Offshore Development 2009

Time to reconsider?

CityIQ Ltd – Your Partner in the City

Introduction

One of the recurring themes of 2009 was the idea that jobs which had been previously outsourced from the UK were starting to be repatriated. With exchange rates moving, scarce resources becoming available and the downside of offshore working becoming ever more apparent, many organisations, particularly in manufacturing, were apparently bringing it all back home…

We were keen to find out whether this was a more general phenomenon and whether our financial services clients, many of whom had outsourced aspects of software development, were following a similar path.

So we decided to carry out a survey, looking at offshore development from a financial services perspective. Our objectives were to establish:

- The state of the offshore development market
- The reasons behind following the offshore route
- Whether expectation had been matched by reality
- What plans organisations had for the future

This report summarises the results of that survey.

About the Survey

Details of the survey method, the survey population and the complete list of questions can be found as an appendix to this report.

Acknowledgements

We would like to take this opportunity to thank everyone who participated in the survey.

About CityIQ

CityIQ is a specialist consultancy that provides advisory and delivery services to organisations in the Financial Services Industry. Covering investment management and all aspects of the investment process, CityIQ is well known for its expertise in the areas of project and programme management, business analysis and technical architecture.

Feedback

If you have any questions or queries about the survey results or would like to find out about other recent CityIQ surveys of the financial services market please contact:

Paul Wiltshire or Dee Radford on:

020 7073 2925 or by mailing enquiries@cityiq.com

Management Summary

The trend to use offshore development resources is firmly established in the financial services industry, with over two thirds of survey respondents taking this approach. However, most organisations are selective in their approach and over half continue to use the UK as a base for the majority of their development work.

For the City, India was the offshore development destination of choice; with limited penetration from any other regional providers.

The decision to go offshore was primarily cost driven, and the benefit of so doing was even greater than originally anticipated. Despite the cost advantages, many respondents reported having experienced delays and a drop in quality as a result of making the move.

However, 80% of respondents believed that for them the move to offshore development had either met or exceeded their expectations.

Looking forward 95% of those surveyed planned to either maintain or increase the amount of development work carried out offshore, proof indeed that the use of offshore development resources was set to continue.

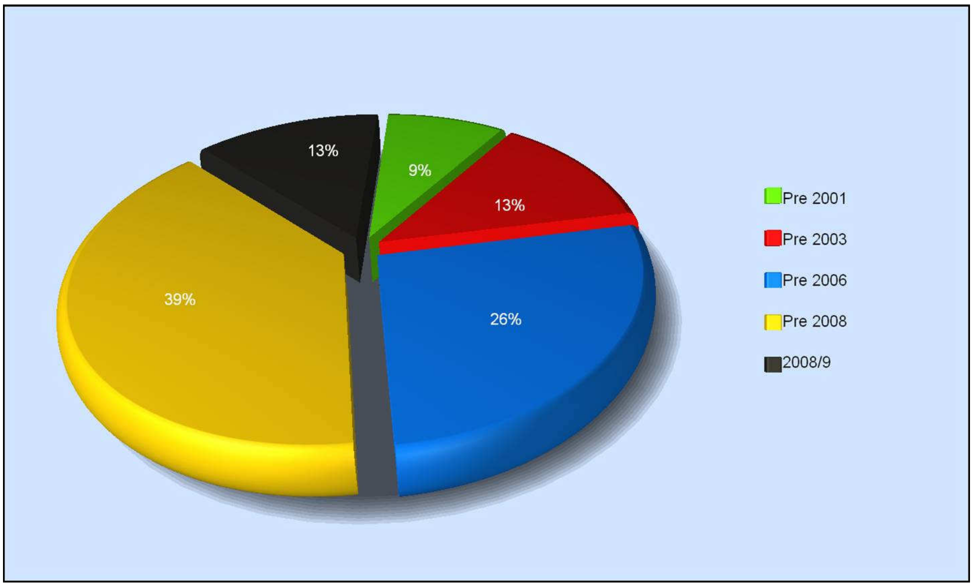
Detailed Findings

The Offshore Landscape

This group of questions looked at the landscape for offshore development, seeking to determine:

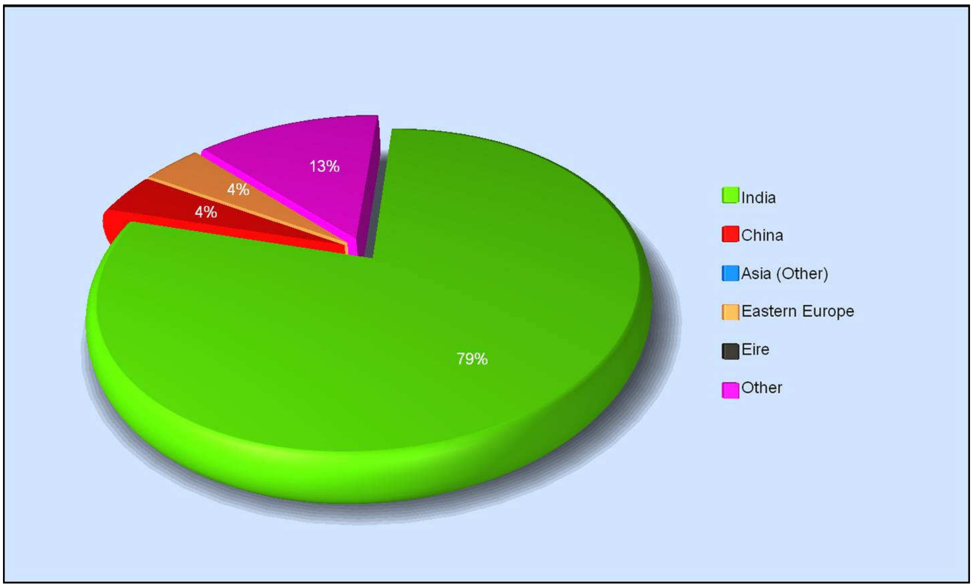
- When organisations started making use of offshore development resources
- Where those resources are located
- The type of activities that had been moved offshore
- The percentage of development work that had been moved offshore

<u>When did your organisation start making use of offshore development?</u>



Half the organisations surveyed reported having moved aspects of development offshore at least five years ago. This is not altogether surprising, as many of the organisations surveyed operate on a global basis and have therefore had the option of moving development activities offshore while still keeping them within the organisation.

