

EUROPEAN IT OUTSOURCING
INTELLIGENCE REPORT
2010.

PART 2: TRENDS AND
CHALLENGES AMONG THE
AUSTRIAN OUTSOURCING
AND NON-OUTSOURCING
COMPANIES (REDUCED
VERSION)

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I. Executive Summary

The recent economic crisis has proven to be the major force driving Western European and Nordic countries to look for 'survival strategies'. Since in-house software/web development, deployment and maintenance involve tremendous costs, more European companies have turned to IT Outsourcing (ITO) as a way to reduce operating costs. While being considered as the strategy most frequently adopted by large companies in the pre-crisis times, today's ITO practices find more and more supporters among the mid-sized and small companies, for whom cost efficiency is as important as an opportunity to have access to skills and services that can generally improve their online presence and business performance.

However, engagement in ITO relationships has proven to be the most impactful and culture-changing experience that does not always result in success. For some companies the outsourced software development can be a ruining rather than an improving practice. It mainly happens because companies begin to adopt ITO as a reaction to short-term economic pressures and are not focused on the benefits they may gain in a longer-term perspective. Other reasons of the failure of the ITO relationships include, but are not limited to the wrong choice of an Outsourcing destination, partnering with a wrong ITO services supplier, underestimation of the outsourced project scope etc.

However, as the global economies slowly stabilize, more European companies begin to realize the true value they can gain from the right ITO engagement and start transforming their business plans to source new avenues for generating revenue, and increase productivity and effectiveness of their Outsourcing endeavors. This is how the Western European and global ITO landscapes look like today.

In September 2010 IT Sourcing Europe initiated the Austrian IT Sourcing and In-House Software Development Survey as part of its ongoing All-European ITO Research 2010. We reached our vast network of Austrian business contacts and invited corporate IT decision makers to complete our online Survey and share their outsourced software/web development experiences with a broader business community both within and outside of Austria. As a result, 157 companies kindly responded to our invitation and filled out the online questionnaire.

Further on, in order to compare and contrast the outsourced software/web development with the best practices of the in-house development and understand why some Austrian companies refuse to outsource their software project(s) to a 3d party nearshore, offshore or within Austria, we have conducted another Survey of Austrian non-outsourcing companies. As a result, 201 companies with no ITO experience completed the Survey and allowed us to assess the key factors keeping Austrian businesses away from the outsourced development.

All participating companies comprise a survey sample representing all of the major vertical markets such as ICT and telecommunications, software development, travel and hospitality, banking and finance, insurance and healthcare etc.

II. Austrian IT Sourcing Survey 2010

Of the 157 Austrian companies that took part in IT Sourcing Europe's survey, 46% are small and/or start-up/early-stage (less than 50 employees), 41% are mid-sized (50 to 500 employees) and 13% are large (500+ employees in headcount). In 2010, 29% of the surveyed Austrian companies expect to earn less than EUR 1M in annual revenue; 27% - EUR 1M to 49M; 31% of companies anticipate EUR 50M to 99M; 10% - EUR 100M – 499M and 3% expect to gain more than EUR 500M in annual revenue.

Regarding the revenue growth, 11% of companies expect 0% or less annual revenue growth; 35% - 1% - 9% growth, 27% - 10%-19% growth; 22% - 20%-49% growth and 5% - 50%+ revenue growth.

Twelve percent of the surveyed companies have more than 3 years of the outsourced software development experience, 37% have 1 to 3 years of experience and 51% have less than 12 months of software development outsourcing experience.

Thirty-two percent of the surveyed Austrian companies currently outsource their software/web development nearshore (maximum 2 time zones away from home country), 17% outsource nearshore and within Austria, 16% outsource offshore (more than 2 time zones away from home country); 13% outsource both offshore and nearshore, 11% outsource offshore and within Austria, 5% outsource within Austria only and 6% of companies polled outsource offshore, nearshore and within own country.

