
WHITE PAPER – MARKETING OFFSHORE IT SERVICES

SUMMARY:

A business entity in the United States that provides strategic information technology outsourcing services to small and medium-sized firms, nonprofit organizations, academic institutions, and government agencies. Providing services of the highest quality at a below-market price through the effective use of offshoring, using IT contractors based in India, although the firm is headquartered and managed from the United States.

OVERVIEW:

The trend to offshore IT development has been increasing steadily for a decade, but has only just begun as more and more services will be outsourced and offshored to lower-cost countries around the world. On the demand side, the high-costs in the US and the sophistication of large multinationals able to capitalize offshoring ventures are fueling the offshoring boom. However, the proliferation of technology and the constant search for greater efficiencies is allowing small to medium-sized firms to look for opportunities to outsource offshore as well, which will create an exponential increase in demand.

On the supply side of the equation, countries like India have preparing for years for the opportunity to become a destination for offshoring of IT and other business services. The ubiquity of high-quality, efficient information communication technologies (ICT), and the highly educated and English-speaking workforce in a substantially lower-cost environment has made India a leading destination for ICT offshoring.

In spite of the increasing demand and consistently improving and expanding supply, there are challenges to the typical offshoring model. According to IDC, the top three risks that users associate with offshore outsourcing are time-zone issues, language barriers and cultural differences. Foote Partners, a research and advisory firm in New Canaan, Connecticut, has studied 90 offshore outsourcing implementations over the past three years and has found companies that don't achieve the desired outcome are tripped up by communications problems, not technical shortcomings. Organizational, behavioral and cultural aspects are more to blame than the details of contracts and technology selection.

Generally speaking, some additional challenges facing both the supply and demand sides of offshoring include:

- Differences in organizational and social norms and culture
- Proficiency in the English language
- Ability to provide adequate customer service

- Protection of intellectual property rights and prevention of piracy
- Security of data and networks
- Timeliness and quality of the final product
- The cost and ease of transaction between contractor and contractee
- General lack of trust between both parties
- Inadequate level of business sophistication required to successfully execute an offshoring plan
- Having adequate capital and business scale to make offshoring worthwhile
- A high rate of employee turn-over in offshore IT services labor markets
- General operational and management challenges
- Domestic regulatory limitations to offshoring of certain services
- Lack of transparency and consistency of regulations and taxation in offshore labor markets
- Public and private corruption at the hands of offshore labor market officials

TRENDS AND OPPORTUNITIES:

A key element to any successful business venture is the ability to take advantage of trends in the market. With respect to IT services outsourcing there are several positive and negative trends on both the demand and supply side. This venture will capitalize on the positive trends and learn from the mistakes of others to make a negative trend work to our advantage.

The right business model can serve the needs of the demand and supply side of the equation with minimal capital and little risk. The opportunity is there to create a new, yet simplified business model that has the advantage of learning from the mistakes made by early adopters. The large multinationals have taken all of the risks, identified all of the problems and proven all of the advantages. This opportunity is based on learning from those mistakes and being positioned for the maturation of the offshoring demand among a broader range of US firms. Like most opportunities, this business model seeks to exploit the positive and negative trends in the marketplace to our advantage. These trends, and the way in which this venture will exploit them, are described in greater detail below.

❖ **TREND: US Demand for IT** – The US is the world’s leading economy due, in no small part, to the accessibility, effectiveness, and affordability of information technology. The effective and efficient use of IT is an essential element in nearly every organization’s strategy – whether a small manufacturing company, a chain of retail stores, a local hospital, or government agency overseeing environmental stewardship, a modern IT infrastructure is at the heart of the organization. Gartner Research has forecasted that US firms will increase their IT spending by 5.5% in 2006.

