



Global Outsourcing Strategy - Does India Still Make Sense as the Outsourcing Destination?

Nowadays, I am being asked this question with some regularity -- "Salaries are raising fast in India; does India still make sense as the outsourcing destination?"

Current Indian salaries for developers are in the range of US\$15K to \$20K. Silicon Valley salaries for similar skills are in the range of \$60K to \$90K. When you add other costs - additional management, travel, productivity difference, communication, duplication of equipment and so on, cost in India is still a fraction of the U.S. cost.

Projecting into the future, average salary increases in India are in the range of 15% annually. If you assume 8% salary increases in the Silicon Valley, over the next 5 years, India will continue to have much lower salary than the Valley.

Instead of salaries, fully burdened cost is a better metric. If you were outsourcing, vendors would charge you in the range of \$50K per developer; if you were to add \$10K for additional costs, your fully burdened cost will be in the range of \$60K vs a range of \$100 to \$120K full burdened cost in the valley.

In the case of one company who decided to bring back their development, their stated reason was high cost; turns out they had a staff of 20 to 25 developers in India and set up their own subsidiary. Subsidiaries require significant overheads --administrative staff - General Manager/Managing Director, HR Manager, Finance Manager, Office Staff, IT Staff and possibly unused office space to accommodate growth. They may have been better off outsourcing to a vendor who could have allocated overhead costs over a larger base. If their operating structure was set up right from the get go, cost may not have become an issue.

In selecting a country for outsourcing, cost is only one of the considerations; take other factors into consideration - market potential, talent pool available and ability to scale, proven infrastructure and start up time, language skills and availability management talent.

Prior to deciding which country, you need to carefully evaluate and decide if off shoring per se makes sense for your situation and the best way to go about it. Those who have figured out how to establish and manage offshore operations are finding that it can make a strategic difference; but many are struggling with less than expected results.