



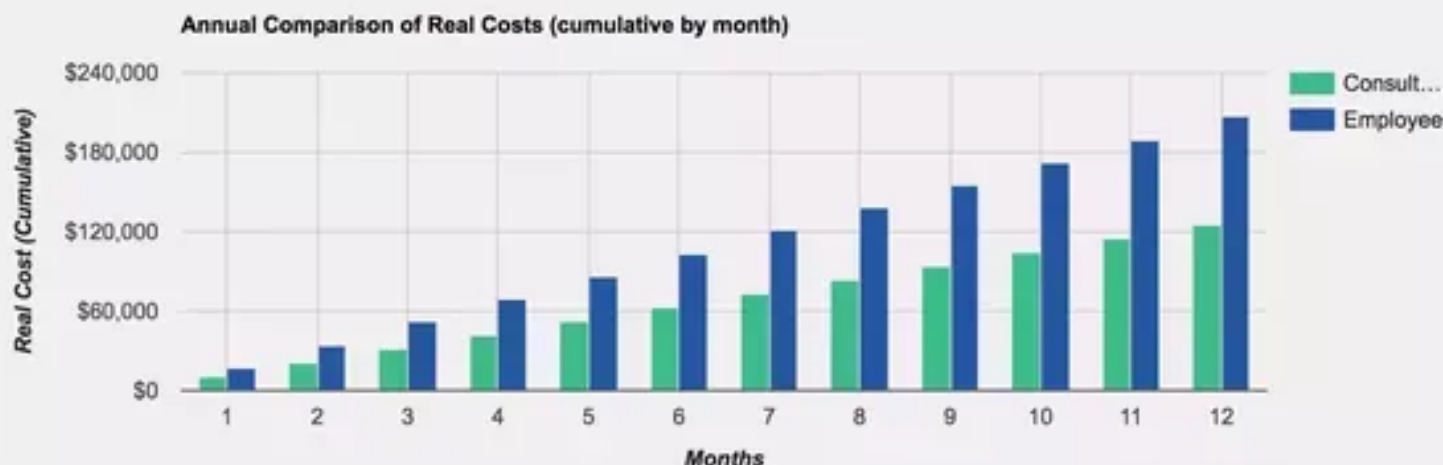
IT CONTRACTORS VS. OUTSOURCING TEAMS

Most of my clients share concerns whether to buy a ready-made solution, hire an in-house team of IT contractors or outsource the development offshore. The main problem with using off-the-shelf software is the difficulty finding a product that meets all your requirements.

Thus, you'll most likely be choosing between internal and outsource software development. In this post I'll explain how you can benefit from outsourcing and how common pitfalls can be avoided.

Reduction of Overhead Costs





Adjust hourly rates or annual compensation figures below to compute and compare real costs

CONSULTANT	EMPLOYEE
Hourly Rate	
<input type="text" value="\$50"/>	<input type="text" value="\$50"/>
Annual Salary	
<input type="text" value="\$104,000"/>	<input type="text" value="\$104,000"/>
REAL HOURLY COST *	
<input type="text" value="\$60"/>	<input type="text" value="\$100"/>
REAL ANNUAL COST *	
<input type="text" value="\$124,800"/>	<input type="text" value="\$206,960"/>

* Real costs are roughly based on [DCAA Cost Accounting Standards](#)

Cost reduction is one of the main factors in favour of outsourcing development elsewhere. For UK, US or even Australian customers, the internal costs of assembling their own development team can be eye-watering. Apart from the recruitment costs, you would have to consider scarcity of resources, operational inefficiencies, costs of the required equipment - and here you'll find a good reason to abandon the idea of developing software internally. In this case outsourcing clearly helps you avoid excessive investments - you pay only for the product development, which does not incur any other costs related to management or IT training, and receive a professionally-created piece of software within guaranteed timeframes.