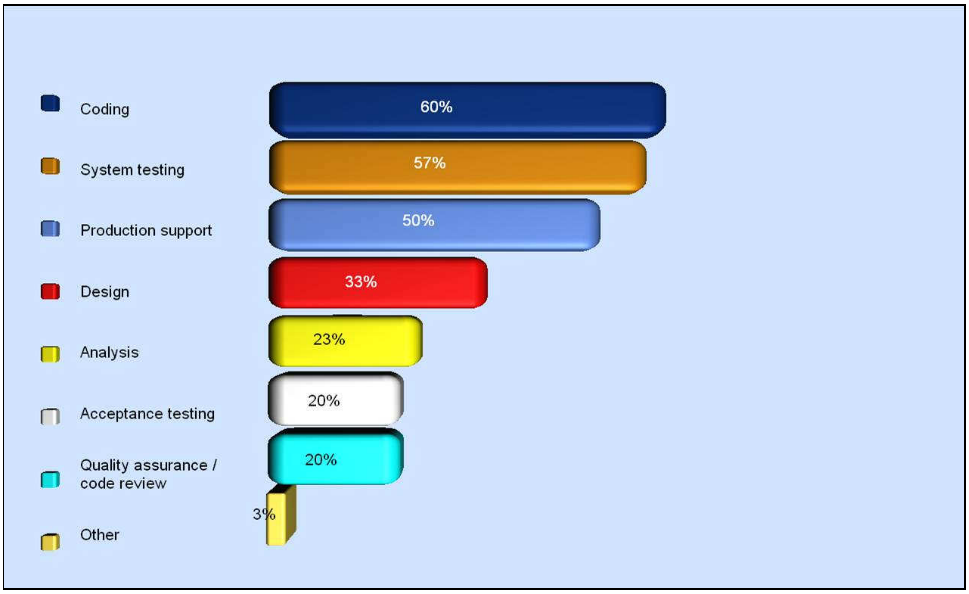
Where are you offshore resources located?



For the City, the prime location for offshore development was India with other locations being represented as follows:

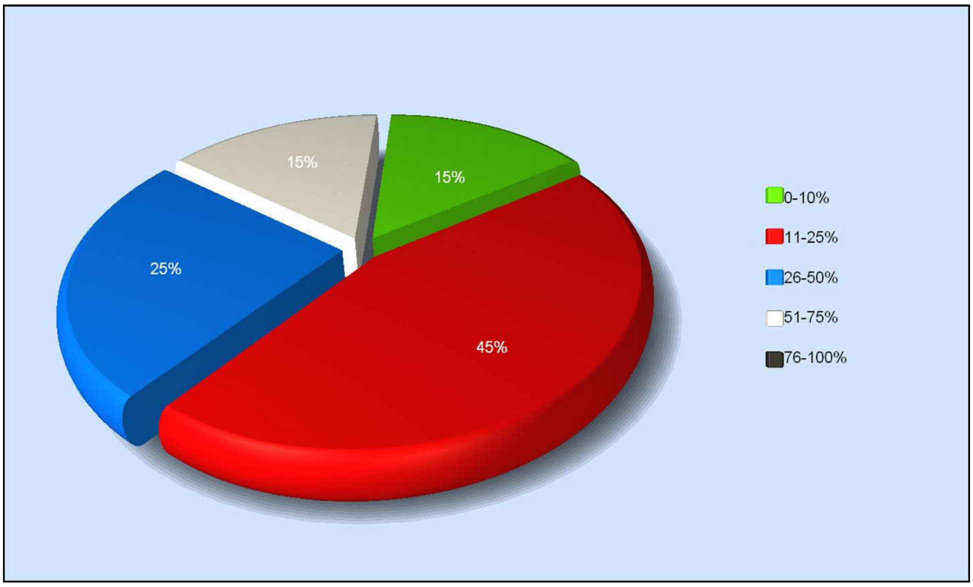
- China
- Eastern Europe
- Sweden
- Luxembourg
- Africa

What activities are carried out offshore?



There are two strands of activity that have been moved offshore to a significant degree. The first is around coding and the system testing associated therewith. The second is around production support. One respondent described this as the "commodity" aspect of the development process; cutting code and fixing bugs. The front and back end of the development process remain for most companies firmly rooted in the UK.

What percentage of development work is done offshore?



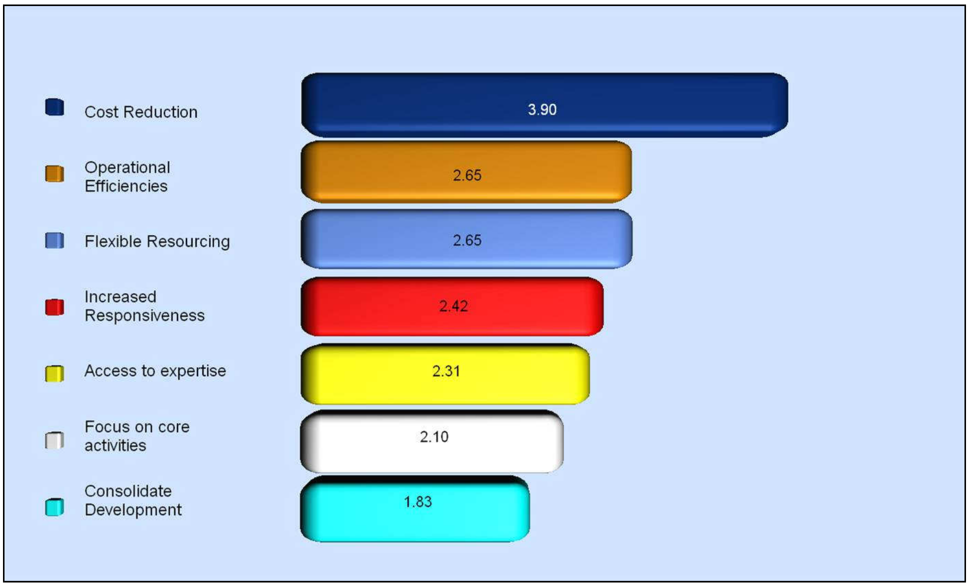
Most of the organisations have a foot in both the onshore and the offshore development camps. Indeed only 15% of respondents report having more than 50% of development work done offshore. However given the response to the previous question we believe it is reasonable to assume that the percentage of coding carried out overseas is far higher than the figures shown here.

Drivers and Benefits

This group of questions looked at drivers and benefits and sought to establish:

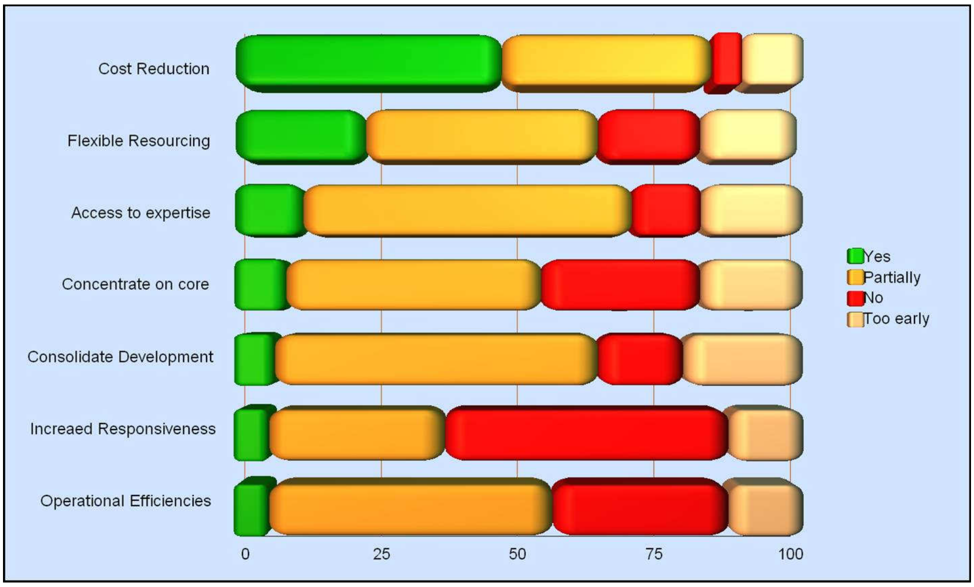
- The main reasons for offshoring
- The benefits that accrue
- Any mismatch between the expected and the actual benefits

What were the drivers behind the decision to offshore?



