



Consultants



The perils of offshoring software testing





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For North American companies looking to stay competitive, outsourcing some or all of their software development to India has achieved the status of dogma. Many CIOs, managing under the perception that farming out non-core operations is always cheaper and better, view software testing as an obvious candidate for outsourcing, particularly to India. However, poor offshoring experiences, changing cost dynamics and innovative local business models have swung the value and performance advantage back to North American providers. Savvy firms are already attaining superior business results by redirecting testing activities back home. Prudent CIOs, CTOs and CFOs should consider the following six questions to ensure they choose the best provider for their project and company.

Testing matters

The cost and quality of a firm's software testing programs has a major impact on a company's bottom line and brand image. Testing is now a major cost center, making up close to 40% of many software projects. Poor testing execution can lead to software application and enterprise infrastructure breakdowns, lower customer satisfaction, higher operating costs and increased business risk.

Not surprisingly, the testing burden is only getting tougher. As businesses try to raise their game, IT departments must simultaneously cope with increasing technical demands (e.g, infrastructure complexity, support mission critical apps), growing business needs (e.g, improve time to market, integrate new technologies) and evolving regulatory requirements (e.g, deliver security, privacy). At the same time, managers must cope with these challenges in a flat or declining funding environment.

The genesis of offshore testing

For the past ten years, CIOs and professional services firms have energetically outsourced and then offshored to India large amounts of their testing work. And for good reason. In 2001,



North American labour rates for software developers were almost 11x higher than their India's counterparts according to the US Bureau of Labour Statistics. Furthermore, thanks to time differences, Indian's testing allowed for a round the clock software development and testing cycle. Offshoring also made CFOs happy by turning a fixed cost (large internal testing departments requiring lots of software licenses) only needed intermittently into a scalable, variable cost.

The times are a chang'in

Today, faith in offshoring must be tempered by reason. In the last few years, India's advantages have yielded to harsh economic realities. New cost dynamics and the reality of doing business halfway around the world have reduced the appeal of outsourcing anything, including software testing.

According to a McKinsey executive survey, 20% of the respondents indicated that they are dissatisfied with the results of their outsourcing arrangements, while another 20% said that they are neither satisfied nor dissatisfied — which suggests that they are not seeing clear benefits. Similarly, Dun & Bradstreet research reports that 20-25% of all outsourcing relationships (manufacturing, finance, information technology, and so forth) fail within 2 years and that 50% fail within 5. In fact, almost 70% of the companies reported that suppliers “didn't understand what they were supposed to do” and that “the cost was too high and they provided poor service.”

India's fading appeal

Five key issues, unlikely to dim in the medium term, are contributing to offshoring's declining appeal:

1. Shrinking wage differentials

India's primary advantage, low labour costs, has been steadily declining. According to 2010 US Bureau of Labour Statistics, India's average per hour cost advantage has shrunk to only 6-7x US rates. This shrinking differential traces to a combination of Indian wage inflation and North American wage moderation. If present trends continue, this gap could shrink to 5x by 2014. When factoring in (still) superior North American labour productivity and lower employee turnover, the value proposition of North American workers becomes very attractive.



2. Pervasive cultural challenges

India remains a culturally challenging place to do business, a situation unlikely to change in the medium term. The differences – language, cultural mores, business practices – generates high indirect costs by introducing complexity, miscommunication and risk. Mitigating this divide is the best an outsourcer can hope for – but at a cost of extra relationship and project managers and an expectation of more risk and expensive errors. Furthermore, India's persistently high labour turnover complicates any attempts at closing this 'cultural gap.' Once an Indian IT worker becomes familiar with North American business practices, they have an incentive to leave for a higher salary at another employer.

3. Higher than expected transaction costs

When they began outsourcing, firms understood there would be transaction costs – travel, communication and relationship management. What virtually every company has experienced is that the actual transaction costs are typically 3x higher than the estimates as a result of geographic and cultural challenges. In some cases, transaction costs are making up to 20% of the total project cost. In general, the larger and more complex the project, the greater the transaction costs.

4. Increased business risk

Today, effective risk management (e.g, protecting intellectual property and sensitive data, business continuity) is a strategic prerequisite for many companies. Lingering doubts remain that sensitive data and programming code developed or tested in India (or in other emerging economies) is as secure as it would be in North America. As a result, some government regulations do not allow certain types of sensitive data to leave North America. Moreover, business continuity remains a clear and present worry. India is located in the center of one of the world's most dangerous and nuclearized regions. Many IT managers can only sleep well knowing their code and lead IT specialists reside in North America.

5. Questionable quality

In the past, company's sought out India's cost advantages knowing full well that the average Indian IT worker was not on par with a similar North American tester quality and productivity. Outsourcers



compensated for these deficiencies by throwing more bodies at projects. This strategy is no longer working. Despite the modern facilities, most Indian IT workers (particularly recent grads) lack basic technical skills, rudimentary English language proficiency, and weak productivity. The Wall Street Journal has reported that 75% of technical graduates are unemployable by their IT sector. Finally, the Indian testing industry has a difficult time attracting and retaining enough highly skilled labour. The first choice of an Indian IT worker is usually the higher paying and more glamorous software development field.

Some of India's quality challenges trace to the provider's business model. Most often, the testing is being done by the same firm (and people) writing the code. Quality problems arise when the software developers test their own code (i.e. they lack objectivity and independence) and when the firm cuts corners with testing activities (programming gets priority for talent, funding and time) when a project runs late or over-budget.

Many CIOs are now considering whether a local testing provider can deliver better value and lower risk versus an offshore Indian solution. We believe for many projects, the pendulum has swung back to North America, and Canada in particular

Towards better, cheaper testing

Improving economic fundamentals is making local testing much more appealing. As a result of the recession, North American IT wages have flat lined while labour turnover has slowed. Furthermore, our schools continue to produce skilled graduates, many of who increasingly seek out testing as their entry into the software industry. Finally, governments have been supportive of IT by providing more training support and tax breaks.

In response to client demands for better testing solutions, we developed an innovative business model that delivers onshore quality, responsiveness and peace of mind at offshore prices. Our Test Factory is a unique on-demand testing "cloud" that delivers a wide range of testing services "when needed, as needed." Many Fortune 500 clients have experienced 20-50% project cost savings and 10-30% improvement in time to market by using the Test Factory. Suffice to say, clients also benefit from a local provider through enhanced data security, a greater ease of doing business and business certainty.



The Test Factory beats India through old fashioned North American ingenuity and hard work: deploying cutting edge and proprietary testing methodologies; leveraging industry-leading levels of automation and; cultivating a highly experienced and stable workforce

Conclusion

It's time for firms to reset their expectations. India has gotten more expensive and is recognized as a difficult place to do business with. North America has picked up its game. As a result, CIOs now have opportunity to have their cake and eat it too. They can reap the cost and flexibility savings from outsourcing testing without leaving their safer, more local and familiar environs. To capitalize on these new opportunities, software managers would be wise to perform a fully-loaded costing and risk analysis on all new and existing IT projects and compare the results to what is available from innovative North American providers.

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