Reduction of Labour Costs

Software Outsourcing: Sample Cost Savings

	In-house	Onshore	Nearshore/ Offshore
Number of developers	10	10	10
Man-hours required	1000	1000	1000
Medium hourly rate	\$ 50	\$ 50	\$ 30
Employee benefits	✓	✗	✗
Travel	✗	✗	✓
Training/retention	✓	✗	✗
Estimated cost	over \$ 600 k	\$ 500 k (min)	\$ 300 k + travel (if required)

In terms of operating costs, labour is often considered the most obvious advantage of outsourcing. If you can get more value for your money - why pay more to your in-house employees?

This approach is often criticised, but the fact remains - many software development agencies offer IT services for only a fraction of the cost of the same services internally. However, you must always bear in mind that in certain circumstances, the work of a third-party contractor may require additional unforeseen expenses as well as a healthy amount of management from your side, resulting in the overall project cost being higher than initially expected. You can easily avoid such a situation, however, by choosing a professional developer with the proven management procedures, who works in accordance with international programming standards and has a solid experience, reputation and track record.

Say Goodbye to Long-Term Obligations

This is probably one of the most underrated advantages of outsourcing. In fact, you can hire a team of professionals for the project on an "as required" basis. This frees you from long-term obligations and the need to pay any related costs, such as health insurance, annual bonuses, HR-services, etc., which are obligatory components when hiring an in-house team.

Tips to Avoid Common Pitfalls



As you can see, outsourcing can be an effective element of a business strategy aimed at cutting costs, gaining access to better software and bringing innovation. Nevertheless, there are risks that can jeopardise your whole project. Let's look at the common pitfalls of outsourcing and find out how to deal with them.

