

Outsourcing in Paradise: Real-Life Lessons from Nearshore Software Development in Costa Rica

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Shelly Ryan: Hey, everybody. This is webinar maven Shelly Ryan here to welcome you to today's topic about "Outsourcing in Paradise," sponsored by Accelerance, the risk-free outsourcing company. Your moderator for this webinar is Steve Mezak, CEO of Accelerance and author of the book "Software Without Borders." Steve's guests today are Jim Tooley and Tomas Rodriguez. I'll let Steve make those introductions himself. Are you ready to go, Steve?

Steve Mezak: Well, thanks, Shelly, and welcome, everybody, to the webinar today. In preparing, I was remembering a story about a German woman that flew into the San Jose Airport here in Silicon Valley. That by itself, of course, is not very interesting. But the problem was she was expecting to land in San Jose, Costa Rica: palm trees, warm weather, casually dressed people. It was all very confusing to her. Finally, the airlines helped her get on the right plane, and off she went to Costa Rica. I almost had the opposite problem coming home. In the Dallas Airport, American Airlines has flights to both San Joses, and they depart from gates that are really close to each other. I had to look very closely at the sign at the gate to see if it said "San Jose, CA" or "San Jose, CR."

But I'm happy to say that it was no accident that today's webinar guest selected Costa Rica as his destination for outsourcing software development. I'm here today with Jim Tooley, a director of software development for a large Silicon Valley software company that wanted to take advantage of nearshore outsourcing. Accelerance helped Jim with that decision, but that's just a small part of his story. If you're considering outsourcing yourself, I think you'll learn some great stuff from Jim's experiences. So let's get started.

Well, Jim, thanks for joining us today. I just thought your background with doing software development offshore and outsourcing will be of tremendous interest to our listeners today. So I wondered if you could just tell me a little bit about what you've done, the kind of software technology used, those sorts of things, to give our audience an idea of what your experience has been.

Jim Tooley: We build software with Java, and we build Internet software for companies to do business over the Internet, enterprise-level software where we allow people to collaborate. So it's fairly large. We have our own technology, basically, from the database up to the user interface and out to the web server. So it's fairly complex from a development process and from a learning curve for everybody who's involved in it.

Steve: So this is more of a team approach to developing software, right?

Jim: It's a team approach. We use an agile method where we have people collaborating within the team. So we have engineers, QA, the product managers, working with customers to get the whole 360 view of how we're building the features out for our customers.

Steve: It's a really professional software-development organization. And you're looking at outsourcing. I think some people look at outsourcing as a great way to get individual projects done.

Jim: Originally, our approach was to look at helping get more people to help develop the projects, and now we're looking at how to actually get more value in our development process.

Steve: Yeah, because, really, you haven't done outsourcing at all. You were doing what I guess could be called offshoring. And your company created an operation in India?

Jim: Exactly. It's offshoring. We have a captive center in India.

Steve: Maybe you could give us some background on that offshore center.

Jim: Well, so we'd started the offshore center, and we've been running it for a few years. We started this investigation into looking to putting together another center, a third center of development, and we started looking at that. I brought up one of the problems that we have with the India center of being able to collaborate with the time-zone difference, and I wanted to take the approach of how do we solve that problem, in addition to just getting more value with a third center.

Steve: You said a third center. So just to be clear, you have programmers here in Silicon Valley, in California.

Jim: Today, we have a team in Silicon Valley. About a third of the team is in India and two-thirds of the team is in Sunnyvale.

Steve: And then a third location. Where did you look for that, to place that third operation?

Jim: Well, initially, we cast a net to look at Eastern Europe and Vietnam and Russia, and then I suggested that we should actually look at the nearshoring option to solve one of the big problems that I saw with our India center around the time-zone difference.

Steve: What's the problem with the time zone? Because some customers like the time-zone difference; they think they get 24-hour development. Did you find it was not true in your case?

Jim: Well, when you're doing product development, and you're using an agile method where you want the engineers working close with the customers and your product

managers, you need everybody to collaborate and be, essentially, collocated. And when you're 12 hours apart, you can't do that. It wasn't a goal to get out of India. Rather, the goal was to have a team that was nearshore or someplace else that would allow us to have the collaboration aspect. There's lots of good things that we can do in the India center that we wanted to continue to do, and I wanted to solve the problem of how do we have a team that we can collaborate with the Sunnyvale team.

Steve: So you looked at other locations, in Russia, in Eastern Europe, in Asia too, I think. Any interesting results from that investigation?

Jim: It didn't solve the problem that I was bringing up. It had some interesting aspects about skill sets you can get and how you can get better labor arbitrage from a cost standpoint, but it didn't address any of the time-zone problems.

Steve: So then it kind of switched around to being a goal for establishing something nearshore. What does nearshore mean to you?

Jim: Nearshore meant to me having somebody that was essentially in the same time zone or near the same time zone so that we could actually do the collaboration with the team in Sunnyvale. The other part that we were looking for is to be able to get the skill set from an offshore team that we were looking for.