➤ **OPPORTUNITY: Offshoring for All** – The US has maintained its rate of economic growth and competitive position relative to other countries because of the economy’s ability to consistently increase productivity. This is a result of wide-spread access to quality education and career training, but also to the proliferation of more and better technologies to increase efficiency. Firms across the economy in scope and scale are constantly seeking new ways to increase efficiency and productivity. This has driven the trend to outsource non-core functions and, due to the economic influences of globalization, offshoring is the next logical step for small to medium enterprises (SMEs) – the target market for this business venture.

- ❖ **TREND: Business Services Offshoring** – Within the next five years, 800,000 of the 10 million IT jobs in the U.S. will move offshore. Large firms in the US have been off-shoring more and more business services to lower-cost locales for years – offshoring is already being leveraged by 40% of the Fortune 500 companies including GE, Lucent, Oracle, Microsoft, and Motorola (260 of Fortune 1,000 companies have selected India as their nation of choice for outsourcing). The offshore outsourcing model can bring cost savings of 50% to 70%, depending upon the onsite and the outsource resources. Either through the establishment of wholly-owned firms abroad or through strategic partnerships, the majority of large US corporations have either offshored some back-office operations abroad or outsourced those functions to a foreign provider.

- **OPPORTUNITY: The Small to Medium Market** – SMEs have not taken advantage of this trend to lower their IT costs, primarily because they do not have the sophistication to consider such options or the scale to make it financially feasible. Whereas the large multinationals, for example, can afford to retain consultants and offshoring experts to help them carefully plan and execute their offshoring, SMEs do not have the resources to make that kind of up-front investment. There are also embedded concerns held among the more parochial firms about offshoring. This business venture will deliver the economic value of offshoring while providing the assurances that come with outsourcing to a domestic firm.

- ❖ **TREND: Efficiency and Efficacy of Supply** – The more mature offshoring destinations, such as India, have improved their delivery of IT services, working out many of the early problems. With more and more young, well-educated, highly-trained professionals entering an exploding job market, the availability and quality of IT services firms in India has improved the overall health and efficiency of the marketplace.

- **OPPORTUNITY: Indian Developers** – The pool of IT services professionals in India is growing and becoming ever more reliable, making this pool of talent more accessible to SMEs on tight budgets through the appropriate vehicle being proposed by this business venture. English is widely taught and adopted among IT professionals, training at Indian facilities is top notch, and a strong entrepreneurial spirit has taken hold. This has led many developers to go out on their own as independent contractors, which creates an opportunity for this venture to create a network of independent developers throughout the country. Keeping the number of full-time employees to a small number and essentially sub-contractor a reliable pool of contractors will maximize the firm's efficiency. Giving network members incentives, such as ownership and profit-sharing, will build their loyalty to the network.

- ❖ **TREND: Offshoring Impact on Quality** – US firms, particularly small to medium-sized, have a certain arrogance that services procured from US-based firms will be of higher quality than those procured abroad. There is also a fear among US companies that foreign service providers are not as trust-worthy, in part, because they operate outside the laws and norms of the US, which is obviously the system with which US firms are most familiar and comfortable. There is an impression that the further away a vendor is from a procurer the greater the potential for fraud or provision of sub-standard services. Concerns over intellectual property rights and protections is also a substantive worry, but primarily for software developers. India, for instance, has the world's 16th-highest piracy rate. Outright theft can also be a problem. Last year, after SolidWorks Corp., a software maker in Concord, Massachusetts, outsourced programming to India-based Geometric Software Solutions Co.; a Geometric employee allegedly stole SolidWorks' intellectual property and tried to sell it to the company's rivals.

- **OPPORTUNITY: US-Level of Quality** – Many “first-world” firms will always maintain that offshoring, although cheaper, will never be able to deliver the same level of quality and reliability of a domestic provider. This business venture will bring quality, affordable services to firms along with the piece of mind that they are working with a firm in the US.

