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Cost-effectiveness with Offshore and Nearshore outsourcing

How to avoid Cost of Poor Quality when outsourcing - *Whitepaper2020*

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The global market size of outsourced services reached $92.5 billion in 2019. The main reason for this growth and further expansion of outsourcing services is cost-effectiveness. Furthermore, the current Covid-19 crisis increases the importance of cost-effective decisions.

Cost-effectiveness

Cost-effectiveness is about a chosen imagined future, balancing the expected outcome with the relative cost. Hence, a limited number of decisions create hypothetical scenarios of which the decision-maker wants one to implement.

However, there is a widespread erroneous understanding that it means cheap.

Quality

Reaching the quality or expected quality of the end product is proved to be a significant cost-effective strategy. At the same time, quality comes with the **cost of expertise.** Companies need talented experts for services to deliver at the expected quality. And arguably, starting with the '90s, these talents didn't need to be inhouse.

With the beginning of outsourcing the classical business model of *own, manage and direct control*[1] has drastically changed. When Kodak outsourced its IT services as a strategic move, it symbolically started the bloom of the outsourcing market.

Cost of Poor Quality

It is psychologically embedded in human nature that the poorer the quality, the cheaper the product, and cheap leads to savings. Hence, saving represents cost-effective decisions.

Starting with IBM popularizing the term Cost of Poor Quality (COPQ), the above mentality showed its errors. After assessing quality, the realization was that **poor quality comes at high costs.**

Harrington[2] categorized these costs into direct and indirect poor-quality damages. Furthermore, direct costs have a subcategory that is Controllable COPQ, which ensures that the only products or services that reach the customer are acceptable.

Choosing an offshore or nearshore partner is not only controllable but verifiable and preventive. It transfers the non-core business to external specialists, so know-how and resources can be focused on the core business.

An outsourcing partner for software development can be just as about quality services as about cost-effectiveness.

Software outsourcing

Software is among the most outsourced services in the world. This arguably is due to the low entry barrier on the market and the sudden evolution of global digitization. Access to the internet and the evolution of software happened simultaneously for developed and developing countries. Given this equalizer, there was a sudden surge of young, talented, and educated professionals in all these countries. Hence, nations with more robust economies started **benefiting from nearshore or offshore talent.**

IT has the biggest share of the outsourcing industry

Information technology outsourcing (Revenue in billion US dollars)
Source: Statista

Based on the location of the software developer partner, we differentiate the following types of outsourcing.

Types of outsourcing

Local outsourcing – the outsourcing of services to another company with expertise in software development, which is in the same country. Hence, the timezones, the culture, the legislation is the same. In other words, the processes are easy to navigate. The main drawback is the cost. Partnering for outsourcing with a company that experiences the same high-level cost of living, like Western Europe or the USA, could seriously harm the budget and not guarantee the quality of the output.

Offshore outsourcing – the outsourcing of services to a country that is geographically far away. Geographic distance comes with different time zone and cultures. It often comes with sometimes drastic differences in the cost of living but not in intellectual resources. However, if the cultural differences are too significant, and there is a different understanding of work ethic and deadlines, that could cause considerable damage to the result. Offshoring to countries with substantial cost differences is very risky, and the Cost of Poor Quality (COPQ) can be more significant than the budget.

Nearshore outsourcing – the outsourcing of services to neighboring or closely located countries. With a similar culture, small differences in timezones, and a shared understanding of business ethics, nearshore outsourcing is one of the least risky business outsourcing types. Excellent communication skills and high-level English proficiency helps overcome great difficulties.


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Eastern Europe – nearshore outsourcing

Developed countries' outsourcing choice is mostly Eastern Europe. The main reasons include the **competence of the software developers,** the shared understanding of business ethics, and the cost-effectiveness coming from the differences in the cost of living.

With English proficiency and strong educational background, Eastern Europe's youth developed **critical and creative thinking** that is fit for the future.

Historical events like the fall of the Soviet Union and the inception and later expansion of the European Union led Eastern Europe on an **accelerated path towards innovation.** Especially when it comes to software development. High adaptability and openness to global culture transformed student cities into small silicon valleys that very quickly attracted foreign investment.

When visiting Eastern European countries, many western people are surprised by the rapid evolution and transformation of cities **intrinsically globalized** to the point that local culture is hard to preserve.

Globalized cities, strong educational background, critical and creative thinking, English and German proficiency, and shared understanding of business ethics are some of the main reasons that make Eastern Europe the first choice of western countries when it comes to outsourcing.