More Details are Available in the Full Version of the Report

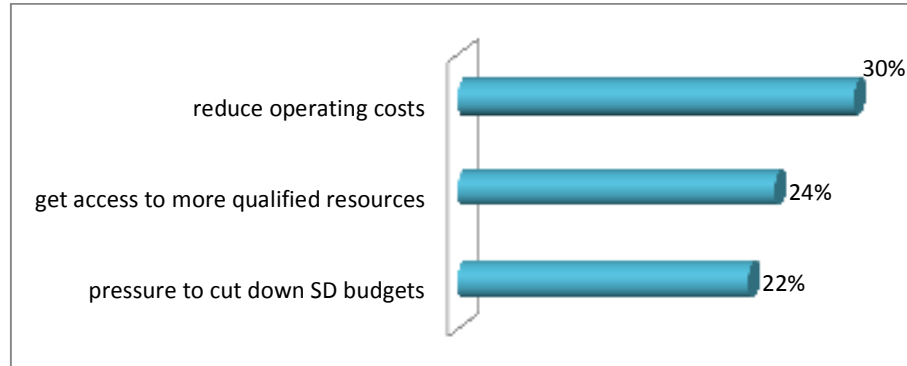
. II.I. Key Survey Findings

- In Austria, the number of **nearshore** software development **outsourcers** is **double** the number of **offshore outsourcers**.
- The **Top Three reasons** why Austrian companies choose to outsource their software/web development are: **to reduce operating costs, to get access to qualified/specific IT talent and resources and to respond to the pressure from investors/executive management to cut down IT budgets**.
- Most of the outsourced projects in Austria belong to **Web 2.0** (Web 2.0, Microsoft ASP.NET, Java, EpiServer, open source etc) and **mobile development** domains.
- The **Top Three factors** driving the choice of the outsourcing destination in Austria are: **geographical/cultural proximity, available resource pool and low costs**.
- The **Top Three factors** driving the choice of the outsourcing partner are: **references and reputation, specific skills and innovative business models**.
- The **Top Three challenges** of the outsourced software/web development among the Austrian outsourcers are: **poor communication with vendor's project management, delays in delivery schedules and/or missed project milestones, and cultural difference**.
- The majority of the Austrian companies report **saving 10%-24% of operating costs** from the outsourced development.

II.II. Trends Analysis

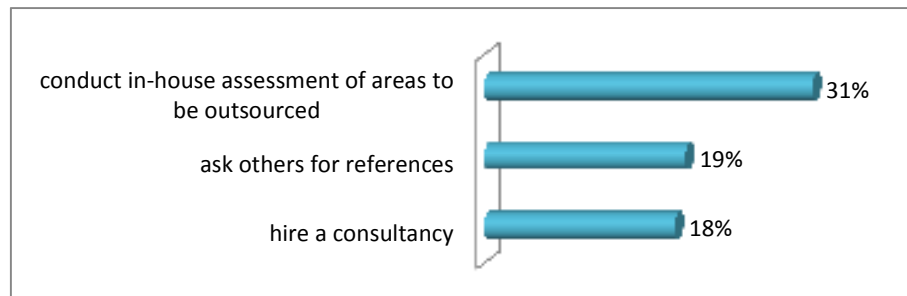
Most of Austrian Companies Outsource to Leverage Costs!

Figure 1. Top Three Pressures that drive Austrian corporate decisions to outsource software/web development.



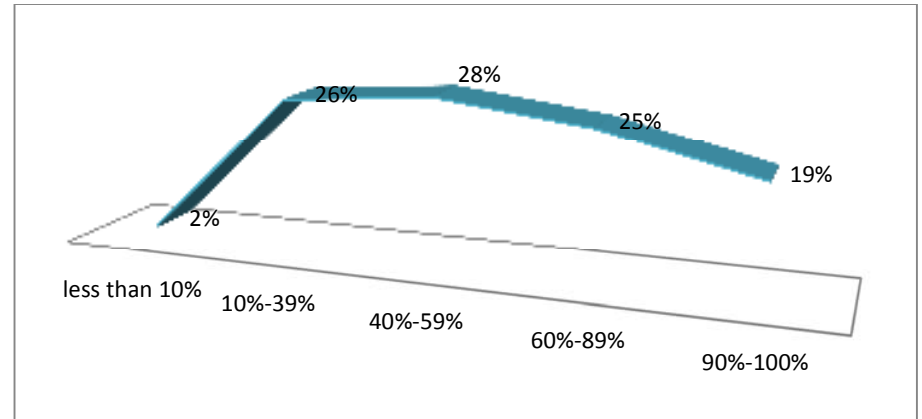
In-House Assessment Comes First, References - Next!

Figure 2. Actions that Austrian companies take prior to signing an Outsourcing contract.



