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5 Reasons Why Outsourced Product Development Makes More Sense Today

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Software vendors have been traditionally shy of outsourcing compared to other enterprises like manufacturers, retailers and service companies. Reasons have been many. Some desired to keep the "crown jewels" in house, and others were apprehensive about IP security. Many vendors found it easy to manage development in-house since it was much easier then to find, hire and retain software talent.

The times have changed now. Here are 5 reasons Why Outsourced Product Development Makes More Sense Today.

Reason 1 - There are never enough resources or time to make the product releases needed to gain market share and grow

Gartner in a recent report stated how growth is the most important sustaining factor for software companies. Hardly 1% of software companies have the consistent growth rate required to win business and stay afloat in the market. According to them growing and sustaining growth is really hard.

Says Gartner "Sustaining growth is really hard. Two facts emerged from the research. Companies have only a small probability of making it big. Just 28 percent of the software and Internet–services companies in our database reached $100 million in revenue, and 3 percent reached $1 billion. Of the approximately 3,000 companies we analyzed, only 17 achieved $4 billion in revenue as independent companies. Moreover, success is fleeting. Approximately 85% of superpowers were unable to maintain their growth rates, and once lost, less than a quarter were able to recapture them."

Growth depends on resource availability. For CEOs of smaller software companies, it seems there is a need for limitless time and infinite resources. They never have adequate development talent to meet release deadlines, build new features and new products demanded by the market. Hiring is expensive and adds considerable fixed costs. Finding talent that has the right product development experiences that can accelerate product releases is also tough.

A capable outsourcing partner can help you gain access to the requisite talent needed and can help you meet the deadlines you need to penetrate the market in available time window.

Reason 2 - Making the right technology choices is so important that it can make or break you

The Social, Cloud and Mobile revolutions are disrupting the market more than ever. But the technology choices are so many and frankly, confusing. Gartner in their Top 10 Strategic Technology Trends for 2014 says: "Developers should look for ways to snap together apps to create larger applications. Building

application user interfaces that span a variety of devices require an understanding of fragmented building blocks and an adaptable programming structure that assembles them into optimized content for each device. The market for tools to create consumer and enterprise facing apps is complex with well over 100 potential tools vendors. For the next few years no single tool will be optimal for all types of mobile application so expect to employ several."

For instance, software companies are looking at embedding Business Intelligence into their products. Again choices are many - Cloud or on-premises, simple reporting or data warehousing? Which is the best route to adopt? Vendors who sell you all these technologies may come and go, but you need to make the right choices and survive. With the limited time that you have, learning and absorbing the pros and cons of technologies can be quite daunting.

For instance, we can gather from the Gartner Magic Quadrant Report for Mobile Development Platforms 2013 - "Today's leaders can easily be tomorrow's laggards. Hence, we advise that enterprises avoid long-term commitments to any one vendor or technology and re-evaluate their mobile AD strategy often."

Outsourcing to a partner who is savvy and experienced across a range of new technologies can help you gain access to relevant unbiased market intelligence, development experiences across various platforms and valuable consulting advice you need for your technology decisions.

Magic Quadrant

Figure 1. Magic Quadrant for Mobile Application Development Platforms

Reason 3 - Internal resources should spend time talking to customers, doing business analysis, writing business requirements, not writing code and testing bugs

From working with hundreds of small and medium sized software companies we have seen that 25-60% of a team's time during product release cycles is spent on testing and fixing routine bugs. With the evolution of software development as it is today, it is not productive for a team to sit and crank out code for modules

that any developer can build easily. Other activities that occupy a team's time include user interface testing, usability testing, evaluating software development tools and writing engineering documentation.

Would it not be more productive if your team was in front of customers most of the time, thinking and writing out new business requirements, analyzing new use cases, defining the product roadmap and strategies that can help you gain market share? It is possible.

Outsourcing most of the mudane work of development to a competent partner can help free up your team and boost your productivity. Your team can focus on customer facing productive tasks, while the outsourced team does the coding, testing and deployment of products.

Reason 4 - Mushrooming fixed costs is a drain for startups and early growth companies

Startups need to grow and acquire customers fast. For this they need working products, demos, prototypes and customizations for new clients. Software companies in the early growth phase need to rapidly show new features, adding social, cloud, mobile and BI capabilities to gain market share. In these phases of market maturity, costs of development teams mushroom rapidly. These costs are not in sync with market penetration and revenue. On one hand they are constrained on development, testing and professional services since marketing and sales costs are inevitably high. On the other hand they need to invest in product development to gain market share and beat competition.

You can convert fixed costs to variable using product development outsourcing as a strategy. There are experienced outsourcers who know how to optimize costs during each stage of the development cycle. You can outsource development and testing on an ongoing basis with a core team, then add developers and testers and release them based on demand. You can get a mobile prototype developed in parallel without hiring permanent staff. If your partner uses a global delivery team, which outsourcers normally do, the overall costs could be well within your budget. You could use those saved dollars for marketing activities.

Reason 5 - IP Security: Now there are processes to take care of product security, compliance and IP protection

Traditionally product development and testing have been within a company's firewall and gilded vault. Now most development happens in the cloud and a lot of development is outsourced. More than 65% of larger software companies have development centers that are outsourced to India, China or other countries. This means that most vendors have the necessary legal/contractual elements and data security processes in place to prevent IP and data security breaches. It is now easy to validate and verify the presence of security measures.

For instance HIPAA, Sarbanes–Oxley and Omnibus Rule compliance is quite pervasive amongst offshore vendors who work with healthcare and financial service companies in the US and Europe. Most

outsourcers have contractual arrangements with their employees working specifically on a client engagement and several layers of physical and electronic protocols to ensure IP protection and data security.

It is now easy to outsource your product development and still have a good night's sleep. Before doing so you need to go through checklists to ensure that the systems are in place, documented and regularly audited for compliance.

Summary

It is a tough market scenario for SMB software product companies. There are new opportunities opening up from the SaaS business models. There are new threats from several larger companies entering the fray with byte-sized SaaS offerings. Customers expect faster product releases and new features with every release. Mobility and cloud based offerings are changing technology landscape fast. In this scenario software companies can outsource key product offerings on new delivery platforms as a way to complete better in the market. Outsourcing offers flexible resource models, frees up time for customer facing work and ensures they are always up to speed with the latest technology options. Hiring and retaining technical talent is also getting more challenging by the day. For smaller companies maintaining a team that fits the crests and troughs of development cycles is always expensive, particularly during the startup and growth phases. Outsourcing becomes a good option to convert these fixed costs into variable costs through on demand development teams. Most vendors now have contractual and verifiable methods to ensure IP security and data protection. Clearly outsourcing is a viable option to gain a competitive edge in the market.

About Trigent Software Inc.

Trigent is a privately held, professional IT services company and a Microsoft Gold Partner with its U.S. headquarters in the greater Boston area and its Indian headquarters in Bangalore. We provide consulting services in various technologies including Microsoft Solutions. Our operating model is to conduct sales, customer relationships and front-end consulting (e.g., business case, requirements, architecture) onsite with our clients and perform the detail design, development, integration, testing and quality assurance offshore at our world class development and support center in Bangalore. We are a SEI CMM Level 4 company and is ISO 9001:2000 TickIT certified organization.

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