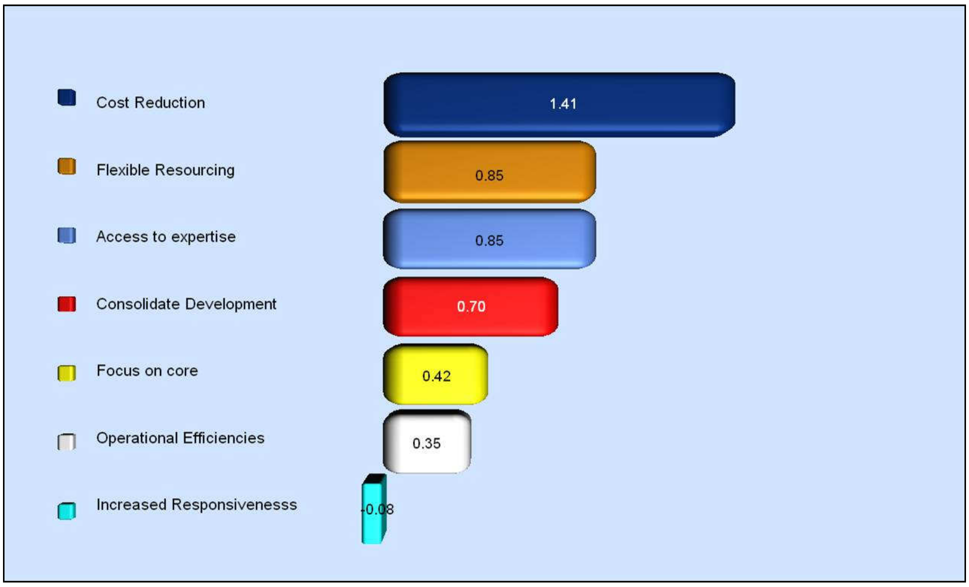
By weighting the responses, using our standard method for determining strength of feeling (See Appendix 4) we came up with the following relative scores. As can be seen, cost reduction was by far the most significant factor in deciding to move development offshore. A shortage of suitable expertise, sometimes cited as a reason for moving offshore was clearly not the case.

Have the anticipated benefits of offshoring been realised?



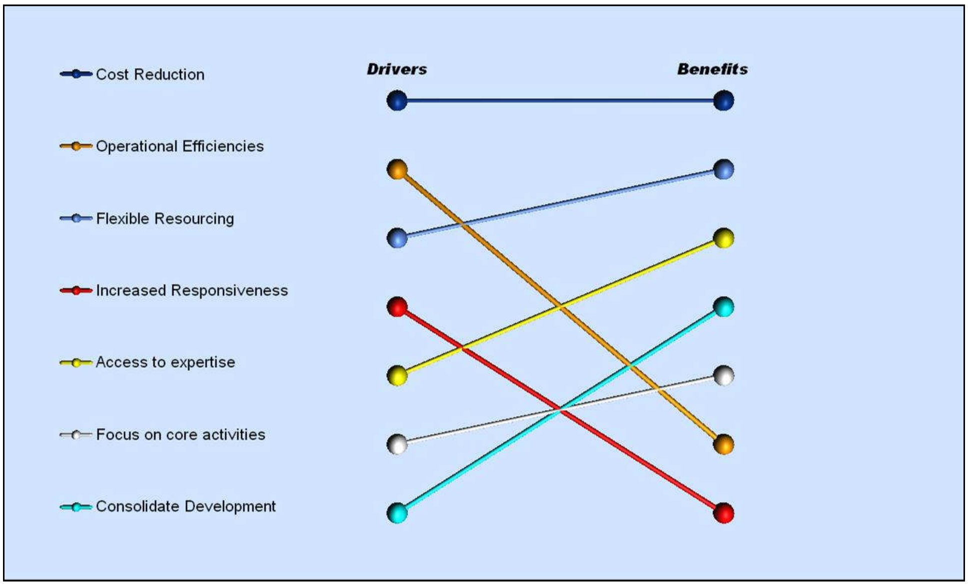
Given the importance of cost as a driving force behind the decision to move development activities offshore, it is not surprising that cost reductions were identified as the most significant area for benefits.

Have the anticipated benefits of offshoring been realised (weighted)?



When we weight the responses, cost reduction scores highly. However other areas score less well. Indeed when it came to benefiting from increased responsiveness the majority of respondents did not believe that the anticipated benefits had been achieved. In short – it might cost less but it's not always quicker!

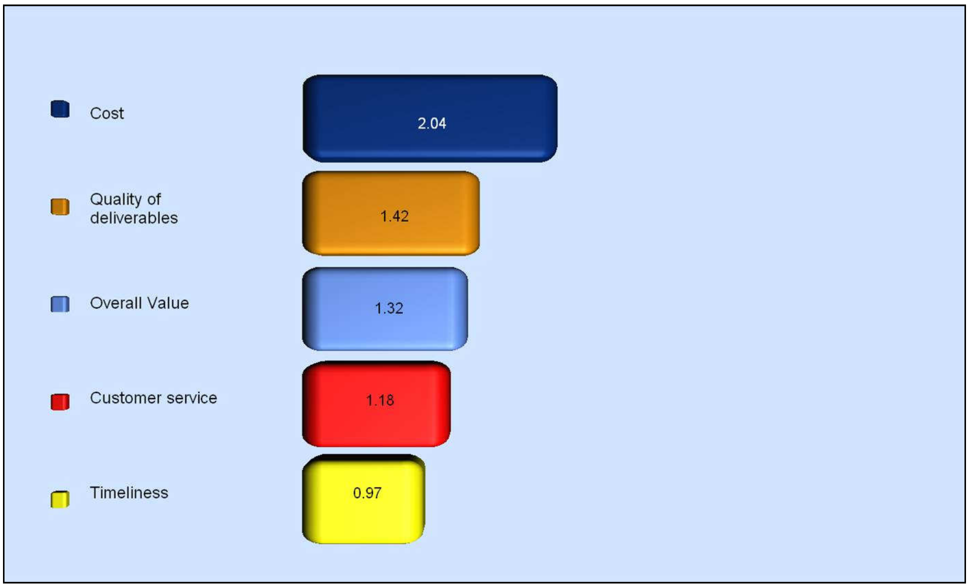
Comparing drivers and benefits



Now let us compare drivers and benefits. We gave each of the seven areas listed a ranking based on how highly they were scored. When compared in this way it is clear that cost reduction was the key driver for offshore development and was seen as being the main area of benefit as well.