Leading countries of Eastern Europe

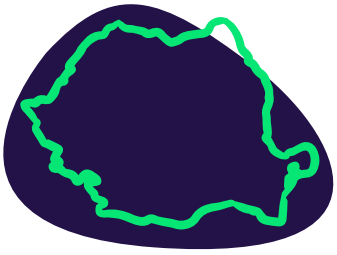
Romania, Poland, and Ukraine are the leaders of the outsourcing market in Eastern Europe, together reaching over 500 000 employees[3] in this field.

Romania – an EU country

One of Romania's most significant advantages is an economic and political structure shared with European countries, given the fact that **Romania joined the European Union in 2007.**

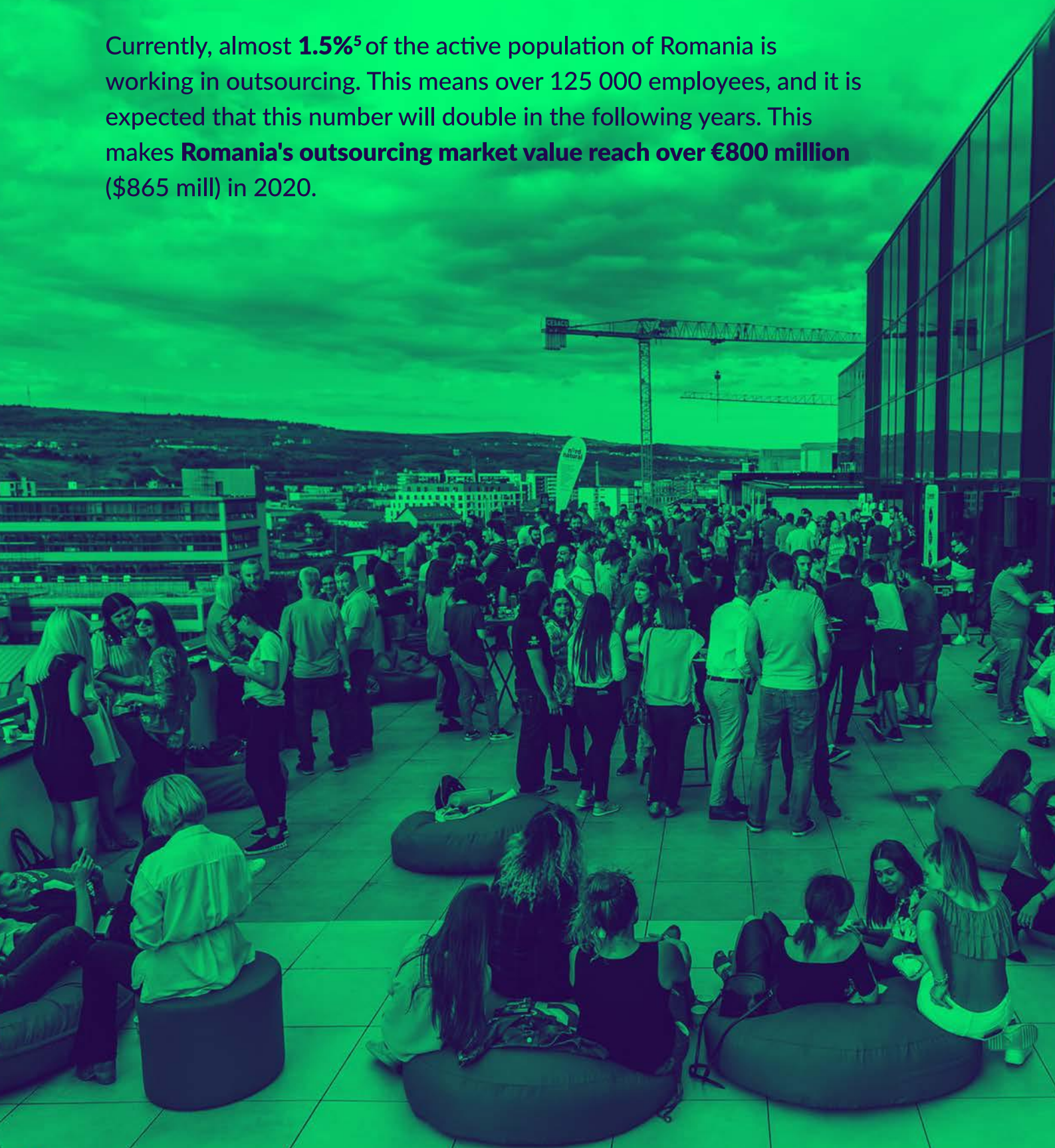
Before the accession of Romania, the country had to prove the existence of a ***functioning market economy***. This was awarded to Romania, based on the balance of supply and demand, absence of entry and exit barriers for new firms, a robust legal framework, macroeconomic stability, sustainable public finance, consensus on critical aspects of economic policy, and the sufficient development of the financial sector so that savings can be redirected to the production area[4].

