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Global IT Delivery Moves To Spain European Firms Drive Nearshore Value With Spanish Resources

A commissioned study conducted by Forrester Consulting on behalf of
the Association of Spanish Consulting Firms (AEC)

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Executive Summary

The study qualifies the value-risk-cost relationship that the Spanish market offers European firms that are sourcing global IT services.

Key Findings

Forrester's study yielded five key findings:

- **Indian offshoring extends to global delivery.** The trend to outsource with remote offshore resources continues to build across Europe. India remains the destination of choice, but new locations increasingly attract buyers with unique intellectual property, industry skills, and strong technical and process expertise. Outsourcing supported by offshoring changes to outsourcing driven by global delivery. Vendors building out global delivery models for IT service consumption focus on integrating vertical expertise and horizontal technical skills through robust processes and tools, across a network of low-cost locations—revealing the truly global nature of IT service delivery.
- **Buyers report rising costs and frustrating quality from India.** Rising attrition, wage inflation, and skill shortages make consistent delivery from India problematic, lead to poor quality, and push up the price of IT delivery. European firms reveal that communication and cultural issues fundamentally challenge the confines of a day-to-day working relationship. Rates are still low, especially for staff augmentation, but suspicions remain that poor quality means adding more headcount. India's low rates make it worthwhile, but executives monitoring the market continue to seek different destinations to complement Indian offshore strategies.
- **Perceptions ignore Spain's nearshore value.** Spain offers the same proximity benefits as other European nearshore destinations for IT service delivery but suffers from poor perception as a destination for IT service delivery. A physical proximity to European clients coupled with time zone benefits and a cultural affinity ease the internal IT process change requirements demanded from global IT service delivery. A powerful set of competitive differentiators, however, include a large, well-qualified IT labor pool, world-class industry expertise, competitive software development rates (driven by industrialized software factories), and the potential to scale through Latin American resources.
- **Client testimonials reveal Spanish value, risk, and cost alignment.** Testimonials reveal the different motivations drive firms to consider Spain as a destination for IT service delivery. Whether for lower risk software development, functional process expertise, or business process transformation, each example looks to source these services from Spain and views the destination favorably in terms of value for money. Firms report that the costs involved from sourcing Spanish IT services correlate to a high-level of service competence.
- **Spain offers two nearshore routes to value.** Buyers looking to build out a global delivery strategy to complement Indian resources should investigate the high-value IT service capabilities offered by Spain. Spain's world-class banking, retail, and utility sectors (among others) rely on a network of dedicated centers of expertise and a thriving tech economy that European firms leverage. Others affect business transformation by moving European shared services centers to the region. First time executives eager to avoid Indian cultural and language barriers should select small projects and pilot applications with the right critical mass.

Summary Of Conclusions

In the third quarter of 2008, the Association of Spanish Consulting Firms (AEC) commissioned Forrester Consulting to evaluate Spain as a destination for nearshore service delivery. The study seeks to qualify the value-risk-cost relationship that the Spanish market can offer to European firms looking to source IT services through global delivery models. In conducting in-depth telephone interviews with 20 respondents, Forrester qualified current global delivery strategies and the potential of Spain as a destination for IT services. The results reveal an insatiable desire for global delivery, communication problems with India, and recognition of Spain as a nearshore IT services destination.

Offshore Turns Into Global Delivery

Smart executives understand the power of well-crafted offshore strategy—but offshore strategies now extend beyond India to include Eastern Europe, Latin America, Russia, and for some vendors and their customers, Spain. New locations for services represent the maturing of offshore IT service delivery into a global delivery model for IT services. Customers and providers see global delivery as the integration of vertical domain expertise and horizontal technical skills with robust processes and tools, across a network of low-cost locations.

The low-cost location of choice still remains India, but India's success as a service delivery hub continues to create problems. Rising attrition, wage inflation, and skill shortages across all staffing levels make consistent delivery difficult and ultimately inflate prices. Moreover, our interviews reveal that communication and misaligned cultures challenge remote offshore relationships. Nevertheless, interest in new IT service destinations grows, and European executives seek alternatives or complementary nearshore destinations to India.

Spanish Credibility Supports Nearshore Global Delivery

Nearshore locations provide better collaboration opportunities due to their physical and cultural proximity, smoothing day-to-day working relationships. Spain attracts both vendors and customers to its shores with its large, well-qualified IT labor pool, world-class industry skills, competitive IT services rates, and scalability through Latin America—qualities that Europe's principal nearshore destinations lack. Also the case studies reveal firms engaging high-value services for business transformation, innovation, and reliable software development.

