If all offshore outsourcing brings to mind is cost reduction, it's time to expand your thinking.

Offshoring can reduce costs, of course, though not as much as an apprehensive public and fulminating politicians imagine. But much more importantly, creative use of offshoring can fundamentally transform business activities, create new services and products, and spur innovation that couldn't happen otherwise. It can change the way companies go to market with their offerings and create entirely new businesses, dramatically improving customer service, often with no domestic job losses at all.

Let's start with call centers, which come to most people's minds when they think of offshoring. When you change the economics of call centers, you can take the future back to the 1950s, when AT&T made it a rule to pick up calls within five seconds. That would startle your customers, wouldn't it? They're used to calling their frequent-flier accounts and going through loops and loops of buttons. And if they really, really want to talk to a person, they get put in a queue and wait for—who knows? Twenty minutes? An hour?

Picking up a call in five seconds is vitally important in certain businesses. Dell Computer has been launching a new line of ink-jet printers, hoping to take market share from Hewlett-Packard. The business model in printers is no secret: sell the printer essentially at cost, and sell ink for its lifetime. The margin is in the ink.

But you've got to take orders fast. People's time is valuable. No one will wait on the phone for five minutes to place an ink order. Dell initially had problems with offshore tech-help call centers, but the company is finding that a call center in India can take a call in five seconds and get ink on the way quickly, at a reasonable cost.

Why can't they do that here? Because at U.S. wages, they can't afford to staff a call center heavily enough. Wait time for customers increases nonlinearly with utilization of call-center workers. As utilization of workers approaches 100 percent, waiting time explodes exponentially. Even a 10 percent reduction in labor cost is major, because it permits a lower rate of worker utilization and gets Dell away from the steepest part of that exponential curve.

In tech support, another phenomenon can dominate. Lower labor costs allow callers to reach highly skilled employees more quickly. In traditional tech support, callers usually go through a screening process. The support center starts with a very low-skilled person, hoping he or she can provide the answer. But using an offshore center, a company can change the mix of workers economically and immediately hand callers to experts.

This is no small thing. Studies of satisfaction among people calling for support reveal a completely counterintuitive result: If you can solve their problem quickly, their regard for you climbs higher than it was before they had their problems. Your company benefits from a kind of halo effect as a result of the hero who solved the problem.

Several companies, including Intuit, have told me this story. In Intuit's offshore tech-help center, callers usually reach a competent troubleshooter right away. In a U.S. call center with similar costs, they might still be waiting to get their answer after two hand-offs.

For a third example, consider software development. In this case, modest reductions in labor costs allow whole new businesses to come to life.

What's the key question here? It's not "Shall we reduce our costs by moving this development process to India?" Instead, it is "Can we use this ability to develop software economically to successfully modify our core product for a niche market?"

If the answer is yes, your business can escape commodity status and enjoy a bonanza. Niche markets by definition are small—but there are lots of them. And the margins can be luscious.

There are many examples. One is Symphony Services, a company I work with. Symphony created an outsourced software model in which they combine their offshore software development capacity with a venture fund that buys startup companies. Target companies struggle to serve niche markets because software development costs are too high in the U.S. Symphony takes the product to India, develops it, and brings it back to the States.

Voila! A product and a market, neither of which would have existed without offshore outsourcing. No jobs are lost in the U.S. They couldn't have existed at our wage rates. But there are big gains: satisfied, better served, more productive U.S. customers; profits for a U.S. firm; profits for an Indian firm; and employment for Indian software engineers.

So think about cost savings, sure. But think more about letting those savings take you to market spaces you never even considered before.

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