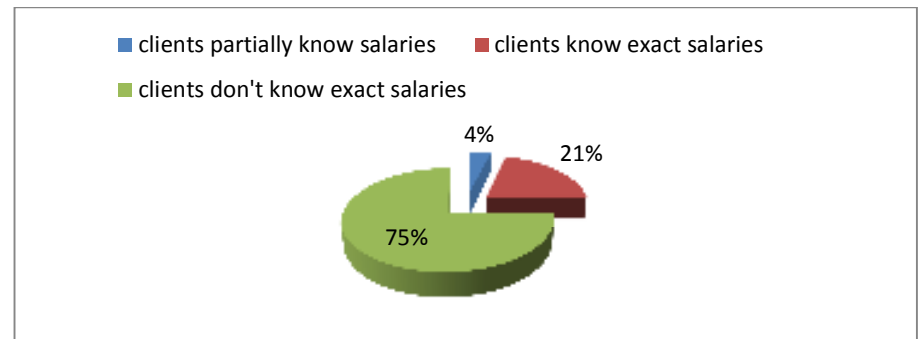
Most of Austria's Companies Outsource 40% - 59% of Their Software Development Function!

Figure 3. Volume of the outsourced software development.



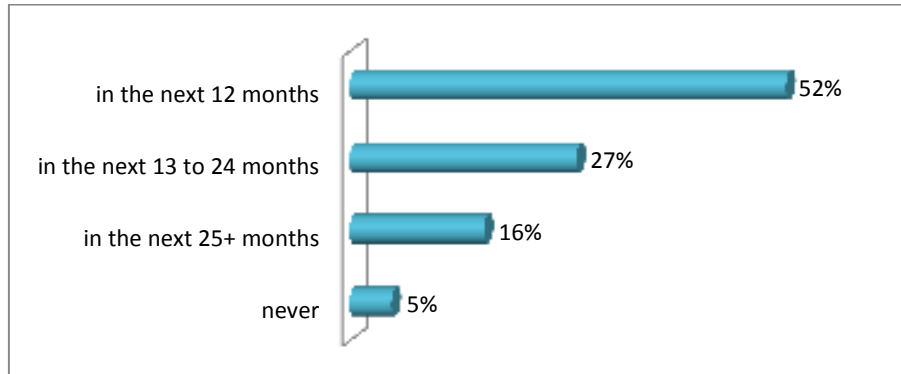
Pricing Structures in the Outsourcing Partnerships Are Far From Being Transparent!

Figure 12. Do Austrian clients know the exact salary of each of the team members on the outsourced development team?



Austria Will Go On Outsourcing in the Next 12 Months!

Figure 13. Do Austrian companies plan to continue outsourcing their software development in the near future?



An In-Depth Trends Analysis is Available in the Full Version of the Report

II.III. Findings Discussion

The Austrian IT Sourcing Survey 2010 allows us to observe certain trends and issues among the companies that outsource their software/web development function to a 3rd party either offshore or nearshore or within Austria. Thus, reduction of operating costs is the key factor driving most of Austrian companies to adopt the outsourced development (cited by 30% of companies surveyed). Other most frequently cited factors include: difficulty finding required skills and resources within Austria and willingness to get access to more qualified IT resources outside of Austria (24% of respondents); pressure from investors and/or top management to cut down corporate IT budgets (22% of respondents); time to market acceleration (10%); improvement of business development strategy (7% of respondents); better product quality (4% of respondents); and freeing in-house resources for other business purposes (3% of respondents).

The below description demonstrates the most common behaviors among the Austrian companies prior to signing an outsourcing contract with their selected vendor(s).

Prior to entering an ITO partnership, 31% of the Austrian companies do an in-house assessment of the software development areas to be outsourced, 19% ask others for vendor references, 18% hire a consultancy to assist with RFP preparation and vendor selection processes, 15% hire or promote a manager to lead the outsourcing process, 9% seek domestic low-cost providers able to deliver without sacrificing quality, 6% hire a consultancy to assist with their ITO decisions and 2% of respondents acquire an IT company abroad to fulfill their corporate software development function.

The research presents the following findings with regards to the outsourcing destination and vendor selection criteria among the Austrian companies:

- 1) To select an ITO destination, 25% of Austrian companies consider geographical and cultural proximity as the key factor; 19% consider available IT resource pool, 18% - low costs of software development and IT resources, 14% - country's strong research and development (R&D) legacy, 11% - Intellectual Property (IP) security, 6% - country's political and economic stability and 7% of companies pay attention to the proficient English and German language skills.