Firms considering harnessing the skills available in Spain must follow a tried and tested approach to guarantee nearshore service delivery works. Companies that do any kind of remote service delivery know that the key challenge is to change or adapt internal IT processes—ensuring the way internal stakeholders get service from IT. Most firms find this process nonstandard and fluid, with stakeholders accustomed to changing requirements frequently and informally. First time executives who are nervous about moving nearshore must commit to a degree of internal IT process change.

Smart Executives Seek Global Delivery

The combination of the rising quality requirements coupled with cost pressures on IT service rates signals the shift from simple offshoring to India to a more evolved, sophisticated, and distributed low-cost global delivery model. Firms benefit from low-cost global delivery by focusing on core competencies, improving IT service quality, and speeding time-to-market.

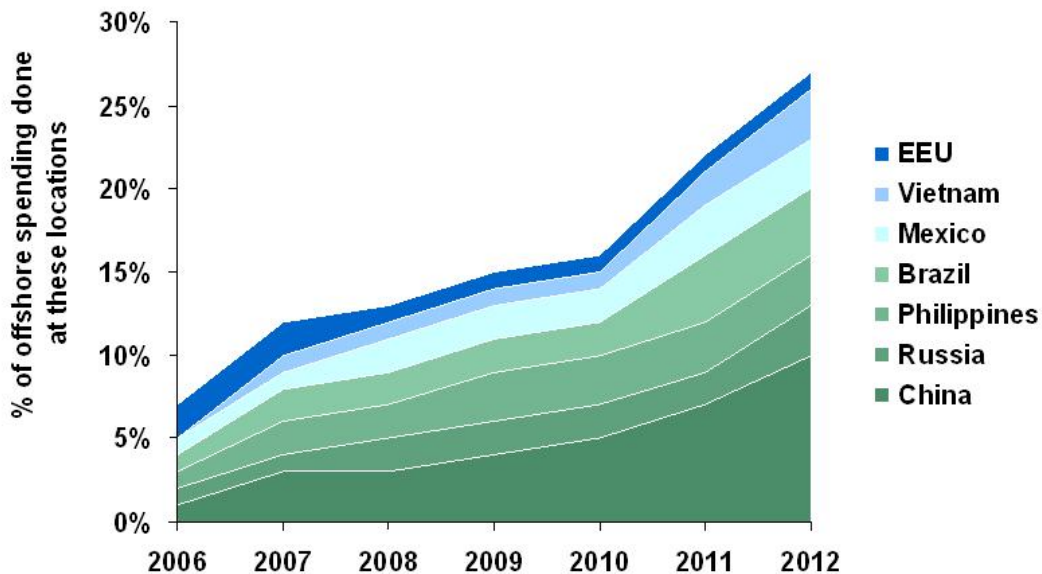
Many terms describe aspects of global delivery—offshore, nearshore, rightshore, and valueshore, but in essence, the model integrates the domain expertise and technical skills on offer across a network of low-cost locations. The low-cost location of choice remains India, but increasingly firms source IT services from Eastern Europe, Latin America, Russia, and as our interviews reveal, Spain.

Global Delivery Of IT Services Spreads

The forces driving global delivery are undeniably compelling, and the trend continues. Firms are under intense pressure to reduce or at least contain their IT costs. Years of downsizing have resulted in a shortage of skills and the need to improve service levels. For firms using global delivery, the economic value proposition is clear—the respondents we interviewed reveal typical savings of 20% to 30% and in some cases 50%.