- ❖ **TREND: Customer Service** – The increase in offshoring has created real and perceived lapses in customer service. Most Americans have a “horror story” about trying to get adequate customer telephone support only to be frustrated by a non-native English speaker who is perceived to be less qualified. In recent months, a handful of big-name companies have decided to return certain offshore work to the U.S. For example, insurer Consecoco recalled its customer service operations as it worked to emerge from bankruptcy. Following complaints about the quality of service, investment bank Lehman Brothers canceled an offshore help desk engagement. Similarly, Dell brought back a technical support center after corporate clients complained about communication and service. A 20% decline in productivity is experienced by most IT organizations during the first year of an offshore outsourcing agreement, according to the Meta Group. A key reason is the effort required to transfer technical and business knowledge to a vendor.

- **OPPORTUNITY: Local Customer Support** – There is both a real and perceived lack of attention to customer satisfaction from foreign service providers. Once enough bad experiences begin circling, the perception that the problem is wide-spread or more prevalent offshore than on increases exponentially because most firms just assume they will sacrifice quality in many forms. Providing US firms with the ability to reach a customer service agent in the US will provide assurances that they are interacting with a well-qualified professional who will understand their problem and help them solve it.

- ❖ **TREND: Regulatory Limitations** – Proposed legislation in New Jersey, called The New Jersey Bill, would have prevented outsourcing of the state government’s IT services projects to India. Over 30 states are now considering proposals to deal with off-shoring. In the U.S. Senate, Senator Dodd introduced legislation to prohibit the offshore outsourcing of federal contracts (subject to the OMB circular A-76 process) unless the President deems a contract to be in the national security interests of the U.S. Representatives John Dingell and Rosa DeLauro introduce similar House legislation, which would also apply to state contracts underwritten with federal funds.

- **OPPORTUNITY: US-Based Firm** – The concerns over outsourcing and offshoring of US jobs is a cause that has been simmering below the surface of the public consciousness for some time, and more liberal and protectionist political leaders who are union-friendly are taking up the cause to make it harder to offshore such services, especially if those services are on behalf of government agencies. This US-based firm will not be bound by the restrictions imposed in those proposals, which opens up the governmental sector as a potential source of business.

- ❖ **TREND: Problems of Perception** – There are any number of perceived challenges and pitfalls perpetuated by US-based firms that would like to outsource IT services offshore which keep them from going through with it. In some cases, these concerns are based on real problems, but many of which have been worked through by early adopters of offshoring. Concerns over data security, intellectual property protection, quality control, and perception of pervasive corruption keep many US firms from using the offshore option.

- **OPPORTUNITY: US-Based Firm** – Although this business venture is designed to use the latest information and research to build an organizational model that is as effective and efficient as possible, the real competitive advantage will be to solve the problem of perception. The concerns of US-based firms hesitant to outsource will be alleviated through this business model since the base of operations will be in the US. The assure to US firms that this venture is headquartered in the US and bound by US laws and norms will be a tremendous advantage over rivals based abroad.
- ❖ **TREND: Government IT Spending** – The U.S. government is the world’s largest consumer of technology, spending more than \$60 billion on information technology in 2004 alone. This spending only continues to increase as the 2006 U.S. fiscal budget calls for \$65.2 billion in information technology spending, a 7.1 percent increase. Over the past 50 years, the U.S. Government has contracted much of its work to the private sector, rather than hiring and training new government employees. This has created many new opportunities for global businesses seeking to enter the U.S. government market. The slow and steady pace of outsourcing deals has created a \$5 billion opportunity in state government that has significant market potential over the next three years according to the Gartner Group. Pent-up demand to fulfill large-scale IT modernization requirements will present opportunities. Gartner expects growth in state and local government IT spending to top 8 percent by 2008
- **OPPORTUNITY: Offshoring Backlash** – There are a number of proposals before the US Congress and more than 30 state legislatures around the country to prevent the offshoring of public sector work, with particular emphasis on IT-related services. This backlash against offshoring is often at the urging of labor unions that are putting more and more pressure on labor-friendly elected officials to try and slow the flood of offshoring. In some cases, foreign firms like Wipro and Infosys and even domestic firms with large offshore facilities like IBM are specifically mentioned as “culprits” of offshoring. This business venture will be a US-based firm that will be insulated from these types of policy restrictions on offshoring.