Steve: You mentioned in the beginning, I think, that you were using Java programming, and just your average programmer was not going to cut it for you?

Jim: Exactly. So when we look at projects, we need a team that's going to be whole. So we want a wide range of skills, of senior people along with some junior people, so that you can have a whole team there.

Steve: I remember at one point you had said you wanted to create a Silicon Valley culture.

Jim: There's a culture in Silicon Valley about getting things done, so we were looking for people who had that experience we could then draw upon. So that was one of the key things when we were kind of looking at how do you build a team that's going to collaborate: do they share the values that we have here in Silicon Valley?

Steve: It's almost a cultural thing, isn't it?

Jim: That's something that you kind of live and breathe. It's not something that you just go to work and do. So it's all around you when you're here in Silicon Valley and other places where you have that type of culture. So we were looking for people who had that same experience.

Steve: So what countries did you consider, then?

Jim: When we started looking at, "OK, how do we solve the time zone problem?" we then made a list and we said, well, we can start off with countries like Mexico, Costa Rica, and we put Argentina, and I believe we had Chile on the list. So we were basically looking at Latin America.

Steve: What was your process? This kind of gets into it. It's a big challenge, especially for most Americans that aren't necessarily familiar with all the different parts of the world. How did you organize it? Did you have multiple phases? How did you start?

Jim: When I started into this, I then figured out, well, we need to actually come up with the support-phase approach, which was identify the vendors. Then we said, "We are going to need to figure out how to qualify them, get a short list," and then, once we had the short list, start phase three, which was actually start engaging them in evaluating in more detail. So we put together an RFP so that we could work with them on figuring out: did they meet our qualifications?

Steve: Yeah. I like the idea of the RFP, because then you're getting down to specific details. It's not so much theoretical, about different countries, different vendors. It's really in the context of what you're trying to do.

Jim: We were country-neutral. We were looking in the western hemisphere here, but we were country-neutral. So we used a consultant to help us actually identify companies. They identified 12 vendors for us that we could then make a short list from. They helped us actually put together an RFI to get more information about each of these vendors, and then we could go in and rank these so that we could then come up with a short list. I'd done some initial research of looking on the Internet and talking to some folks, and I wasn't getting very good information. So that's when I reached out to a consultant to help us actually come up with this vendor list, because I wanted to have somebody who could actually help vet these for me so that I knew that these were legitimate companies that I could actually go talk to and get the right information; they weren't just a one-person shop that was saying that they could do this for me.

Steve: A one-person shop with a great website. [laughs]

Jim: Exactly.

Steve: Yeah. You could search on Google all day and make a long list. You just never know, really, what's what. OK. How did you compare the countries? What were the cost comparisons? What did you discover?

Jim: So we put together, in the RFI, things like skills, cultural aspects, the size of the companies. The takeaways was we were able to actually identify some very good companies at the beginning here that we wanted to then further follow up and find out more information. That was a good process, and it was fairly quick. These companies were very supportive of answering our questions and doing the RFI with us.

Steve: About how long did it take?

Jim: It took a couple weeks...

Steve: A couple weeks. That's pretty fast.

Jim: It was pretty quick.

Steve: So you kind of had almost a decision matrix, or a list, and you were able to, given that information, then get it down to a short list. Is that right?

Jim: We got it down to a short list. Then I had a former colleague who actually had worked with one of these companies that was on our short list. So at that point, I actually then followed up with them on, "Tell me a little more about the experience with this one company," to see if it was aligning with the information that I was getting back from the RFI. So that was a good calibration point. We actually then came up with four companies that we wanted to seek out. So at that point, we shortened it down to, "Let's focus on Mexico and Costa Rica." So we picked two companies in Mexico and two companies in Costa Rica that we wanted to then take to phase three and work with them on the RFP.

Steve: All right, cool. So then the RFP, what was in that? Was that a specific project that you wanted done?

Jim: It was a specific project. So we identified two projects which are part of our core product development that we wanted to do. So we wanted to use them as a staff augmentation to our core teams in Sunnyvale, so we identified features that were in the upcoming release that we would give to the vendor. So we wrote the RFP around those specific projects that we were going to have them do, so that we could actually measure them on the real work rather than just identifying something a little more abstract. We put together the requirements from our PRDs and we wrote an RFP around that.

Steve: This concept of having the requirements or the specification, this is often a stumbling block for many companies that are looking to outsource. They either think they need a complete, 500-page, "War and Peace" version of the specification that covers every detail, or they come in with a page and a half or a Hollywood description saying, "It's like Twitter but with video. Let's get it done." Where did you land with the level of detail in your requirements for this RFP?

Jim: It was more than a couple pages. From a technical side, it was probably a couple pages around product requirements and some technical requirements. Then we also had a few more requirements around the company and the logistics of how we were going to work with them to make sure that we were going to protect our IP property. That was all the stuff that the lawyers helped put into the RFP for us.

Steve: Yeah, you need all that stuff. But then, in terms of the functionality of the software, did you provide any sort of user interface...?

