Software Outsourcing
Due Diligence Guide 2019
The Ultimate Tips For Finding a Software Outsourcing Company You Can Trust to Deliver
You’ve decided to outsource one or more software initiatives. The next step is to find a highly qualified software development partner you can trust to deliver. You’re looking for technical capabilities, industry experience and a host of other outsourcing criteria.

Due diligence in the partner selection process makes all the difference in the success of your outsourcing engagement and ultimately, the quality of your software.

Accelerance, a US-based consulting firm, helps 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.

FOR MORE THAN A DECADE, Accelerance has been researching and quantifying the world’s software outsourcing companies. And it’s true: great developers are everywhere. But it takes more than great technical skills to be a great software outsourcing company for Western clients.
Our findings reveal that 97% of global software teams won’t meet your standards - or those required by most Western businesses. The ones that do are invited to join the Accelerance Global Network for further assessment, evaluation and monitoring.

Accelerance digs deeper to find companies with top business practices, highly educated teams, excellent English and communication skills, and of course, solid references to validate that great portfolio of clients anyone can promote on a website to create the most thoroughly vetted list of qualified offshore and nearshore software development companies ever assembled. Our proven process sets the standard in outsourcing provider due diligence.

This software outsourcing due diligence guide includes key areas to consider when selecting a software provider, what to look for when vetting your potential partner - from online properties to internal culture and hiring practices - as well as suggested questions you should ask before your software development is put at risk.
Offshore, Onshore or Nearshore

Where you outsource your software development impacts every part of the experience, from the rates you can expect to the ease of communication. As you consider software outsourcing you’ll want to determine whether you prefer to stay onshore with domestic firms or if you’re interested in the lower rates that offshore and nearshore outsourcing companies offer. Distance between you and your outsourcing provider is a non-issue with the use of video conferencing, document sharing, and online collaboration tools.

**Offshore Outsourcing**

Offshore outsourcing involves contracting a company that’s geographically distant from your own. Many engineers from other regions have spent considerable time in the U.S. and Western European countries and are familiar with English, Western customs and business practices. In moving back home, they’re able to provide sophisticated software development services that meet Western standards extremely well at a lower cost.

**Onshore Outsourcing**

Onshore contract outsourcing involves hiring a company in your own country to handle your software development. They may in turn use offshore engineers for some of the work on a large project, but all of your interaction and communication will be with engineers in your country, possibly within your own offices.

**OUTSOURCING TIP:**

Plan for work-day overlap

Consider time zones and global regions for the work-day overlap you’ll need in order to work best with your outsourced team.
Nearshore Outsourcing

Nearshore outsourcing is outsourcing to a firm in a nearby country. In the U.S., this is outsourcing to Latin America or Canada. In Western Europe, this is outsourcing to Central and Eastern Europe. Generally speaking, nearshoring options carry similar benefits to onshoring options (such as workday overlap and close-cultural ties) with lower rates than onshore outsourcing or in-house hires.

OUTSOURCING TIP:
Plan to Travel

Online meeting and collaboration tools are critical, but don’t limit your outsourcing development relationship solely to online interactions. Visit your outsourcing partner before you sign a contract. Visiting your outsourcing partner will be invaluable over the duration of your software engagement. Plan to visit every few months to keep relationships open, authentic and strong.
Experience and Qualifications

There’s nothing more important than the experience and qualifications of your software outsourcing partner. You want confidence that the outsourcing company you engage is highly accomplished and brings deep experience to the table.

Specify the Experience You Need

If you search for a software outsourcing provider on your own, start by specifying the tech stacks and industry experience that are important to your software. Then, create a short list of companies that meet your criteria. The next step is to send an RFI, or request for information, that provides an overview of the software you want to create, the number of developers you need on your team and your long-term vision and goals. Use the responses you receive and the results of meetings and/or video calls to screen your short list to two or three top contenders. Carefully investigate the depth of experience, ratio of junior to senior team members and references and whether your provider has experience working with companies like yours.

Look for Exceptional Recruiting

Let’s be clear, outsourcing is not the same as long-distance recruiting. You need a company that knows how to recruit. They must have a deep pipeline of candidates with a process for screening, interviewing and hiring. Excellent recruitment is part of the service a good software outsourcing company provides. Yes, you may look through the resumes of prospective members of your software development team to scout for engagements completed for other industry-leaders, as well as highly innovative engagements that senior developers worked on. But you’ll really be confirming that the software outsourcing provider has already done this. Leverage their experienced recruiting process and past success at building teams for other clients that’ll bring deep experience and understanding to your software requirements.

Want to know if your short list of providers is high-quality? Talk to an Accelerance Advisor about a background investigation on the global teams you’re considering (or the one you’ve hired).
Technical Expertise

Rapid access to new technologies, best practices and methodologies is a significant benefit of outsourcing software development. Outsourcing companies all over the world specialize in leading and strengthening technologies that could take your company years to duplicate. Take time to find an outsourcing provider with the perfect technical expertise for your software.

