The Nearshoring Advantage

With the possibility of recession looming, now is the time to review how to deliver your technology projects

Ed Batrouni

Introduction

Starting as a Business Analyst on the ground in India in the early 2000's I wrote my undergrad thesis on globalisation and outsourcing. For many years before setting up Zenitech, I worked either client-side or as a consultant to organisations who, for various strategic reasons, were looking to move their operations to different parts of the globe. Consequently I have worked in a lot of teams that had very different views on the options available to organisations, from strategic outsourcing to building internal operational capability.

I know Zenitech's clients want technology to deliver clear business outcomes. It's what I wanted when I was a client. No-one buys technology for the sake of it; you want a business result - accelerated speed to market, scale and growth, improved customer experience, increased sales. All things that impact the bottom line. So it was critical we found the right model to combine the best quality work with the right talent to deliver it, at a price that delivers value.

There was no question in my mind that nearshoring as a delivery model was the right solution to reduce overall technology total cost of ownership (TCO) and improve value. The combination of a local team focused on shaping a solution for the client, with a capable and enabled nearshore technical team who have some of the best delivery skills in the world, is a winning formula.

We also wanted to keep a ruthless eye on costs for our clients - something they reap the benefits from particularly in times of economic pressure. Our people are amazing not just because they are highly skilled, but because they have a laser focus on how we can create efficiencies for clients, through streamlining and automating processes and systems, innovation, and eliminating errors. This is a very different philosophy to other providers who are motivated by selling 'bums on seats'.

I wanted to write this paper to show what's possible for a business that's looking for ways of removing cost and streamlining processes, without stinting on quality, creativity and innovation. This approach delivers high quality at real value, with a predictable cost base, and it sets up the business for the future.

I hope you enjoy the piece and it delivers food for thought if you're looking for ways to take cost out of your technology delivery model without compromising on quality and business outcomes.

Ed Batrouni
Founder and Joint-CEO, Zenitech

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Controlling costs and preparing for recession

All the indicators show we are facing recession, possibly globally. The World Bank's Global Economic Prospects Report says many countries are likely to experience recession in 2022, followed by a period of low growth through 2023 and 2024. The cost of living crisis is pushing up staff costs. PWC's research indicates FTSE350 companies are planning pay increases of between two percent and four percent in the UK, with similar figures in the US and Europe. In Asia Pacific and the Middle East and Africa, we'll see pay increases of five percent across the board, and as much as 10 percent in technology and digital. Commodity prices are rising, and we're seeing the impact of high inflation, particularly in the UK, where inflation is likely to hit just over 13 percent in 2022, according to the Bank of England.

Against this backdrop organisations are under pressure to cut budgets across the board, including in technology spending. Headcount is being frozen or reduced, and technology leaders are prioritising expenditure, cancelling capital expenditure (other than for critical projects) and creating efficiencies in operational processes.

If approached imaginatively, however, technology can be the answer to transforming businesses, creating the ability to scale, to open new markets, to innovate for competitive differentiation, and, of course, to create cost efficiencies. So this is the time to think creatively and find new ways to deliver technology projects that give your business a competitive advantage.

History (and common sense) tells us the organisations that are able to minimise their fixed operating costs while still maintaining quality and a competitive edge are those that will fare best in a tough economy. There is a huge advantage in automating repetitive tasks, but despite this, the delivery of technology can still be people-heavy. This makes it hard to reduce cost, when most of that cost is directly related to headcount - and you need to attract and retain the best talent to deliver the best technology, which inevitably costs more. Yet few companies want to add fixed cost right now by recruiting additional permanent people to the business.

The answer is to de-risk through making that cost flexible, rather than fixed, and to combine this with the benefits gained by automating tasks where possible. Having a flexible partner model to deliver the right technology via teams that can be scaled up or down and who understand how to automate effectively reduces your exposure to risk and lets you manage your cost base efficiently.