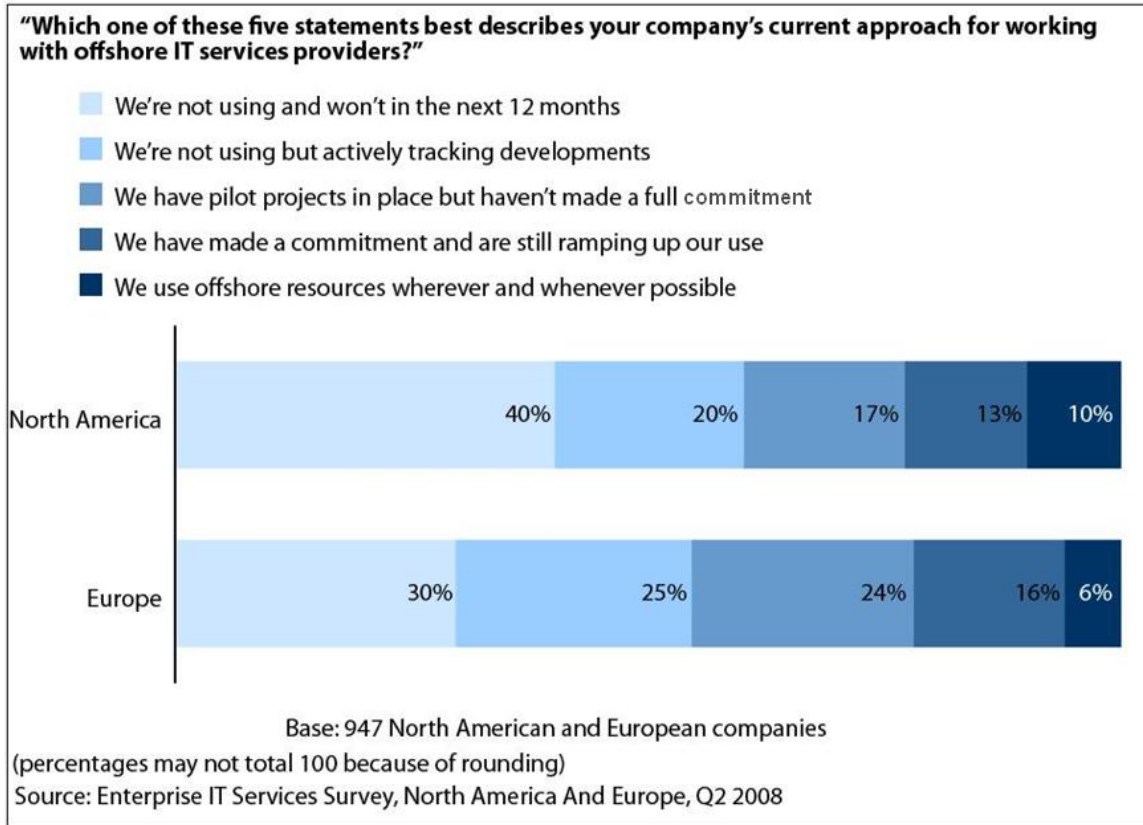
The use of international locations looks set to broaden, too (see Figure 1). Our interviews reveal that while India remains strongly rooted in staff augmentation for custom application development and maintenance, new locations provide horizontal technical expertise and dedicated centers of excellence that underpin business process innovation. IT executives recognize the benefits of using global resources to support line of business stakeholders—in Europe, 22% of respondents in Forrester's annual enterprise IT services survey work with offshore resources while 24% have pilots in place (see Figure 2).

Figure1: International Locations For Global Delivery Grows



Source: Forrester Research, Inc.

