

Smartsourcing Nearshore IT Resources for Mobile Software Development in Europe

A White Paper by IT Sourcing Europe





Executive Summary

Over the past decade outsourcing has become a commodity practice used by different industries from ICT and media to healthcare and finance as a response to such challenges as a slow time to market, high cost of the in-house product development and maintenance, shortage of sufficient IT resources and others. The question “to outsource or not to outsource?” is no longer relevant in the present day context. Today’s most relevant question is “how to become a disruptive competitor using outsourcing?”

When considering “traditional outsourcing” practices, service delivery models and destinations¹, it definitely makes sense for mobile software and / or content providers not to outsource their development, but keep it in-house. However, there are innovative ways to effectively use outsourcing for mobile development with minimal risks and “headaches”. While they are yet to be discovered by the vast majority of the Western European mobile market players, those who discover them first have a better chance of becoming fast paced mobile software innovators and staying ahead of competition in the years to come.

This white paper aims to demonstrate on real-life examples:

- How utilization of nearshore IT resources and smart and innovative approaches towards outsourcing can help Western European companies, focused on rapid growth and long-term benefits, achieve both apparent cost savings and flexibility, and
- How nearshore IT resources can effectively be integrated into mobile software company’s culture, mission and business objectives.

¹ Outsourcing to offshore locations using project (fixed price / T&M), Dedicated Development Center, Build-Operate-Transfer and similar models

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Introduction

Outsourcing software development has proven to be an effective cost optimization solution and a good way to get access to the qualified skills and innovative technologies for many Western European companies. However, the majority of mobile software companies in Europe are still afraid of outsourcing, as they want to have a 100% managerial control of their development projects and costs, do not want to create any shared environments, put their Intellectual Property at risk and cope with change management which is an inevitable part of the outsourced operations².

According to the [2010 European In-House Software Development research](#)³, the two most critical challenges of the in-house software development among the Western European companies are **the lack of qualified IT resources within own countries** and **high cost of software development, maintenance and support**. As a result of the latter, companies are often pressed by investors to lower down IT/software development budgets, which almost inevitably leads to decreased product quality and, as a result, dissatisfied clients and less revenue.

Since typical mobile software companies are innovative startups with just a few persons on in-house teams, they often **refuse to outsource**

their development functions, as they think **they are yet too small and immature for such an undertaking**.

But real-life practice shows that even the smallest mobile startups are able to benefit from outsourcing and significantly grow their business as long as they choose the right engagement model.

This World Is Mobile!

Today's mobile demand is a "far cry" from what was expected from mobile devices even 5 years ago. Although the mobile applications (*apps*) have been around for quite a long time, it was not until the launch of Apple *Appstore* that the mobile apps began to evolve and blossom in earnest. Appstore not only changed the existing revenue generation models and brought more smart developers into the mobile ecosystem, but also created a need for a much faster time to market (*TTM*) compared to the past years. This fostered developers to get the app from conception to the market in a very small fraction of time, apply the state-of-the-art innovations and experiment with prototyping. The importance of continuous end-to-end user experience to ramp up mobile apps usage and monetization is now one of the core principles of mobile software development.

² "European ITO Intelligence Report: Western & Northern Europe" by IT Sourcing Europe, 2010

³ Ibid



How to Successfully Develop & Monetize Mobile Apps

Shifting from On-Deck to Off-Deck Apps

Today, both Europe and North America **account for almost 90%** of the global mobile apps market revenue with equal shares of approximately **\$5 billion**, while in 2012 Europe is expected to outrun North America by **\$1.5 billion**⁴. Though **on-deck** (or operator managed) mobile apps sales prevailed in Europe in 2010, the market's lion share will be held by **off-deck** apps (those sold directly to the consumer) in the years to come⁵. There are numerous reasons for this, but the major one is that **being on-deck means having apps, code and functionality pre-approved and tested by mobile operators**. The process can be very rigorous and take months to complete. Considering having quite a big number of European mobile operators, the process is likely to drag out and be destructive for small mobile app development companies that need fast TTM to respond properly to the rapidly changing consumer demands. To say more, with on-deck applications companies have to share **up to 50% of the revenue** with mobile operators, which may simply prevent them from growing in financial figures. In addition, instead of increasing own brand awareness, mobile app development

companies inevitably help promote operators' brands, which makes another negative impact on their own business growth.

