Chapter XIII

Value Creation Using Offshore Resources

“The answers are always inside the problem, not outside.”

Marshall McLuhan

Offshore development is no longer a trend, but a fact of life for building enterprise software. Programmers and operations staffs from the developed countries are under siege. A recent report from Forrester Research predicts that over the next 15 years, 3.3 million U.S. services industry jobs and $136 billion in wages will move offshore to countries like India, Russia, China, and the Philippines. The IT industry will lead the initial overseas exodus (Macarty, Dash, Liddell et al., 2002).

Today, investors in software companies expect an offshore strategy and view it almost as important as having a marketing strategy. The company without one will be considered uncompetitive.

This chapter discusses the effect of offshoring on product development. It is based on interviews with several companies using offshore resources and my own experiences. To set the stage, we first look at product development issues faced by enterprise software companies. Offshoring adds complexity to a process that is already challenged. Primary issues with offshoring are then outlined including:
• Language and culture
• Control of intellectual property
• Security of sensitive data
• Lack of process
• Bias for substitution of labor for technology
• Use of proprietary versus off-the-shelf components

An approach to integrate offshoring with product development is outlined.

### Getting Products Out the Door

My first exposure to offshore development was more than four years ago. I worked for a company that subcontracted to several hundred personnel in New Delhi. In my previous software environments, a tremendous amount of energy was spent prioritizing features against scarce product development resources. New releases dribbled out every nine to twelve months. The available staff months for software development were well known, and the basic math ran something like Figure 13.1.

To build the revenue required for success you absolutely needed to add product features quickly. As shown in Figure 13.1, the software development cost and length of time to build them was always higher than expected. The available product development was barely enough to cover needed bug fixes

![Figure 13.1. Unfulfilled development needs (staff months)](#)

<table>
<thead>
<tr>
<th>Required Resources for New Development</th>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committed Resources for Customer Promises and Maintenance</td>
<td>45</td>
</tr>
<tr>
<td>Resources Available for New Development</td>
<td>15</td>
</tr>
<tr>
<td>Percentage of Unfulfilled Needs</td>
<td>75%</td>
</tr>
</tbody>
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