However the desire to achieve operational efficiencies seems to have been an aspiration that did not reach attainment. It was a similar story with regard to responsiveness.

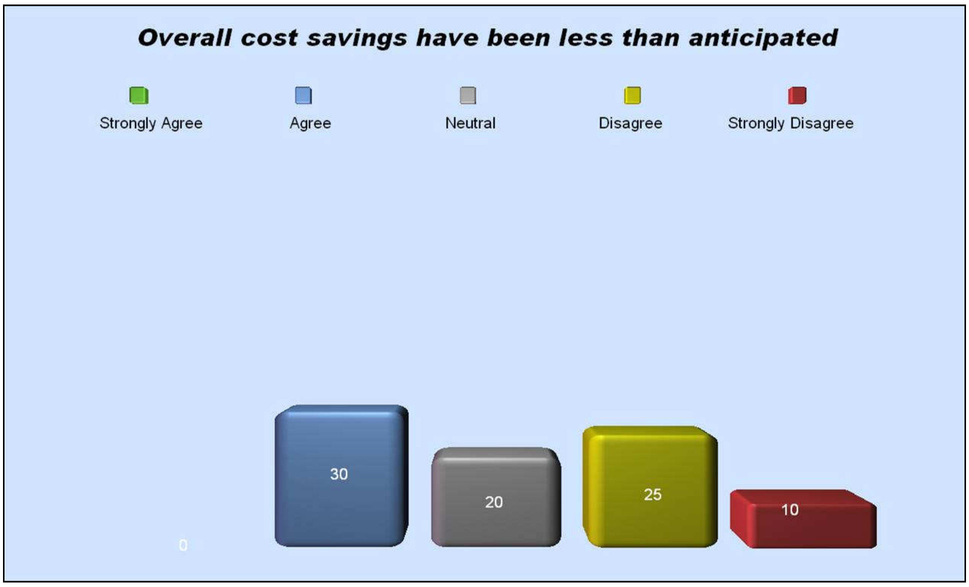
Supplier Performance



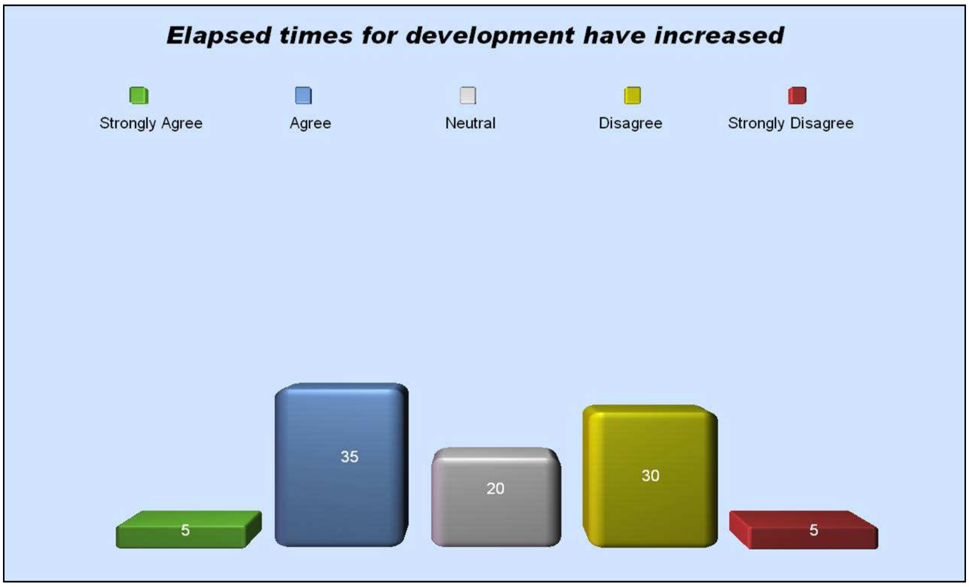
Our final question in this section provides further evidence that providers are rated highly on cost and poorly on timeliness / responsiveness. It is interesting to note also that quality of deliverables scores relatively highly while customer service is found at the lower end of the scale.

Experiences of offshore development

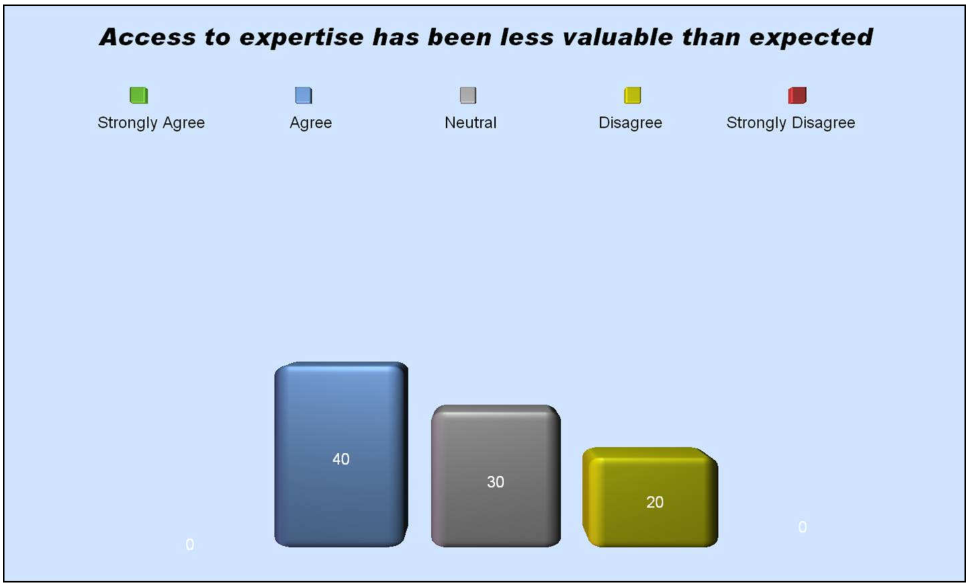
In this section we made a number of declarative statements and asked respondents who had moved to offshore development how strongly they agreed or disagreed with the statements being made. Here is what they thought:



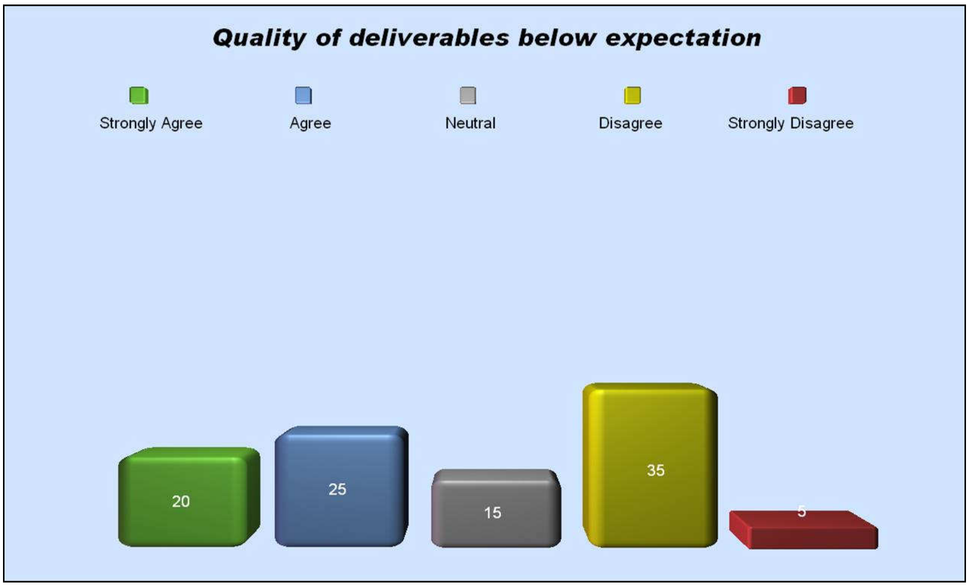
More respondents disagreed with the statement than agreed with it, with 30% stating that cost savings had been less than anticipated. Although not immediately apparent this is consistent with previous respondents, in that whereas cost savings have been made, not all respondents reported achieving the savings they had expected.



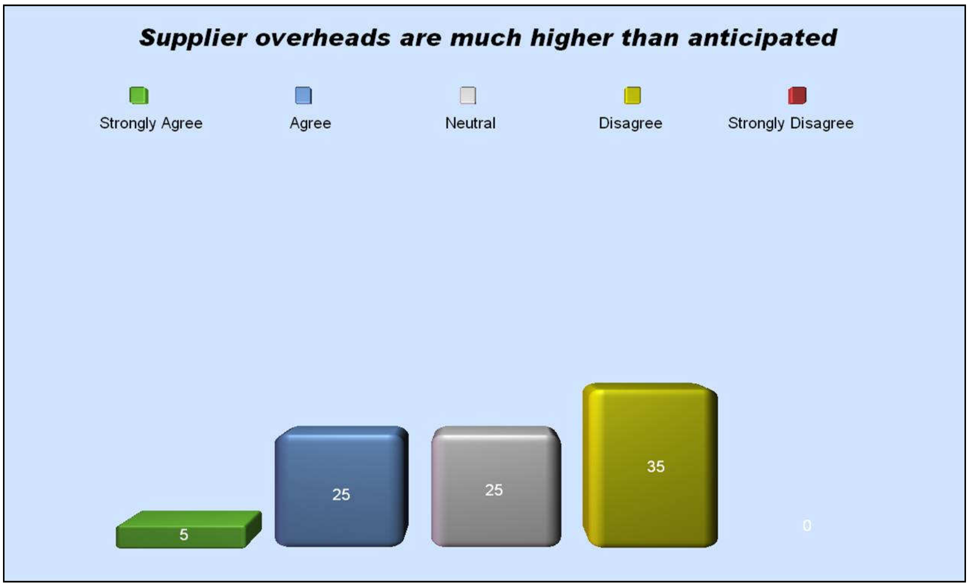
A range of opinions here, with respondents evenly split on this topic.



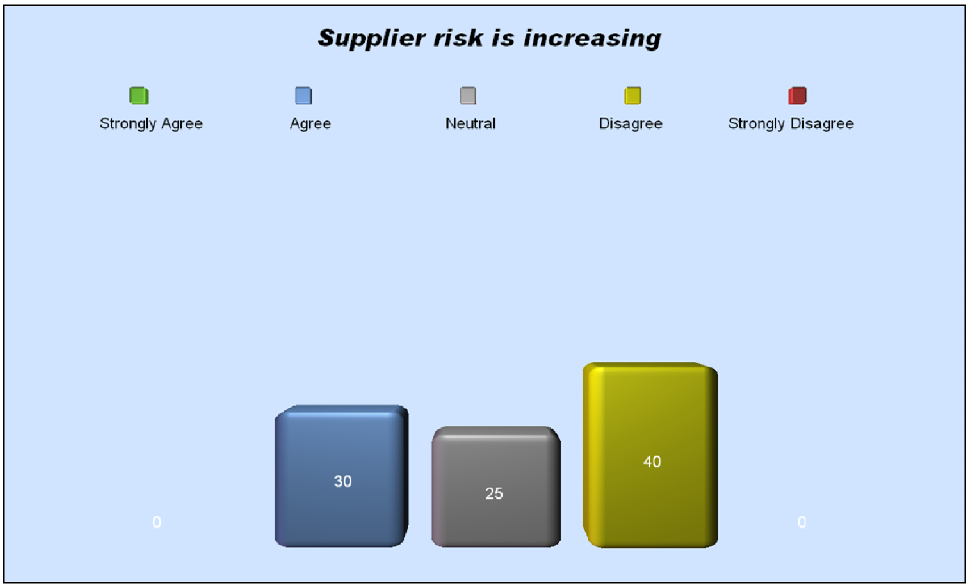
No strong feelings here but respondents were more inclined to agree with the statement.



Again a split result, with those in agreement with the statement edging it. (Although one respondent did comment that the expectation wasn't high in the first place!)



The strength of feelings rested with those who supported the statement, the depth with those who disagreed.

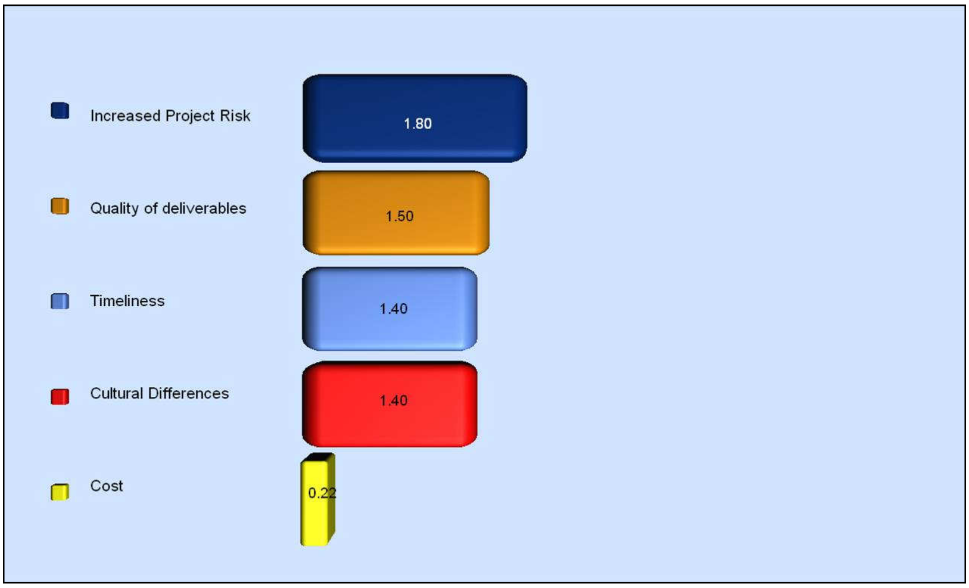


Again, no strong opinions or clear conclusions.