Jim: We wrote these exactly the way we would be doing our development. Typically, in our development, it's written up as use cases. And that's what we put into the RFP: we described what we wanted to do in terms of use cases. Since they were unfamiliar with what we were doing in our products, we also put some more information around how the products worked so that they can then respond to how they would do this.

Steve: For some of these companies, it's unlikely they had everybody sitting on the bench, so to speak, ready to jump in. Did they have to recruit people? What was the ramp-up time that they were proposing?

Jim: They were giving us pretty quick ramp-up times. What we put in the RFP is we said we wanted a small team, but we also wanted to be able to scale it up.

Steve: The RFP process is a good way to uncover exactly how they're going to be staffing it for you, so I think that's a great approach. You got four proposals back, then, basically? What did you do then?

Jim: We got four proposals. So we had the two in Mexico and two in Costa Rica. We then engaged and went through the RFPs, and we scored them. So we had a scoring algorithm that we used at looking at the RFPs. At that point, we then eliminated Mexico. It wasn't the goal to eliminate a country at that point. The goal was to get it down to two so that we could then do a site visit at both of them. In this case, we ended up going with the two that were in Costa Rica.

Steve: What about some of the other things that can be country-specific? Oh, I don't know, like exchange rates and visas and things like that. Any benefits or challenges there?

Jim: That's one of the things that we were looking for was having people who could easily travel to the US, and also for people in Sunnyvale to be easily traveling to the location. Almost all the countries that we had put on our short list made it easy. Mexico was actually probably easier than any of them, just because of the NAFTA relationship. But if you're Costa Rican, it's very easy for them to travel up to the US and do work. That was something that we were looking for, but in the selection process, almost everybody was a pretty good fit for that.

Steve: All right, good. Well, great. So you got it down to two. Then it was the big trip, I guess. How many people went? How did you organize it? How did you carry that out?

Jim: This part was pretty fun. I put a team together of engineers and project managers. We went down to Costa Rica and visited these two sites for three days -- spent a day at each one. We interviewed their engineers and their project managers and went through the whole process with face-to-face interviews, to find out how we think they stack up against our Sunnyvale team. So we were calibrating their engineers with our Sunnyvale engineers. Our goal was to say, would we actually hire them as a software engineer, a senior engineer, or a principal engineer?

Steve: If they were sitting across the desk from you in Sunnyvale rather than in Costa Rica somewhere.

Jim: Exactly. So all the same things that we look for about their technical knowledge, their experience in developing software, their communication skills, their problem-solving skills, those were all the things that we were going through in the interview process.

Steve: OK. So how many people? You mentioned multiple engineers and project managers from Sunnyvale that you brought down. I'm just curious...

Jim: I took a team of three people down to Costa Rica, and we interviewed probably 20 people at each of the vendors, between the three people. It was a pretty intense three days down there.

Steve: Yeah. [laughs] I guess it was a combination of people that work at the vendors on other clients' projects and others that could be actually working on yours, then, right?

Jim: One of the requirements that we gave them was we said we wanted to actually talk to people that they would put on our project. That was a key requirement, that it wasn't just talk to their best people, but the people that they would actually staff up on our project.

Steve: Right, yeah. I've heard complaints. You meet the A team [laughs] when you begin the relationship with a vendor, but then, a few months later, you get team B and C. And you didn't want that to happen in your situation, right?

Jim: When we were interviewing, we talked to one of their project managers in the interview process. At the end of the day, I was meeting back with the site director down there, and they were asking how it was going. We gave them the feedback and I said, "The project manager that you would put on our project, didn't think they were qualified." They said, "Can we give you another person tomorrow in the interview process as an alternative?" We said, "Yes." So the next day we went back and we interviewed a different project manager. They were much more qualified and much better, and we were very happy. I thought that showed that they were listening to us in our feedback and trying to match up people around our qualifications that we were looking for.

Steve: Yeah.

Jim: That was kind of a key aspect of the whole process, that the one vendor was very in tune to what we were looking for. I was very pleased with that, and that was a big factor when we were making the selection process.

Steve: It sounds like an example of a vendor that was doing the right thing at least, and not just presenting bodies, but really giving you high-quality people that needed to match your requirements.

Jim: One of the requirements that we had in the RFP is we were looking for senior people. So when we get down to talk to the two companies, one of them, he's giving us a very kind of mix of people, junior and senior. We liked the senior people, but the junior people we just were like, "They're too junior." The second company, we're like, "Where are the junior people?" They were like, "We don't have any junior people, because we know that everybody wants to work with senior people so we only hire senior people." So that's all we interviewed, and that's all they put back in the RFP that they were going to provide to us. It was another thing that we really liked about the company. They really understood what our company was looking for: senior people who could do product development. When we interviewed those people, actually, that was our takeaway: these people are what we considered to be middle and senior-level engineers.

Steve: That's the company you ultimately selected, then, right?

Jim: That's the company we ultimately selected.

Steve: OK. What was involved in the final selection? Was there much of a negotiation to go through?

