

# OFFSHORE OUTSOURCED SOFTWARE DEVELOPMENT

This paper summarizes the benefits and issues of outsourcing your product development. It also provides contacts and references if you want to further investigate offshore software development.

## What is Offshore Outsourced Development?

Outsourced development is the hiring of a team of engineers, usually with a project manager, to develop part or your entire software product. Efficient communication and delivery via the Internet enables you to use development teams anywhere in the world.

## The World Wakes up to Offshore Outsourcing

Software outsourcing is a booming business. For example, India's Investment Centre calculated that software outsourcing generated over \$7 billion USD of exports in 2001. China's ministry of Information Industry calculated that Chinese software exports rose from \$750 million in 2001 to \$3.5 billion in 2002. Countries like Ireland, Canada, the Philippines, and Russia are also getting more business.

## Why use Software Development Outsourcing

The key benefits to software outsourcing and reasons it has become increasingly popular are:

- **Cost.** Typically the hourly rates for a professional with equal skill are much lower overseas.
- **Speed.** The supply of skilled professionals overseas is large enough that you can typically get all the staff you need, when you need it.
- **Expertise.** Often a US-based company may have a very clear idea about the market or have specific technological expertise, but lack the experience and expertise to implement a specific software project. This expertise can easily be found in the market.
- Unlike hiring your own team, you **pay only for what you need**. You do not incur obligations if you are not ready. Stated in other terms, a large part of your development costs change from being fixed costs to being variable costs.

These characteristics make it better than the alternatives:

1. Build up a staff of engineers (**pay me now**). This is more expensive and inflexible.
2. Hire engineers for stock (**pay me later**). As we've all learned, free isn't really free

As a result, outsourcing (**pay less and only what you need**) is better for a lot of situations.

## When not to Outsource

The following are cases when it is not the right time or situation to outsource your software development:

- **You have no funding.** Outsourced development firms typically don't work for deferred payments or for stock only.
- **You have no business plan or haven't talked with customers yet.** You need market validation and a plan that shows the business is worth doing before spending significant resources on product development.
- **The product requires innovative breakthroughs and only you can do the research and create a solution.** Examples are sophisticated algorithms or products that include a combination of hardware and software.
- **The product is for military applications.** Some types of work require special clearances that cannot be obtained by engineers outside the US.

## Pitfalls to Avoid

Here are some guidelines to get the most out of this critical business relationship.

- **Don't waste time on over-specification.** A functional specification describing your product is critical, but don't specify every detail. Software engineering is a creative process and engineers need freedom to innovate as they create. Engineers often make improvement to the user interface and architecture of your product as it is developed.
- **Don't micromanage.** Find an outsourcing firm you trust and let them do their job.
- **Avoid dictating release date commitments.** You can specify the release date or you can specify what features are to be in a release. It is hard to do both. Software release dates are most reliable if the development team estimates them.

## Improving Your Outsourcing Success

Here are ways you can help the outsourcing process go more smoothly:

- **Treat the outsourced team as a part of your team.** People everywhere perform better if their

work has meaning and purpose. Even if your outsourced development team is employed by another company, you can make them feel like they are a part of yours. Sending hats and tee shirts with your company logo can make a big difference in attitude, motivation and performance.

- **Outsource to a firm that already has source code.** You may be able to choose an outsource firm with existing software modules that can be used in your product. This can significantly speed the development process and reduce costs. One entrepreneur I know found an outsource firm that had created about 75% of his required product functionality as a project for another client. Fortunately, the other client allowed the outsource firm to reuse the source code. The entrepreneur purchased the source code and hired the outsource firm to complete the product. Several staged releases shown to top 7 customer prospects and business was booked and revenue received within 6 months. Eventually, the entrepreneur licensed a copy of the software product to the other client that originally paid for the development!
- **Use a well-defined & documented process.** Select an outsource firm that understands the software development process and has a track record of successful projects. Make sure they are committed to providing documentation of their work and have a well-defined and documented software development process.
- **Require local technical expertise & project management.** Successful creation of your product is critical. You need a technical expert to accurately communicate product requirements. Local project management gives you a better sense of development progress.
- **Have offshore team leaders come to you at start of project.** Members of the development team can come to the US at the beginning of your project to ensure complete and accurate understanding of your product requirements.
- **Communicate directly with development team by email, instant messaging & telephone.** You should be able to communicate directly with development team members when you have a problem, correction or change. There should be minimal or no language barrier to effective communication. Be available to use instant messaging and the telephone to resolve issues and answer questions when workday times overlap.
- **Pay for time and materials, not fixed price.** You may think that getting a fixed price is the best way

to arrange payment for the development of your product. However, most outsource development firms will pad their price to cover unexpected changes and expenses. You are usually better off negotiating a low hourly rate that enables flexibility for changes.

### **Getting Started**

1. Find a partner. The key is to find an organization with a track record that also fits with your needs. If you are a small company you'll get the best service from a smaller partner for whom you represent an important part of their business. If you are a large firm, you need a supplier that is big enough to accommodate your ups and downs.
2. Structure the process. Companies with experience in this field typically have a well-structured process. For example, Accelerance has a process structured around the 3 D's (Design, Development and Deployment) with consultants that can help you through each step.

### **Conclusions:**

In the future, buying your software development will become more like buying electricity. It will just arrive cost-effectively and reliably over the wires and you regardless of where it comes from. Today, it isn't quite like this, but the benefits of buying your development are already compelling in many situations. The key is to have the right strategy and the right partner.

This paper summarizes a detailed report available at <http://www.accelerance.com/free-report.htm>.

Additional references that we've reviewed that you might find useful are:

- Cullen, Sara and Leslie Willcocks. *Intelligent IT Outsourcing, Eight Building Blocks for Success.* (c) 2003 Sara Cullen and Leslie Willcocks. Published by Butterworth-Heinemann.
- Lane, Dean. *CIO Wisdom--Best Practices from Silicon Valley's Leading IT Experts.* (c) 2003 Prentice Hall PTR. Pages 187-204.

### **About the Authors**

Steve Mezak has worked for numerous software startups Silicon Valley and now provides outsourced software development services. For more information see <http://www.accelerance.com>.

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