



WHAT ARE THE PROBLEMS WITH OUTSOURCING TO INDIA TODAY?

By Armando Viteri, Neubloc, CEO and President

Much has been said about the current backlash against outsource development services in India. Many companies that had made an investment into India are now pulling back to look for alternatives. Much of the discussion has centered around the rapidly escalating wage structure but the issues of doing outsource development services in India are much deeper. This white paper looks to explore the ongoing and substantial issues associated with outsource development services in India today and the reason why more attention is now centering on alternatives (particularly Eastern Europe):

A. High attrition will be a significant drag on productivity – Industry average for attrition in Indian software development firms averages 50% per year (that statistic from Computer Business Review two years ago – the problem has gotten worse since then). Historically the larger US firms establishing an Indian presence were immune to this attrition. Even this has changed (<http://outsourcing.bloggles.info/2007/06/14/execs-list-hurdles-to-offshore-development/>) for companies like Cisco. Smaller firms are currently experiencing attrition of 100%+ per year according to one NY investment banker specializing in international software services firms. This firm is now looking toward development firms in Central/Eastern Europe. The reason is quality of the work combined with low attrition. As a further example the former CFO of a very large public software company started a company with development in India. He is a very high profile Indian executive so he used his connections to recruit a team of developers. Come one Monday he found that his entire team had left to go work for IBM India for double what he was paying them.

B. Significant IP risk – Indian firms (and their court system) have historically been notorious for their lax approach to protecting their customers' source code and in turn calling it their own. When this has happened this is essentially no recourse for the American company. Although there are a number of steps being taken recently to improve this the Indian court system have favored the Indian company no matter how egregious the problem. According to Rouse and Co. (the global intellectual property consultancy) "Unlike China, there are no administrative remedies available in India for enforcement of intellectual property rights." There is quite a bit of precedent of foreign companies in court cases against a partner in Indian who has decided to "borrow" software. The foreign companies do not fare well in these cases.... Poland does not have this same problem – it is inside the European

Union and therefore subject to EU IP law (which is quite similar to the US). Quoting IP Frontline (the magazine of intellectual property and technology) "To sum up, as in any other developing country, working with law enforcement authorities and courts in India can be quite challenging."

C. The quality of the work – According to Zinnov (a well respected analyst firm specializing in offshoring) project "say that more than 75 percent of these global IT initiatives fall short of expectations". In addition Zinnov says that experienced people (which even a junior guy is "experienced" after a short time) are receiving 70% of a US salary today plus you have to factor the costs/inefficiencies of setting up a development shop on the other side of the world. Finally according to Zinnov "India has a vast talent pool that is not so inexpensive" and that the primary reason to set up shop there is to access the Indian market (which is not the primary objective for many US software companies looking to outsource development).

D. Talent base – For historical reasons dating back to the Soviet period Poland has long been a very strong center for embedded development. More recently Poland has been a hot bed of activity in Web 2.0 technologies both as users and as developers (e.g. Skype has a higher rate of usage in Poland than any other country). By contrast much of the development work in India has historically focused on IT (vs. software product). In fact it is increasingly difficult to recruit senior/architecture level product developers at any price. For example, one Bangalore based company had sourced a one developer who wound up turning down his offer to work for a big firm for a direct salary about 85% of what you would pay in Silicon Valley (and very significantly higher than what you pay for developers from Poland/Eastern Europe today).

E. Work style –The Polish development style is not dissimilar to the US. The Poles will question approaches both to test their understanding and also to challenge assumptions. Time and again there is a very consistent observation – the Indian work approach requires very detailed specifications with no room for interpretation. Indian teams regularly will stop work while waiting for a clarification to a question versus making their best approximation and continuing on. Productivity is therefore surprisingly low (especially when you tally in attrition). The best quote on the subject is "a project that takes 4 times as long with engineers that cost a third as much doesn't really buy me anything...."

F. Cost – Historically there has been a very big price differential between Eastern Europe and India.

A decade ago you could hire very senior engineers for \$1-2k per month in India. Those days are long gone. Norm in India today is up to 20% pay increases every 6 months – that translates into 45% wage escalation per year!! Today only the most junior engineers are less expensive than Poland. Midrange today are roughly about the same and specialized senior people are more expensive in India than in Poland today. I believe that India will be more expensive across the board within 2-3 years. Although the dollar has suffered a significant retreat over the last couple of years against the Polish zloty it has not resulted in price escalation anywhere near what is happening in India today. As a result neubloc has not increased the price of developers over the last year – we have actually decreased the price as our customer relationships have expanded.

To learn more about the benefits of outsourcing to Poland, please contact:

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