Jim: In the RFP, they'd given us their pricing information, so we had collected most of that. So it was now just down to talking to some of their references, to actually understand that part of the process. We then were putting together the actual pilot project for them. So we selected them, and we called them up and said, "Hey, we have the project. We're ready to go." Within two weeks, the project team was up in Sunnyvale.

Steve: Let's talk a second about IP protection, because you mentioned it before, intellectual-property protection, and I wanted to come back to it. This seems like a good spot. What was important for you in the context of IP? How did that fit into your evaluation?

Jim: We wanted to make sure that we had the whole process around the legal aspect of what's the laws around protecting the IP property, and that we could also trust the people. So the whole process of how do you ensure that people that you're going to be working with, you can protect your property. Then the other part was around how do they protect it when it's on their site, since it's going to be on their computers and in their building. So what protection do they have? That was something that we did through the RFP process, and also when we did the site visits, just talked to them about all that aspect.

Steve: So I heard three things. There's the legal agreements and making sure that everybody agrees that you own the software and there's no issues there. Then there's really the commitment on the company's part, or the people, to live up to that agreement. I don't know, I mean, that's kind of a gut feel. Actually visiting and meeting people face-to-face probably helped you with believing that to be true. Then there's the physical protections that you could also witness yourself on the visit and how they handle their computers and people and physical security and that sort of thing there, too, right?

Jim: Exactly. In this case of how do they protect it when we're doing remote access, was their IT department going to be able to work with our IT department to do that?

Steve: OK, good. Well, that sounds great. This is really interesting, because I don't think Costa Rica's on the radar screen of many people looking to outsource; India still kind of dominates the mind share. Yet it sounds like a really great destination, and you were able to find at least a couple vendors there that you took into serious consideration. Any surprises along the way?

Jim: I was pleasantly surprised by a couple things. I think the biggest surprise was talking to the engineers. How well they spoke English was a big surprise. Second was just, really, the cultural fit. They understood about how to do product development the way we were doing it. That was true at both companies that we talked to down there. We didn't really expect that, so I was happy to hear that.

Then when we actually ran the project, they were very good at being fluid and agile as we went through. We didn't have to spec out all the great details. They would ask the right questions, they'd come back, and they'd do what was necessary. There were lots of pleasant surprises along the way.

Steve: How did that compare to your experience in India, beside the time zone difference? Did you notice cultural differences coming more into play with India?

Jim: You could definitely see the cultural differences. Working with the Indian team, it's a little more task-oriented. With the Costa Rica team, they were part of the scrum team, and they would just ask the questions right during the scrum meetings. Which was a little different than the India team. They shy away a little bit from asking, in a big, public kind of scrum meeting, "Hey, what about this?" Rather, they kind of take that offline and come back. So the Costa Rican team would just be part of the team, which was really positive. That's the collaboration aspect that we were looking for.

Steve: Right. Yeah. I mean, the Indian guys are great, and they're very polite and very diligent in getting work done. But sometimes they can be too polite. Just tell me. [laughs] Give me a direct answer. What were some of the not-so-good surprises? Anything come up?

Jim: Not really. I guess probably the biggest surprise was the depth of senior engineers. We wouldn't be able to go build a center down there with a couple of hundred engineers. Costa Rica's just not that big. We had to keep that in mind, that this isn't where we would go build a new, big center; this is really for doing small, boutique-level projects that we wanted to augment our team with. It fit good for that, but you could tell when you were down there, it's just not that big of a place.

Steve: This is all in San Jose, Costa Rica.

Jim: This is all in San Jose. They recognized the problem, and what they were doing about it, they talked about bringing people in from other parts of Latin America, which sounds good, but we didn't actually experience any of that yet.

Steve: Right. What about cost, though? One of the negatives I hear sometimes about Costa Rica is the cost is higher than India. Is that what you've found also?

Jim: Yeah. When you look at the billable costs, for the hourly costs of the engineers, yeah, it's higher. But one of the key things that I looked at was what's the real hidden cost behind it. So, talked about a couple things -- the cultural part, the time zone. So there's a travel cost that gets hidden behind there. But there's another part, the retention and ramp-up cost that we were looking at. Talking to teams down in Costa Rica, their retention rate's really good. So when we were working on the project, we didn't have any turnover.

We were able to actually get them ramped up pretty quickly, which is different than working with our India team, where we do have higher attrition and the ramp-up takes longer because of the distance, being able to get the knowledge and information across.

Steve: And the competition in the market for talent, right? Because you're in Bangalore?

Jim: Exactly. We're in Bangalore. So I put together a model which kind of factors all this in so that we could actually look at what I call the full cost, and the hidden costs. When you compare all of that together, Costa Rica competes pretty well with Bangalore.

Steve: Yeah. In fact, you shared with me a number you're calling efficacy. So I guess you're comparing the software engineers in each location to an American full-time engineer here in Sunnyvale?