COMPETITIVE ADVANTAGE:

A US-based IT services “storefront” will have the best of both worlds – the real price competitiveness of a firm off-shore, while alleviating the perceived shortcomings of using a firm based outside the US. By creating a hybrid organization the typical challenges facing such offshoring ventures will be substantially reduced and possibly eliminated.

- ❖ **Proven Model for Efficient Offshoring** – Most firms can save 15% to 20% by sending certain IT work overseas. Those that really understand how to make it work find they save 50% or 55%. However, Gartner says that based on a survey of 219 clients who outsource projects offshore and domestically, it expects half of such projects undertaken in 2005 will fail to deliver anticipated savings. The main cause of problems, according to analysts, is poor project management by the companies shipping work overseas. This venture will be appropriately structured to avoid those pitfalls.
- ❖ **The “Made in USA” Label** – In times of economic, cultural, or political uncertainty, Americans can become extremely nationalistic, if not xenophobic, which is often reflected in their buying patterns. The “Made in USA” label became a commercial success when US producers were

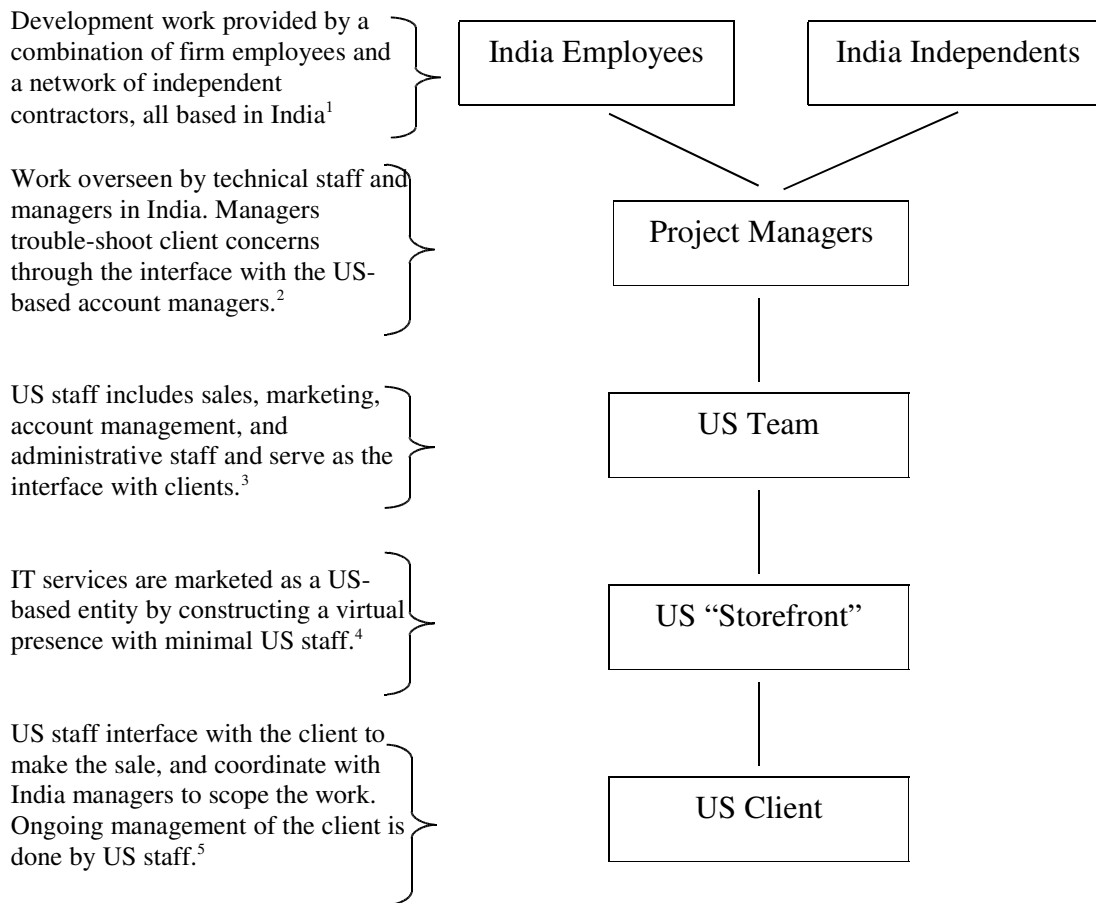
being supplanted by a massive influx of cheaper products from Japan. Likewise, the perception of American jobs being sent overseas has the potential to create a back-lash against firms that engage in off-shoring of use off-shore service providers. There are a number of organizations in the US advocating for government policies to restrict the outsourcing of US jobs to other countries around the world, such as: www.hireamericancitizens.org.

