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To cut development costs, independent software vendors (ISVs) are increasingly outsourcing end-to-end product development to companies in India.

John Ribeiro
IDG News Service\Bangalore Bureau

To cut development costs, independent software vendors (ISVs) are increasingly outsourcing end-to-end product development to companies in India.

If previously the preferred route for low-cost, offshore development in India was to set up a captive development subsidiary, ISVs are now looking at alternatives such as third-party outsourcers that specialize in end-to-end product development, said Sarath Sura, managing director of the Indian operations of Sierra Atlantic Inc. Based in Fremont, California, Sierra Atlantic provides outsourced IT services and has a product development facility in Hyderabad in south India.

In end-to-end development, outsourcers do everything from the architecture to development, testing, and release of the product, Sura said.

Cartesis SA, a vendor of business performance management software in Paris, decided to outsource application development to Ness Technologies (India) Ltd. in Bangalore last November, after evaluating China, Eastern Europe and Canada as possible outsourcing locations, according to Pierre Samec, senior vice president of Cartesis' product group. "We wanted to get the best skills in the world at the best cost," he said.

A subsidiary of Ness Technologies Inc. in Tel Aviv, Ness Technologies (India) offers offshore product development, maintenance, testing and release automation services to mid-sized independent software vendors. "It is a headache to set up a subsidiary, build the infrastructure and hire people," Samec said. "It does not make sense to do it yourself when there are companies like Ness who will do it for you."

A large number of startups are bucking the trend to outsource rather than do product development in-house at an Indian subsidiary. The startups prefer to focus resources on marketing and brand building, and farm out the product development to Indian companies.

TeleGrow LLC, a Denton, Texas-based application service provider (ASP) for organic food buying clubs, for example, is outsourcing to India the development of its first product called CoopShopper. The Web product, which allows different organic food buyers to collaboratively order in quantity from a supplier, is being developed by Aspire Systems (India) Pvt. Ltd. in Chennai in south India. Aspire focuses on outsourced development of niche enterprise applications for vertical markets.

"As a startup company we had limited development funds, and we found that our user requirements were growing well beyond what we had initially anticipated," said Tom Murray, chief executive officer of TeleGrow. "It became clear given our budget constraints and our desire to access the market as quickly as possible that we needed



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to have a larger development team, and since we were resources limited, the offshore model was the best option," Murray added.

Although TeleGrow did evaluate setting up a wholly owned development subsidiary in India, it realized that as a small company it couldn't hire staff and manage a company in India from the U.S., Murray said. By outsourcing to Aspire, TeleGrow has saved about 60 percent of its development costs, he added.

Startups don't want to go through the pain and cost of building an engineering team, according to Gowri Shankar Subramanian, chief executive officer of Aspire. "We are seeing a repeat of the trend in manufacturing where companies that designed and built their own boxes, realized that they could get them designed and built by contract manufacturers, and focus instead on marketing and branding," Subramanian added.

A number of ISVs, including Oracle Corp. and SAP AG set up product development subsidiaries in India in the 1990s, to take advantage of low-cost staff available in the country. "Most of them set up their own centers in India because while Indian companies had made their mark in outsourced IT services, there were not many at that time that could offer end-to-end product development," said Satyajit Bandyopadhyay, chief delivery officer at Ness Technologies (India).

Some of the ISVs that had set up their own product development centers in India are now transferring their sites to Symphony Services Corp., and asking it to manage operations, said Gordon Brooks, president and chief executive officer of Symphony, an outsourcing company in Palo Alto, California, with delivery centers in Pune and Bangalore in India.

"The trend is that some of the people who set up captive centers are having trouble getting the productivity they want, are having trouble with retention, are having trouble with recruiting, and they are not cost-effective because they are not at the right scale of operations, and are not particularly efficient," said Brooks. "They are finding that their core competency is not building and running development centers in India."

Even the large ISVs that have set up development centers in India also outsource end-to-end product development to third companies that offer this service. "Some of the bigger companies, that had started their own captive centers in India, are now coming to us to partner for growth, because they can't on their own scale up their operations, and achieve the productivity they want." Brooks said.

To hedge risks, some ISVs outsource to more than one Indian outsourcer. Senable Technologies Inc. a startup in Dallas, for example, has outsourced development to three vendors in India, including Aspire, according to Andy Pulianda, the company's chief executive officer. Senable selected the three vendors after evaluating about 100 companies.

"India has the capability to provide robust commercial product development, but significant due diligence is required before selecting partners that meet your requirements," Pulianda said. A major pitfall, for example, could be low price because the vendor offering the lowest price may have cut costs on infrastructure, communications links or on security, Pulianda added.

To have greater control of the development work in India, the ISV may at times manage product development, and ask the outsourcer to provide and manage a facility and a team of trained staff.

"We wanted to have a development group in India, and not knowing the landscape really well, we started looking for a partner to work with in India," said Peter Wang, chief technology officer of Intransa Inc., a vendor of IP (Internet Protocol) storage products in San Jose, California. The company zeroed in on Symphony Services.

"The team we have in Pune was recruited for us, and we were involved in the recruitment process," Wang said. "While Symphony does the back-end management such as managing the standard overhead and the standard office functions, the actual project work is managed by us." Intransa has some of its storage management software developed in India.



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"We considered at one point setting up our own development operation in India, but in a financial analysis we did with the Symphony team, we found that the economics worked out a lot better if we asked them to do it for us," Wang said. Intransa wanted to have a development team up and ready quickly in India, rather than spending time setting up a captive operation and a management team, then hiring staff, Wang added.

The model companies like Intransa usually opt for is the BOT (build, operate, transfer) model where the vendor puts together a development team for the customer, and provides it with the necessary infrastructure, with the condition that the team may at a later date be transferred to the customer.

The BOT model is also favored by some startups because in the event of an acquisition, they can present the development team in India to the investor as part of the engineering assets of the company, according to Sura.

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