Jim: Right. We normalize it all around our Sunnyvale team. So we have this efficacy factor, which is looking at how long it takes them to ramp up, their skills and their seniority, versus a Sunnyvale person. We also have some of the other aspects in the costing model, but the efficacy is one of them.

Steve: Do you remember off the top of your head what those numbers were?

Jim: We had done some base-lining between our Sunnyvale and India team to come up with the Bangalore number, and it was 0.5, 0.7 efficacy for the India team versus the Sunnyvale team, depending upon how long they had been working with the company. Then we tried to calibrate some of that back from our interviews that we'd done down in Costa Rica, to come up with something for the Costa Rican team, and put that all into the model.

Steve: So, by 0.5 to 0.7, is one way to interpret that to mean that for every engineer in Sunnyvale you'd have to hire one and a half to two engineers in India to have the same impact?

Jim: Exactly.

Steve: And then for Costa Rica, did you...?

Jim: We calibrated a little higher; it was like 0.7 to 0.9 was the range that we came up with.

Steve: Oh, I see. It really balanced out to being a more effective, more productive process to outsource to Costa Rica for smaller dedicated teams, where small is in the range of let's say five to 20 people, is that...

Jim: Something like that.

Steve: You know, an offshore center where you're hiring hundreds, maybe not, for Costa Rica, but sounds like a great choice for a small team close by in the Western hemisphere. Any last things you want to say or add?

Jim: I think I would just share that my Sunnyvale team really liked it. It was easy for them, which is an important factor in all this. They were all very excited about this when we started, and they were still excited about it when we finished the project.

Steve: All right. Great. Well Jim, thanks so much for speaking with us today, and I'm sure we'll have some great questions at the end of the webinar as well.

Jim: You're welcome, Steve.

Steve: OK. Joining us now is Tomas Rodriguez, Chief Operation Officer from Isthmus in San Jose, Costa Rica, an Accelerance Preferred partner. So, welcome to the Webinar, Tomas.

Tomas Rodriguez: Thank you very much, Steve. It's a pleasure to be joining you today in this webinar.

Steve: Well great. We're kind of turning the tables here. We heard from Jim earlier from the client's perspective, and now it'll be interesting to hear from your perspective, a vendor in the outsourcing space. So how long has Isthmus been around?

Tomas: Well Isthmus was founded in 1998. In 2003 we were split to serve the US Market.

Steve: How big are you guys now?

Tomas: We are 70. Out of those 70 we have 55 engineers.

Steve: And you're focused exclusively on providing services to the US market, then?

Tomas: 95% of our clients are located in the US market. We have a couple of local clients, but those are transnational companies, meaning that they have their headquarters in the US.

Steve: In my experience clients rarely have a complete specification. Has that been a challenge for you at Isthmus in working with clients from the US?

Tomas: Yes, definitely. Sometimes you get things very well documented. Some other times you just have an idea and you need to translate that into an application. For example, some of our clients may not have any experience in outsourcing, and they need to be guided through the process. So we have our work in projects where we do that process. Our engineers sit down with our clients and try to understand their needs and translate that into requirements, and later on into the application they are looking for.

Steve: Yeah, it sounds like that ability to collaborate with a client was something that really excited Jim. In his case, they had some requirements from their product requirement definitions. But also your engineers travel to Silicon Vally in order to meet with him and the other members of his team. Is that pretty typical for client engagements?

Tomas: Yes, correct. All of our engineers have a visa in order to be able to travel. It is very typical at the startup of a project to have them traveling on the client side in order to have that face-to-face interaction and talk about every single detail in making that interaction. Clients are visiting us. They like that because they can be on the plane on Monday morning, be in our office on Monday afternoon, have a meeting with the guys and with the team on Tuesday and probably Wednesday, and then Wednesday in the afternoon fly back to their office and make sure that the project is going as suspected.

Steve: I don't know if they're so willing to fly back so quickly, from what I hear. Once you knock off on Thursday, they're heading to the beach and to the west coast, taking advantage of some of the the ecotourism and other spots in Costa Rica.

Tomas: Yeah, definitely. That's part of our proposed agenda.

Steve: So Jim visited -- is that pretty typical? What percentage of your clients come to visit?

Tomas: At least 90% of our clients are coming at least once to Costa Rica to visit us, to know our facilities. That may be at the beginning of the process when they are validating our company, and later on when they are going to be starting the project.

Steve: Is there a typical agenda for a visit? I know for Jim, he described how they went through a rather intense interviewing process to interview various members that would join the team. I don't expect that's necessarily true for every client. What have you seen?

Tomas: Yeah, definitely. I suggest every time that someone is coming down that we can plan that so that they can make sure they are going to be making the best use of the time

they're going to be here. But also, the clients are coming here just to spend time with the guys and to work from here. For example, as Jim was mentioning, whenever the project is starting everything seems to be more rigorous, but at the end, it's like coming here to provide training, or to spend some time with the team.

Steve: Sometimes it's necessary to communicate requirements more efficiently and step up to the white board and share ideas with the team members, I suppose, right?

Tomas: Definitely. Of course, it's better to have a one day meeting with everyone in the same room than a lot of conference calls trying to clarify that.