- ❖ **Diversity of Potential Client Base** – An IT services firm headquartered in the US will allow greater access to the small to medium-sized organizations in the public sector. Unlike private businesses, there are both legal and political barriers preventing government entities from procuring services from off-shore providers, even if it is of comparable quality at a lower price.
- ❖ **Local Customer Interface** – Based on the US and with a US sales force and cadre of account manager, this venture will provide the all-too-important handshake with the client. Face-to-face contact when conducting business is still an important part of building trust.
- ❖ **Transparency of Laws and Regulations** – The venture will operating under US law and follow all relevant regulations and cultural norms, thus avoiding the usual trepidation of US firms that do not know what laws offshore firms abide by and whether or not they abide the ones that do exist.
- ❖ **Familiarity with Language and Culture** – US account managers will be the interface between clients, avoiding any discomfort in dealing with non-native English speakers.
- ❖ **Structured for Maximum Efficiency** – Using a network of independents allows the firm to take on smaller, shorter-term, less lucrative clients by lowering the barriers to entry and exit. It will also keep the venture's overhead low.
- ❖ **Loyalty Among Indian IT Professionals** – By offering an ownership stake to workers in India, full-time staff and independents will stick with the firm, reducing the administrative cost and burden of high turnover. Providing an opportunity for independents to be connected through a network with the headquarters in the US will also benefit them greatly.

CONTACT:

David A. Rice, Director
Strategic Policy Concepts
David.Rice@policyconcepts.com
617-947-6054
www.policyconcepts.com

APPENDIX – ENTERPRISE STRUCTURE



1. Providing India-based staff with an ownership stake will increase retention, allow opportunities to train and certify them, keeping them up to date on new technologies and processes and increasing the overall effectiveness and efficiency of the network.
2. Management of technical staff in India by personnel with appropriate technical skills and ability – preferably with experience working in the US – will be critical to avoid the cultural and communication problems typical of many offshoring efforts.
3. Perhaps more for the purposes of perception, a US-based staff fields the sales force and provides account managers for customer interface. Technical questions are fielded by staff in India through the US-based staff, so accuracy in tracking and efficiency in responding to customer inquiries will be key to success.
4. Marketing the firm as a US firm is the major competitive advantage against foreign-based rivals, while retaining the cost benefits of using offshore technical staff.
5. US-based, yet price competitive with offshore providers will allow the venture to target SMEs and government clients – the type that are too small for the big offshore firms or, in the case of government, unauthorized to be awarded such a contract.

APPENDIX – SUPPORTING RESEARCH

❖ Offshore Outsourcing of IT Services

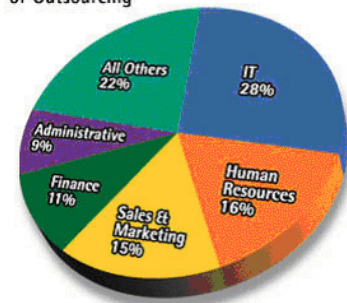
The current rapid increase in offshore IT software and services outsourcing has sparked a debate on the costs and benefits of this trend to the U.S. economy. Although “lower cost” is the most commonly cited reason for offshore outsourcing, intense global competition in an environment of slower growth and low inflation demands constant vigilance over costs.

