

Thomas Schlichtherle

Open Source Business Models in Transition

Part 1: Offshore development and international partnerships

For decades large IT firms have been profiting from international labour. But globalisation has long been affecting the commercial structure of smaller and medium sized software companies. Even the smallest companies are beginning to enjoy the benefits of internationalisation. European TYPO3 agencies and larger end-users are cooperating effectively with Indian development teams. Because the requisite preparations were made, the experiences have been positive. With a 44% share of the international market, India has long since been the world's 'development branch', especially in the case of large software and IT firms. Texas Instruments, for example, invested heavily in India twenty years ago. Today all market leaders have a presence there. Even CapGemini has recently decided that in the future 40% of its 70 000 employees will work in India.

It has long been time for small IT enterprises to join the 'whales' of the sector and secure the benefits to be gained from offshoring. The open source scene in particular could end up making significant gains due to the (in most cases) higher time and staff intensity of open source as opposed to proprietary software. For the greater the time investment in the development, the greater the cost advantage of offshore development. In addition, the clients here want more and more for ever smaller budgets. The growth of the internal IT market is only around 2 or 3 percent, and applications such as content management systems have become much more taken for granted than was the case three years ago, even among end users. The price benefit of the innovative has already dropped out. The character of the market is changing.

The federal association of information technology, telecommunications and new media (BITKOM) announced, that at the beginning of 2007, there were around 20.000 unfilled IT positions and, with the dwindling number of IT graduates, it fears a further tightening of the labour market and the accompanying increase of labour costs. Thus the business models of many IT service providers must be adjusted, since, in most cases, it is not mere software development that leads to market success. The success factors for winning and retaining clients are conceptual design, integrated services, comprehensive problem-solving and attractive conditions.

Offshore development will have already occurred to some independents in the software sector as a solution to their problems. On this score, Dr Matthias Weber from the BITKOM research group Outsourcing says, 'Alongside other factors, it is above all cost pressure that will see to significant growth of the importance of outsourcing in the short and medium term.' Cost factors will continue to play by far the most important role, but the dwindling labour supply is also driving this trend. For corporations which operate outside the region, one thing is clear: American and English corporations have for a long time been outsourcing development much more intensively than their competitors on the Continent. In doing so, they have gained a clear competitive advantage. While on the one hand relief through international cooperation is tempting for European corporations, on the other hand there remain unanswered questions which arise from a lack of experience in this area.

TYPO3 in India

Unlike other open source software, TYPO3 is poorly represented in India, which is where, for example, vTiger CRM (the open source

spin-off of SugarCRM) comes from. And yet there is support for the TYPO3 community in India. Rahul Dewan from Delhi is one of the generation of very well educated and certified Indian IT professionals: in addition he is an open source entrepreneur. In 1999, he founded 'Srijan Technologies Private Limited' [1], a software development company which already has over 20 permanent employees and continues to grow. The remarkable thing is that Srijan applies himself strongly in the social sphere. His business finances a small school, provides funds for poor farmers to use machines and tractors and organises micro credits.

Facts about software giant India

- India won its independence from Great Britain in 1949. It is a democracy and member of the Commonwealth, and its laws and jurisprudence are strongly related to the British ones.
- With 1.1 billion inhabitants, India is the world's second most populous country after China. More than half of its population is under 25.
- English is the administrative and commercial language alongside around 30 regional Indian languages. The time difference between India and Germany, Austria and Switzerland is 4.5 hours.
- The first large-scale investments were made by electronics corporations starting around 1980 (Texas Instruments).
- The markets were liberalised from the beginning of the 90s onwards. Since then, there has been increased investment from all IT corporations.
- With around 1.6 million workers, the Indian IT sector is about as large as Germany's. India is experiencing an economic growth of 8 percent. In the long term (until 2020) 5.5 percent growth is forecast. (India is the world leader in IT growth. DB Research)
- Depending on the sector, labour costs in the IT sector are around 20 to 50 percent that of the western European level.
- The main bottleneck of Indian developer teams lies in human resources management. With a booming IT sector and a disunified IT education system, staff acquisition and management is decisive in India.
- There have been many and varied experiences of offshore development in the IT branch through the sustained activities of large corporations. India has the highest concentration of CMM Level 5 certified businesses in the world.
- The Indian IT industry had a turnover of around 30 billion US dollars in 2005. Around 60 billion US dollars are expected in 2010 (prognosis of the Indian software association NASSCOM).
- Around one third of IT service exports go to the USA or the UK.
- Alongside the capital Delhi, IT centres include Bangalore, Mumbai (previously Bombay), Pune, Chennai (previously Madras) and Hyderabad.