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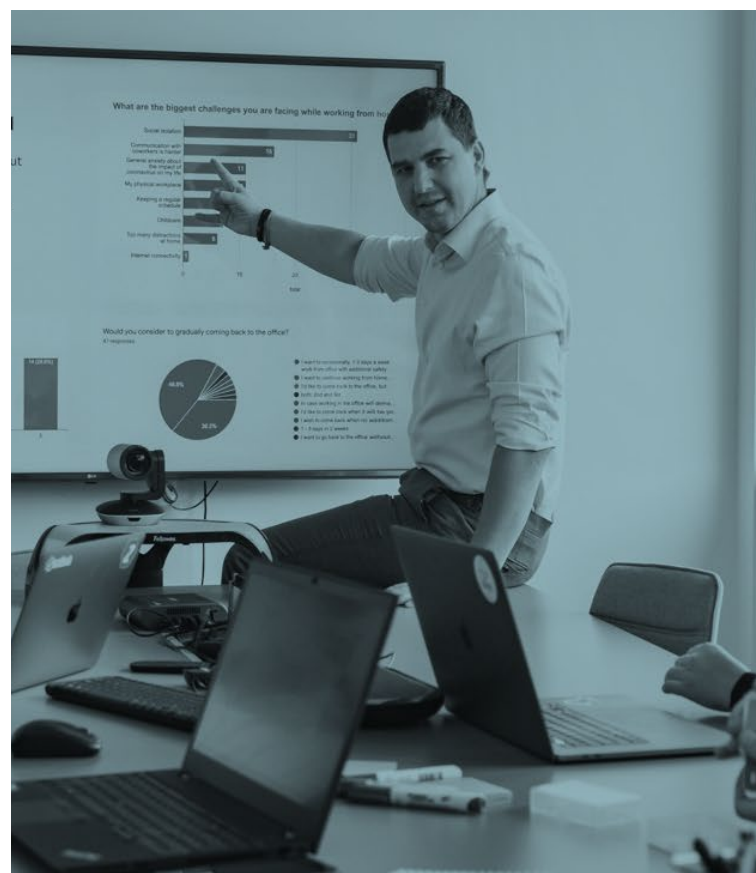
There are three main models of delivering technology projects:

1. **In-house.** Obviously, costs are fixed in this delivery approach. Delivering full projects in-house is expensive, hard to scale, and inflexible if you need to reduce budgets. Some clients choose to keep technology strategy and innovation in-house and outsource delivery. This can work, but is at risk of being disjointed at the point of handover. Plus, you don't get the advantage of knowledge-sharing between teams who have experience of working on different types of projects.

2. **Onshore (UK-based) outsourced teams** or individual contractors. This is expensive. Fees can hit more than £1k per day, and top talent has always been hard to recruit and retain. With rising salaries this is becoming even more difficult.

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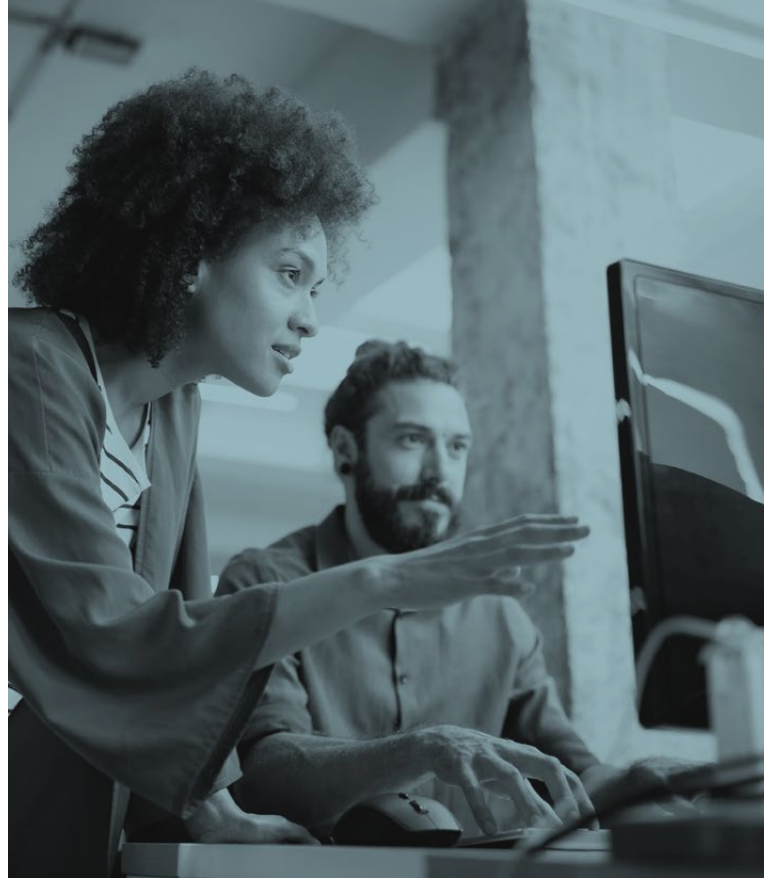
3. **Offshore outsourced teams.** There are two options here:
   a. *Traditional offshore locations* (e.g. India, South-East Asia etc). The advantage of these more traditional outsourcing locations has been historically lower labour cost, and access to large workforces in some areas (particularly India). Offshore outsourcing typically relies on people-heavy teams, manual processes and batch type ways of working. There is little incentive to invest in future-proofing innovative technologies or processes such as AI/ML or automation, instead relying on people to do jobs that could be automated. But rapid wage inflation, particularly in tech-heavy locations (which saw wage inflation of 8% in 2021, and projected 9% in 2022, with IT-skilled wages potentially even higher) means this is not necessarily the best value option any more. Time zone differences and communication have also historically been an issue.
   b. *Nearshore locations in Europe* (typically Eastern Europe). Some of the best technology universities in the world are in these regions, providing access to top talent at better value compared to western economies. Time zones are better aligned, and it's easier to collaborate with a team that's physically nearer and which shares similar methods of working.

