



Small Business IT Outsourcing

SMEs find new value in offshore software development

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A few years back, IT off-shoring was a luxury affordable only by the Tier 1, Fortune 500 multinational companies. Financial service juggernauts like Fidelity Investments or Goldman Sachs could do it, hi-tech behemoths such as Cisco or Intel started captive centers in India or China but the basic "low cost, high volume" equation still remained valid. So while you could get a global workforce at a quarter of the western market price, but the expectation was that you had to hire a good many number of FTEs (full-time equivalents) to boost the offshore economy. Distributing the employee base over multiple continents created competitive advantages, such as a lower average cost base, 24x7 shifts, greater throughput (weekend labor), better financial structure through lower non-core investments, reduced time to market and rapid scale up/down capabilities in keeping with systemic demands. The ROI was measured - e.g. American Express saved \$250M over four years through IT outsourcing (UBS Warburg). However, if you were a small or medium sized business, you couldn't possibly provide sufficient FTE work, and were generally ignored by the major vendors.

Not any more. A number of interesting dynamics - increased competition among Indian incumbents, new entrants from Vietnam, Russia and Eastern Europe, scarcity of volume-hungry large customers - have triggered a value shift in the industry. This has opened up an opportunity for both the service providers as well as the hitherto unimportant SME sector. As prices for outsourced software development fell from the high 30s to the low teens in dollars/hour, the larger companies struggled to maintain margins, which was hard because the new found wealth in India had already driven up salaries and employee lifestyles. It opened doors for other countries in South East Asia to offer deep discount services, but they did not have the scale, market image or quality (a.k.a. resource experience) to attract premium customers. All of a sudden, the SME sector looked appealing. There were many untapped companies, lower volume meant higher prices and better margins and lesser number of talented programmers to service them. The demand side was also ready; small businesses had passively watched the popularity of the Global Delivery Model (GDM) and now had sufficient faith in the system to globalize. After all, the offshore savings to net IT budget ratio in smaller firms is often larger than in larger businesses.

Can startups use outsourcing? Absolutely, according to a recent Gartner report (July 2006) which found some Indian startups like Bharti Tele-Ventures and Yes Bank leveraging outsourcing to reduce capital outlays, increase scalability of operations and improve agility in fast-growing markets. It is important to have outsourcing best practices followed and flexible service contracts established to reap maximum efficiency and risk mitigation benefits.

SME outsourcing is also becoming popular in smaller but high cost-base European countries like Norway, Denmark, Scotland, Belgium etc. where there are fewer multinationals. The absence of scale along with local cultural or language barriers often discourage larger offshore outfits like Wipro or Infosys from setting shop there directly. In such locations, second tier IT vendors with local representation often provide better value in terms of understanding the needs and providing well integrated customized solutions.

Niche vendors like Acadia Edge Group, specializing in IT and IT Enabled Service, are helping SMEs in such smaller countries. Having worked with trade organizations such as Innovation Norway, Seed Forum, Invest in Denmark etc for several years, Acadia sees a vital role of GDM in making companies more competitive for the export market. Acadia currently has over 1200 software and BPO professionals in India servicing a wide array of clients in North America, UK, Ireland and South East Asia.

If you would like to explore how the power of global outsourcing can generate tremendous value for your organization, please call 617.551.1139 or send an email to info@acadiaedge.com and request a complimentary discussion session with an IT offshore strategy expert.