Rahul Dewan came across TYPO3 a few years ago and since then has been a member of the fan community. For a long time now he has been active in the community. With his team he has developed diverse extensions and has made them ready via TER. These include 'bahag_photogallery', 'affiliate_tracker', 'news_search', and diverse 'job_bank' extensions. He regularly visits European community events as well as his clients in the USA and Europe, and over time has developed countless large projects in his home market with TYPO3, for example a project for the telecommunications corporation Bharti. In addition, Dewan is active in the organization of the community there and in the dissemination of TYPO3: 'Due to the fact that TYPO3 is not as widespread in India as in Europe, the community is small and widely dispersed. That makes the organization of events more difficult.' In Srijan's port-

folio, TYPO3 nevertheless plays an important part alongside Linux, MySQL, PHP and many other well-known open-source solutions. To improve cooperation with European agencies, Srijan will henceforth maintain a small presence in Switzerland. Project and contract management, monetary transactions and further aspects of working together will thereby become significantly easier.

Around the globe – projects and experiences

In the sphere of international cooperative development among small and medium-sized businesses, Rahul Dewan is very much in the vanguard. When he started to work with his team for American and European clients, there were hardly any comparable alliances among businesses the size of his. Today Srijan normally works for agencies, which Dewan assures strict discretion and with which Srijan will not compete: that is the basis of a partnership which will function in the long term. Still, small European businesses and smaller projects must ask themselves whether cooperative development across the seven seas makes sense for them. This is a question of feasibility, the chances of success and the recommended rules of the game. And this is where the experiences of branch experts, clients and contractors are useful.

The experiences described in what follows are taken from practice and as such do not present merely theoretical knowledge. They are about projects for the final customer.

Delft University (Netherlands)
TYPO3 authentication service (A-select/ single sign-on) as well as an interface for 'tt_news-Records' for multilingual support, customising extensions 'chc_forum', 'cwt_community' and 'sr_feuser_register' alongside the implementation of diverse additional features.
Goihata (Japan/Spain)
Implementation of a Japanese-Spanish dictionary as an AJAX-based TYPO3 plug-in with automatic translation and further features.
LGM Model (USA)
Set up of various intranet applications such as eGroupware, OpenLDAP, migration of the customer site to TYPO3 (including RealURL and multiple site management), client extension for the 'reaching through' of site visitor information to the eGroupware backend. An extension for a project management solution (with XMLRPC layers for eGroupware) is in the works.

Charles Overy, director of the US LGM Model (CADSoftware) from near Denver, Colorado, has been outsourcing software development work for eight years, and for a few years to India. The smallest project which he has passed on in this way was worth 12 000 US dollars – an order of magnitude which for him is only worthwhile in exceptional circumstances: 'The systematic accumulation of running allocations adds up to a large and very attractive volume. My monthly outsourcing budget is only a few thousand US dollars.' It is an advantage if the client and the contractor have businesses of a similar size, says Overy, especially in the case of smaller businesses. Each party would then have the same level of interest in the success of the project and they would meet at eye level. For Overy the choice of the right partner and a long-term arrangement are of paramount importance: 'that is critical, of essential and extraordinary importance.' Only in a stable partnership do both sides fully benefit from an offshore development. And it is evident that the time and effort expended on the first project are greater than that expended on the twentieth.

It is important for the client to prepare a clear project description. Part of that is admitting uncertainties in time. According to Overy, 'You need to take small steps, work at individual goals, which can be achieved bit by bit. Large, ill-defined projects are poor candidates for outsourcing. In this way, aberrations can be identified early, and in the end this benefits both partners. Deviations from the project plan are identified early and this helps in keeping the project on course and achieving greater transparency. Step by step the project is pushed along and with the completion of each step feedback results from partial inspection. For Andi

Pühringer, too, who also does outsourcing work with a small team, clear and unequivocal project descriptions are of great importance. According to him, such descriptions are of essential significance to the mutual satisfaction of the client and contractor in a project. The axe is thus taken to the root of misunderstandings and misinterpretations. This method contributes to the best risk minimisation for both sides and remuneration can be coupled in small instalments to small steps in the project. Rahul Dewan confirms that this method is ideal for the contractor too.

Jost van Berckel, a software developer at the Shared Service Centre at the University of Delft in the Netherlands, has significantly less experience with outsourcing than Overy: he sent assignments to India for the first time in 2006. While he and Dewan got to know one another, the university was on the hunt for a single sign-on solution for a multitude of websites. The solution available at Srijan was finally sponsored and brought to completion. Right now, final tests are being made. Along with the cost benefits, van Berckel saw the availability of competent TYPO3 developers as the most important advantage. He also regards a good project management tool as important. Basecamp [2], the web-based open source solution introduced by Srijan for these purposes, has proved effective for both sides. The solution provides structured work and systematic communication, and van Berckel is able to follow the project's progress. Basecamp is not only widely distributed, but also comes with a simple, clear and intuitive interface with a simple and well-developed access concept for user rights.

Basecamp as a web-based PM solution in offshore development
<ul style="list-style-type: none"> • Dashboards and to-do lists effect the clear presentation. • With file sharing the correct files are always at hand, including file descriptions. • Message boards bundle the communications in a way that is pertinent to the project. • Milestones are integrated in the remaining project files and structures • With time tracking the time budget remains in view. • Project overview offers logs, the 'next fortnight' and project RSS Feed.