Figure 2: European Firms Reveal A Growing Appetite For Remote Delivery

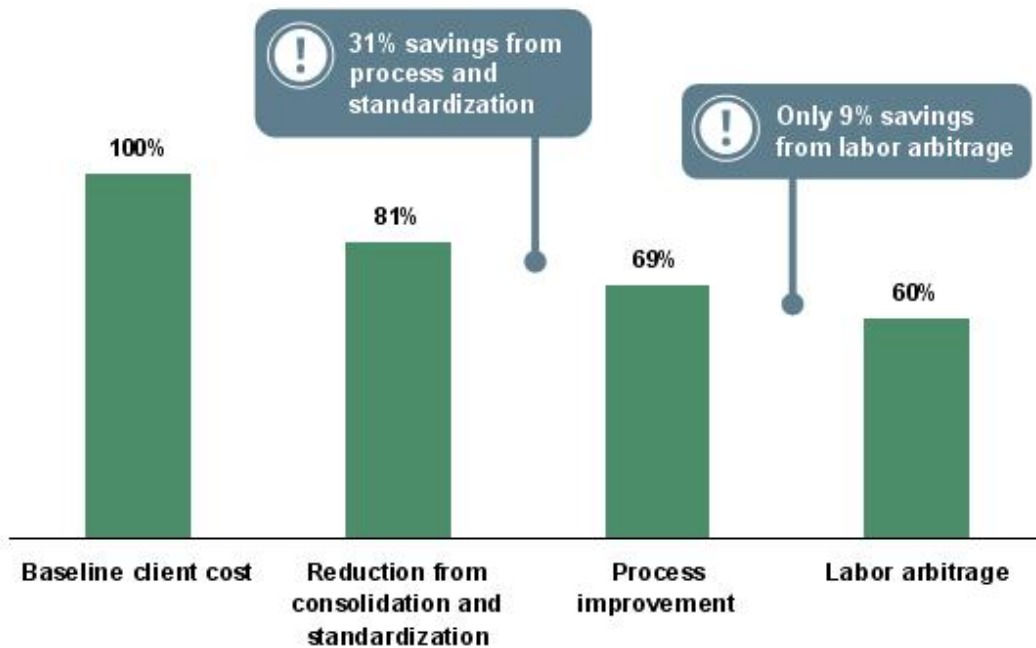


Source: Forrester Research, Inc.

Propositions Move Beyond Labor Arbitrage

Forward-thinking IT executives are beginning to understand that the power of a well-crafted global delivery strategy lies beyond pure labor arbitrage and low-cost Indian offshoring. They capture value beyond labor arbitrage by looking to their vendors to add value by accessing new propositions based around vertical domain expertise, business process skills, technical prowess, and standardized tools to save money and achieve more valuable benefits (see Figure 3).¹

Figure 3: Global Delivery Moves Beyond Labor Arbitrage



Source: Forrester Research, Inc.

Firms have spent years expanding their use of applications development and maintenance services based on time and materials models, and many buyers feel that they have maximized the savings available. For example, an application services relationship based on staff augmentation provides little motivation to the client and provider to concentrate on improving development processes—which can potentially have an economic impact greater than labor arbitrage itself. Our interviews reveal that:

- **Staff augmentation still dominates offshore relationships.** It makes sense for clients new to offshore outsourcing to begin on a staff augmentation, time-and-materials basis as a way to gain experience and reduce initial risk. Our interviews reveal that many buyers still contract only for staff augmentation, but no outsourcing relationship based on staff augmentation will yield much in the way of innovation or continuous service improvement. Moreover, pure staff augmentation configuration makes it difficult for the provider to improve its client's processes.² One respondent notes:

Global IT Delivery Moves To Spain

We outsourced our custom applications development to India because of a severe shortage of Java developers. This shortage was in our business and in the country. We wanted to reduce our dependency on local contractors and be able to add or remove head-count as and when required.

- **More advanced relationships provide industry specific services.** For example, SAP has increased its relevancy to more industries and away from its core manufacturing base. As the financial services and the retail sectors begin to invest in SAP projects, the need for more specialized SAP talent grows around Europe. Global delivery underpinned by service industrialization processes replaces the traditional model of in-country consultants and programmers billed out at expensive hourly rates. Another respondent reveals:

Within 5 years, we expect 80% of our IT service delivery will move to global locations. We picked our strategic vendors early on and made sure they were on the global delivery path so as they grow locations, we can benefit from the vertical and functional skills on offer.

IT Service Delivery Moves Beyond India

Most firms associate offshore outsourcing with India. For many European firms—especially from the US, UK, and northern Europe—outsourcing through Indian offshore resources remains a commercial imperative because of the cost and quality benefits that India delivers—and India continues to win the lion's share of offshore IT spending. Yet firms report that rising wage costs and communication issues impact India's attractiveness as a destination for IT service delivery and nearshore destinations become attractive to service European firms.

India's Success Creates Structural Challenges

India undoubtedly brings market maturity, cost, quality, and experience to firms looking for offshore resources; however, Indian labor rates are on the rise due to its very success. Debate surrounds the success of Indian offshore captive centers, with firms that previously believed in the captive approach changing sides—with a change of heart and scouting for third-party providers or even selling them off. Put this alongside the aggressive recruitment by international IT services firms and indigenous Indian vendors, and the acute shortage of manpower creates inflationary pressures. The forces swirling around the Indian market mean:

- **Rising attrition, wage inflation, and skill shortages.** The explosion of captive centers; the global system integrators moving to India, and the growing complexity of work all stress the Indian labor market. Attrition rates continue to climb especially in the more experienced technical ranks and middle manager level. Wage inflation, once only an issue for staff with three to 10 years' experience, is now being felt at the entry level. Not only does this make it harder for suppliers to deliver consistently, it leaves clients questioning the long-term economic benefit of securing skills from a delivery center in India:

We see high turnover within the team our offshore service provider (in India) has assembled. This disrupts continuity because experienced people leave and new people come into the team and need bringing up to speed which delays everything. We make sure we track turnover ourselves rather than rely on the figures from our vendor.