The Alternative View

A third of survey respondents did not make use of offshore development. Of these 60% said they would be willing to consider the offshore development route.

Respondents comments relating to their decision not to make use of offshore development are included as part of Appendix 1. Concerns about offshore development have been summarised in this slide.

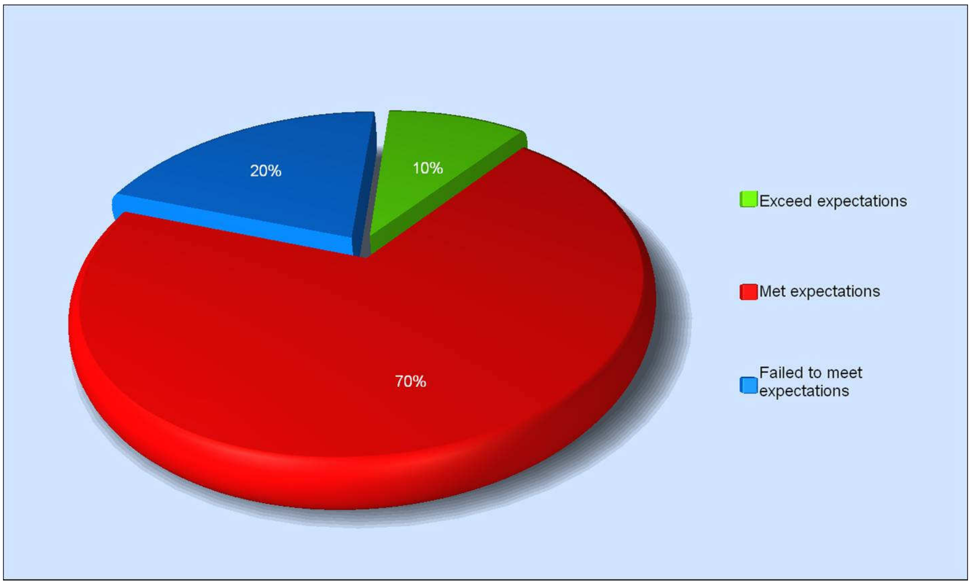


As can be seen, the strongest feeling related to the potential to increase project risk, with the quality and timeliness of deliverables mattering more than any concerns about cultural differences.

Now and the Future

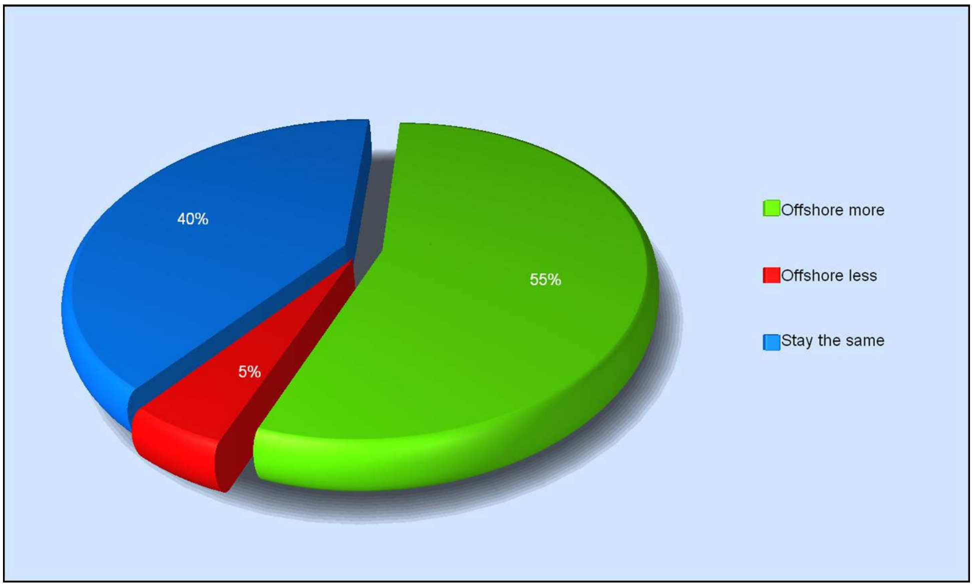
In this section we asked about both current state and future plans.

<u>How would you rate the success of your offshore development?</u>



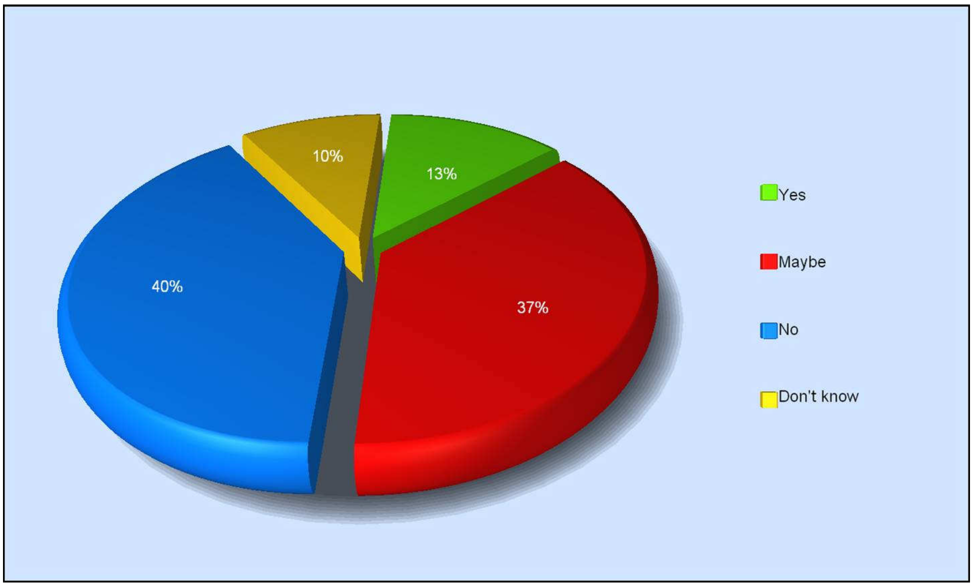
Eighty percent of respondents gave us positive feedback, with 10% adding that the experience had exceeded their expectations. Only 20% had a negative view of the process. However a small but significant minority reported that offshore development had failed to meet their expectations.

