



# **Advantage of Outsourcing to Asia**

**A competitive advantage by hSenid Software International**

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## About this document

The purpose of this hSenid document is to provide information on Advantage of Outsourcing to Asia for **hSenid Outsourcing Services** ([www.hSenid.com/outsourcing](http://www.hSenid.com/outsourcing)).

The intended audience for this document is the people who are interested in outsourcing.

## Conventions used in this document

We use the following text formatting conventions:

### *italic*

Used for document titles, emphasis, and for email addresses, web URLs and file and directory names.

### **Bold**

Used for emphasis and for the command options you select.

### Letter gothic

Used for literal code, such as configuration files, Java class names, method names and API calls.

### *Letter gothic italic*

Used for arguments and parameters that will be replaced with an actual value.

# 1 Outsourcing to ASIA

## A Competitive Advantage By hSenid Software International

The Scandinavian information and communications technology sector, among the most advanced in the world, is thriving. A survey done by the Organization for Economic Co-operation and Development (OECD) in 2000 mapped out the percentage of IT employees as part of the total workforce in its member countries. From this survey all the Scandinavian countries were ranked among the 10 highest. The reasons for these high rankings are various. There are also several important hindrances to growth in the Scandinavian ICT industry.

One reason that Scandinavian information and communication companies are doing well is the conditions under which they are operating, the IT infrastructure in this region is among the best in the world. The penetration rates of computers, internet access, mobile phones and land lines are all very high, leading to an advanced home market. 2003 International Telecommunication Unions survey on mobile and internet penetration found that all of the Scandinavian countries placed in the top 12. This strength within their home markets gives the Scandinavian companies a valuable competitive advantage when they are taking their products and services abroad.

There are however, factors that limit the growth of the Scandinavian ICT industry. The most apparent issue is the matter of cost. The salaries and overhead costs in Norway, Denmark, Sweden and Finland are among the highest in the world. A senior software engineer in Norway can earn 10 times as much as his Asian counterpart. In addition to staggering labour costs, many Scandinavian ICT companies have problems with finding the right kind of competency within their own borders. This is partly due to small labour markets, as well as very low unemployment rates found in these countries.

A serious limiting factor that is capping growth of the Scandinavian ICT market is access to venture capital. As a highly capital-intensive industry, any move to expand requires large amounts of money invested at significant risk. Even a successful venture will have to wait several years before they can begin to show a return on investment. In the present global economic situation, creditors have become increasingly risk adverse putting an even larger strain on IT expansion.

During the IT boom in the late 90's, there was a huge excess of venture capital. Everybody wanted to invest in IT because they didn't want to miss out on the possibilities the 'new economy' could offer. When the bubble burst the market for venture capital suddenly dried up again. This has been a severe difficulty for most IT companies in the market today, as they are unable to acquire the funding they need. The lack of capital

put together with the extremely high costs of software development in Scandinavia, makes it difficult for companies to expand and innovate. Compared to other regions involved in the ICT field, the costs of a Scandinavian project will quickly mount. Lack of funding is the most serious threat to an ICT company's growth.

Outsourcing IT services has become a trend during the last decade and is now becoming more and more common. The main reason for this is that the labour forces in many low-cost countries, especially Asian ones, have become more advanced and better educated. This has allowed ICT companies in high-cost countries to employ well educated and qualified labour at a reasonable cost. This lowered cost will provide the company with a valuable cost advantage that relying on their home labour markets can't provide.

Outsourcing will allow companies to experiment, venturing into riskier projects with the capital saved from development expenses. Even if the project proves a commercial failure, losses sustained will never be so high as to endanger the financial situation of the company. This sort of operation can stimulate growth in a stagnating company, both domestically and abroad.

If a company is experiencing temporary peaks in the need for development resources, it can avoid expensive new recruitment or equally expensive consultants in favour of lower priced Asian engineers. Consulting and programming capacity gained this way can be made available at short notice without increasing the company's long-term personnel commitments, as well as allowing the company to gain the knowledge and experience through offshore software development and consulting assignments.

In order to get all these benefits from an outsourcing venture, it needs to be conducted properly. The company needs to pick the right outsourcing partner and then conduct the partnership correctly. Picking a partner that is fairly similar to the outsourcing company will be a good idea. This way miscommunication can be avoided and there will be a higher probability of getting a good fit to the company and its needs. Choosing a country with roughly the same size as the Scandinavian countries will play a part, as the company in the Asian country faces a similar environment as the Scandinavian. Scandinavian companies will be more comfortable in an environment more comparable to their own. A country the size of Sri Lanka will appear less confusing to a Swedish company than a company size of China or India.

After picking the country to cooperate with, it is important to choose the right company. This can be equally confusing, since there is a myriad of companies offering outsourcing services today. Focusing on the relationship between the two companies will be meaningful here. One of the key aspects of a successful joint venture or any other outsourcing effort is a good understanding of each others business. The companies

involved need to understand each others motivation for joining into the partnership as well as having a good relationship. This relationship is of course built over time, and it is thus hard to use it as selection criteria, but an evaluation of the key people involved will also go a long way.

Having picked a partner, perhaps the most crucial success factor is building a good communication mechanism between the two parties to avoid misunderstandings. This is also the best way of ensuring a high quality outcome and that expectations are met.

The practical arrangements are also of a certain importance. It can be done in several different ways, all depending on the nature of the companies involved and the nature of the task needed to be done. A common way of doing this is by entering into joint ventures or partnership development with an Asian company. You can then either get the Asian software engineers to come to your company for a shorter or longer period of time, or you can send parts of your team to Asia. Another twist which is gaining increasingly popularity is creating virtual teams. A project team could for example consist of two Swedes and six Sri Lankans, who communicate using various methods of telecommunication. This way the company gets all the benefits of local presence in Scandinavia with regards to marketing, sales and customer contact, in addition to getting the actual development and programming done at a very competitive cost.

There are several important hindrances to the growth of Scandinavian ICT companies. To overcome these it is a must for Scandinavian ICT companies to partner with Asian software companies, providing them with a crucial competitive advantage. The most important is clearly cost advantage, which will allow them to either take a larger part of the market by lowering prices, or taking a larger profit by selling with a bigger margin. Another important advantage is the access to expertise which might not be easily attainable in Scandinavia. Since outsourcing is a common practice in today's extremely competitive market, everyone will eventually take this route lessening cost advantage. A company without this advantage will be unable to compete, and will fairly soon find itself out of business.

Furthermore, selecting the right partner is of paramount importance for the success of the venture. For smaller companies in the western world, selecting a same size company with similar values and business practice is vital. A partnership of this nature will create success strategies for small companies in the West and enable them to compete with bigger players in their own market.

## 2 Definitions, Acronyms and Abbreviations used

What follows is a list of definitions of all terms, acronyms and abbreviations required to properly interpret this document.

- OECD - Organization for Economic Co-operation and Development
- IT - Information Technology
- ICT - Information and Communication Technology