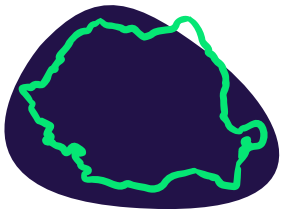
Following this, Romania entered a new era that led to the rapid development of critical sectors with **competitiveness on the global market.**



Romania’s outsourcing market

Currently, almost **1.5%**[5] of the active population of Romania is working in outsourcing. This means over 125 000 employees, and it is expected that this number will double in the following years. This makes **Romania's outsourcing market value reach over €800 million** ($865 mill) in 2020.





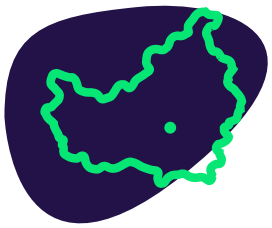
1,5%

125 000

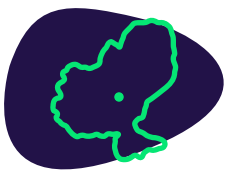
800 mil €

Also, **8 out of the fastest-growing tech companies have offices here**[6], while the software developing hub in 2020 is present in all major cities.

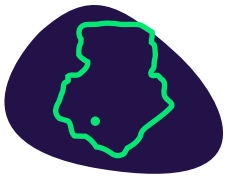
Therefore, the most significant international and national players are present in cities like Bucharest, Cluj-Napoca, Targu Mures, Baia Mare, Arad, Iasi, or Suceava.



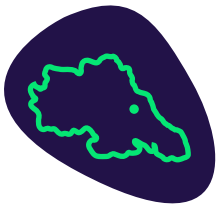
Cluj-Napoca



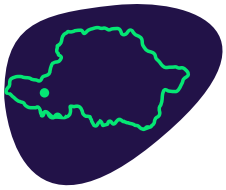
Targu Mures



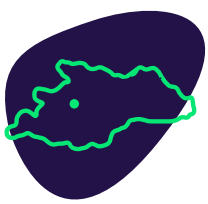
Bucharest



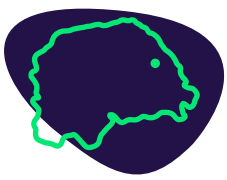
Iasi



Arad



Baia-Mare



Suceava

AROBS

AROBS is one of the leading software development companies in Romania. The company is **a Microsoft Gold Certified Partner** and was enlisted **four years in a row in the Deloitte Central Europe Technology FAST 50.**

It has almost **1000 IT professionals** working in Romania, Hungary, Germany, Belgium, The Netherlands, Republic of Moldova, and Indonesia, but it also has direct representation in the UK and Canada.

Over 20 years of experience in nearshore and offshore outsourcing developed high-expertise in industries like Automotive, IoT, Life Sciences, Travel&Hospitality, and Enterprise applications.

Automotive

There are **over 400 embedded engineers** working on the future of the automotive industry. Their expertise in C and C++ programming languages and tools as LabVIEW, Matlab TargetLink, IBM Statemate, and know-how on software architectures and design in Enterprise Architect or IBM Rapsody makes these agile teams highly adaptable. Also, the software created is AUTOSAR compliant, which offers not only flexibility but cost-effectiveness.

With knowledge oriented towards safety and security but also precision makes these teams ready for an automotive future characterized by innovation, autonomous driving, and high connectivity.

IoT

IoT is **one of the main trends in IT** that is here to stay. From smart home appliances to sophisticated monitoring systems used in precision farming and forest monitoring, IoT is becoming essential to modern living. It also significantly contributes to a more sustainable future.

All these create a need on the market for experts in this domain to which nearshore and offshore outsourcing can respond.

Travel&Hospitality

The travel sector is reinventing itself due to its apparent low resilience to global crises like the current one caused by COVID-19. Its future, without a doubt, will be more digitalized. Cost-effectiveness is only achieved by the digitalization of the industry by developers and executives that have the technical knowledge and business know-how. AROBS has over 20 years of experience in this field, from the beginning of the digitalization of Travel&Hospitality.

