WHY OUTSOURCE SOFTWARE DEVELOPMENT

A primer for American companies considering offshore or nearshore software outsourcing.

TABLE OF CONTENTS

INTRODUCTION

Frequently, a tech or business leader in desperate need of software development will ask Accelerance for help defending the idea of outsourcing to a CEO, CFO or Board of Directors reluctant to make the jump to nearshore or offshore resources. We get it. Software outsourcing can feel risky if you've never done it before … or you've had bad experiences in the past. Plus, in recent years, H1B visas and concerns over "outsourcing American jobs" have made international headlines. But, painting all outsourcing with one brush is a mistake.

> " *Nearshore and offshore teams are the obvious solution to combat real obstacles in software development.* "

There are legitimate reasons to outsource software development and proven methods to reduce your risk.

This ebook summarizes conversations we have regularly with leaders who desperately need software development. Nearshore and offshore teams are the obvious solution to combat real obstacles in software development. But sometimes, someone else needs to be convinced. We hope this ebook helps you make your case.

Read our FREE Business Fable

Outsource or Else: How a VP of Software Saved His Company

STEVE MEZAK · ANDY HILLIARD

OUTSOURCE OR ELSE!

HOW A VP OF SOFTWARE SAVED HIS COMPANY

LEGITIMATE REASONS TO OUTSOURCE SOFTWARE DEVELOPMENT

For many companies who need software development resources, there are very solid reasons to seek talent outside the United States. The economic impact to the business becomes bigger than the perceived threat of "taking away American jobs" with work being done a few time zones away. Companies who don't leverage outsourcing for software development will likely face economic stagnation, unprofitability, and lack of innovation.

3

REASON #1:
FOCUS ON YOUR CORE COMPETENCIES

Successful companies understand what they're good at, and focus their organizational efforts accordingly.

Conversely, there are many services your company needs which are expensive and sophisticated, but shouldn't be performed by internal staff. It's a waste of your precious company resources (people, money, time, assets, etc.) to manage complexity that isn't part of your organization's core competency.

Every 21st century business needs to leverage information technology in a variety of ways. But, that doesn't mean your company should employ large teams of employees to create complex software. Most organizations should not invest in a team of in-house software programmers (including the necessary tools and infrastructure) because software development isn't a core competency.

One of the key advantages of outsourcing software development is how it enables companies to leverage the services of other companies whose core competency is to develop high quality business applications. Software development companies, by necessity, invest in the people, tools, security, and other technology required to run their business with the mission to produce high quality software for their client companies.

REASON #2: FLEXIBILITY TO ADAPT

The only constant for companies today is change: regulations, competition, supply chains, and customer needs are in a fluid state. Your business applications should enable, not hinder, your ability to adapt to changing conditions.

By leveraging the advantages of outsourcing software development, you enjoy maximum ability to adapt to changing needs, rearranged priorities, etc. Outsourcing also allows maximum flexibility in leveraging different technology and innovation, as opposed to being limited to the skills and experience of your existing IT staff.

REASON #3: SCALE QUICKLY (UP OR DOWN)

Even with all the wonderful tools and hiring options available today, <u>it takes time and energy to recruit and train new employees.</u> No one wants to make a bad hiring decision. What happens when business conditions create a surge in the need for additional skilled workers?

Worse, what happens when business conditions create a reduction in current need for staff?

No manufacturing company would be without strategies to scale production output. Likewise, your company should be able to expand or contract your ability to "produce software code". Software development outsourcing is a proven method of helping companies improve their ability to scale.

REASON #4: FLEXIBILITY TO ADAPT

Reducing and controlling costs is another one reasons that companies choose outsourcing software development.

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SOFTWARE TALENT IS SCARCE... IN THE US, THAT IS

At the time of this writing, the U.S. is at record all-time low unemployment. A recent Bloomberg article highlights the fact that IT programmer unemployment was only at 1.9% nationally in 2017 - and demand for IT talent is escalating in 2018. In other words, available talent for hire in the U.S. is scarce. As a case-in-point, a Geek Wire article, reported that Washington state's tech sector (home of Microsoft) is adding roughly 3,500 new jobs each year that require a computer science degree. But, the state only graduates 500 students annually with those skills and education.

Indeed, no market has escaped the scarcity of software talent. Unless you're in a tech hotbed like Silicon Valley, Austin, TX, or others, the best developers just aren't interested.

