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Offshore Software Development

2015 Market Pricing Guide

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Introduction

This document was created based on our experience collaborating with hundreds of offshore vendors throughout the world, and over 14 years of outsourcing experience for web, enterprise, and mobile applications for clients in the U.S.

To succeed in offshore development, every client must find and engage an offshore vendor that is right for their individual needs, work style, budget, and personality. With the chaotic and noisy outsourcing marketplace growing every day, this is no easy matter for clients who just want to get their projects completed.

This clients' roadmap document will walk you through a simple process that will help you to understand where you stand in the offshoring world, and how to use that understanding to find that perfect-fit vendor.

This report is written primarily for the small- and midcap-business market. Potential cli-

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ents with projects valued from $50,000 to $750,000 will benefit most from this information, as will businesses looking for ongoing offshore partners for project work, Internet marketers, content authors, development services retailers, and startups.

Section 1: Understanding Vendor Types

The software outsourcing market is approaching $100 billion annually and is growing all the time, so it's not easy to divide it into neat segments. For our purposes, though, it helps to segment the vendor market as follows:

Large, Enterprise Offshore Software Companies

These big companies are typically found in India, Eastern Europe, or more recently in China or South America, and employ many hundreds or even thousands of software developers as well as testing and project-management resources. Although these companies tend to have competitive rates, they are best engaged by large corporations with project budgets of $300,000 to $1,000,000 or more, and who have the ability to endure a long learning curve and ramp-up period to realize the true benefits of outsourcing.

Enterprise technologies like Java or .Net are the strong points of these firms, as they are too large and slow-moving to be early adopters of more modern platforms like Ruby on Rails or social media applications. Because of ramp-up time and cost, high attrition rates and management challenges these companies are usually not good choices for the sub-$300,000 market.

Body Shops and Mid-Level Vendors

This category of software vendor ranges in size from 50 to around 500 employees and

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covers a wide range of companies with the largest range of quality and style. To grow a company beyond around 50 developers is extremely challenging and requires expert management, so these companies tend to be chaotic and unpredictable, although it's certainly possible to find a diamond in the rough.

The dreaded "body shop" model, frequently seen in India and now China, consists of a company that hires junior developers right out of college, then farms them out to overseas clients with minimal training, management, or leadership. As they rise up the ranks, they are frequently promoted without the solid experience required to manage technology clients. Attrition rates of up to 50% mean that clients who haven't lucked into a stable, skilled team within the company usually don't fare well.

Most body shops attract clients through low bids, staff projects with low-paid junior resources, and take whatever profit they can before the project ends or falls apart, which many do.

Not all vendors in this range, however, are "nightmare" body shops. There are good companies in this range that do solid work, and can be a good fit for clients who want to invest the time and energy to outsource large projects at low rates. It takes time, however, to find the quality companies in this noisy market segment.

Clients who are looking for the Offshore Development Center (ODC) model may do well in this range. The ODC model is one in which an offshore resource or team is hired and managed by the client, and is also referred to as team augmentation or extension. This can work because an ODC client can interview and choose their resources, then keep them 100% dedicated to their own projects.

Premium, Boutique, and Expat-run Vendors

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This is probably the best type of vendor if you are a small business, individual, or startup client looking for quality work from a legitimate provider. These companies tend to be expensive by offshore standards - expect to pay between 40% and 70% of what you'd pay for the same service on the domestic market.

There is good reason for this - a quality offshore vendor who can deliver quality work, has good communication skills, good business ethics, and is a stable and productive team will really stand out in the chaotic offshore market, and can therefore command a higher rate. These kinds of vendors remind us that a lower rate isn't actually cheaper if they take twice as long to deliver, and with poor quality.

These companies tend not to advertise on Craigslist, bid on Elance, send spam, or otherwise solicit business because they are already in high demand (or soon will be). To find them, you'll need to find a trusted resource who knows them or search online for vendors with characteristics associated with a desirable boutique firm, and then contact them directly.