Steve: OK. So maybe we could step back a minute. I'd say it was probably 10 years ago that I first heard about outsourcing to Costa Rica, and I was amazed. I was shocked. I mean, who knew. Right there in Central America there was a little country where there was such great technical talent. I think it's pretty unique amongst Latin American countries.

Tomas: Well, that's very true. Costa Rica is very alike to the US culture-wise. Most of our clients feel that they can have people here not only speaking the same language, but also they are able to understand each other. That is going beyond the language. That is considering all the environment, all the technical portion, all the business portion. That is one of the key points that is making Costa Rica successful. Of course, there is another portion that is critical here, and that is the time zone. The possibility of flying in the morning and being at the office in the afternoon. That's definitely an advantage.

Steve: I read recently that there is actually a treaty between Costa Rica... I think the United States has taken responsibility of defending Costa Rica. So Costa Rica does not spend any money on defense, and instead, they put that money towards a really great university system and education in the country itself. Is that true?

Tomas: Yeah, that's correct. Actually, computer science is one of the careers that is having more demand in our universities. We have a very strong education system that is taking care of technology and also bilingual resources. That combination is making us take an advantage in Central America. We have already in place the CAFTA, which is the free trade agreement between the USA and all Central American countries.

Steve: Right, the CAFTA, or the Central America Free Trade Agreement. Yeah, it's similar to NAFTA. So one of the benefits of working in the same time zone with the United States is the ability to implement software using an agile software methodology. Is that something you have taken advantage of there at Isthmus?

Tomas: Definitely. Definitely that's an advantage. That is something that we are very used to. Actually 80% of our projects are in agile. Of course, every single company has a different approach to agile. Everyone has a flavor of agile.

Steve: [chuckles]

Tomas: Not every project is going to be applying the same rules. But the concept is the same one. Our engineers are very used to working that model. They see a lot of value when working with agile clients and agile methodologies.

Steve: Tomas, my experience has been that a lot of American clients want to use agile, but they don't quite know where to get started. Are you able to offer advice to those kinds of clients?

Tomas: We are very used to guiding our clients in that process. What we also do is that before just moving to agile, we do an assessment in order to understand if they are ready to move or not.

Steve: Right, you mean if they are not really prepared to provide the people to work on a day to day basis to guide the agile process. They may be spending some time in the beginning just gathering the requirements and then implementing the software somewhat or more independent of their day to day interaction might make more sense for some clients, is that what you mean?

Tomas: Exactly, because agile process, at the end, is not only from our end, but they need to have the correct people and the correct training in order to make it sustainable.

Steve: OK, good, yeah. So the agile development method is one sort of technical expertise. Jim was looking for deep Java expertise; it sounds like you guys have that. What are some of the other technologies that you see that are popular with outsourcing?

Tomas: In Isthmus, we have 30% of our company in .NET, 20% focus on Java, and then we have all the different approaches on PHP, Oracle, RPG AS/400, Ruby on Rails, and mobile applications as well including iPhone, Android, and Windows Mobile.

Steve: Wow. Yeah, the mobile apps have become really popular lately. So you're able to keep up with all these developments. Android's the newest thing, iPhone, so you have clients that are using those technologies?

Tomas: That's correct. We have delivered projects in those technologies, and we have been creating capability on those technologies for the last year and a half.

Steve: OK. One of the last things that Jim was saying was that Costa Rica's a great place, very smart engineers, good English skills, but it's a small country. We were estimating, if you need a team between five and 20, maybe 30 people, I don't know, what's the largest team you've been able to put together for a client?

Tomas: Yeah, we have had a client with 30 engineers.

Steve: Wow.

Tomas: They have been the greatest team that we have had, and at the same time, another client with 25, so between those two clients, we were able to have 55 engineers. In terms of staffing, we have developed a strategy, 70/20/10, and that means that 70% of the talent is coming from local talent. We have 12 different recruitment sources. 20% is coming through alliances. We have three Costa Rican companies in order to provide services where, for example, a small project, two or one months, that it's not worth it to hire an engineer, we subcontract our alliances here in Costa Rica. And...

Steve: That's for special technical niches and technical needs?

Tomas: Yes in some portions, and whenever resources are already allocated. Then the other 10% is coming from Latin America.

Steve: Well this is fantastic. I think you've given us a good overview of what it's like to be on the other side of the table looking to provide services to American clients. Well, I'm sure we'll have some good questions, so stick around and let's start taking those questions from our webinar attendees. Jim, let me ask you the first one. It's about preparing your team for outsourcing, especially if you're making the transition from in-house development. I imagine you did this in a couple stages because of working with India and in Sunnyvale. So maybe you can describe how you prepared the team.

Jim: Preparing the team for Costa Rica was easy since it was, basically people felt like it was going to be part of the team here, not a lot of changes that they would have to be doing, whole different ways of communicating, but timezone-wise, that was all good. Changes for doing offshoring in India is very different, so... and I'm not going to go into all the details of that.

