



## Going offshore: a primer for ISVs

Every ISV understands the benefits of taking product functions offshore but not every ISV is confident about what is involved and how to plan the process. This guide helps you understand the issues and implement an offshore strategy.

Seattle•Bangalore

email: [sales@aditi.com](mailto:sales@aditi.com)  
[www.aditi.com](http://www.aditi.com)

### Risks & rewards

Offshore software development can generate big rewards and competitive advantage for Independent Software Vendors (ISVs):

- Larger talent pool
- Lower cost
- Greater flexibility to scale up and scale down quickly
- Quicker time to market
- Capacity to over-invest in critical activities or at critical times
- Access to a broader skill set to complement core competencies onshore

However, there are risks involved in going offshore. Our recent survey of 100 CXOs of American ISVs in the \$10-300m revenue range highlighted concerns over:

- Knowledge transfer
- Quality of staff and deliverables
- Talent availability (skill sets, skill levels)
- IP protection
- Managing distance
- Morale of existing (onshore) employees
- Finding the right offshore vendor

The offshore prize is too big to ignore, but the risks need to be recognized and managed. Here are some of the factors to keep in mind.



### Developing a Roadmap

You don't need a very detailed plan before going offshore. Going with a partner allows sufficient flexibility to tailor your approach as you learn. But it is important to consider a few issues and develop a general roadmap. These are some of the questions you should be asking yourself:

#### What is your strategic intent?

Are you in one of the following situations:

- Founding a startup needing an outsourced development team?
- Managing an existing company, and trying to change your cost structure by shifting your R&D center-of-gravity offshore?
- Looking to outsource sunset products so that you can focus on new products?
- Looking to offshore some of your functions (like testing, tech support) so that you can focus on product design and development in-house?

## What is your desired speed and structure?

Depending on your needs, you could adopt one of the following offshore models:

The big bang approach - an India subsidiary

- If you are certain about going offshore on a large scale, take on the pain and effort of starting a subsidiary
- A subsidiary offers complete control and can make economic sense if you are planning a team of over 100 engineers.
- It could take 6 months' lead time to handle the legalities, set up the infrastructure, and start hiring
- It is important to build a brand in India to facilitate hiring - competition for good talent is stiff and without a strong employee brand you could get mediocre talent.

Testing the waters - an offshore partner

- Good option if you want to start fast
- Needs careful vendor selection; few vendors really understand software product development.

A phased approach - a BOT model

- Start with a partner but hold an option to convert the setup into your subsidiary later.
- The vendor takes responsibility for build-operate-transfer
- During the transfer phase, the vendor usually takes responsibility for legally registering your company, setting up the infrastructure, and transferring all people and assets to you.
- Since the vendor transfers the offshore team to your subsidiary, you don't need to groom and train a new team.

## What functions do you want to outsource?

New product development

- Allows the offshore team to start afresh, without having to understand existing code. The offshore team can work as a cohesive unit, without being distributed across geographies
- Requires high skill and experience from the offshore team
- Is a good option for startups who don't have an in-house product team

Product augmentation or maintenance

- Involves fewer risks
- Requires time for knowledge transfer to the offshore team

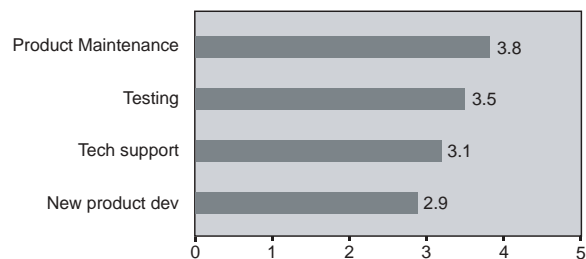
Testing/QA

- Integration with the dev processes is a key focus area.
- Success in testing encourages companies to expand offshore operations to other functions including product maintenance and new product development.

Technical Support

- A common option is to outsource first and second level support and retain the last level support in-house.
- For startups with low call volumes, the product development vendor can take on the additional responsibility of technical support.
- For large call volumes requiring more than 20 service reps, go to a specialized tech support company, even if you have a development or QA partner.

Top functions to offshore (scale of 1 to 5)  
CXO survey of ISVs in \$10m - \$300m range



The offshore model is useful even for other functions such as professional services, and sales and marketing support. For instance, your professional services bench can be based in India, to travel to customer sites when needed. However, these functions can be offshored after getting to steady state in your dev or QA activities.

## Building an effective offshore team

### Hiring a team

- While entry-level engineers are abundant in India, getting experienced software engineers and leads is tough because demand far outstrips supply. Every software shop in India is competing for the same small pool.
- India doesn't have a product development culture and only a small pool of people understand product development as opposed to internal IT. Architects, product managers, program managers, usability engineers, and product developers are a rare breed.
- Going with a vendor has an advantage over starting your own subsidiary, because vendors have available engineers, and can hire more at short notice.
- Customers often insist on interviewing key team members before the vendor assigns them to their offshore team. But when trust is established in the relationship, clients are happy to leave the decision to the vendor.

### Getting the best out of your team

- An offshore team needs to share your vision - they need to understand your products, markets, and customer needs. Without that they will merely do what you say, without adding value.
- Establishing such a common vision across the globe is a challenge. One way is to treat the team like your own internal team. Making them part of your company culture helps to ensure a 'my product' mentality in the team.
- Spend time in building a rapport with the team. Encourage transparency within the teams on both sides of the ocean.

