers.

In the past couple of years, 30 people have gone through the program, which lasts six to nine months. Techtonic has hired 90 percent of the graduates, and many later became employees of its corporate customers, starting at salaries between $65,000 and $75,000.

Techtonic has an ambitious expansion plan, going to 10 new cities in the next three years and hiring 100 developers in each city, said Heather Terenzio, the company's chief executive.

"American industry has relied too much on overseas technology workers and neglected the potential talent here," she said.