Offshoring with expertise

The success of outsourcing application development and maintenance services is dependent upon securing pools of qualified talent in developing economies. Labour arbitrage provides access to reasonably priced resources, but cost reduction is not the only factor driving US and European corporations offshore. Matt Moore (right), CEO of **TEAM International**, tells Jim Banks that the technology centres in Eastern Europe offer the ideal blend of access to qualified human capital and reasonable cost structure.

It has become clear in recent years that outsourcing software development can deliver great value by tapping into lower-cost labour pools without compromising the quality of the services delivered. Nearshoring to Eastern Europe can help businesses reduce costs and capital expenditures while adding long-term value in terms of innovation, flexibility and scalability. Realising this proposition is helping some providers of outsourcing services to build their businesses rapidly, as clients come to realise the benefits of offshoring software development services.

"My strategic clients tell me business drivers such as speed-to-market, flexibility, access to qualified talent and innovation are the main drivers behind the decision to partner with us," says Matt Moore, CEO of TEAM International. "While cost and increased margins drive the bottom line, innovation and creativity drive top-line revenue growth. We walk away from organisations that view us tactically for staff augmentation. A tactical view of people, process and technology is a recipe for a relationship gone bad."

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TEAM is a rapidly growing company that provides world-class custom application development in Java/Open Source, Microsoft .NET and mobile platforms such as iPhone, Android and BlackBerry. The company uses cloud computing and SaaS models, enabling rapid development and deployment. Its offshore/nearshore sourcing model for companies in the US, Western Europe and Asia-Pacific provide high-quality, innovative and flexible solutions for companies around the world. TEAM plans on opening a centre in Latin America in the second quarter of 2011 to help handle its rapid growth of new client partners. The company was recently included in the 2011 Global Outsourcing 100, an exclusive list of the top worldwide outsourcing services providers.

"Kharkov [Ukraine] was one of the three technology centres of the old Soviet Union," says Moore. "Moscow, St Petersburg [both Russia] and Kharkov were science and technology hubs. What they have is a wonderful educational infrastructure. Access to high-quality resources is what it comes down to. They are very smart, hard-working and innovative people. One of the best things to rise out of the old Soviet Union is the consolidation and concentration of technology talent in Kharkov. This creates a great opportunity to scale for our larger client partners.

"In Eastern Europe, you have locations such as Moscow, St Petersburg, Warsaw [Poland] and Minsk [Belarus], which are larger more populous cities that are well developed economically. The competition for qualified resources is driving up cost. Cities like Kharkov and Dnipropetrovsk [Ukraine] are less developed and becoming popular destinations for outsourcing providers. Developed can mean a lot of things – economic, socio-political, income. There are many factors that you look at when talking about the concept of nearshoring or offshoring. You need good education and enough population around it to support future growth, and you have to have a stable enough political environment to be able to grow a successful long-term business model."

Competitive advantage

For TEAM, there are three main technology service offerings: Java/Open Source, Microsoft .NET and mobile application development. All of these offerings will see significant growth in the years ahead, and companies that build teams into them rapidly and at relatively low cost can create a distinct competitive advantage.

"There is a big trend towards application development in the mobile environment. The Apple phenomenon, the BlackBerry phenomenon – all corporations are extending the reach of their IT capabilities to handheld devices. We are also delivering solutions on cloud-based platform providers such as Google, Amazon and Salesforce.com. There is a big battle over cloud, which loosely defined means product delivery through a third-party platform provider. So, if you're developing software solutions you can build your own architecture or choose to use a third party, significantly reducing both capital expenditure and maintenance, which has big advantages."

A model choice

TEAM employs three distinct engagement models when contracting with a customer: fixed price; time and material (T&M); and dedicated development centre (DDC). Fixed price and T&M engagement models are used as a proof-of-concept for an organisation that wants to have a preview of the service levels that will be provided. It is very difficult to sustain a productive relationship in fixed price and T&M contracts, which is why TEAM uses them during the initial stages of a new relationship. Choosing an engagement model for the long term requires an understanding of the strengths and weaknesses of each model's approach. A fixed-price model, for instance, makes the cost advantages very clear, but involves the highest degree of risk for both the customer and supplier. It must, therefore, be based on clear definitions of what a client requires and what price it is willing to pay.

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"The challenge with any fixed-price model is the management of change," says Moore. "If you're building that house, and decide that you want to add a door that wasn't part of the initial architecture, and the architect says 'that's going to be an expensive modification', it can be hard to understand why. It might just look like a wall, but for us to take that wall away, we actually have to re-engineer the rest of the house. There has to be a very clear understanding of how change is introduced, impact estimated and modifications that are required in terms of time and cost. Therefore, we only do fixed-priced engagements for very small pilot projects and then move to one of the other models."

The second model, T&M, is a slight deviation from fixed price. Similar to a fixed-price engagement, the T&M model requires a definition of the requirement up front but allows for a little more flexibility in delivery. The challenge always goes back to change management and how a modification to a specification or a new requirement can impact time and budget. "We are pragmatists and know that markets and customer demands change," says Moore. "Our clients are also competing for market share and new feature integration is what gives them a competitive edge when acquiring new clients. Time-to-market and quality need to be paramount in any technology product, and when a supplier is squeezed to deliver, product quality has a tendency to suffer. The product that was specified initially can be very different compared to the product that goes to market. There is a big difference between price and cost. Customers need to understand the trade off when contracting with any supplier."

The third model is a strategic partnership, where the company delivers custom software through a team dedicated to a particular customer, acting as an organisation within that organisation. With the potential for capital expenditure under pressure, this model is winning favour.

"There are risks in everything," Moore explains. "For example, I had a conversation with a Danish systems integrator consultancy that has two captive centres. For them to unwind an operation takes time and money. They have to deal with personnel issues, labour relations, telecoms, bricks and mortar. Our model requires very little capital investment on the part of an organisation that needs access to resources. The only capex we require is on equipment that is non-standard. So why wouldn't you want to do it? If you can have similar quality levels and processes, why not use a third party? Why not focus your company on its core competencies?"

Focus on flexibility and quality

Flexibility is another characteristic of an efficient and effective service provider. The ability to add or decrease resources in a short period is a big part of the value equation at TEAM. "Creating a baseline of resource for our clients is what we do best," says Moore. "Many of our European clients don't have the flexibility at home so we have baked that into our operating model for them."

The economic downturn of the past three years is proving to be a powerful driver for outsourcing software development. It has intensified the need to increase productivity and quality while keeping costs under control, but decrease time-to-market. Offshore providers are using quality certifications such as CMMI and ISO 9000 to assure that process and delivery keep up with quality.

Moore's experience suggests that the investment in quality TEAM has made over the years, while expensive, pays real dividends for the company's clients. "We will continue to focus on quality processes and make them an even more strategic part of our culture through time," he says. "In fact, our software delivery processes are very mature. Our clients have embraced many of the new processes we initiate in the relationship."

At the end of the day, why has outsourcing in general and application development and maintenance in particular become a multi-billion dollar industry? It gives mature markets access to qualified resources around the globe. It increases profits for the companies and improves the standards of living in host countries such as Ukraine. Software development outsourcing, increasingly in close partnership with service providers, promises great value, and that means there is no reason not to at least evaluate the potential of offshoring. ■