## Choosing the right vendor

This ranked as one of the top concerns of 50% of ISV execs surveyed.

### A few evaluation criteria

#### Product development expertise

- This is the primary criterion, as the methods and mindset for developing products is very different from that of IT services. Has the vendor developed and shipped products before?

#### Domain knowledge

- While it is desirable for your vendor to know your domain, such vendors may be hard to find. Product partners generally are domain agnostic and ensure they have systems to acquire and sharpen domain expertise during the course of the project.

#### Technology expertise

- Is the technology platform a primary focus of the vendor or a supplemental one? When your requirement is not a core tech platform of the vendor, most will be willing to hire and start a team. But it may take more time to hire these skills, and it may be more difficult to retain them.

#### Services offered

- While you may start offshoring with one function, evaluate your vendor for capabilities in other functions that you may outsource down the line. Can they do specialized testing? Can they host your solution and manage it? Or do they have partners whom they can seamlessly bring in and train?

### Vendors in India

Nasscom, the national association of software companies in India, lists 850 software services vendors, which together constitute 95% of outsourced work done in India.

Traditionally these companies have focused on IT projects delivery and not product development.

Today ISV outsourcers have two vendor options: They can go to the IT outsourcing giants who typically have product engineering practices as one of their services. Or they can go to the 10 or so specialist vendors who focus exclusively on outsourced product development for ISVs.

Most of these specialist firms are located in Bangalore, with a few in Chennai, and Pune

#### Location

- While talent availability, language, and proximity are obvious factors, often ISVs choose a specific location because their internal offshore champions are most familiar with that country or city.
- Will the city will continue to be a good choice if you expand your offshore operations into unrelated areas, for instance to serve as your sales base in India?

#### Size and stability

- Startups often prefer smaller vendors and large ISVs prefer large vendors. However, since large vendors don't have product outsourcing as a core focus area, and may not have their best people on it, you will see large ISVs going to smaller vendors who specialize in product development.

#### Cultural fit

- This is a soft factor that is difficult to measure but important nevertheless. It is important to watch for 'the feel' you get when you talk to vendor employees during the pre-sales process.

#### Pricing models

- You may not find much of a difference in pricing models amongst the established product outsourcing vendors. But you may find lower prices from IT services vendors who are not fully familiar with the complexities that usually arise during product development.

#### Evaluation process

- Visit the vendor's development center: You will get a feel for the 'energy' and 'culture' of the company.
- Check references: Do not just follow the practice of asking for three references. Vendors will obviously give you their three best references, and you won't have an opportunity to find out weaknesses that may prove fatal to you later. So take the entire customer list of the vendor and choose three customers yourself and request to do a reference check.
- Pay attention to how you structure the contract. You need to align the vendor's interest with yours on several parameters. For example, when you have a BOT agreement with an option to transfer the team to yourself later, the vendor may hesitate to put stars in your team for fear of losing them.

### Transitioning and managing offshore

If you focus on building a great team and finding a suitable vendor, you will find that transitioning and managing the offshore work actually becomes easier.

#### Infrastructure

- Allow time for the vendor to setup the infrastructure - space, hardware, software, specific network arrangements and the like. This can be done in parallel with other processes; however, not attending to these factors rigorously may lead to delays later.
- Pay attention to physically securing the infrastructure to protect IP rights.

#### Initial Knowledge Transfer

- Allow time for knowledge transfer, before expecting results.
- Typically a core team from the vendor will spend 1 to 2 months at your facility to understand markets, products, and requirements. For smaller engagements the vendor may send just one person for a shorter duration.
- Clearly designate a manager or a team on your side to handhold the visiting offshore team and transfer knowledge. Often companies make the mistake of designating someone who feels threatened by the offshore initiative. That can be disastrous for the process.

Communicate. Communicate. Communicate.

- Insist that the vendor locate a senior program manager onsite in your premises to serve as a liaison with the offshore team. Sometimes it may look like the engagement doesn't warrant someone in this role, but not having someone may lead to serious miscommunication.
- Use formal processes for all important product-related communication. For example, if you are requesting a feature or functionality change, don't just say it over the phone or casually shoot a mail to your offshore project manager. Send in a formal change request form. That will automatically kick off a chain of events and will ensure that things don't get misunderstood or slip through the cracks.
- Be aware of cultural issues that may hinder communication. For example, you will find that people in India are often very reluctant to say "NO". So when under pressure, they may end up saying, "YES" when they mean, "I'll do my best, and I hope I can do it".
- Supplement formal mechanisms like reports and reviews with frequent impromptu discussions.
- Define a clear escalation mechanism to deal with issues.

Ensure process compatibility

- Ensure your processes and vendor processes map efficiently
- If your team and the offshore team are working across geographies on the same product, ensure you have processes to handle a 'follow the sun' approach.

Manage your end

- Designate a manager from your side to manage the offshore process
- Carefully study if the offshore initiative is leading to low morale of your own technical and management team. If morale issues do exist, address them actively.

### **Once you've answered these questions ... take a break!**

Sometimes customers get so anxious about the risks involved that they react by micromanaging. They get involved in every decision, oversee all processes, and generally spend a lot of time managing the offshore effort. This leads to the feeling that managing offshore is too demanding and requires too much time.

But if you find the right partner, align interests, set up the right team and processes, and communicate expectations clearly, you will find yourself getting the right results from your vendor.

So you can focus on beating your competitors in winning sales and customers.