These categories of companies typically have the following characteristics:

- Between 5 and 40 developers
- Expat management, US/Europe ownership, or US/Europe educated leadership
- Rates towards the higher end of the comparative scale(s)
- A technology focus/specialty, such as Ruby on Rails or django
- Easily found online but not active in marketplaces such as oDesk
- Advertises on Google or similar rather than marketplaces
- At least 2 years in business, frequently more

Upstart Companies and Freelance Vendors

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This category fills the range between the boutique/expat-run vendors and the bottom-feeders, and is tough to summarize as the range of skill and experience is very broad. In this category, you'll find both experienced and amateur freelancers, brand new companies with just 1 or 2 partners, and up-and-coming companies that are quickly outgrowing the category.

The difficulty in finding good vendors in this category cannot be overstated. These vendors are just getting their start, so they'll usually be found on Elance, Odesk, or similar marketplaces. This means that you'll need to find those diamonds in the rough by interviewing and carefully evaluating each vendor - a difficult and time-consuming task for the experienced client and a nearly impossible one for the inexperienced.

With that in mind, this is where some great deals are to be had for savvy clients. If you are able to find up-and-coming vendors who have terrific skills but haven't managed to raise their rates yet (and thus graduate from this category), you can get great work at a low rate. That is easier said than done, though; this category is not for the faint of heart. The majority of clients will be better off searching for vendors in the boutique/expat categories and paying a bit more for a higher likelihood of success.

The Bottom Feeders

There is no certification, no licensing procedure to prevent anyone with an Internet connection from offering services. The distance between clients and vendors makes it relatively easy for anyone to put up a website, start placing ads or bidding on Elance, and taking their first client based on some vague claims of expertise and experience.

This is the category where the offshore nightmares usually happen, especially when a bottom-feeding vendor works with a bottom-feeding client (which is typically the case).

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You've probably heard from these vendors already – through unsolicited messages via email or LinkedIn, where they advertise with wordy and flowery claims of unlimited skills and experience. You'll also be running into these vendors on Elance, Odesk, vWorker, and other marketplaces, including Craigslist. The bottom-feeding vendors are always making noise - ironically that's the easiest way to identify them quickly.

Bottom feeders are hungry for work and will usually offer exciting but questionable benefits such as rock-bottom prices, 24/7 availability, the ability to start on your project immediately, a skillset that contains every platform/technology available, and promises of unrealistic deadlines. As you are evaluating clients, do your best to ignore these low-end vendors or you'll set yourself up for an expensive and frustrating lesson in "you get what you pay for."

Section 2: Understanding Client Types

In this section we'll discuss the various types of clients who are purchasing offshore development services. This is useful for two reasons: First, it's important to understand what type of client you are, and how offshore vendors will perceive you. Second, it's useful to understand your competition in winning the attention of the best vendors.

Large Enterprise Clients

These types of clients are the counterparts to the large enterprise software vendors mentioned above. They typically need months or years of development from larger teams, and tend to use technologies like Java or Oracle for projects valued in the high hundreds of thousands or millions of dollars.

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Mature Clients with Medium-Sized Projects

These clients are generally the most desirable from the perspective of many offshore vendors. They can be loosely described as companies that have experience in outsourcing software, have budgets of $50k or more, and have internal resources such as in-house developers or project managers that can co-manage the project. These types of clients are attractive because their experience makes them easier to negotiate and work with. They understand the estimation process, risks associated with scheduling, cost overages, and other aspects of outsourcing, so they are seen as more likely to be realistic clients that are successful offshore.

Resellers

Resellers are domestic companies that sell software services to domestic clients, but outsource much or all of the development work overseas.

Resellers are highly desirable clients for offshore groups of all sizes because they are experienced with offshore development and can bring steady work to an offshore team without the need for a sales cycle. Resellers tend to be savvy customers, and will usually retain the best vendors and get better rates than ordinary clients for the same work.

Reseller arrangements are usually “white-label,” which means that both client and vendor keep the relationship a secret. So you may never know that the vendor you are negotiating with is the same team that builds software for your competition. Reseller arrangements are particularly popular with software companies as well as SEO, virtual-assistant, and QA/testing agencies. One thing you can assume, though, is that if you are a small business or a startup you’re probably getting quoted higher rates than you would be if you were a reseller. Resellers are your unseen competition.