<u>Going forward will you:</u>



The majority of respondents expected their use of offshore development capabilities to increase over time. If you add this group to the 40% who expect their use of offshore development resources to remain constant it means that 95% of respondents are confident about the future of offshore development.

Is the time now ripe to think about repatriating development work?



Thirteen percent of respondents thought that now was a good time to think about repatriating development work; another 37% were open on the issue.

Appendix 1 – Respondent Comments

This Appendix contains comments from survey respondents:

General Comments

- *It all depends on what is offshored. Our experience is with Production Support and while not perfect is has improved and is available on a 24 x 7 basis at less cost.*
- *Development of large projects which are well and clearly defined is where there are the greatest benefits as there is more consistency in the work.*
- *Timeframes for development can be improved but this is at the expense of taking longer to specify.*
- *Development of small "enhancement" projects is less successful - there are too many opportunities for misunderstanding.*
- *Development work is often offshored on the assumption that it is a distinct activity disconnected with other aspects of a project. In reality for most financial organisations, development activities are relatively small in nature and benefit from a more "dynamic/collaborative" development process (close to clients etc.). The very nature of offshoring prevents or at least diminishes the ability to run this style of project and hence it is unrealistic to expect the same result.*
- *Many financial organisations have long serving development staff that have accumulated significant industry and organisational knowledge. This cannot be replaced quickly. It is unrealistic to expect the same result from an offshore developer, who may be technically very competent, but without the more rounded set of skills and knowledge.*
- *Offshoring is still working for us but we are selective about what we do. We are looking for more strategic partnerships now as opposed to just development*
- *Think of it as globalisation, not offshoring.*
- *With modern technology, it doesn't matter where the work is done as long as it is good and at the best price*

Comments from those who have not offshored

- *It is difficult enough to get developers to produce something sensible when they are in the same office. When they are not it gets harder and this is made even more difficult if there are language issues on top of all of the distance.*
- *We use predominantly third party applications so the key resources for us are Business Analysts and Support. We believe these roles should rest with internal staff.*
- *We are the local branch of a global organisation. We have a small development team doing specialised and diverse things. I firmly believe it is more effective for us not to offshore.*

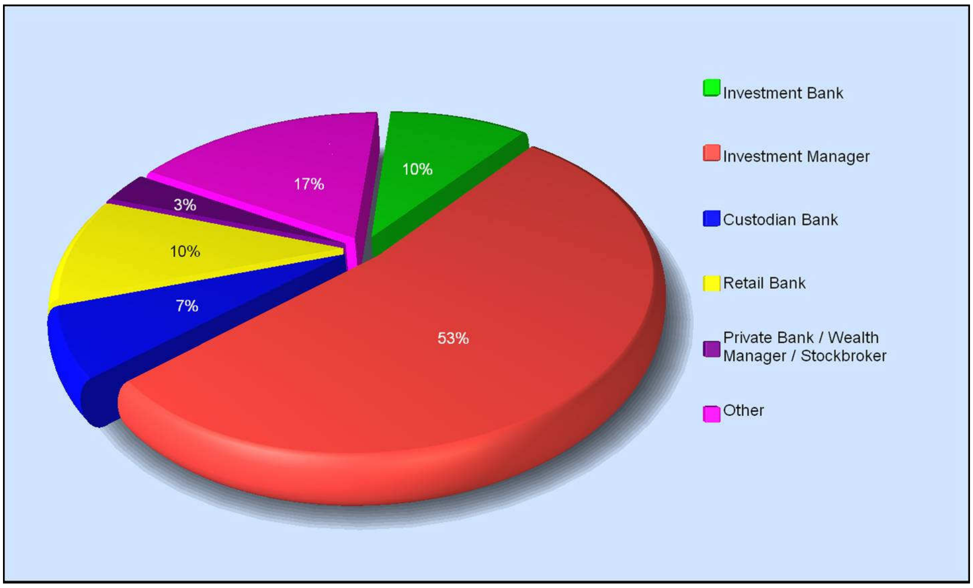
Appendix 2 - Respondent Analysis

We received valid responses from 43 individuals in 31 different organisations.

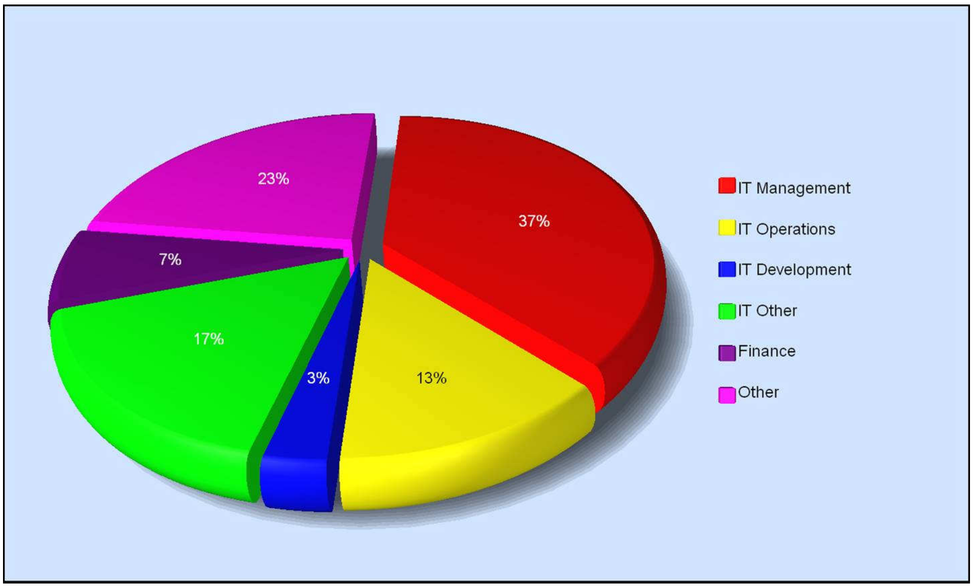
The following slides provide a breakdown of the respondent profile by:

- Business Type
- Job Function
- Decision Maker
- Whether the company used Offshore Resources