It's easier to get a qualified developer to move from India to anywhere in the States, than to get qualified U.S. developers to move to an American city that's anywhere but the hottest tech centers. And that just opens up the door to another national hot button – immigration and H1B visas. According to the most recently available report from the Department of Labor, the top H1B visa recipients are top-tier tech companies: many of them specialize in software development and even contract software development.

High Labor Costs Can Hurt Your Ability to Innovate

While companies fear the developer shortage could have damaging operational impact or delay their software products, many can't afford to hire the professionals they need. Their pay scales aren't in line with what these premium tech workers can get, so it's impossible to attract and keep talent. And every time a hot developer gets hired at top dollar, it escalates the price for everyone else, creating a vicious, expensive cycle. Sometimes the only way to get top talent is for U.S. companies to outsource nearshore or offshore.

Assuming a U.S. company can find and hire the perfect internal software development team, instead of outsourcing – the salary costs alone would be astronomical. An average developer salary is more than double the average annual wage for all U.S. occupations. The most recent available data from the U.S. Bureau of Labor Statistics tells us that developers across the nation make $104,000 a year on average. Premier companies like Apple and Amazon are paying salaries around $200,000 a year when you include equity and bonuses. A report by The Information notes

Airbnb is at the top of the heap with compensation in the realm of $312,000 per year.

The high-wage situation is only getting worse. The 2018 Salary Guide from staffing firm, Robert Half, predicts a 3.8 percent average gain in technology sector salaries this year. Among the most in-demand jobs will be full-time and contract developers for web, software and mobile applications -- great if you're a developer. These statistics are not so good if you're looking for development talent to recruit for in-house employment.

Realistically, it's impossible to drive innovation and accomplish critical software initiatives under these conditions. If you're in the market for software developers, this is surely unsettling, but important information. Given these circumstances (out of reach salaries and the lack of talent), it's entirely logical for U.S. companies to outsource software development. The economic benefits of the resulting software still bring massive rewards back to businesses' communities and the U.S. economy in general.

5 Solid Benefits of Oustourcing Software Development

Many U.S. companies have turned to outsourcing their software development to get quality software that supports innovation, generates revenue, and grows their business while benefiting the U.S. economy. While current offshore political discussions raise concerns about offshored jobs, outsourcing software development is not only a profitable alternative for many U.S. businesses, it's often the only alternative in a tight labor market.

While the U.S. talent pool remains under-staffed, the global software developer population hosts a vast network of skilled professionals. At the same time, online conferencing, email, video conferencing, collaboration tools and workflow automation have made it easier than ever to engage with these teams. Once U.S. companies get over any hesitation about outsourcing software development, they find that the decision actually brings a number of other advantages.

More and more companies are turning to outsourcing for a variety of reasons, including **these five**:

BENEFIT 1

MORE PROFITABLE SOFTWARE

Profitability is always a part of any software development outsourcing discussion.

When an enterprise outsources software development, budgets are met and maximized which helps make the company more profitable. That's one reason why 70 percent of companies plan to increase outsourcing – with 35 percent set to do so significantly – according to the 2016 Outsourcing Yearbook by The Global Sourcing Association.

Well over half of those surveyed in Deloitte's Global Outsourcing Survey 2016 said they outsource mainly for savings and not just savings on staff salaries; outsourcing reduces all of the associated costs that some companies can't afford, which increases profitability. These "soft" expenses include office space, business equipment, HR administration, training, licensing and more. These expenses still exist, but they are the responsibility of the outsourcing firm. Because you have fewer costs to manage, the total cost of outsourcing is easier for you to track than insourcing with all of its hidden costs.

Takeaway: Outsourcing software development supports a company's profitability, which builds a robust U.S. economy.

BENEFIT 2

FAST TRACK TO INNOVATION AND COMPETITIVE ADVANTAGE

Outsourced development can be a recipe for innovation: Fresh eyes and creative minds look at a longstanding problem, and a new answer leaps out. Deloitte's Global Outsourcing Survey 2016 found that companies consider outsourcing more frequently to spur innovation and fuel top-line growth, and some outsourcing teams are making the most of that advantage. "In response to the increasing emphasis on delivering value beyond cost savings, service providers are rapidly evolving into innovation centers with the aim of creating improvement opportunities for their clients," noted the Deloitte report. This in turn leads to a competitive advantage when the developed software is successful and profitable. The Global Sourcing Association reveals that 81 percent of its survey respondents believe outsourcing has made their company more competitive as an added value.