Life Sciences

The Life Sciences sector is becoming increasingly important, especially amid the new global context of the pandemic. According to a 2020 MIT Report[7], the industry moves towards hyper-personalization. The classical method of creating medication focused on the reaction of masses of people is changing.

The new direction of Life Sciences is about treating the individuum based on personal data. Hence, the need for experts in this field is increasing, making software specialists from Eastern Europe an attractive market for nearshore and offshore outsourcing.

Enterprise application

The digitalization of the business sector is no longer an option; it is a necessity. The pandemic further stressed this fact. With the concept of workplaces being reinvented and with the new disruptive business models, digitalization leads the way into the future. Furthermore, privacy and data security will be the main focus when it comes to company data, which will rearrange the current business ecosystem.

Creating custom software for enterprises for over 20 years, AROBS offers prepared specialists and extensive expertise for external markets.

AROBS has a portfolio that includes over **8000 clients in 14 countries.** From contributing to revolutionizing the music industry and making Scandinavian forestry more sustainable, to creating software for A-list automotive brands – ***agility*** is the most exceptional quality that it offers to offshore and nearshore markets.

Testimonials

"Being in a niche market, with companies looking for similar profiles, recruiting the right talent to help us grow was a challenge. We were not agile enough to scale our teams when we had new projects.
JobCloud needed ***a reliable partner to provide resources skilled in different technologies****, with a strong sense of communication and organization.*
AROBS delivered all that and more."

Product Owner-JobCloud,
Switzerland

"We chose to work with the AROBS team because you proved to be the qualified developers that we were looking for. We highly appreciated the ***"hands-on and always looking forward" approach.***
The quality of delivery during the initial preparations and the ongoing cooperation was and remained high. We gained great speed in the development process as soon as our collaboration started.
The communication process has always been lean. What can I say: ***great company, great guys.****"*

Andreas Posmeck, Managing Director-
GIATA Gmbh, Germany

"AROBS is an ***easy-going but hard-working company*** *with the capacity to deliver. We appreciate the way they share their ideas and help you through the whole process. The communication was excellent, and Claudiu, the Business Manager, is a great guy who understands the business.*
We wanted a new booking platform – front-end development and back-end development – so, from all the potential suppliers, we chose AROBS. ***They gave us the confidence we were looking for****, through their experience and energy. Everything was casual and simple, so we truly recommend them."*

Niels Wouters, Finance manager-
Rentyourcrane.nl, The Netherlands

Conclusion

Cost-effectiveness is the primary decision-making indicator in and after the COVID-19 era. Considering the Cost of Poor Quality (COPQ), investing in quality outsourcing will be more cost-effective than outsourcing based on the lowest price. Factors that need to be analyzed before investing in outsourcing must include cultural similarities as well as economic and political structures.

Furthermore, **outsourcing** as a choice is intrinsically a **cost-effective strategic decision**, allowing core business sections to produce using the primary resources. It is also the best way to get access to high-potential working force and business expertise.

When considering outsourcing, **western countries turn to Easter Europe,** partly because of the cultural and economic structure similarities and partly because of the business ethic. Among these countries, Romania, Poland, and Ukraine are the leading players on the market.

Since the beginning of outsourcing as a business, Romania has had extensive software experience. It has created a business ecosystem that has rapidly grown since the **accession to the European Union.**

AROBS is one of the leading software companies in Romania. It has many awards and almost 1000 high-level professionals internationally that steadily grow their expertise, whether it is on Automotive, IoT Life Sciences, Travel&Hospitality, or Enterprise solutions.

Sources

[1]https://scm.ncsu.edu/scm-articles/article/a-brief-history-of-outsourcing

[2]Harrington, H. James (1987), Poor-Quality Cost, American Society for Quality

[3]https://agileengine.com/outsourcing-software-development-in-ukraine-vs-poland-vs-romania/

[4]http://ceswp.uaic.ro/articles/CESWP2010_I1_INC.pdf

[5]https://business-review.eu/business/the-outsourcing-industry-125000-employees-generating-eur-4-billion-every-year-187134

[6]https://business-review.eu/tech/eight-of-the-fastest-growing-tech-companies-in-the-world-have-offices-in-romania-181167

[7]https://www.technologyreview.com/10-breakthrough-technologies/2020/#hyper-personalized-medicine

Are you looking for a *cost-effective* software development partner for offshore or nearshore?

Let's work together!

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