- 2) To select an ITO supplier, 26% of Austrian companies polled consider positive references and supplier's track record; 17% - low service rates; 13% - innovative business models, able to bring long-term value and provide transparent pricing structures (with minimal overheads); 12% - specific skills and available IT resource pool; 11% - sound experience in similar projects; 11% - successful pilot project completion; 5% - level of quality certification (CMMI, ISO etc) and 5% - global footprint and financial stability.

Regarding current challenges facing the Austrian software development outsourcers, 16% pointed to poor communication with the vendor's project management and development teams; 15% - delays in project delivery schedules / inability to meet the most crucial milestones; 14% - cultural and time difference; 13% claimed that the actual incurred costs of outsourcing far exceed the contracted ones; 10% pointed to vendor's inability to understand their business concept and/or goals, 9% - poor project management from vendor's side and vendor's inability to retain staff; 7% - poor quality of delivered software product; 6% - lack of appropriate resources from vendor's side; 5% - insufficient IP security; and 5% - excessive vendor's bureaucracy and/or organizational hierarchy.

More Findings are Available in the Full Version of the Report

III. Austrian Software Development Best Practices Survey 2010

Of the 201 Austrian non-outsourcing companies who participated in IT Sourcing Europe's In-House Software Development Best Practices Survey 2010, 63% are small (less than 50 employees), 28% are mid-sized (50 to 499 employees), and 9% are large (500+ employees). In 2010, 29% of companies expect less than EUR 1M in annual revenue; 56% - EUR 1M – 49M, 6% - EUR 50-99M; 5% - EUR 100M – 499M and 3% - EUR 500M and more.

Regarding the revenue growth, 11% of the Austrian companies anticipate 0% or less in annual revenue growth; 34% - 1%-9% growth; 36% - 10%-19% growth; 14% - 20%-49% growth and 5% - 50%+ in annual revenue growth.

Seventy-three percent of the Austrian non-outsourcing companies develop, implement and maintain their software through internal IT departments, 12% - through freelance software/web developers, 10% - through local IT partners, and 5% purchase pre-built customizable / hosted applications instead of developing their own ones.

Thirty-eight percent of the Austrian companies that develop software/web applications within own house have 1 to 3 IT specialists on their internal IT teams, 20% - 4 to 8 team members, 9% - 9-10 team members, 13% - 11-20 team members, 14% - 21-40 members and 6% - more than 60 IT specialists.

We asked our survey participants whether they believe their software is being currently developed at the highest possible quality level or not. As a result, 50% do not think so, 36% do think so and 13% say their development quality depends on each particular development component. It is interesting to note that 1% of the Austrian non-outsourcers say their in-house development is not of a very high quality, but it should not be, as it is enough for them to deliver a product with just an average quality.

The following percentages of companies spend the following portions of corporate budgets on software development: 14% - 0-4%; 17% - 5-9%; 23% - 10-19%, 27% - 20-49% and 20% - 50% and more.

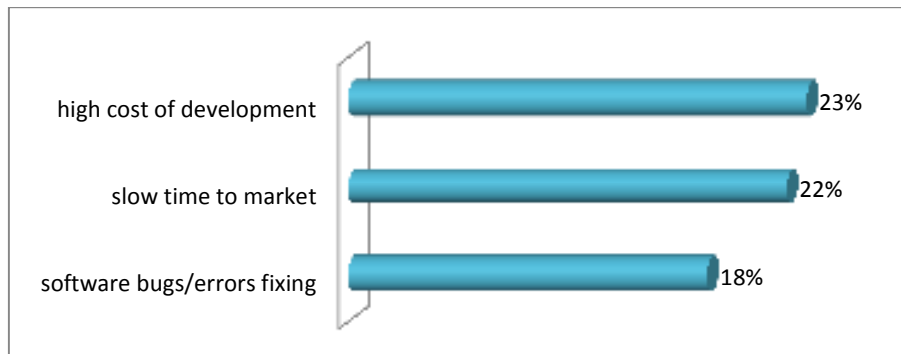
III.I. Key Survey Findings

- The majority of Austria's non-outsourcing companies do not think their software/web is being developed at the **highest possible quality level**.
- **High cost** of development and implementation, **slow time** it takes to **develop** and **market** a corporate software product, and **software bugs and errors fixing** are the **Top Three obstacles** to successful in-house development in Austria.
- Most of the Austrian companies **do not** outsource, because they want to have **100% managerial control** of the project and their team members.
- Most of the surveyed Austrian companies will **start considering outsourcing** their software/web development, if they **can't find required skills/resources** within home country.
- In the future, most of today's non-outsourcing companies in Austria will be outsourcing **nearshore**.