Steve: Right, right. But it would sound like it was, since they already had the experience working with India, it was an easy transition to work with Costa Rica. One of the other questions was about your cultural expectations and kind of what you were looking at. We touched on that a little bit in the webinar, but maybe, were there specific things you were looking for going down there?

Jim: We were looking for: do they have a cultural fit like what we have in Sunnyvale. So specifically, how do they engage, how do they communicate, are they direct, do they reach out and solve their own problems? Or do they wait for somebody to give them a task or wait for somebody to ask if they have a problem. So when you're working in an agile environment, any product development team in Sunnyvale, it's important that people are self-sufficient in being able to figure out how to solve their problems. So we were looking for that type of cultural fit within our teams. There's no way you can get that in the RFI, that was all done by talking to the engineers on the site.

Steve: OK. And Tomas, how about from your side? What have you seen were the expectations from clients that come down and are looking for a certain kind of cultural fit? How do you describe that from your side?

Tomas: Yeah, from our side, we feel that our company is very aligned with what Jim was saying in terms of all the culture similarities. I think that something that is key here is to really understand what the client is looking for. I know that Jim mentioned that as part of the webinar as well, and that will be definitely a good start to make sure that you're going to be delivering what the client is expecting. While that covers all portions, not only technical portion, because, I mean, there are very good engineers everywhere in the world, but in terms of communication and collaboration model, I think that that's where definitely you need to make sure that you're on the same page with the client since the very beginning.

Steve: OK. Another question was about the definition of junior and senior engineers. Jim, you were looking for senior engineers. Did you have any parameters around what you were looking for?

Jim: We defined some simple parameters which was basically number of years of experience, that was like five years of experience is what we said, five to seven, and junior was one to five.

Steve: OK. And how many programmers did you start out with? This was another question. How many, what size team did you in particular want to have?

Jim: We started with the pilot project, so we staffed it up with initially two engineers, and I think we got up to three engineers during the pilot project.

Steve: OK. Yeah, that's a really small team, but it's a good size for a pilot project. Did you have plans to grow that to something larger?

Jim: The goal of what we put in the RFP was that we were looking for a team of five to 10 and being able to grow that as we go forward. So we never envisioned that we need more than, you know, some number like 20.

Steve: Right, right.

Jim: So we're looking for a company that can meet that, but we didn't put an upper limit so that companies have the right expectations.

Steve: OK. Tomas, we had another question about the processes for project management, and I suppose agile would fall into this also. Do you have your own process that you impose on the client? Do you adopt the client's process, or both? What have you seen with that?

Tomas: Yes, in terms of project management, we are based on the BMI Best Practices, and of course, in terms of any methodology that may be applied to the project, what we do the first time is that we understand based on the needs if that methodology can be applied to the project. As we mentioned in the webinar, we do an assessment to see, for example, an agile model could be applied, make sure that the client has all the

counterparts ready to go into that model. Yes, we adopt any methodology that the client may have, but before doing that, what we do is that we propose what we think, based on the information we gather, will be the best model for the client. If that is not a possibility, we are very flexible to adopt the methodology that they have, and adapt it on what we think will be the best methodology compared to the standard in the industry, and also, too, based on our experience.

Steve: Yeah, I can imagine you'd have a spectrum where some clients really don't have any process. You can certainly help in those situations. You have others that are more sophisticated, perhaps like Jim, where they have a professional team. They know what they want to do, and then you can adapt to what they need. So that's good. Jim, you chose Costa Rica. We had a question about how Costa Rica compares to other nearby countries, even English-speaking countries like Jamaica. I don't think Jamaica made your list, but any thoughts on that? Any response?

Jim: I can't really comment on Jamaica. I can comment on Mexico versus Costa Rica a little bit. We found Costa Rica to be a little better cultural fit, primarily because the work that the companies down there had been doing was for companies in the US, so they had developed some of that culture through their experience, while the two companies that we talked to in Mexico, most of their work had been for companies either in Mexico or other parts of Latin America.

Steve: OK. There are some questions about the number of graduates that are coming out of universities in Costa Rica. Tomas, do you have any numbers?

Tomas: Yes. We are graduating from 500 to 1,000 engineers per year. That is coming from, basically, four very recognized universities here in Costa Rica.

Steve: Yeah, I was going to ask. And that's like a four or five-year bachelor's degree?

Tomas: That's correct.

Steve: Yeah. Because there's been some dispute, some controversy over the much larger number of graduates from other countries, but standards are not always as high. What about cost savings and efficacy? Jim, we had a question about what factors go into the efficacy calculation.

Jim: I don't have the sheet in front of me, but it was looking at the attrition, retention rates. So you have to think about the long term of about how efficient the team is going to be. So we're looking at that, the ramp-up time, and factoring in the distance. Also, the communication aspect of, are you able to actually get the ideas across? Then the skill set. In our case, we're looking for the right blend of junior and senior members of the team. So the key thing there is are you able to actually hire senior people?

Steve: OK. So did you have a scale of one to 10 kind of ranking in all those different areas?