Unlike on-deck apps, off-deck solutions allow companies to **promote own brand names** and **pay operators for using their infrastructure and billing systems only**. This model also allows app development companies to test products against own QA processes and, what is more important, speed up significantly the TTM.

Due to the above issues, the future shift from on-deck to off-deck applications is self-evident.

Besides, today's mobile software development companies need to transform from being **single app players** to **mobile strategists** in order to "swim" rather than "sink" in the global competitive ecosystem.

“What's interesting about the smallest companies is that, though they are just a single app play at first glance, behind them they have a much broader platform strategy. The companies that are small now are going to get a lot bigger in ways that we won't even expect” Kate Imbach, co-founder and organizer of the networking organization Mobile Monday in Boston and Silicon Valley

⁴ "Sizing Up the Global Mobile Apps Market", 2010

⁵ Report: Mobile App Market Will Be Worth \$25 Billion By 2015 – Apple's Share: 20%



But small mobile software providers can only become strategists if they learn how to optimize development costs and utilize global IT resources.

Putting Technology, Innovation, Creativity and Marketing in a Single Pot

To be able to monetize mobile applications in a long-term perspective, mobile software companies should be able to **create, design and integrate powerful on-demand content** (music, games, films, TV, books, magazines, tests, etc.), different from what has already been brought to the market, and receive ongoing commission from all paid transactions.

Today, every mobile software company that is going to introduce an innovative solution and / or product to the consumer, should be able to meet at least some of the following users' demands:

- ✓ Personalized and localized services, information, apps and interfaces available anytime and anywhere
- ✓ Improved mobile payment systems (e.g. there is an increased demand for mobile billing from healthcare and banking industries)
- ✓ Free-of-charge mobile social networks
- ✓ Casual games (free to play or at a very low price)
- ✓ Mobile cloud solutions for data storage and management
- ✓ Augmented reality and likewise break-through products

Going beyond mere application development for companies means to put technology, innovation, creativity and marketing in a single pot, which will definitely require staff expansion that naturally leads to the increased spending on office space / workstations, salaries, retention and so on.

Rethinking Corporate Functions

Mobile software companies should be very careful in organizing and planning their corporate functions and processes. Tactical functions should for sure remain within own house, while strategic functions should be transferred to the experts with appropriate internal capabilities and resources.

Tactics (In-House)	Strategy (Outsourced)
Goal	
Drive the company's \$\$\$	Keep the company's business up & running on a 24/7 basis
Stock value & competitive advantage	Expand global reach
Functions	
Business development	Apps development
Idea generation	QA & testing
Product marketing	Service desk
Sales force	Apps upgrade & support
Automation/management	Infrastructure management
	R&D



How to Smartsource Strategy for Mobile Development

It is essential for mobile software companies to retain a 100% managerial control of their outsourced projects in order to:

- ✓ Secure Intellectual Property for the apps and ideas
- ✓ Reduce production risks related to the delayed delivery and/or poor project management on vendor's side
- ✓ Retain knowledge and experience in-house
- ✓ Measure employee performance and overall morale
- ✓ Avoid any hidden agenda and/or extra costs associated with software development

Outsourcing of any kind, be this onshoring, offshoring or nearshoring, implies certain risks that mobile software companies should keep in mind prior to subcontracting application services provider. However, it is still possible for mobile companies in Europe to achieve development and business success via the outsourcing engagements.

By choosing **the right model** that clearly addresses their business needs and provides a strategic management option, mobile apps development companies are able to create a successful synergy between core and non-core functions, cost, risk and reward.