III.II. Trends Analysis

Cost, Time & Talent Shortage Are the Hugest Barriers To Successful In-House Software Development!

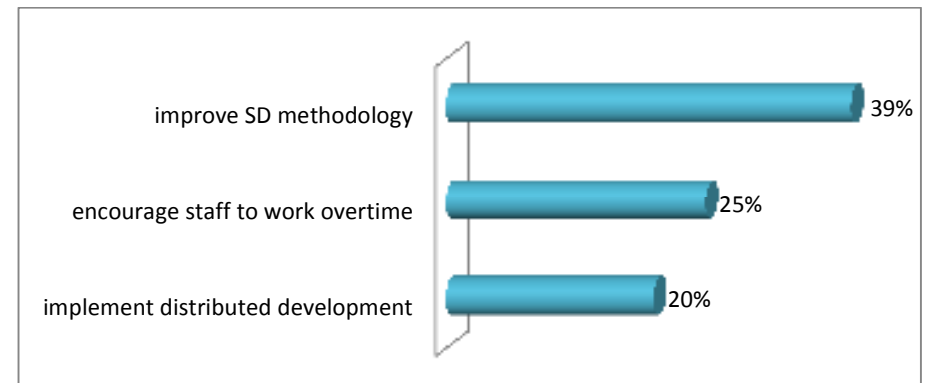
Figure 15. Top Three challenges of the in-house software development.



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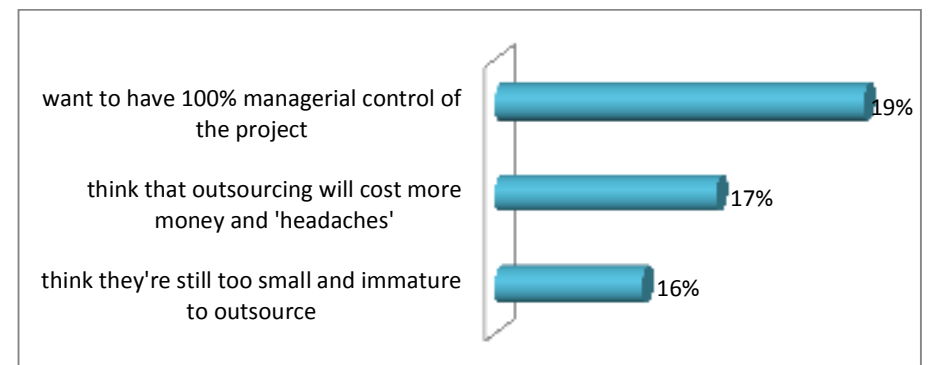
The Solution Is Sought In Methodology Improvement!

Figure 16. Top Three steps that Austrian companies take to respond to challenges.



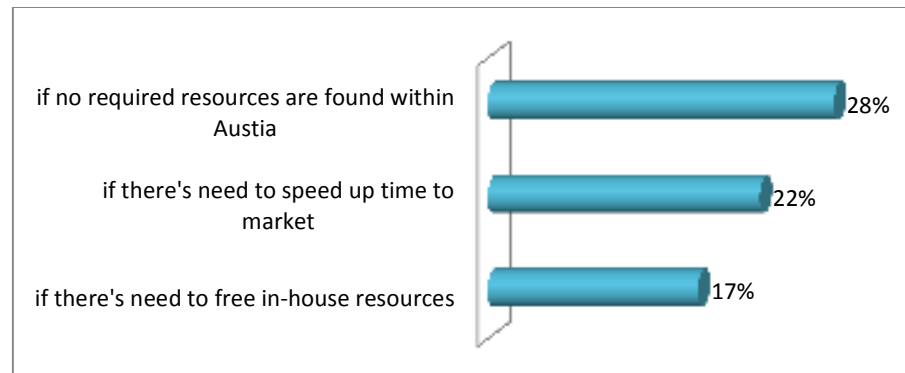
Austrian Companies Do Not Outsource, As They Don't Want To Lose Control Of Their Projects!

Figure 17. Top Three reasons keeping Austrian companies away from the outsourced software development.



Shortage of Domestic IT Resources Will Drive Future Decisions to Outsource!

Figure 18. Top Three circumstances in which Austrian companies will consider outsourcing their software/web development in the future.