- **Indian rates lose their shine and quality dips.** Rates for IT services suffer as scarce resources drive up costs. For standard application development and maintenance skills, for example, negotiated rates (not rate cards) have inflated by 7% to 15% over the past two years. The range has gone from \$20 to \$26 per hour to about \$22 to \$30 per hour. The range is for a blended set of skills—from junior programmers to technical leads and project managers.³ There are still deals out there for companies and clients willing to accept inexperienced or poorly qualified staff or high attrition rates—but as the saying goes "you get what you pay for."

Although we get significant costs savings through our offshore vendor (in India,) we do see inflation pushing up prices by about 15%, and this needs watching carefully.

Developers in my country (UK) cost three times more than an Indian developer, but why do we need three offshore developers to give us the quality of one UK developer? How do I get to a ratio of one for one?

Indian Benefits Lost In Translation

An Indian offshore relationship creates challenges because of the distances involved and the inevitable need for travel to get work done. Our interviews reveal these multidimensional challenges as communication, culture, and maintaining quality through an effective oversight function—problems exasperated when the distances involved increase between offshore location and the IT organization. Our interviews reveal:

- **Cultural issues challenge effective communication.** Gone are the days when IT customers can sit on the shoulders of their favorite developer and specify requirements as the developer is coding. The real issue sits between the ability of both business users and business analysts (and anyone playing a business analyst role) to work within the confines of an Indian offshore relationship. Most fail to focus on the internal risk factors—the most challenging to overcome centers on communication:

Our problem centers on ensuring business requirements are clearly articulated for our offshore partner. We find that the language impacts the steady flow of communication, and managing the relationship takes more of my time than I planned or budgeted for.

Outsourcing should not be a “black box,” but this can be the case from India. Our biggest challenge is communication between our facilities here and our offshore partner in India.

- **Service quality suffers from poor communication.** The degree to which poor communication processes effect overall offshore outsourcing savings from India cannot be underestimated and came through one interview very clearly. Multiple iterations of the same deliverable, deliverable rejection rates due to misrepresented requirements, and changes after code is in development all cost money in an offshoring relationship and decrease savings:

We recently pulled the plug on an application rewrite project after spending one tenth of the money and realizing that the new system was going to have the same functionality as the old system because business users wouldn't take the time to specify their requirements. This forced the offshore vendor to duplicate the functionality of the existing system, albeit on a different platform.

- **Internal business stakeholders resist.** Some firms are not very good at adapting to change and will resist it at any cost. Offshoring does force through the process maturity to ensure that documentation is up to scratch. It can work to a company's favor by forcing discipline with documentation, but this can also work to a company's detriment with the project working to the disadvantage of working offshore—not everything should be considered a candidate to move to India, as is shown in some of the responses that we received.

Going to remote service delivery forces discipline in terms of documentation requirements, but it can over complicate things and undermine agility. Our lines of business customers have strongly resisted the move to India in some cases. You need a balance so you don't lose spontaneity.

Firms Move Nearshore To Solve Offshore Issues

Although executives worry about India's potentially challenging culture and language barriers, there is no doubt that interest in remote IT delivery is on the rise. Buyers—particularly those in France, Italy, Germany, and Switzerland—continue to seek alternative delivery destinations to India or destinations to complement it. Our interviews reveal striking benefits to nearshore service delivery. These are:

- **Real-time collaboration through physical proximity.** For firms based in Europe, time zone issues with offshore vendors in locations such as India can severely hamper the success of an offshore initiative. With time zone differences between India and Europe, vendor staff, internal IT staff, and internal customer staff will struggle to establish viable and collaborative relationships. Nearshore arrangements, however, work to the firm's advantage as both client and provider can work together in real time—project managers can easily commute between both the vendor and the client, facilitating interactions between each and minimizing overall risk.

We are a very conservative and risk averse organization, and we have done no offshoring whatsoever to India—it's too difficult for us to manage what with the distances and the time zones involved. Nearshore is different because we find it easier and cheaper to manage.

- **Cultural affinity between internal and external entities.** While there are some cultural differences between France and Spain or Germany and UK, these differences are not as pronounced as those between UK and China or France and India. Europeans are familiar with each others customs, lifestyles, and other cultural facets which make day to day working offshore relationships easier.

We see few differences in the working patterns of our nearshore partners, nor do we have any of the issues about time-zones. We even share public holidays.