The prevailing majority of outsourcing services providers offer engagement via the so-called dedicated development center (DDC)

model, where developers are typically selected from a set of available IT talent “sitting on the bench”, are involved in 2 or more projects at the same time and are only able to communicate with the client's in-house team via project managers. In DDC, **developers always belong to the vendor** and **clients are never involved in HR selection**. Therefore, clients may get **wrong people with insufficient experiences and/or skills involved in their projects** and, as a result, have a **high risk** of project failure and/or overheads related to bugs fixing at the post-production stage.

Also, within a DDC model the **vendor always surcharges the client** to be able to earn interest on the difference between the client's fees and developers' compensation. In case of staff turnover it is usually **the client** who covers the vendor's expenses related to the new hires. Such approaches often have a negative impact on the project quality and timeliness, and, what is even more important, **lead to the poor and unclear developers' commitment to the project**.

To successfully achieve cost savings while retaining mobile apps project quality / enhancing use of innovation, the mobile software company should ensure strong commitment from the outsourced team to its project. This commitment can be achieved by:

- ✓ Making developers part of the client's in-house team;
- ✓ Ensuring frequent face-to-face, transparent and informal communication between the in-house and outsourced teams and managers;



- ✓ Encouraging developers' creativity, productivity and efficiency by extrinsic rewards;
- ✓ Instant knowledge sharing;
- ✓ Overcoming challenges via mutual brainstorming, etc.

One of the **innovative business models** that has only recently begun to be offered by some of the proactive ITO services providers in Eastern Europe is the **Own Team** model, which is an elegant solution to the requirements of the modern mobile development world. Within this model, the outsourcing partner acts as a talent and resource provider rather than project executor, software developers fully belong to and are 100% managed by the client company and the pricing structure is transparent and excludes any hidden agenda.

In 2010 IT Sourcing Europe surveyed some of the Western and Northern European mobile software development companies outsourcing their strategic IT functions in terms of their overall satisfaction with the service delivery model(s) used. Of the 354 companies surveyed 57 (16.1%) had own teams based remotely in lower-cost locations (Eastern Europe in this case). The survey findings revealed that only 29% of all companies surveyed were totally satisfied with their ITO engagement model, including 55 companies that partnered with providers via the Own Team Model⁶.

⁶ "European ITO Buyers' Satisfaction Survey 2010: A Supplementary Study to the European ITO Research 2010" by IT Sourcing Europe

This model proves to provide a cost effective and efficient extension to the in-house mobile development team. Within this model:

1. It is the client, not the vendor, who chooses developers, negotiates salaries and makes sure they match the in-house work ethics and follow the in-house policies

The HR team on the vendor's side carefully analyzes mobile project requirements, finds appropriate candidates and lets the client's project managers interview them, negotiate compensation and bonuses, work conditions, etc.

2. Mobile projects are fully managed by the client

It is the client who manages the project, benchmarks milestones and communicates directly with the development team(s) with no interference from the partner (though the interference from the partner is possible upon the client's request).

3. ITO partner fully assists the client with administrative, HR and financial solutions, provides the technical infrastructure and value-added services such as PM coaching, problems diagnostics and solving, team performance improvement etc

Such an approach allows the mobile software company to fully focus on business development, product marketing and other non-technical issues.



4. The pricing structure is very transparent

The client receives a monthly bill comprised of compensation of each developer on the outsourced team, tax and a service fee (see *Example below*).

Developer	Salary \$	Tax \$	Fee \$	Total \$
A	2300	70	1450	3520
B	1800	70	1450	3320
C	1300	70	1450	2820
D	1000	70	1350	2420
				12080

This billing structure allows mobile software companies to **have a predictable ITO spending** and **save 40-60%** of their total IT budget.

For the same price the Western European mobile software company will only be able to run a 1-person team and possibly hire a freelance developer to assist with the project in the home country. **It is one of the reasons why so many mobile startups / small companies remain small for ages and deliver secondary and / or copycat mobile products / content to the market.**

Conclusion

Traditional outsourcing with its process-packaged methodologies, delayed responses to rapid mobile market changes, hidden agenda and unnecessary obligations is gradually passing into oblivion. The new mobile technology era requires abilities to innovate and find creative solutions for winning strategies and product differentiation.