An In-Depth Trends Analysis is Available in the Full Version of the Report

III.III. Findings Discussion

The Austrian In-House Software / Web Development Survey 2010 allows us to observe certain trends, challenges and problem solving strategies among the Austrian companies that develop their software solutions within own house.

According to the survey findings, the following percentages of companies report the following critical issues that prevent them from fulfilling corporate software development functions at the highest possible quality level: 23% of companies – high cost of application development and maintenance; 22% - slow time to market a software product/service; 18% - software bugs and errors fixing; 14% - scarce local IT resource pool; 13% - staff turnover and inability to retain IT talent within own house due to competition in IT headhunting and 6% - IT department has to solve other non-core issues and pressing customers. Four percent of companies mentioned other factors such as, for instance, pressing customers and specific software development environment among the key challenges of the in-house software development.

In order to respond to these challenges, 39% of the Austrian companies try to improve / change their software development methodology (e.g., switch from Waterfall to Agile etc), 25% encourage their in-house staff to work overtime, 20% implement distributed development (e.g., in-house staff plus freelancers or domestic IT services providers), 9% hire foreign IT specialists (mostly from Eastern Europe), 5% improve corporate training function, 1% of companies outbid competitors' staff and 1% do nothing.

More Findings are Available in the Full Version of the Report

IV. Conclusions and Recommendations

The Austrian IT Outsourcing Research 2010 arrives at some important conclusions which help better understand current trends, challenges and problem solving techniques related to the outsourced software/web development in Austria.

The key findings are that in 2010 more small to mid-sized Austrian companies (including start-ups) start outsourcing their software development function to a 3d party either within own country, or nearshore, or offshore. Small companies prefer partnering with small ITO suppliers, while large companies partner with one or several big ITO suppliers. The shortage of domestic IT resources and talent is the major factor driving Austrian companies to outsource their software development (both in 2010 and in the upcoming years). Other frequently cited factors are reduction of operating costs, acceleration of time to market and freeing in-house resources for more critical business needs. Besides, the Austrian ITO buyers are looking for innovation, sustainability and flexibility in their outsourcing relationships.

Overall, the Austrian clients challenge their ITO partners to be able to provide transparent cost structures as well as a combination of speed, cost management and growth supported by business agility and unprecedented technological innovation.

Currently, more Austrian companies outsource nearshore and/or nearshore and within Austria than offshore. The tendency of placing the outsourced operations closer to the home country will continue in the forthcoming years, as most of today's non-outsourcing companies plan to consider outsourcing software development nearshore if there is such a need in the future.

In Austria, the major ITO demand comes from Web 2.0 and mobile development, although Enterprise 2.0, embedded development and cloud computing outsourcing are about to become as demanded in the near future.

Besides poor client-vendor communication and cultural difference, other critical issues facing today's outsourcing companies in Austria are delayed project delivery schedules and missed milestones. This finding proves the inefficiency of the existing 'traditional' business models such as Dedicated Development Center (DDC) or managed/augmented

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team. This may in part be due to the fact that many ITO suppliers are still too process-packaged and bureaucratic and lack proper understanding of client's business needs. Additionally, they are not focused on establishing mid- to long-term relationship with every single client and aim to cash in on short-term gains. More innovative outsourcing models are needed, able to meet with the rapidly changing global business landscapes and to keep the client's project at the highest possible level of quality and technological maturity. And these models should be able to bring long-term value to both well-established big companies and the early-stage ones with somewhat immature infrastructures and undetermined processes. The survey shows that many Austria's companies do not outsource, because they think they are too small and poorly organized and, thus, do not fit in such type of partnership. Therefore, innovative models in outsourcing should be able to help the start-up businesses grow by presenting a competitive software/web product/service to the market at a fraction of time and with a minimal spending.

More Conclusions & Recommendations are Available in the Full Version of the Report

About IT Sourcing Europe

IT Sourcing Europe Ltd is a UK-based research and consultancy company specializing in nearshore IT/software development Outsourcing. Our services include:

- Independent IT Outsourcing market research and analysis
- Independent surveys of Western European outsourcers and their ITO demand
- Independent surveys of Central and Eastern Europe's ITO services providers and their factual capability to deliver top quality products and services on time and on budget
- Consultancy and recommendations to companies planning to change their current outsourcing strategies
- Consultancy and recommendations to companies planning to outsource their IT function nearshore
- Custom market and competition research and surveys

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