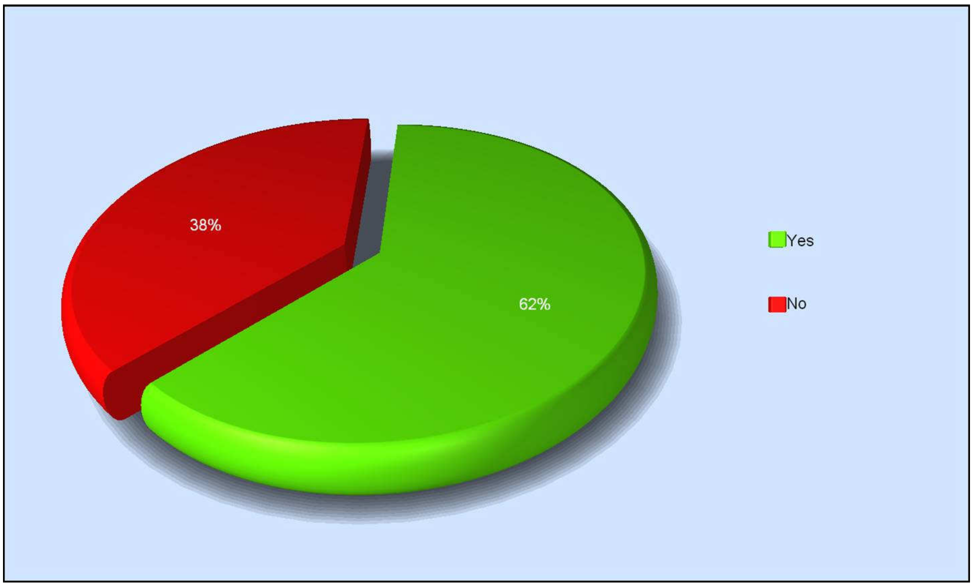
Business Type



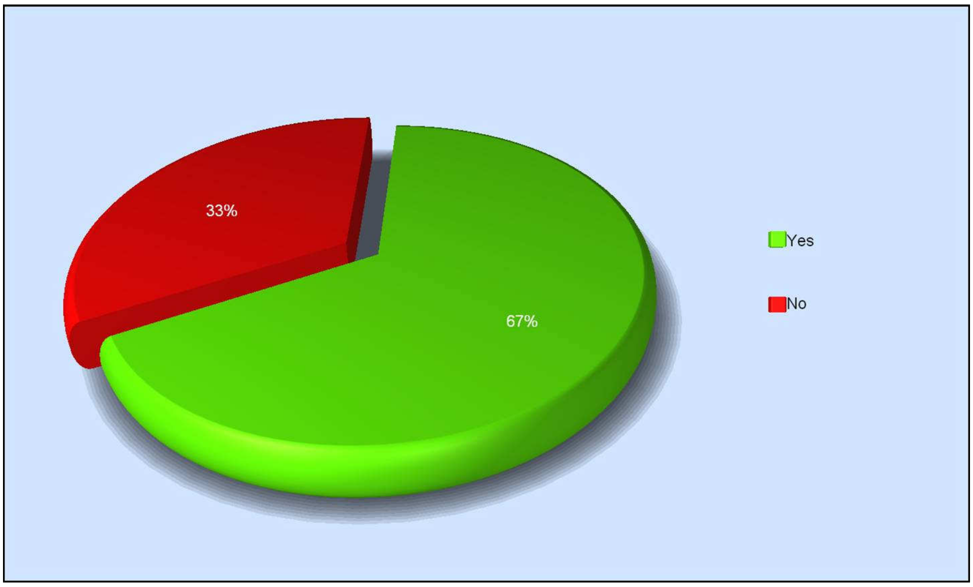
Job Function



Decision Maker?



Currently use Offshore Resources?



Appendix 3 - Survey Questions

Q1. What is your job function?
IT Management
IT Operations
IT Development
IT Other
Finance
Procurement
Other (please specify)

Q2. In what capacity are you responding to this survey?
Employee
Contractor

Q3. What is your organisation type?
Investment Bank
Investment Manager
Custodian Bank
Retail Bank
Hedge Fund
Private Bank / Wealth Manager / Stockbroker
Insurance Company
Other (please specify)

Q4. In your job role are you involved in decisions on whether to offshore development work?
Yes
No

Q5. Does your organisation use offshore resources for software development?
Yes (routes to Q5)
No (routes to Q17)

Q6. What percentage of development work is done offshore?
<10%
<25%
<50%
<75%
<100%

Q7. When did your organisation start making use of offshore development resources?
Pre 2001
Pre 2003
Pre 2006
Pre 2008
Post 2008

Q8. What were the drivers behind the decision to offshore? (Options – extremely important, somewhat important, neutral, not very important, not at all important)
Cost reduction
Access to expertise
Increased responsiveness
Operational efficiencies
Strategic decision to concentrate on core activities
Consolidation of development
Access to a flexible resource pool

Q9. What activities are carried out offshore? (Please tick all applicable)
Analysis
Design
Coding
System testing
Acceptance testing
Quality assurance / code review
Production Support
Other (please specify)

Q10. Where are you offshore resources located? (Please tick all applicable)
India
China
Asia (Other)
Eastern Europe
Eire
Other

Q11. Who is your primary offshore supplier?

Q12. How do your offshore supplier on the following? (Options – excellent, very good, good, average, poor, no opinion)
Cost
Quality of Deliverable
Customer Service
Timeliness
Overall Value

Q13. Have the anticipated benefits of offshoring been realised? (Options – yes, partially, no, too early to say, N/A)
Cost reduction
Access to expertise
Increased responsiveness
Operational efficiencies
Strategic decision to concentrate on core activities
Consolidation of development
Access to a flexible resource pool

Q14. How would you rate the success of your offshore development?
Exceeded expectations
Met expectations
Failed to meet expectations

Q15. Given your experience thus far, how strongly do you agree with the following statements? (Options - strongly agree, somewhat agree, neutral, disagree, disagree strongly, no opinion
Overall cost savings are less than anticipated
Elapsed times of development projects have increased
Access to resource expertise has provided less value than anticipated
The Quality of deliverables from offshore is below what you historically achieved from onshore resource
Supplier management overheads are much higher than anticipated
Supplier risk is increasing

Q16 Going forward will you:
Offshore more
Offshore less
Stay the same
(Routes to Q20)

Q17. Would you consider using offshore development?
Yes (routes to Q19)
No (routes to Q18)

Q18. Why not?

Q19. How strongly do you agree with the following statements? (Options - strongly agree, agree, neutral, disagree, disagree strongly)
Offshoring takes longer than on shore
Offshoring costs more than on shore
Offshoring increases risk on projects
Offshoring has been overhyped
Quality suffers when offshoring
Cultural differences can cause problems

Q20. Given the current market is the time now ripe to think about repatriating development work?
Yes
No
Maybe
Don't know

Q21. Any other comments?

Appendix 4 - Survey Method

The survey was carried out by CityIQ using our in-house tool set. All respondents were asked to include their email address as part of the survey and were subsequently contacted as a check against impersonation.

A small number of responses, deemed to have been submitted by individuals outside of the industry were discounted from the survey.

Most survey questions were optional. Percentages are shown to reflect the views of the respondents who answered the question and not the total population of respondents.

Where questions allowed respondents to grade their response (strongly agree, agree etc) the results have been weighted when presented in graph format using the formula:

((A*5) + (B*4) +(C*3) + (D*2) +E))

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