Takeaway: Outsourcing software development spurs innovation, which is needed for U.S. companies to compete in North America and around the globe.

BENEFIT 3

EASIER CONTINGENCY PLANNING AND ADAPTING TO CHANGE

Outsourced teams allow companies to respond faster to market changes and move quickly in new directions without the delays of internal team ramp-ups.

According to the Long-Range Planning Benchmark Research Report by Ventana Research and sponsored by Planview and Financial Executives Research Foundation, companies with more up-to-date, accurate research and data indicate that they're better able to conduct contingency planning, adapt to change and make consistently good choices for major initiatives, such as software development and software development outsourcing.

Takeaway: Many businesses need software NOW, to get their product to consumers or to solve a critical business function, as well as to be successful in the U.S. and the international marketplace. Outsourcing software development allows companies to ramp-up quickly without having to search for staff or find the budget for high salaries.

13

BENEFIT 4

MORE FREEDOM TO FOCUS ON VISION AND STRATEGY

Often a fundamental obstacle to meeting software development goals is simply the company's inability to get out of its own way.

By outsourcing, you're free to focus on the overall vision for the software and the enterprise. Failure to do this could mean disaster. According to a study from McKinsey & Company and the University of Oxford, 17 percent of IT efforts go so wrong that they threaten the very existence of the company. Having an outsourcer to manage the day-to-day routine of software development leaves you free to stay focused on the big picture of profitability.

Takeaway: Outsourcing software development allows a company to focus on the big picture: driving revenue. Without it, more jobs could be lost. Or, worse yet, the company could go under.

14

BENEFIT 5

SAFE, VERSATILE WAY FOR MID-SIZED COMPANIES TO FIND DEVELOPERS

The discouraging shortage of good developers causes serious problems for small and medium-sized businesses.

Companies that shortchange outsourcing may experience damaging delays, higher costs and poor software by hiring unskilled developers. This reality has forced these enterprises to re-examine their staff sourcing models. You get a complete software development team when you outsource and additional spare resources on the bench, in case someone leaves your team. It's unthinkable that you would hire "a couple extra developers" as employees, just in case you need them in

today's tight job market, but that's exactly what good software outsourcing firms do. Smart companies have discovered that, no matter what their size, working with an outsourcing advisor gets them the best talent in a flexible, affordable way with a faster ramp-up.

Takeaway: Outsourcing is an effective way for U.S. companies to achieve their goals, while still contributing to the American economy. Outsourcing has made many U.S. companies more competitive – a benefit to the American economy.

Ask Accelerance for Strategies & Teams That Work

While there are many reasons (as well as benefits) for a company to outsource its software development, the fact remains that successful software products fuel the U.S. economy. Fruitful software stimulates even more software development, innovation, profitable businesses, a healthy economy, and many jobs that go beyond engineering. All in all, there's no reason for your company not to consider outsourcing software development.

Reduce Your Risk. Outsource with Confidence.

Accelerance is a consulting firm helping technology leaders create effective strategies for global software outsourcing through better planning, better partner selection and better ongoing management. Unlike do-it-yourself outsourcing which can be a hit-or-miss venture, Accelerance delivers a proven methodology for outsourcing that identifies and manages risk and optimizes results so that clients gain all the benefits of high performance global partnerships.

To talk to an Accelerance Advisor about your software development needs, visit accelerance.com or email info@accelerance.com

16

Outsourcing Builds Global Relations

From Andy Hilliard, President of Accelerance

The growth of America's future economy and jobs greatly depends on growing the global marketplace. The United States is only 4 percent of the world's population, and there's a tremendous future of pent-up and under-leveraged demand for U.S. goods and services by people and countries, assuming they evolve to become middle-class consumers.

Outsourcing helps that happen by supporting the growth of those economies, especially when we outsource skills like software development. This more highly-skilled work promotes the need and creation of a better educated, skilled workforce in another country. These workers, in turn, become consumers of goods and services, and they create families and communities of consumers of goods – often U.S. goods and services, because of the level of quality produced by the United States. This new demand drives the future growth and employment in the U.S. economy. Overall, a growing, educated, skilled global middle-class also promotes global stability. This, in turn, helps reduce global tensions and violence that stem from ignorance, fear and repression.