panamoure

OFFSHORE, NEARSHORE, ONSHORE; NOT SURE?

NAVIGATING THE ROAD TO OUTSOURCING AND OFFSHORING

It's not uncommon for some of the most forward thinking and agile businesses to make an offshore play and move parts of their business overseas in a bid to reap the rewards associated with this, including scale, efficiency and savings, not to mention accessing a fresh pool of talent at a fraction of the price you would pay closer to home.

UK deep tech investment was up 17% last year, the highest rate of growth anywhere in the world. This is being driven by a wide portfolio of organisations from global corporations, small businesses, and minor startups. 37% of small businesses currently outsource at least one of their business processes but, unsurprisingly, it's businesses with more than 50 employees which are 66% more likely to outsource their business processes.

Outsourcing is an area which looks to have a strong future. In fact, Grand View Research expects a compounded annual growth rate of 8% in the period between 2020 and 2027.

Outsourcing and offshoring can quickly increase your output, improve your technical skills and expertise as well as expanding your business capability with limited associated costs. In the past, a key barrier or objection was geography; with companies wanting their teams all in the one place, but thanks to COVID-19, the world got a whole lot smaller; location and where you hang your hat is becoming increasingly irrelevant.

Whilst these benefits on their own can be the catalyst in your decision making process, it's useful to understand some of the risks involved and what you can do to mitigate these and maximise the opportunity. Let's take a deep dive to explore....

PROFIT MARGIN IS KING

Whilst we won't deny the fact offshoring can lower your costs, we want to highlight it can in fact go a step further and have a more positive impact on your profit margin.

CONSIDERING INDIA?

£11.50/hr

The hourly rate you can negotiate for an **in-house developer in India** versus £60.50/hr in the UK

350m

The number of **English-speaking people in India** is more than the US and UK combined

120,000

The estimated number of trained **IT professionals in India** added to the talent pool every year

62%

With about 62% of the IT workforce having more than four years of experience and and over **70% having** an **engineering degree,** there is no dearth in talent

INVISIBLE ECONOMY
A TRUE CHALLENGER

Traditional outsourcing has remained under-challenged for some time but we are seeing the invisible / gig economy becoming more influential in the world of tech development.

This sector of the market is a great place to start if you're looking for a proof of concept or a one-off project. Application development is one of the most frequently outsourced IT functions, with more than 60% of tech companies outsourcing at least a part of their application development.

What these challengers have been great at is driving down cost and helping small to mid-corps accelerate their development time. But this isn't scalable, which is a threat to both sides of the market.

Whilst independents / freelancers are great at taking on key tech projects, especially app development, you might quickly become unstuck with any larger tech projects due to issues around security of data and compliance.

PASSING THROUGH SECURITY

If you're stepping into the world of outsourcing your data security and compliance needs to be watertight and this is where freelancers or small and less experienced teams can become unstuck as they don't have the necessary maturity in their security systems to protect your data. With the rise of global data, organisations have had to up the ante on security.

Rewind twenty years and this area was a complementary activity and something that was "nice to do". However, this is no longer an option and you need a full cyber security and data protection strategy when looking to outsource any part of your business.

Cyber security is described as the combination of three principles: confidentiality, integrity, and availability (CIA). If one of these core components fails or is wrongly configured, the resulting vulnerability could be a breach of information, a leak or wrongful deletion. All this is a result of poor policy, poor risk assessment and management, or poor security practices; which unfortunately can go hand in hand with some of the new outsourcing providers.

With so many security checkpoints to consider when engaging a new partner, it's vital for the due diligence process to be more rigorous than ever. It's important you look for controls, external validation and measures to ensure a possible partner conforms to what you need and that there is a clear management process and control objectives to establish a baseline for a minimum state of security.

Navigating the data and cyber security waters isn't easy and this is one of the fundamental reasons India is seen as the outsourcing capital of the world. Their processes and procedures are top notch.
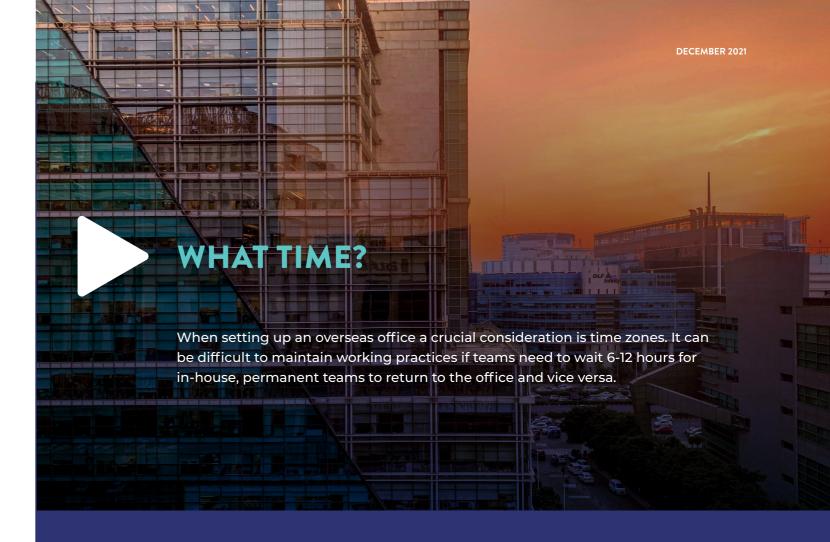
LOCATION, LOCATION, LOCATION

India has long been viewed as a safe haven for offshore departments, with Bangalore acquiring the accolade of being the Silicon Valley of India. It's a great destination for an IT outsourcing location and offers an unbeatable value proposition. Though many other international markets offer outsourcing opportunities, most still can't compete with India's IT infrastructure and talent pool

India has the biggest network of talented developers and this, coupled with the fact CPD and learning is in their DNA, IT professionals always have the most relevant skills. In fact, India graduates more than one million engineers each year and a good proportion of these are in software engineering.

