

## A Look at the Frontlines of Offshore Development

By Stuart Lachlan, Editor of *Outsource Magazine*

### Introduction

No matter the size of your business—small or multinational—your workforce could be a global one. Offshoring allows organizations of all sizes and industries to take advantage of the skills of professionals across the globe. By tapping into lower-cost IT talent in Asia and Europe, businesses can more effectively manage their technology, R&D and customer service dollars while still getting world-class service and solutions.

While large corporations, often from the technology industry, forged the path in tapping into highly skilled, lower-cost professionals in Asia and Eastern Europe, today offshoring is a widespread solution that all businesses should and can consider. As this article explains, businesses around the world have tapped into the talent and low-cost in India for more than a decade. Now new regions like Vietnam and China are emerging as offshoring epicenters with highly skilled, highly trainable and extremely affordable talent pools.

As your organization considers strategic ways to manage IT projects and budgets, offshoring is likely rising to the top of the list of options. Harvey Nash is an offshore development partner to businesses around the world and a resource for your organization as you contemplate how to effectively and securely leverage global resources. With a CMM Level 5 and ISO 9001:2000 certified offshore development center in Vietnam, we help clients rapidly, expertly and affordably complete key IT development projects.

I invite you to read the following industry article on today's growing offshore regions and the advantages they offer. Please enjoy and remember to call your Harvey Nash team when it's time to discuss your offshoring questions and needs.

Sincerely,

Anna Frazzetto  
VP of Technology Solutions  
Harvey Nash USA

The offshore phenomenon has attracted much media and political attention in recent years, not entirely favorable attention at that. More and more big name organizations outsource their customer service and call center operations to low-cost locations, most notably India, but increasingly to countries such as China or regions such as Eastern Europe.

But while much of the attention has been focused on the offshoring of call center jobs, there is another aspect of the outsourcing industry that has been growing rapidly: the offshoring of high-tech research and development (R&D) work.

The benefits of offshore development are basically the same as those offered by offshore customer service operations: a skilled workforce available at a significantly lower cost. To balance this out however, there is the need to ensure high levels of security and data protection, particularly in regions where intellectual property protection laws may not be as robust as in the U.S. or Western Europe.

But it's certainly big business—and set to get bigger. Worldwide spending on offshore R&D and engineering will increase by a whopping 860%, from \$1.25 billion in 2004 to as much as \$12 billion in 2010 according to research firm Gartner. Meanwhile offshore spending on application development services will more than double from \$23 billion to as much as \$50 billion. "It's a tectonic shift," noted Gartner analyst Frances Karamouzis.

Much of this R&D activity to date has been pioneered by U.S. and European technology firms, such as Microsoft, SAP and Oracle, which are taking advantage of the skilled technical resources in offshore regimes. For example, database giant Oracle operates its largest R&D center outside of the U.S. in India.

One fifth of Oracle's total global workforce is now situated in India and plans are well underway to expand its presence in China. "Both Indian and Chinese economies are running rapidly and there is a growing competition between the two, with a certain amount of overlap," argues Oracle CEO Larry Ellison. "We see professional services moving to India. We do have software engineering teams in China but a larger team in India."

It's not just IT companies that are tapping into the technical skills base in offshore locations. Mobile phone maker Sony Ericsson may shift a part of its R&D work to India. The company has been carrying out an assessment internally to determine if it is feasible to shift a part of R&D work to India.

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In reality, China is several years behind India in the maturity of its software industry and lacks the English-speaking skills and the cultural fit with U.S. and European organizations necessary to pose an immediate threat to India's dominance. However, the large labor force and a concerted effort by the Chinese government to jump-start the local software industry make it almost certain that China will be another significant destination for software development.

But while India and China have attracted most attention to date, there are other alternatives. For example, Vietnam is emerging as a potential location. There are a number of encouraging parallels with India's offshore track record to make the country worth considering.

For example, the current level of offshore development revenue is approximately the same as India's a decade ago and the wage rates in Vietnam are roughly the same as India's initial rates. Perhaps most importantly, Vietnam's government is aggressively pursuing the growth of its software development industry with significant tax credits for employees, employers, investors and even computer science and engineering students.

The Vietnamese government set a goal of training up to 50,000 skilled technology and development workers by 2005-6. The workforce in Vietnam offers great potential for training, with almost three quarters of the population under the age of 35. A joint report from Oracle and IBM stated that Vietnamese could be trained twice as quickly as their counterparts in most other Asian countries. All this together indicates that Vietnam is set to be on the frontline of offshore development in the future.

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