Due to the low costs and high quality, using offshore resources in selected countries makes good economic sense. Beyond the cost incentive, global sourcing provides several other practical benefits including: the ability of multinational organizations to efficiently stage 24x7 operations; the opportunity to customize products and services to meet local needs; and the means of geographically deploying workers and facilities to succeed in globally dispersed, highly competitive markets.

Some key offshore outsourcing trends are:

- Spending for global sourcing of computer software and services is expected to grow at a compound annual rate of almost 26%, increasing from approximately \$10 billion in 2003 to \$31 billion in 2008. During the same time period, total savings from the use of offshore resources are estimated to grow from \$6.7 billion to \$20.9 billion. The estimated spending amounts represent 2.3% and 6.2% of total IT software and services spending by U.S. corporations in 2003 and 2008, respectively.
- The impact of global sourcing on employment varies by industry sector. The major industry groups that are expected to gain a significant number of incremental jobs the next five years include education and health services, transportation and utilities, construction, wholesale trade, financial services, professional and business services, and manufacturing.
- From 1998 through 2003, offshore IT software and services spending increased from \$2.5 billion to \$10 billion. This represents a compound annual growth rate of 32% over the five-year interval. The key reasons for going offshore in the late 1990s and into 2000 were cost savings and the short supply of skilled IT workers in the United States at that time. The cost savings in 2003 reached \$6.7 billion. This represents an assumed 40% savings versus what would have been spent if domestic resources had been used instead of offshore resources.
- Over the next five years, offshore IT software and services spending will continue to grow at a rapid pace. The likely spending amount will be \$31 billion in 2008. The key reasons for going offshore now and in the foreseeable future are cost savings, software quality, access to global markets and talent, and labor productivity gains. The potential savings implied by the

IT Leading As Most Active Area of Outsourcing



over

projected spending amount in 2008 is almost \$21 billion. For businesses operating in increasingly competitive, low-inflation markets, the advantages of offshore IT software and services outsourcing result in lower output prices for the goods and services they produce. As the estimated savings grow over the next five years, benefits to U.S. corporations, consumers, and the rest of the economy are expected to grow as well.

- Over 30 percent of companies are planning to offshore their IT infrastructure within the next 12 months, and the same number are looking into the idea. Interest in business process offshoring is also gaining more ground with 34 percent of businesses planning to offshore some of their business processes in the next 12 months.
- A survey of 145 executives by Indian-based outsourcer Wipro found that offshore outsourcing is increasingly becoming a strategic initiative at global organizations. At 38 percent of the organizations, offshore outsourcing was being handled at the board level. An overwhelming majority of executives (87 percent) polled said that their offshore outsourcing spends would increase during 2006. On average, organizations are likely to increase their offshore outsourcing spends by 34 percent.

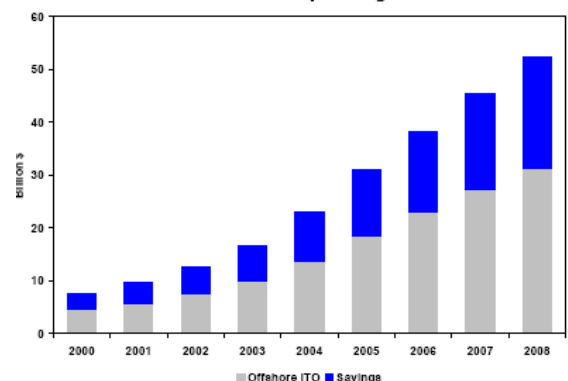
❖ Impact of US Firms Outsourcing Business Services Offshore

- The benefits of global sourcing contribute significantly to real Gross Domestic Product in the United States, adding \$33.6 billion in 2003. By 2008, real GDP is expected to be \$124.2 billion higher than it would be in an environment in which offshore IT software and services outsourcing does not occur.
- While global IT software and service outsourcing displaces some IT workers, total employment in the United States increases as the benefits ripple through the economy. The incremental economic activity that follows offshore IT outsourcing created over 90,000 net new jobs as of 2003 and is expected to create 317,000 net new jobs by 2008.