We are huge fans of India as a destination for offshoring. In fact, we have our own offshore team there. But, there are other great outsourcing destinations that are capable of developing fit-for-purpose offshore teams. Eastern Europe has become a great location for outsourcing (nearshoring) and benefits from a more aligned time zone to the UK. Israel, Vietnam and Latin America have also developed excellent capability but remain dwarfed by India's scale and depth of expertise.

And just as important, our Indian peers are the most fluent in English, which is a key consideration. Effective communication is quite often going to make or break your offshore partnerships and if you can't understand / communicate effectively it's never going to work. This is an area in which some of the more immature markets, such as Vietnam, fall down.

WHAT TIME?

When setting up an overseas office a crucial consideration is time zones. It can be difficult to maintain working practices if teams need to wait 6-12 hours for in-house, permanent teams to return to the office and vice versa.

GETTING INTO BED TOGETHER

So you've found what seems like a great partner, in the right market, with the right systems and security measures in place and the time zone works for you too. So now what?

It's important you look at setting up the right commercial agreement and again, like many things in the outsourcing industry, these have evolved dramatically over the past few years. The most forward-thinking companies and those winning in the world of outsourcing are setting up agreements that prioritise value over price. Also, be mindful of cost traps with time and material contracts versus fixed cost agreements. It's important to set up the right agreement for you in the long term.

WHAT TO EXPECT WHEN THE HONEYMOON PERIOD WEARS OFF

If you've made the decision to offshore or you've been using an offshore team for some time it's worth noting there can inevitably be some issues. However, if managed appropriately they can be minimised and the whole process should be easy and simple to weave into BAU activity.

There are five simple steps to ensuring quality output and, of course, return on investment when you leap into the world of offshoring.

1) Here today, gone tomorrow.

The quality of your IT services output will not vanish overnight and quite often, it's not the technicians who are to blame for any dip. Instead, it's the process and a poor management and implementation strategy. If we work with a business that is reporting a dip in quality the first thing we would do is go back to the beginning and look at the implementation strategy, channels and methods of communication. We ask, were / are the briefs clear? Are the right people available to answer questions and queries? Is the brief still fit for purpose and relevant? We would also look at the resource allocated to ensure it's adequate and that the right level of resource has been planned going forward. One person in India cannot do the job of a ten-person dev team in London. Collaboration is key and it's important there's a free flow of knowledge and information sharing taking place between teams.

2) Great expectations.

As a business, you need to be realistic about what you can expect and within what timeframe. If you are the person responsible for the management of this offshore project it's important that you are setting realistic milestones and that these are communicated with your colleagues, peers and investors; quite often the most challenging part is managing internal expectations. And likewise, it's vital the offshore team fully understand what is expected, what is needed and

by when. Don't be afraid to tell them your aspirations for this team and sell them your vision. Involve them in your targets and KPIs; they are more likely to work hard to achieve something they helped to shape. Your vision should be scoped out and communicated before any work starts and it's useful to keep referring back to this scoping document / plan to ensure the knowledge and experience of the offshore team match this. There will be times you need to rethink and reshape something in order to meet the end goal.

It's also worth noting that your new team are people. And we all take time to settle into new roles, new working practices and working with new people. Therefore, don't expect to see a huge difference immediately.

3) Talent breeds talent.

It's important you work with your partners to create and manage a good talent strategy to develop and bring on highly focussed and skilled teams. It's also important to create a culture of inclusivity and look to make your offshore team feel valued and a part of your team and business. Ensure the standards and ways of working are acceptable and something you'd be proud to show to investors, customers and even the media. You will not get good quality out of a team that is working 15-20 hours a day, in an awful working environment and buckling under the pressure and unrealistic expectations. We also recommend you play an active role in handpicking your teams. Interview them, get to know them, and ensure you'd employ them if they were applying for a job with your permanent team today.

4) Open-lines of communication.

Zoom and video calls have done so much to help remove the barriers of geography and has brought us closer together. Most of us think nothing of sitting on six (or more) video calls a day and chatting to associates and colleagues from across the world. Your offshore development team is no different. Involve them as much as possible in your meetings. Look to keep lines of communication open and invest in building strong and meaningful relationships. These relationships will go a long way if you do experience any issues.

▶ **5) Here today, gone tomorrow.**

It can be easy for quality to slip when using any external team so it's vital you set out a plan to address and manage this from day one with all the right protocols and processes in place. In fact, quality control is often one of the biggest barriers to organisations taking the plunge and working with an offshore development team.

If managed in the right way, your offshore team can highlight and address new ways of working and new found efficiencies your in-house, permanent teams can also adopt.

If you want to achieve a top grade quality output when working with any remote team you need to invest and it's vital you expect to pay more than the minimum wage. This also links into your talent strategy. If you cut corners when it comes to resourcing this offshore venture, it will come out in the wash further down the line and any savings you might make will disappear if your permanent teams need to address issues and rectify mistakes. Quality assurance needs to be ongoing, with service level agreements in place and a clear understanding between both parties about what's expected.

"It is only by being bold that you get anywhere. If you are a risk-taker, then the art is to protect the downside."

Richard Branson

OPEN YOUR MIND

Be open-minded if you go down this route. The fear of the unknown can be off-putting to many company executives and private equity investors but this means they will never appreciate the benefits outsourcing can deliver to the business. We are huge fans of offshore development and have seen first-hand the transformational effects it can have on businesses.

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