The advantage of the nearshore approach

The Zenitech model has been built based on our team's experience of all of the three options above. Our approach combines a local team close to the client that focuses on creative innovation, product and user experience, and a nearshore-located technical and engineering capability with some of the best delivery skills in the world.

Still, excellent people are expensive wherever they're based. An effective business model doesn't rely on throwing as many bodies as possible at a client project, which would inevitably increase costs each year and ultimately may not deliver the right outcome anyway. We know that the most effective delivery models combine the best human talent with a relentless focus on creating efficiencies for clients, through streamlining and automating processes and systems, introducing innovation, and eliminating errors. This approach also attracts and retains the best tech talent because it makes for more interesting and engaging work - after all, no-one wants to do a job that could be automated!

This combination of automation with nearshore and local support means clients can improve their speed to market and lower the cost of delivery. It delivers high quality at good value, gives a predictable cost base and it sets up the business for the future.

It's why we created Zenitech. It's why our NPS is an impressive 77.3 and our clients return to us again and again. And it's why our team is engaged and happy, and our attrition rate is low.

Creating a culture of success

We handpick our people for their talent and also for their desire to grow and learn. We nurture that desire with a culture of learning and development. We encourage them to question everything, to challenge a client's brief, not to simply deliver against a checklist of requirements, but to ensure at the start that we're building something that will get the outcome the client wants. That means constantly rethinking how we do things, finding better and more efficient ways to deliver technology projects, and always evaluating whether what we're creating matches the desired outcome for the client.

The process is collaborative and agile (in all its senses). We transfer knowledge between our teams and to our clients. We aim to reduce costs, not increase them, using automation and AI where we can (and where it's most effective), to eliminate errors, and to enable our clients to scale and grow without adding headcount.

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Transforming technology and processes for a global computer entertainment company

In the 1990s, our client built a then state-of-the-art operating system to manage all of its sales, finance and operations data at a cost of millions each year. Over the next 30 years people had added bits of code for different things, built applications around it, and were using it to run all the backend processes to distribute its entertainment platform.

By 2018, it was creaking. It was an unwieldy structure running a sprawling set of around 50 applications, many of which were out of date or unused. Getting data from the database was painfully slow – it was common for a user to wait five minutes to retrieve even simple data – and many of the functions that seemed critical in the 90s were languishing, clogging up the system.

It was costing millions each year in upkeep with a whole team of contractors and service provider personnel employed to fix problems. Employee churn was high, automated processes were minimal and there was no incentive for the incumbent off-shore service provider to do anything to improve the status quo. It was time for a complete overhaul.

Zenitech was brought in to modernise the platform and remove cost. We carved away unused functions and applications, replaced the central system with an open source database, automated internal processes and gave the system a facelift to improve the user experience. Our innovative engineers and delivery model reduced the cost of running the system from £4 million a year to around one quarter of the original cost, making it significantly cheaper, leaner and easier to run and maintain.

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Questions every Technology leader should be asking to identify ways to improve value:

1. Is my team flexible and scalable and can I avoid hiring more permanent staff?
2. Where is my team based, and what are the implications on costs and talent retention?
3. Is my delivery partner as invested in my success as their own (do they understand my ultimate objectives, or is their goal to keep their own headcount high)?
4. How engaged and happy are my partner's people and what is their churn rate?
5. How happy are their other clients?
6. Do they recommend new and innovative ways of achieving my goals?
7. Are they able to help us shape the best solution to our problem as well as deliver the product cost-effectively?
8. Do they share knowledge with us so we can grow and learn too?

If you want to explore how you can streamline your technology to be more efficient, cut costs and enable growth through what is going to be a very difficult 18 months, contact Zenitech to see how we can help.

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