❖ Benefits of Offshore Outsourcing – Short Term

- Ability to focus resources and attention on core business initiatives.
- Reduction in headcount and attrition rates in the outsourced function.
- Re-skilling of remaining staff with better and more marketable skills.
- Refinement of project management, risk management, and service delivery skills.
- Implementation of demand management and service delivery disciplines.
- Optimization of systems management and support processes.
- Access as needed to specialized resources.

Figure 2: Estimated Offshore ITO Spending and Potential Savings



❖ Benefits of Offshore Outsourcing – Long Term

- Predictable results-based expense for the outsourced function over the life of an outsourcing agreement.
- Joint and proactive problem solving and innovation.
- Superior management of the business application portfolio.
- Enhanced career opportunities for client staff, based on sophisticated.
- Management, contracting, and outsourcing integration skills.

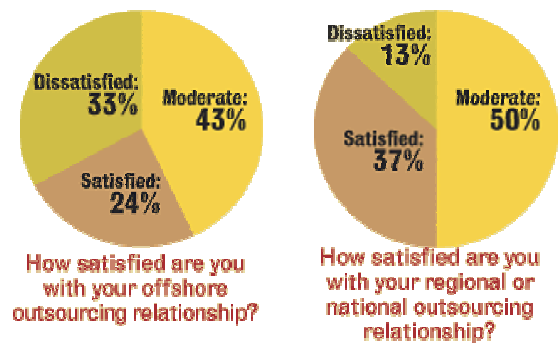
❖ Comparative Advantage of Offshore Firms

Workers in offshore locations such as India and the Philippines commanding only 10% to 30% of the salaries that U.S. workers earn (with average IT employee costs ranging from \$5,800 to \$6,500), there is no doubt that savings can be achieved purely from a head-count perspective. However, the greater benefit of outsourcing is the migration from a fixed-cost IT environment to a variable pricing model that allows firms to gain better control over operating costs. There will be a reduced need for software and hardware infrastructure, as well as reduced costs for maintaining and upgrading hardware and software and for training software developers on the latest technologies.

❖ Challenges to Offshore Outsourcing

About 21% of IT executives surveyed recently by management consulting firm DiamondCluster International said they had prematurely terminated offshore arrangements in the prior 12 months. The most common reasons cited: the provider had financial difficulties; the provider failed to deliver on commitments; or the buyer consolidated its outsourcing vendors.

Companies offshoring are more than twice as likely to be dissatisfied with the relationship than those using national service providers, according to AMR Research. A big part of the disenchantment stems from inflated expectations. In particular, cost savings are frequently overestimated. A common mistake, for example, is to project savings by simply calculating the wage differences between customer service agents in the U.S. and India. Cultural differences can also mean more training is required to prepare non-U.S. workers to effectively handle calls from Americans.



At the raw resource-to-resource level, offshore development offers a compelling cost advantage. A programmer with three to four years of experience that might cost \$45,000 to \$55,000 per year in the US, depending on location would probably cost \$15,000 to \$19,000 per year in India. However, lower productivity can eat away at labor savings. Plus it's more expensive to manage an offshore development relationship.

One US firm, Storability, says the company has built in a two-year adjustment period before it expects to benefit from having an office in India. Until 2006, the offshore team isn't expected to save

money or realize huge productivity gains. In fact, it's just the opposite. In the short term, the company has found offshore labor creates headaches, requiring all employees to adjust their processes and get used to a geographically distributed development process that is unfamiliar and requires a re-evaluation of roles and responsibilities. Unless a company is in it for the long haul, offshoring doesn't make sense. There are no benefits to gain in the short term.

