To offshore or not to offshore - is that the question?

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You've been tasked with running a custom software application project. It's time to develop a budget for the project, and you can't help but notice that offshore development companies can offer you much lower per hour costs than US-based companies located close to your place of business. How do you decide?

First off, let's dispense with the common myth that going with an offshore company is guaranteed to doom your project to low quality and lots of rework. That's just not true. Even anecdotally, there have been many software systems that were successfully developed by offshore vendors. It simply isn't the case that every offshore project fails, and for sure not every US-based project is a model of success. If you choose your vendor carefully and your project is well-suited to an offshore model, you can run a successful offshore project. You may find that cost convergence reduces the price differential between good offshore companies and good US-based companies, but you absolutely can succeed.

So, if geography alone doesn't tell you much, how do you decide? We believe that choosing the right vendor for your custom software development project isn't about offshore versus onshore. It's about selecting the optimal combination of three project success factors: cost, quality, and time to market. If you don't assign weightings appropriate to your situation to each of these factors, your project will take on a lot of risk and will probably fail.

An offshore company can almost certainly deliver the lowest cost. If you're highly cost-constrained above all else, you should go offshore. That's probably your only choice.

Quality and time to market are a little trickier. A good offshore vendor can definitely deliver code of high technical quality in a reasonable time frame. But there are two negatives that are systemic to the offshore model and can't be avoided: the cycle time of communication, and unfamiliarity with the US environment.

The cycle time of communication is longer with an offshore company for one or both of two reasons: a timezone difference or a language barrier. Good developers in some countries, such as India, may have less of a language barrier, but the timezone difference can mean that the time between identification of a changed requirement or a bug, answering clarifying questions, and finally getting a resolution, can be 48 hours or more. Other countries may have good developers who are closer to you in timezone, but

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often you must communicate with them through a bilingual manager. Both quality and time to market can be negatively affected by these increases in communication cycle times.

Unfamiliarity with the US environment is a factor if your business happens to be one where the US is unique. For example, the mechanics of US elections can be very idiosyncratic. If you're in a business that's connected to our political system, an offshore vendor is going to have a hard time coming up to speed with concepts that you may be instinctively familiar with. Other similar business areas are K-12 education, health insurance, regulatory compliance, and commercial or residential real estate lending. On the other hand, industries such as securities trading and banking are globalized, and expertise in one country translates pretty well into expertise in another.

A combination of long communication cycle time and unfamiliarity with US conditions can lead to a lot of code rework. You end up sacrificing quality and time to market as your vendor constantly modifies the system to correct misunderstood requirements or to accommodate implicit, unstated, business assumptions. The time you spend addressing quality issues and the revenue you lose as time to market increases will both erode your hoped-for cost savings.

Our Advice:

- If cost is the overwhelming constraint on your project, go offshore.
- If cost is very important, your line of business is highly globalized, and time to market isn't critical, consider a high quality offshore company.
- If cost is important, but not overwhelming, and you require rapid communication with developers who understand your US-specific business needs, consider a local, US based "boutique" consultancy.
- If cost is no object, and your project is very large in scope, consider a big, industry-specialized, US-based system integrator consultancy.

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Seek the right balance of the three success factors: cost, quality, and time to market. Underestimating the importance of any one of these factors in your decision will lead to dissatisfaction sooner rather than later.

We'll close by emphasizing that we assume you're choosing between vendor companies of equivalent talent. Ultimately, your software will be delivered by the vendor's team members assigned to your project. No matter whether they're offshore or US-based, you should make sure you have confidence in the vendor's ability to deliver. Can you interview the team members personally? Will the team members stick with your project? Does the vendor offer to let you pick which client of theirs will act as a reference? Do they show their confidence by taking a financial risk position in your success or by offering some sort of guarantee? Choose carefully, because far more important than the geographical location of your software developer team is their talent and their demonstrated ability to repeatedly deliver custom software.

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