Jim: Yeah, we built an index for each one of those. For example, on communication skills, it was the same as Sunnyvale. Somebody who's fluent in English in the US, then you'd get a score of 1.0. If it was somebody who it was clear that English was their second language, you'd get a score of like 0.7. If you have a real barrier to communicating verbally but you can communicate through email or through documents, then it would be like 0.5.

Steve: 0.5. Yeah, right.

Jim: We did a similar thing for all the metrics. Then we put a weighting factor on each of these and came up with a composite score.

Steve: Cost was just one part of that, right? Or was it part of that at all?

Jim: I don't believe cost was part of that. We used the cost separate. We multiply these two together to get the true cost. So you get the cost, billable hours, and you index against it to kind of figure out what the real value that you're getting for your dollars is.

Steve: So there was still cost savings, then, in outsourcing to Costa Rica, would you say, compared to hiring people in the US?

Jim: Oh, definitely. There was definitely cost savings. It wasn't as much as, say, the India team. It was significant enough that it was compelling to do it.

Steve: There's been some questions about rates. It depends on the level of seniority, the size of the team, the length of your commitment. But what we see as a ballpark estimate for rates is something in the \$20 to \$25-an-hour range in places like India and China. And in Latin America, it's more in the \$30 to \$35-an-hour range. It varies. It varies by vendor, varies by business conditions, but just to give you some sense of where the numbers lie, and we're happy to talk more about that, about the details of any specific implementation you'd like to do.

Jim: A comment on that one?

Steve: Yeah, go ahead, Jim.

Jim: In my experience, the key thing to be looking at is not the rate of the junior people, but the senior people, because that's really the one that's going to drive the success of your project and your hiring. You have to pay a lot of money to get good, senior people, so you need to be looking at what those costs are.

Steve: Yeah. It could be even higher than that, but compared to hiring a senior person in the US, it's still a tremendous savings. So Tomas, do you use any specific tools for managing agile development?

Tomas: Yes. We are based on the scrum methodology, and of course, there may be a lot of tools to manage the velocity calculations, the iterations. What we do is that we collaborate with a client on that portion. Meaning that, basically, we talk in order to understand if they already have a tool to manage it, and we adopt it, or we may propose a tool as well.

Steve: Yeah. There's a last question here I think we'll have time to take about agile methodologies and self-managed teams as being an idea from agile, which Enrique Diaz, the questioner here, he doesn't believe that works very well. So maybe the real core of the question is getting the customer to really participate in the process. Tomas, what's been your experience with that?

Tomas: If the customer is not part of the process, I don't see how we can get far on that. There should be a definite collaboration between both parties. At some point, Jim was mentioning that one of the advantages, in order to make a decision, is that you can feel that the engineers are being considered as part of the client delivery or development department. So self-managed teams may be something that may be risky. I think that, definitely, you should have an interaction with the client, and that should be very close. That's why nearshoring is a great model in order to fight agile. It seems fast collaboration, timely (in the same time zone), and with very fluent communication.

Steve: Right. Jim, you were able to visit pretty easily also, right? One question came up earlier about how many people were staying in Sunnyvale or visiting Sunnyvale or going to Costa Rica. It was pretty interactive, it sounds like, right?

Jim: It was pretty interactive. We made the site visit down there. We structured it the same way we would go down there for any regular project meeting. So we left in the evening. We got there in the morning. We were able to work all day and then come back a couple days later the same way. Then the Costa Rican team, they were able to fly up to Sunnyvale and just work on-site with us for a period of time. It was very easy, all of that.

Steve: It sounds like, no matter what, you're flying to San Jose...

Jim: [laughs]

Steve: [laughs] I guess it makes it easy or difficult, depending on your perspective. I think we're ready to wrap up here. So let me ask you guys if you have any final thoughts you'd like to share with the audience. Jim?

Jim: I would say, if you're thinking about nearshoring, I highly recommend it. It was a good experience.

Steve: Tomas, are you still on the line? Do you have any last thoughts?

Tomas: Yes, thanks. I'll say that, definitely, there is a way to make sure that nearshoring is being effective. I think that a way to start would be to do a pilot, and to make sure that you can tell the story by yourself. Even though you may get recommendations, as Jim is doing, it is worth it to test it, and I am sure that you won't get disappointed.

Steve: OK, good. All right, folks. Thanks so much for attending. Let me briefly mention some of the main thoughts, main points, we covered here in the webinar today. You have many, many locations to consider around the world, and Costa Rica is one of those places. It may not be the most perfect place for everybody doing outsourcing, but I think you'll agree, it's a very intriguing place to consider. Also, there are many ways to measure the distance between you and the outsourcing vendor that you would choose. As we saw today, there are multiple factors to consider besides just the cost alone. Then we were able to hear about Jim's four-phase approach to selecting his offshore outsourcing vendor, both the vendor and the destination for that matter. We also discussed some of the elements of the total cost of outsourcing.

So I think we would just like to wrap up now and say thanks again for attending.