According to IDC, the top three risks that users associate with offshore outsourcing are time-zone issues, language barriers and cultural differences. In particular, cultural differences have to be closely managed in an offshore relationship. The U.S. manager doesn't understand how to manage the offshore team, and the offshore team isn't always comfortable taking instructions from an American manager.

❖ **Offshorings Cultural Challenge**

Foote Partners, a research and advisory firm in Connecticut, has studied 90 offshore outsourcing implementations over the past three years and has found companies that don't achieve the desired outcome are tripped up by communications problems, not technical shortcomings. Organizational, behavioral and cultural aspects are more to blame than the details of contracts and technology selection. For example, some distinctions are simple but potentially critical. For example, in India a "yes" doesn't always mean what a "yes" means in America. In the U.S. it is unambiguous what it means when you say "yes" to something. In India it means, "I'll think about it, and get back to you."

The offshoring trend can inflame cultural issues. For example, while Indians are great at technical capabilities, a lot of the IT resource pool in India is not very good in terms of people skills. So to suggest an Indian outsourcer handle requirements definition – which requires heavy interaction with end users – may be counterproductive. In the end, the client may have to dedicate quite a few of its own resources to help the Indian outsourcer through the process, which becomes much less efficient.

In a local setting, IT departments are often looser about the early stages of an application-development project, such as the requirements-gathering process. In offshore arrangements, there needs to be a more robust process for gathering requirements, and you have to write much better functional specs because you're handing those off to someone else. Without that discipline, a project can take three times as long to complete offshore as onshore.

Foote Partners believes companies aren't paying enough attention to how they manage the people involved in offshoring projects and how they make the transition to a distributed workforce. Communication problems that aren't addressed early in the process continue to fester and impact project delivery.

❖ **Offshore Quality Trends**

Analysts agree outsourcing software development has its risks. The big ones, according to Aberdeen Group, are untested technology vulnerabilities; additional costs for fixes and patches; increased risk because of unauthorized access to business data; and operational instabilities. Over the years, however, the quality of offshore work has gotten better, particularly in certain focus areas, but gaps remain.

Services that are traditionally sent offshore include application maintenance work, custom application development, data entry, customer service and technical support. Two years ago, there was a general

lack of experience in customizing packaged applications such as those from SAP and Oracle, according to AMR Research. However, the firm contends that many providers now have gained experience and are better prepared to provide those services.

U.S. companies are generally satisfied with the quality of software development available offshore, especially in India, where excellent process technology is common. But offshore projects are getting increasingly strategic, which changes the stakes. Over the past 18 months, offshore providers have landed broad application development projects for U.S. clients that encompass everything from requirements definition and design to development and testing.

The challenge for offshore providers is to accrue more business-focused expertise, such as people who are comfortable with how processes work in industries such as insurance, healthcare, banking and finance. At the same time, U.S. IT executives need to consider if their own business savvy is up to par.

❖ Types of Offshore Outsourcing

- Offshore firms without a US presence –**
 Difference in the time zone may raise the problem of communication between the client and the offshore project manager in the case of a firm without a US office. Communication is usually via email or telephone but at times it becomes absolutely necessary for the project manager to travel across the globe to visit the offshore needs. The offshore company generally has its resources intact and can work on the project right away but at the same time it

is difficult to verify the technical expertise of the project team and to establish a strong working relationship with the project manager. Reliability and security concerns can also be issues when working with these firms.

- Company with only a US sales office –** They offer lower rates but despite a local escalation path, the level of customer service they provide is limited by their lack of local technical expertise. The project manager is located at the offshore facility so communication occurs via phone and e-mail, and the lack of visibility to the project team and facility can raise reliability and security concerns.
- Company that has a US office –** With onsite analysts, project managers, and developers they offer slightly higher rates, but they are able to respond to client requests much more quickly and easily because local project managers team up with both U.S. and offshore technical resources. Due to excellent customer service and increasing popularity, this model happens to yield better gains than the others.

