

Firms Grapple With Logistics Of Offshoring

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The politics of offshore outsourcing is a hot topic both in and out of the technology industry these days.

The question of whether it is right to move part of a company's business to other countries has been widely discussed but the practical aspects of doing so seldom gets mentioned.

According to executives of several local tech firms, offshore outsourcing can be a logistical nightmare and, in the end, not always cheaper.

At a Software Council of Southern California Valley Chapter meeting on March 16 in Woodland Hills, four panelists talked about their experiences establishing overseas operations – not always successful endeavors.

Dimitri Nikouline, president and CEO of Woodland Hills-based **Murano Software, Inc.**, was joined on the panel by **RealtyTech Inc.** President Richard Uzelac, **Homestore Inc.** Chief Information Officer Phil Dawley, Rick Hopfer, vice president for information technology at Sony Pictures Entertainment, and Deepak Sharma, president of Santa Clarita-based **Software Development Center Inc.**

Calabasas-based RealtyTech, a real estate Web site builder, is an example of a company that turned to outsourcing only to second-guess it.

"We're in the middle of the road," said Uzelac. "Half of the development is here ... and half is offshore."

The company originally outsourced to India, but found obstacles came with cheaper labor. It

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now outsources in St. Petersburg, Russia. "The major issue was communications between staff in the U.S. and the staff in India," Uzelac said. "Our liaison was an engineer but he lacked sufficient interpersonal skills to develop relationships with Bombay staff."

That person chose to communicate via e-mail, as opposed to phone conferencing, and it didn't work out.

Uzelac said he believes it didn't work because Indian engineers "felt no affinity for us as a company" and did not meet his expectations.

But it didn't stop there. Problems ranging from time difference to language and cultural barriers stand in the way of outsourcing running seamlessly.

"Some days they're off when we're not off," Uzelac said of the engineer team he used to employ in India. The workers were either Muslim or Hindu and couldn't work some days because of religious obligations.

Firm provides help

Partly because of the problems Uzelac and many other Valley-area tech firms have expe-

rienced, a new kind of IT firm is benefiting. Santa Clarita-based Software Development Center Inc. is finding its business picking up because of problems RealtyTech and others are having. Software Development Center is a service provider that works directly with engineers in India, Sri Lanka and a host of other countries. It essentially acts as a go-between for U.S. firms who outsource in India.

Problems setting up shop overseas raise questions about whether the cost-cutting that outsourcing gives truly amounts to savings. In fact, many software companies are telling Deepak Sharma at SDC they are not getting their money's worth from some of these operations because some of the software just doesn't work.

In RealtyTech's case, engineers working overseas for the company are also not exactly cheap, contrary to widespread belief. RealtyTech paid its Indian employees \$15 to \$30 per hour, Uzelac said, while American engineers receive \$50 to \$60 per hour. The savings may be on paper, but there were hidden costs.

"Things do take a little bit longer to get work done ... so it's somewhere in-between in

terms of numbers and what you actually get," he said.

After outsourcing in India failed, Uzelac turned to Nikouline, his former colleague at Homestore, Inc. Nikouline, himself a former software engineer, turned to outsourcing to St. Petersburg earlier. Through a partner in St. Petersburg, he employed engineers to write code for him.

Nikouline said he recently went to a conference that convinced him offshore outsourcing was here to stay for good.

"Globalization is going to be more prevalent as time passes," he said.

Through Nikouline's help, Uzelac assembled a team of engineers that works for RealtyTech. Things are going well, he said.

"I push the button and it actually works," Uzelac said.

Coming aboard Sony's moviemaking company one-and-a-half years ago, Rick Hopfer said he instantly looked to make changes to make the company leaner. He looked at two ways of doing that: converting jobs and outsourcing to India.

Now job

To address communications issues, Hopfer

said he will hire a full-time relationship manager — a job that never before existed at Sony Pictures, he said. The job was created directly because of outsourcing.

Homestore's Dawley said his company only ships out work that it doesn't consider its most important.

RealtyTech's Uzelac said he was surprised to hear some companies think quality control — the final stage of software development — could be done by engineers overseas.

He made his position on the subject clear. "No matter what level is done overseas, the home office needs to do quality control," he said. "If you don't, you're failing the product."

Uzelac says he wishes the need for outsourcing would go away, but he is also realistic.

"If we could meet our budget in the U.S.," Uzelac said, "we would do so."

The Software Council of Southern California is doing a position paper on offshore outsourcing and is asking for input from IT companies.

Lee Schaeffer, SCSC president, said the Council has received dozens of e-mails from people who oppose offshore outsourcing.