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Caveat: Resellers are good, but only if they are stable. If your agency/company is just starting out and you aren't able to send steady work to your vendor, they'll see you as a potentially painful client.

Small Businesses, Startups, and Individuals

This is the largest and most diverse category of clients. It includes bloggers, funded startups, small and home businesses, vanity efforts, non-profits, and others, usually with values ranging from $10,000 to $25,000. This category is typically serviced by upstart companies, freelancers, boutique teams, and, unfortunately the bottom-feeding vendors (see below).

Clients in this category have a tough time finding success for a variety of reasons, including:

- Upstart companies are bidding for this type of work, but cannot always deliver quality
- Great boutique firms take these types of clients, but are relatively expensive
- Bottom feeders are abundant and make it hard for these clients to choose
- The marketplace is extremely noisy and confusing
- Many clients in this category are relatively inexperienced, which makes them less attractive to the best vendors

Bottom-Feeding Clients

This category is difficult to characterize but easy to understand from a motivation standpoint: Almost everyone would love to get something for nothing. You may have legitimate reasons – you're a startup or non-profit, revenues are tight but if you could just get

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this new website or app launched you'd be a solid customer, your friend at another company did it and succeeded – but the truth is a bottom-feeding client will rarely if ever rise to the top for a legitimate vendor.

If you think you're going to get quality development for half the rates of other clients or the market, ask yourself if you're acting like a bottom-feeding client. If you are, remind yourself that there's no free lunch in this business.

Section 3: Identifying Your Client Profile

Armed with a basic understanding of what the market looks like and the various types of clients and vendors, it's time to determine where you fit in the marketplace.

Understanding your client profile is the key to understanding the type of vendor you should be looking for. Some typical client profiles are listed below – see if you can find the client statement that you most resemble:

Client Statement	**Ideal Vendor**
"My project budget is $100,000. I have some experience in outsourcing, and I have internal software professionals that can help manage the project from our	These types of clients can do well in the mid-level vendor market, although they'll have to be careful to avoid the body-shops and high attrition at that level. Because the client has internal resources that can help manage the project, the ODC model can be successful for these clients and will be the most cost-effective overall.

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end.”	
“We’re an internet development company who would like to find a great offshore partner so that we can resell their services. We have ongoing work and strong technical management skills.”	This is a very attractive client profile for vendors, so you can expect to get lots of attention at all levels. Your best fit may be with the mid-level vendors, who are most likely to have the ability to scale up and down with you as well as offer great prices. The ODC model is also a great fit in this category. If you need cutting-edge skills you’ll need to search for a great boutique provider or work with a mid-level vendor who will find and retain the right resources for you. If your company is small and doesn’t generate enough work to keep a permanent ODC team going, you can also do well at the premium/boutique level if you can find a vendor that offers white-label services.
“My project budget is $15,000 to $50,000. We are a small business that is not Internet related, so have minimal experience with software development. We have no software developers/managers on staff so we’ll need strong project management.”	With no software development experience on your end, you’ll need a partner who can provide great communication, quality control and project management for you to reduce overall risk. Mid-level vendors will offer this but not all of them will deliver because quality project management is actually scarcer than good developers. Upstarts/freelancers will also offer project management but are frequently unable to deliver an experienced resource to lead the project so be sure to investigate and verify these claims. The premium/boutique vendors will be your best bet. These companies will charge a premium for the ability to communi-