Identify Your Top Technical Needs
Determine the top 3 technical skills your software requires and set them as top priorities in your outsourcing criteria. Focus on technical expertise that has the greatest positive impact on user experience and the overall quality of your software. Then, be sure your outsourcing provider can “walk the walk” and not just talk a good game.

Insist on Specialists
Generalists are valuable for their broad knowledge base, but specialists increase the value of your software and your outsourcing investment. Insist on outsourcing companies with a high-level of expertise in specific and relevant technologies. Place outsourcing providers who specialize in your technical requirements at the top of your short list for consideration.

Teams with a mix of junior, mid-level and senior developers perform best. A lower-cost team of all junior developers will lack the experience to be productive, while hiring only senior developers, in an attempt to get a team filled exclusively with the most experienced developers, will cost you more and could cause potential teamwork issues. Balanced teams are your best option.
Software Outsourcing Rates

Outsourcing has a reputation for being highly cost-effective, and it’s true, you get more value for your dollar by outsourcing offshore or nearshore than you ever would in-house. Cost always matters, but what matters more is both true-cost and value. It’s important to look beyond the rate you’re quoted and carefully consider whether you’re really getting what you pay for. Quantify the value of the benefits beyond the quoted rate, such as onboarding and offboarding flexibility, rapid access to specific skill sets, experience in technologies, applications or verticals that you don’t have, certifications or processes and even emerging technologies you don’t invest in. Make sure executives in your organization fully value and “buy-in” to the value of these added benefits.

Rates in the Region

Compare the price you’re quoted to the average range in the region based on like-for-like software engagements. Be ready to recognize when a price is abnormally above or below the average and when something is off. Carefully review what your quote includes and make getting world-class software a requirement for your investment. Saving money isn’t helpful if the result is an inferior product.

Total Cost of Engagement

Hourly rates are important to consider but the Total Cost of Engagement, or TCE, is important for your budgeting process. The TCE is a complex cost factor separate from compensation or hourly rate. When hiring your own developers in-house, for instance, TCE includes a base hourly rate, plus taxes, healthcare, retirement plans, vacation, etc. Comparatively, when you outsource, many of the in-house costs disappear, but it’s important to be mindful of other costs you may not consider right away. For instance, an offshore developer in a remote part of Southeast Asia might propose you an amazing rate, but management and travel costs should be added to the TCE. Most outsourcing experts agree that the TCE can be as high as 30% more than the hourly rate, so it’s important to consider the costs when making an outsourcing decision.
The Quoted Rate
How your rate is quoted will vary by provider. Commonly, rates are quoted either as Full-Time Equivalent (FTE), where you pay an amount in addition to the annual salary of each team member, or as Blended Hourly Rate, based on an average wage of multiple team members. Naturally, actual rates will vary by skill level, technical specialty and both the term and commitment of your engagement.

Often when outsourcing without a trusted representative, outsourcing companies will include a Risk Factor Charge which may increase your quote by up to 50%. Talk to an Accelerance Advisor about how to avoid Risk Factor Charges.
Cultural Considerations

Consider the culture of your outsourced software development team. Not just the national culture, but the business culture and the software development culture itself. You’ll want to be sure your outsourcing company is a cultural fit with your internal team.

Assess the Business Culture

How an outsourcing company operates on a day-to-day basis defines its development culture and is an indicator of how well they’ll work with global clients like you. Look for healthy hiring, training and retention practices. Does the provider actively seek to retain employees? Does it offer employees a clear career path? Is employee turnover rate at or below the national average? Do they maintain a bench of developers readily available to keep your development on schedule if someone should leave your team? Are the business leaders running a solid operation? Find the answers to these questions and compare them with your own company culture to prioritize and evaluate if the company is a right fit.

Embrace the National Culture

Unless you outsource to onshore companies, you’ll need to interact with people from different countries and backgrounds during your software engagement. For those interactions to go as smoothly and successfully as possible, each side must learn how people on the other team think and behave. It’s not necessary for one side to completely adapt to the other, but rather to recognize and embrace cultural differences. Learn as much as you can about your outsourcing provider’s country, region, way of life - and even some of their language. Your investment in culture will never be wasted.

Product Innovation as Culture

Seek outsourced software development teams that prioritize innovation. Good software developers want to be a part of a company that allows them to think and grow, and companies that encourage this grow as well. Favor partners that encourage innovation as part of their culture and reward software developers and others on the basis of their dedication to innovation, not just their level of success. Developers may fail in their quest for an innovative solution, but it’s their dedication to the solution and to final engagement success that yields the highest value.
Communication Skills

Communication is key to the success of every software engagement - but it’s especially critical with software outsourcing. Both parties - you and the development team - need to set clear expectations, overcome language barriers, and communicate daily.

Look for English Proficiency
Partner with a software development team that has, at minimum, a conversational level of English proficiency. Senior members especially need to be able to clearly understand the requirements of your software engagement before they’re able to build your product. Don’t always expect English proficiency equivalent to that of a native speaker, but do expect that language-driven misunderstandings are kept to a minimum. To aid in communication with non-native speakers, put effort into speaking calmly and clearly.