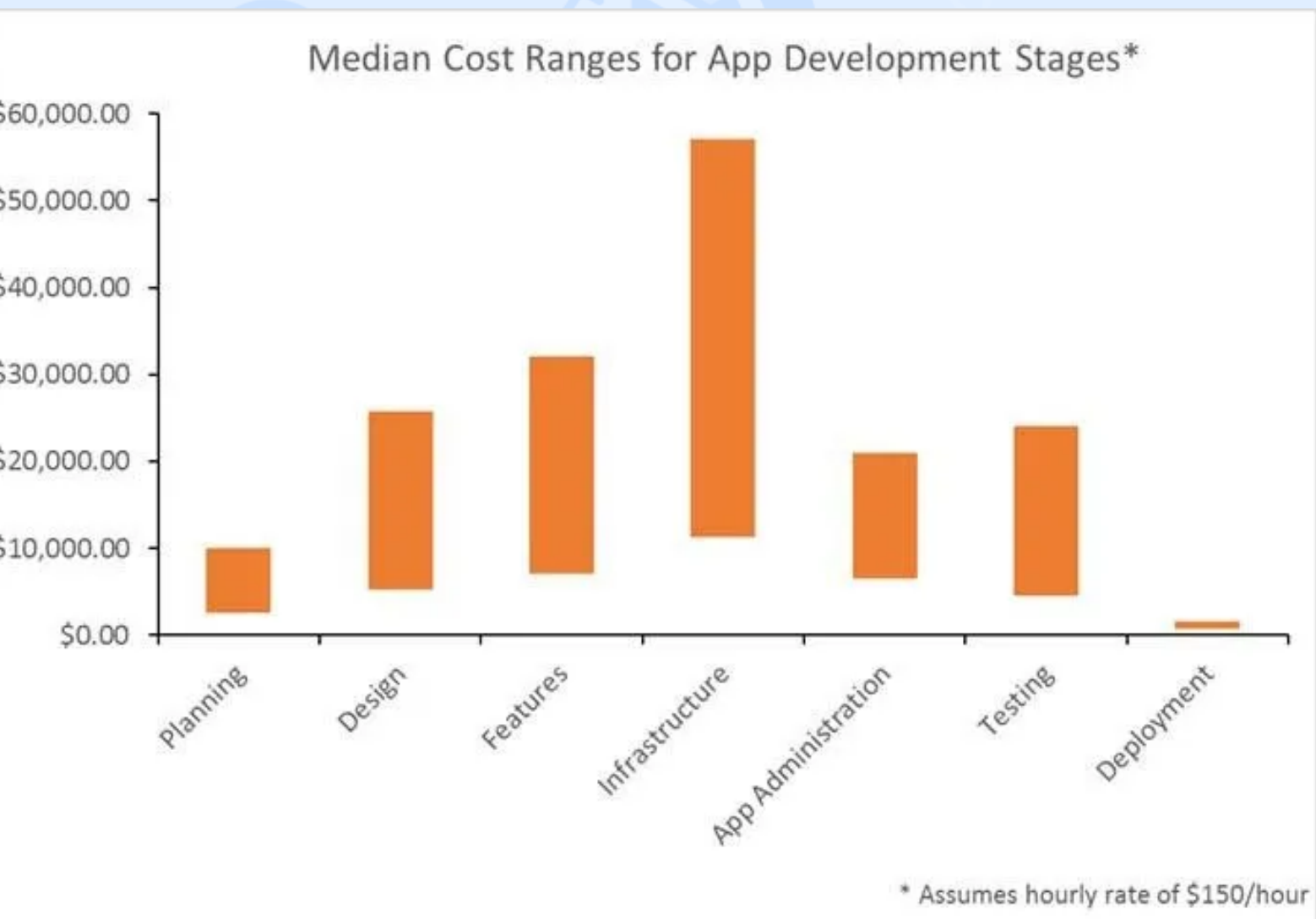
Loss of control over the project

Lack of communication with third-party developers regarding their slow feedback can lead to a significant increase in the price of the end product. Thus, loss of control over the development represents one of the biggest threats. In order to gain more control over the project when dealing with a third-party software vendor, the very basic advice would be to agree to regular meetings and particular SMART goals for every given project milestone, as well as choosing the most appropriate project management tool and channel.

The key to understanding and overcoming this risk is that the product should be equally maintained by both your company and the developer.

Here at Magora, we always try to build the most efficient interaction between our crew and the client's team in order to ensure both sides are constantly in sync.

Hidden Costs



Although outsourcing represents a cost-effective solution, you may face additional expenses - for example, transition costs can occur when part of a software development project has been completed in-house or by another outsource vendor. In this case, a code review would be a mandatory step, which may result either in continued development or in rebuilding everything from square one.

There are two ways to deal with this potential problem:

- Plan everything from the ground up and provide the developers with a detailed specification and deadlines. This way you can discuss all the issues ahead of development and get a fixed-price estimate. Unfortunately, in my experience, this is not often the case.

- Begin collaborating with the developers and initiate the project via a so-called [discovery phase](#) in order to determinate and estimate the scope of work, the feasibility of the project and the resources required. In this case - you define the project specifics, receive a clear and understandable estimate for working hours (and thus cost), and cover potential bottlenecks prior to beginning the development itself.

Find out more about how to reveal hidden costs from our webinar - [How to Cut up to 50% off Mobile Development Costs](#).

The Language Barrier

I've already mentioned that communication is vital for outsourcing. If an offshore team doesn't know your language, then it's almost impossible to understand each other.

- In order to avoid this issue, carefully choose the country of your developer. Find a service provider which can ensure the team can communicate fluently and efficiently with you in your language.

Data Protection

The choice of a certified and reliable developer is a decisive factor in terms of information security, especially if your project deals with sensitive data.

Pay attention to previous cases of the third-party team and find out if they've worked with confidential information before. Check out their security measures and how data protection issues have been addressed by them in the past.

Concluding Note



Of course, it's difficult to argue that outsourcing carries sufficient risks. However, a great software vendor will always try to consider all of the issues and bottlenecks that may arise during development and not have to think twice about addressing these prior to the initiation of the software development project. So, if you have confidence in the software vendor, you are ready adapt to change as well as take hidden costs into account, then offshore software development will be a beneficial endeavour resulting in the creation of a valuable business asset for your company. And be sure that our team is always ready to help. Feel free to contact me anytime - I'd be glad to be of service.