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	cate well in English and manage the project to a western standard, but that increase in price will have a huge return - the vendor is filling the management gap on your end.
“My project budget is $15,000. We’re an Internet start up with lots of experience. We know exactly what we want and we know how to manage it; we just need additional resources“	Internet startups are a unique category because they usually have tech skills on their own, so they have the ability to manage projects themselves in many cases. Many startups insist on top-notch developers and scoff at inexpensive offshore resources. Those types of clients should certainly stick with the boutique/premium vendors. Many startups, however, are on a tight budget and are willing to take on risk to get their project built, so it may be acceptable for such clients to work with upstart or freelance developers so long as they invest the time to screen and qualify those resources before hiring them.
“My project budget is just $2500. I have little experience in software or project management.“	These clients are most in danger of having their projects fail. The reason is simple: They are unable to pay the high rates to engage vendors who provide quality services and management, but they aren’t able to provide that management themselves. Thus, they are left to navigate the lower-end marketplaces and hope to find a gem of a developer who won’t fail them, while attempting to manage the project themselves as best they can. These clients have little choice but to stay in the bottom

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	range of the market. It won't be easy, but these clients can succeed by investing time to identify those great up-start/freelance vendors and eliminate the bottom-feeders along the way. It's absolutely possible to have a successful project on Elance/oDesk in this range, but the client must be prepared to spend considerable amounts of time in the selection process before they jump in to their project, then spend even more time and energy trying to manage every detail of the project for it to succeed.

The above client profiles may not fit you perfectly but you can use them to provide context as we learn how to find our vendors in the next section. Here is an important theme that you should keep in mind when deciding the type of vendor that you'll be looking for:

Good project management is expensive and rare. If you know how to manage the project on your own, you can save a lot of money by using less expensive vendors. If you don't know how, you'll need to spend a bit more to ensure that you get a vendor who can provide strong project management and leadership for your project. It's possible to go without management on a very small project, but extremely rare to escape this dynamic overall. A project without a solid project manager will frequently fail, and this is the most common cause of offshore development failure. The management can come from a developer, a client, or someone else, but someone has to be looking out for the big picture.

Good management skills for smaller projects can usually be found at the premium/boutique market level. These companies are small enough to be responsive and flexible, and can frequently provide a high level of service. If you don't know how to manage your project, don't expect a low-end vendor to fill these gaps.

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Section 4: Identifying and Finding Your Ideal Vendor

Now that we have a specific type of vendor in mind, it's time to find them, hire them, and get our project started. For purposes of this report, we'll skip the big enterprise clients and vendors – they already know how to find each other. For the rest of market, here are some helpful tips:

Body shops and mid-level vendors are easy to find. As a general rule, the more successful vendors in this range will not be active on marketplaces like Elance and oDesk, but there are many exceptions. The most successful way to find these is to search the web. Many companies in this range will advertise aggressively on Google or other search engines. This can frequently be a sign of a stable and successful company because this type of advertising is much more expensive than bidding on marketplaces.

To narrow down the list, remember that a company with more than about 100 people is difficult to manage and grow, so you want companies that have been in business for at least 3-5 years so that you can be confident of their stability. Also, look for companies that have a U.S. presence, such as a representative or an office – this is a great indicator of a stable company.

Look for comprehensive case studies, and bios of the company leadership. Great mid-level shops should also be able to provide specific/named resources that can work on your project as well as cite case studies for complex, successful projects.

Finally, take great care to eliminate the body-shop companies by avoiding vendors of this size that appear to take lots of low-value projects on Elance or Guru. This is the

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hallmark of the body shop – quick turnaround and a high volume of low-value projects. Don't be fooled by a long list of great reviews on Elance – the body shops are expert at getting great reviews for mediocre work.

Premium boutique and expat-run vendors are a great choice for many clients who understand that the higher prices that these companies charge will have a substantial ROI. These companies are usually found online through search engines, as they tend not to market themselves on marketplaces, and are frequently focused on a single technology. If you know what technology you are looking for, you can look for user groups or events related to that technology in your target market. For example, you can find some great Chinese vendors who are specialists in Ruby on Rails by looking at who is attending Ruby related events/meet-ups in Shanghai.

One of the best ways to qualify these types of vendors is by requesting a phone/Skype call with them, and evaluating both their English skills and their rates. If a native English speaker (i.e. an expat) confidently announces that their rates are more than 50% of domestic rates, you've probably found a premium shop run by an expat or at least someone with whom you can have a comfortable and clear conversation.

