

IT Offshore Outsourcing: An Overview

The Outsourcing market is estimated to grow by leaps and bounds in the years to come with more and more companies planning to outsource low end as well as high-end jobs to offshore destinations. If you are involved with any facet of the IT industry, it is important to learn more about this latest development in evolution of the industry.

Let us begin by attempting to understand what the term “Offshore Outsourcing” means. ‘Offshore’ in the phrase offshore outsourcing refers to any country where wages for IT professionals are substantially lower than in the US, UK, Western Europe, and Japan. The major destination countries for offshore work are India, Russia, and Ireland. Other places include countries in Eastern Europe, such as Ukraine and Bulgaria, Brazil, South Africa, Israel, and China. The low wages in these countries as of the low cost of living can be anywhere from one-third to one-tenth of the wages for similar skills in Western markets.

In business terms, ‘outsourcing’ is a situation in which a defined piece of work is performed by an external third party provider. At times the line of authority of an external provider can be blurry - a global company may pass around work among different departments spanning the company’s own offices in multiple countries. Generally speaking, outsourcing involves two or more independent companies working together. For example, American Company A prepares the specifications for a software application, and then passes it to Ukrainian Company B for actual design and development. After the work is completed, Company A receives the finished product from Company B. Software development is one type of IT work that can be outsourced.

From what we understood from the two terms offshore and outsourcing, “IT offshore outsourcing” can be defined as the outsourcing of IT work to offshore countries. This is not a recent phenomenon. IT offshore outsourcing has been occurring as early as the 1970’s. It started to take off in the early 1990’s and gained further popularity during the Internet Boom of late 1990’s. Then, with the crash of the Internet Boom, offshore outsourcing came into center stage – the biggest driver was the fact that businesses were scrambling to cut costs and offshore outsourcing provided a viable means of lowering cost of operations and new development.

There are several categories of companies that work on the offshore outsourcing space. They may be grouped as:

- Fully Offshore - These are small companies, having up to 50 employees, operating in the offshore countries. They spend very little on external marketing. Their business comes from word of mouth promotion and referral from existing clients.

Seldom do they have offices in countries where their clients come from. Freelancers and informal teams of friends and associates working together can also be considered as part of the Fully Offshore category.

- Fully Offshore with representative office in client countries - Companies operating in this space are medium to large sized, with an employee pool ranging from 50 to several hundred. They have representative offices in client countries mainly for marketing, requirements engineering etc. Indian companies like Satyam and Wipro, employing thousands and generating revenues in millions of US dollars, fall in this category.
- Client companies with their own development centers in offshore countries - Using their offshore centers, client companies can leverage their local talent in the respective country and use it for a variety of tasks. Most major global IT companies have a presence offshore, and now several medium sized companies are also turning to this alternative.
- Western companies acting as middle men for offshore companies – Often known as service brokers, they maintain their own list of fully offshore companies. They offer end to end management of projects, including project and financial risk management, or simply introduce a Western company to an offshore provider and charge a commission on the work performed.

Below mentioned are some tips to aid a client company who wishes to outsource their IT processes.

- Identify potential companies by enquiring around and checking online offshore provider directories. It would be ideal to approach the first two categories of offshore companies, if your business is small to medium sized.
- Learn as much about a prospective company by carefully looking through their online case studies and portfolios. If a company looks like a good candidate for partnership, contact them for names, email addresses and, if possible, phone numbers of their existing clients. If their existing clients are established companies themselves, it is a good sign that the company you are considering is reliable.
- Once the decision to partner with an offshore company is reached, give them small, non-essential projects or pieces of a project. This will help you to assess them without jeopardizing any of your own business in case the arrangement does not work the way you had envisioned.

- Have risk management mechanisms in place and sign service level (SLAs) agreements, non-compete and non-disclosure agreements with your offshore partners. Before sending off work to an offshore provider, it is well worth the time to lay out formal procedures to respond to events like network crashes (at your site or the provider's site) and deadline extensions.

Offshore outsourcing has become an integral part of the IT industry. In the next few years, its role will only become more important. Gartner Research predicts that 25% of IT jobs will be “offshored” by year 2010. The question organizations will ask is not whether they should outsource, but which offshore outsourcing strategy best fits their needs.