Therefore, to be successful, it is a must for the European mobile development companies to establish long-term win-win relationships with technology experts from nearshore locations to ensure powerful knowledge sharing, networking and access to the most innovative technologies that can be hard and/or too expensive to gain within home countries.

Outsourcing can work well for both large and mid-sized and even very small mobile software companies as long as they look at it beyond mere cost saving, focus on beneficial partnerships and have control over every single cent spent on software development and/or IT management.



The Own Team Model analyzed in the course of this white paper proves to be one of the most effective ways of outsourcing development and introducing innovative mobile solutions to the market in a small fraction of time, at reduced costs and with minimal risks of Intellectual Property / data safety infringement.

Success Story: 2010 Disruptive Innovator Establishes Own Mobile Team Nearshore*

Layar, the world's largest mobile augmented reality platform with more than 1M active users and thousands of developers, realized that it would be difficult to develop apps for new platforms and grow the team when solely focusing on the Netherlands as a source for highly skilled mobile software engineers.

In 2010 the company's management made a strategic decision to outsource the vast majority of the development of the Layar mobile clients on Android, iPhone and Symbian platforms as well as quality assurance nearshore. As a result of careful nearshore and offshore application services providers' evaluation, Layar selected Ciklum, a Danish innovative ITO company, and its Own Team model to form a team of 5 developers in Ukraine with potential to scale up. It eventually grew up to 3 teams – 2 in Ukraine and 1 in Belarus – for the purpose of keeping up better with the mobile market demand.

"Besides the apparent cost savings, flexibility has been an important asset to Layar when establishing our teams in Ukraine. Our engineers at Ciklum are very much an integral part of the Layar family and contribute at the very core of the company," says Maarten Lens-FitzGerald, Layar's General Manager.

Due to constantly increasing demand for experienced software developers on mobile platforms in Eastern Europe, Ciklum has launched a Mobile Development Educational Internship Program that aims to provide opportunities for talented junior mobile IT specialists to significantly improve their knowledge and get a thorough intense practical experience simultaneously.

* Original source - <http://www.ciklum.net/our-references/layar>



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About IT Sourcing Europe

IT Sourcing Europe is a UK company specialized in nearshore IT Outsourcing consultancy, market research and analysis.

IT Sourcing Europe provides:

- Top quality quantitative and qualitative ITO market research and fieldwork services
- Evaluation of Central and Eastern Europe's ITO services providers and their factual capabilities to deliver innovative technological solutions on time and on budget
- Free consulting services for European companies planning to outsource IT / software development functions and / or change their current ITO strategy / engagement
- Ad-Hoc ITO strategy development and full-cycle support

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About Ciklum

Ciklum (www.ciklum.net) is a Danish innovative IT outsourcing company specialized in nearshore software development. Ciklum's focus is establishing and servicing clients' own development teams in Eastern Europe, primarily Ukraine and Belarus. The environment of services and knowledge sharing within the company helps clients market quickly with less risk and minimal investment.

Established in 2002, Ciklum employs more than 1000 IT specialists with more than 120 global clients' own software development teams. Ciklum has six development offices in Ukraine, one in Belarus, and two in Pakistan, as well as representative offices in Denmark, Sweden, United Kingdom, Switzerland, Germany, and the Netherlands. Ciklum was named the 2010 Top 100 global services provider and the best Ukrainian IT Employer 2010 by Developers.org.ua, the Ukrainian Community of Software Developers.

About Layar

Layar (www.layar.com) is the world's largest mobile augmented reality platform with more than 1M active users, thousands of developers and over 1,500 layers. The Layar platform is available on Android, iPhone and Bada devices, comes globally pre-installed on millions of phones and is promoted by leading handset manufacturers and operators like Samsung, Verizon and Sprint.

Layar has been named a 2011 Technology Pioneer by the World Economic Forum and TIME magazine, a Disruptive Innovator at the 2010 Deloitte Fast 50 awards, and won the Grand Prix 2010 at Netexplorateur.