Upstart companies and freelancers are easily found on Craigslist, Elance, oDesk, and other marketplaces - so easily, in fact, that the toughest part of finding good vendors in this market is weeding out the bad ones. A great way to identify vendors in this market is to simply do small trials. Companies and freelancers who are just starting out will almost always jump at the chance to do a small trial project, and it's common to agree a reduced rate for a trial of just 1-2 weeks. Don't hesitate to do trials with more than one vendor until you have a good feeling and are ready to commit. The trick to succeeding in this category is to invest time and energy into the selection process.

Bottom-feeder vendors offer very little benefit and a lot of risk to clients. In this catego-

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ry, clients learn the hard lesson of offshoring: a $12/hr resource will usually cost more than a $35/hr resource because they produce poor quality work that has to be redone, they disappear completely, or they turn your project into a death march. There are always stories of clients finding great resources for $15/hr, but those are rare and it's increasingly unlikely you'll be one of them. Avoid this category completely.

Section 5: Pricing Guidelines

Offshore development pricing varies dramatically from region-to-region, vendor-to-vendor, and even from individual vendors sometimes. Prices are frequently adjusted based on the perceived quality of the client, the expected difficulty in working with them, and other factors. A tech-savvy client with an interesting project may pay 30% less than a newbie client with a boring job.

When considering cost, remember that many regions are more or less expensive than others for a variety of reasons. Consider the following examples of regional themes during your selection process:

- India tends to be inexpensive, due to the huge labor pool
- Russia/Ukraine/Belarus tends to be more expensive, due to high education and skill levels.
- Vietnam tends to be inexpensive due to very favorable currency exchange, language barriers and a fairly new IT market with a lack of senior developers
- South America tends to be expensive, due to similarities in time zone, language, and culture

The chart provides some baseline data that has been collected through thousands of

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vendor contacts and client engagements at SourceSeek, and represents typical cost ranges as of 2015. These cost ranges are rough and are provided as informational guides only – many exceptions exist and the offshore development marketplace is constantly changing.

Large enterprise vendors	These companies offer a wide range of resources with different prices (i.e. senior, junior, QA, etc). Current hourly rates fall between $21/hr and $29/hr for multiple, long-term resources.
Body shops and mid-level vendors	Expect to currently pay between $18/hr to $23/hr for a body shop, or $23/hr to $35/hr for a quality mid-level vendor.
Premium boutique and expat-run vendors	Expect to currently pay anywhere from $30/hr up to $55/hr. Many great vendors with solid management and language skills who deliver quality code are clustered around the $36/hr to $42/hr range, with wide variation for specialties and regions.
Upstart vendors and freelancers	Small groups that have great skills and management will currently fall between $18/hr and $30/hr. Freelancers have a

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	wider range, with brand-new freelancers trying to develop a clientele by offering rock-bottom rates and more established developers charging up to $70/hr.
Bottom-feeder vendors	At the bottom, we still see rates under $15/hr and even under $10/hr.

Section 6: Putting It All Together

In this report we've looked at the various types of clients and vendors and learned about why some clients may not be the ideal "fit" for some vendors. We've also looked at the types of clients that are the most attractive to individual vendor types, and provided an overview of how clients can find the vendors with which they will work best.

The next step is to put that information to work by taking action as follows:

1. Consider the type of client personality you have, and write some notes about how you might be perceived by a vendor. Are you tech-savvy and experienced, or do you want some hand-holding? Are you aggressive and vocal, or do you want the vendor to take the lead?

2. Consider how much leadership and project management you bring to the table, and add these to your notes. Are you really able to help manage the project? Can you handle things like hosting, design reviews, testing, and solving problems?

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3. Now review this report and try to use your self-assessed client profile to determine which type of vendor will be your best match.

4. Now that you know what you are looking for, go out and find them. Be sure to invest your time wisely, talking to vendors, and trying them out if you want to ensure your success.

At SourceSeek we are always happy to get client feedback and provide support to clients who are entering the chaotic world of offshore development. We invite you to contact us at any time to ask questions or just let us know how your own vendor search turned out!

Good luck on your project, and be sure to visit us at www.SourceSeek.com.

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