Like Charles Overy, Jost van Berckel sees an enduring partnership as being of particular importance: 'The outsourcing of the first projects has been unequivocally worthwhile for us, but by building a long-term partnership further benefits will most certainly accrue.' This view is confirmed by BITKOM in a handbook called 'Outsourcing', in which it states that the cost-saving potential of offshore development is unlocked further as alliances endure. With ever improving cooperation the overhead costs of projects are steadily reduced. Cooperation must simply be practiced and in doing so gradual improvements are made [3].

It is also a good idea for both sides to create a 'project head' who is mainly responsible for communications. The basic communications for the projects thus run through predictable channels. The use, as needed, of VoIP headsets for a direct conversation between team members on both sides is of course possible at all times, yet it should not be an integral part of the project's communications. Every strategic alliance will very quickly find out which combination of strictly regulated project management and 'small channels' is optimal. To be sure, video and teleconferences following impending or already achieved milestones have proven themselves to be a great means of communication. Some successfully completed milestones or projects have supposedly been celebrated by joint video parties by both teams.

Beyond cost calculations

Although it is mainly the cost advantage for the client that prompts reflection about offshore development in the first place, it is not recommended to decide assignments solely on the basis of price criteria. The Indian IT market might be booming but - and that is typical of booming branches at all times and in all countries - it has bottlenecks. Thus it is currently more difficult for firms in

India to find and keep developers of sufficient quality than it is to win assignments. Between Delhi and Bangalore, Mumbai and Chennai, there are a great number of businesses which promote themselves solely on the basis of good hourly rates and which are even flexible with prices. That is not good news, but rather an alarm signal: such a business is more likely to have the character of a temp work company than that of a true development team. Businesses willing to negotiate the price make savings with the salaries of their staff. And in many cases the good developers and project managers are quickly withdrawn from running projects so that they may be temporarily employed on the new acquisition. The client has certainly not made any gains with the bottom line, and the client who is a particularly tough negotiator is probably tying one hand behind his back.

It is worth noting that, as yet, Indian IT qualifications are not standardised very well. Unlike in Europe or the USA, one cannot depend on largely unified skills and knowledge among graduates. From within Europe, it is scarcely possible for smaller businesses to gain insight into this situation. In any case it is better to choose your development partner carefully and to trust its human resources management. The local partner has the necessary insight and can build a good team. At Srijan, for example, it is possible to tie valuable employees to a company with attractive work conditions, continuing education options and social engagement. The continuity of team members and consultants is an advantage which outweighs the supposed disadvantage of not paying the very best price – and this too pays for itself in the end. In all decisions concerning offshore development, the aspect of the flexible capacities which are unleashed through outsourcing are difficult to evaluate and quantify. On the one hand a European agency need not keep available additional developers in case a larger project comes up; on the other hand projects may be attempted through a functional and mature partnership which far outstrip the Europeans' own capacity. The growth brake of the 'staff bottleneck' is countered and new groups of clients may be won. The offshoring partner maintains the capacity balance.

A clear advantage is that outsourcing effects a structured work method in a good and salutary manner. Even where neighbouring partners from the same city are cooperating, it would hardly be advisable when carrying out larger projects to improvise parameters and structures only once the project has begun. A clear project structure is more demanding than the 'gung-ho, she'll be right' method, but in many respects it is a good investment.

Finally, it makes the assignment clearer for one's own customer too. Finally offshore development allows a company's own specialists to be freed for additional problem assignments and services for the end customer. Thus, thanks to international labour, many end customers' wishes no longer break the budget. Offshore development, when approached correctly, can greatly increase a company's competitiveness with a strategy of forward integration.

Conclusion

The examples named above, as well as the client and contractor recommendations, show not only that offshore development is feasible and can achieve significant advantages, but also that it will become necessary in many cases in an atmosphere of increased competition [4]. That TYPO3 or other open source software of European origin can in this way diffuse the world market with quickly growing significance goes more or less without saying. A further article in the next issue will concentrate on the strategic options of agencies' business models beyond outsourcing decisions.

Links and Literature

 Softlink 1770

- [1] Srijan Technologies: www.srijan.in
- [2] Basecamp: <http://basecamp.com/>
- [3] Booklet 'Outsourcing': http://www.bitkom.org/de/publikationen/38337_33830.aspx
- [4] Anwenderforum „Outsourcing“: <http://www.bitkom.org/anwenderforum>

THE AUTHOR

Thomas Schlichtherle (43) has studied business in Munich and, following his graduation, joined the international strategy consulting firm Mercer. In the past 20 years he has attended hundreds of businesses of all sizes. Since 2000 he has been working independently, and since 2005 he has been concentrating on the longterm attendance of SMEs in the TIME sector with the 'strategy factory' (www.tssf.biz). He works as a business angel for companies with good prospects and brings to bear expertise in capital and contact procurement as well as in business and strategy. One of his many focuses is his work with open source ventures.