Communication Nuances
Even two English-speaking countries like the U.S. and the U.K. have different communication styles that must be considered, so it goes without saying that there will be differences in language and communication styles between all cultures. What you might consider rude, odd, or confusing in another culture might be considered perfectly normal, and vice versa. The key to bridging the gap is mutual respect and embracing your differences.

Communicate Often, Always
Open communication is extremely important from the beginning and throughout your outsourcing relationship. Both parties must be on the same page on every detail regarding the software engagement and must be specific, concise and realistic about what they need and expect from each other. Expect to use weekly video conference calls, regular emails and instant messages every day. Frequent status reports and constant communication will help ensure that your engineers are working on the most important tasks.

Communication and project management differences can derail a software outsourcing engagement.

Talk to an Accelerance Advisor about coaching services to help get your engagement back on track.
Protecting Intellectual Property

It’s natural to be protective of your intellectual property, but being overprotective can be just as damaging to your software engagement as being careless. The idea that intellectual property (IP) can only be properly protected by keeping it in-house can be misguided. In truth, most outsourced software developers will fiercely protect your IP, not as a favor to you, but as their professional commitment to world-class software development.

Legal, Physical & Technical Protection

Protecting your IP starts with the evaluation of high-quality outsourcing companies. Look for offices that are professional and secure, with the standard security measures that any respected Western office would offer. Verify digital security policies and practices, including firewall, VPN, and encryption technology that should be standard for any software development organization.

Analyze Your Risk

Your risk is directly related to just how much IP you expose. Using common technologies and practices to build your unique software carries a low risk, as the bones of your engagement are already widely available to all. Building software that requires unique algorithms or coding research only your company has access to, on the other hand, can lead to high exposure when outsourcing, and can put your IP at risk. The benefits of software outsourcing are still high even when IP risk is at its highest, but consider engaging multiple teams so no one outside organization has access to all your IP.
Sample Due Diligence Questions You Should Ask

When Accelerance investigates a global software development team, our assessment includes more than 130 questions, reference checks and travel to see to vet and verify each company for ourselves. Here are just a few questions taken from our certification process. Feel free to ask all of these or select the ones that are most meaningful to your engagement. If these questions inspire your own list, by all means add your ideas to ours.
Company Culture

Different company cultures can lead to miscommunication if you’re not aware of them. A major goal of your due diligence process should be to determine if your partner is compatible with your internal stakeholders and development team. How a company works on a day-to-day basis is what ultimately defines its culture and how well they will work with global clients like you.

Part 1: Company Background

- Please provide a brief company history.
- How many clients do you currently have?
- How many locations do you have? Where?
- How is your company organized?
- How many full time employees do you have? How has that trended over the past 3 years?
- How do you describe your company culture?
- What are your Core Values?

Part 2: Human Resources

- What is your attrition rate for the last year and how does it compare to others?
- How do you measure the level of English ability of your employees?
- What core values do you look for in employees?
- How do you recruit, qualify and onboard new developers?
- What are your retention strategies?
- What level of background checks do you do when hiring new employees?
- What kind of NDA do you have with your individual employees?

Part 3: Region and Country

- What geopolitical factors are affecting the stability of your country over the next few years?
- What is the current status and future supply and demand trends for great developers in your country?
Experience, Processes and Methodologies

Make sure your software partner can take on every aspect of the project, from the requirements and planning phases to the actual development of the product to the testing and evaluations. Look for outsourcing firms that can provide senior programmers who have a broad range of projects under their belt and can ramp up quickly and provide you with examples of high-level, high-quality products used in your industry.

Part 1: Outsourcing Services Experience

- Describe your client ramp up process: staffing, knowledge transfer, project metrics.
- Can we interview team members?
- Tell me about a client project that went wrong and what you did to fix it.
- What past client is most like us?
- Tell me about the makeup of your clients: sizes, tech, locations. Where is it trending?
- How do you handle and minimize attrition on my team?
- Can team members travel to visit us? Can we visit you? What is the typical agenda? When are the best times of the year to visit you?
- How do you manage customer satisfaction measurement?
- How do you promote collaboration, avoid ambiguity, keep everyone aligned?

Part 2: Technology and Methodology Questions

- Why do you consider yourself expert in the software technology we will use?
- How many internal resources and clients do you currently have using our technology stack?
- How do you protect the source code and IP of my software?
- What is your QA approach?
- Describe your approach to Agile development.
- What collaboration processes and tools do you typically use?
- Where is the data stored during development?
Great Software Developers Are Everywhere

No one knows software outsourcing like Accelerance.

We’re passionate about connecting companies around the world to create great software. Let us know how we can help with global team selection, pre-engagement prep, coaching, training or even complete outsourcing management services. Remember, due diligence makes all the difference in software outsourcing. We’re here to help and guide. Visit Accelerance.com to learn more or connect with one of our experienced outsourcing advisors.

Learn more
Reduce Your Risk. Outsource with Confidence.

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