- **Relief on internal change requirements.** Companies with immature or proprietary software development processes, for example, usually have to alter their processes before moving them offshore. IT organizations have to optimize them before effective communication with the offshore entity—requirements need to be detailed enough so that the offshore vendor can interpret them to write an internal project specification. A nearshore relationship allows the client and vendor to discuss these requirements during normal business hours and makes it easier for vendors to meet any process change requirements.

In Bangalore, every company is a technology company serving US and UK markets. If you scope a project badly, you get bad results, and it's our fault. Going nearshore however, we find with our vendors that if you define poor logic, you have a better chance of turning around something that works because the staff has more diverse experiences.

- **Reduced management overhead.** Nearshore efforts carry estimated operating costs 20% to 30% lower than an India-based operation. Forrester best practice reveals that overhead costs are typically less than those associated with an offshore relationship because of reduced telecom costs, travel costs, and due diligence costs.

We factor an extra 30% into our baseline costs to India for travel and other soft factors such as physical connectivity and training, but these should be built into the business case. Obviously going to Europe (nearshore) is cheaper.

Spain Emerges As A Credible Nearshore Destination

Many countries are jumping on the offshore bandwagon as an economic development strategy, but just because an economics minister says it's an offshore location doesn't necessarily make it so. Country assessments focus on government stability and the quality of the infrastructure but not the important issues like cultural affinity for offshore work and the scale and health of indigenous vendors. Spanish firms buck the trend for offshoring with local players dominating IT service delivery and offshoring from India extremely rare. Local staffing costs underpinned by software factory models match the rates offered by Indian vendors, and Latin America offers a vast reserve of offshore resources.

Skills, Scale, And Location Underpin Spain's Appeal

Our interviews reveal the attractiveness of Spain as a destination for IT service delivery. Firms rate Spain highly for the skill of its people, the strength of its technology infrastructure, its nearshore location, and its ability to scale. Although firms hire companies rather than countries, our interviews reveal that Spain offers the ingredients to make a nearshore strategy a success with competitive differentiators around:

- **Large, skilled IT labor pool.** Spain's IT services industry counts just under quarter of a million IT professionals living and working in Spain and reports one of the highest European growth rates for IT senior professionals largely due to a robust tertiary education sector. The ratio between Spain's IT labor pool and its total population ranks the country well ahead of Europe's familiar nearshore destinations of Poland, the Czech Republic, or Romania (see Figure 4). Our interviews reveal that firms use Spanish resources in support of more complex IT projects (business process execution, IT transformation, and business process redevelopment) rather than low-cost staff augmentation.

We have a captive center in India, but the quality of services we get from our Spanish center is very good. We find the computer science graduates from the local universities support our European BI (business intelligence) function very well, and we have few problems attracting talent to work for us.

- **Industrialized software factories.** Spain's network of software factories beat offshore rates for specific application development or maintenance work. Spain's software factory model (well known in Spain but unknown in Europe) provides rapid, low-cost software development using assembly-like processes found in manufacturing. Spanish firms invest in their own factory or buy in software development through a vendor's factory aligned to domain or technical expertise (see Figure 5).

Software factories do it with quality in mind—they sell a trademark and that trademark is the quality of the programmers rather than their price. Standards and processes are tried and tested in many commercial environments and lower our risk.

- **Domain expertise.** Spain has only a handful of very large firms, but each punches above its weight. Famous names from the Spanish financial services (Grupo Santander), retail (Zara), and utility sectors (Iberdrola) are world renowned for lean process, innovation, and technology supremacy, which their peers are keen to emulate. Global system integrators and pan regional service firms continue to build centers of excellence through Spain to foster vertical expertise, capture innovation, and develop service excellence on behalf of their clients.

We see lots of innovation around core banking processes in Spain, but if you go back to the mid- to late-1970s, the Spanish banks were way behind. They were able to leap frog once the economy took off and are now world-class in how they use technology within their operations.

- Potential to scale with Latin American resources.** Latin America's Spanish heritage opens up significant possibilities for scale. Both local and international service providers have opened facilities across Latin America (driven by their largest clients) and have integrated Latin American resources through global delivery tools and processes to service clients in Spain and Europe. Argentina offers an interesting insight into scalable Spanish delivery after synchronizing data protection standards with European legislation—a move that interested one interviewee:

Scale will always be an issue, but keep in mind that Spain has the back office of Latin America...Argentina for rates is very good; what's more they have adopted EU legislation on data privacy.

Figure 4: Science And Technology Graduates

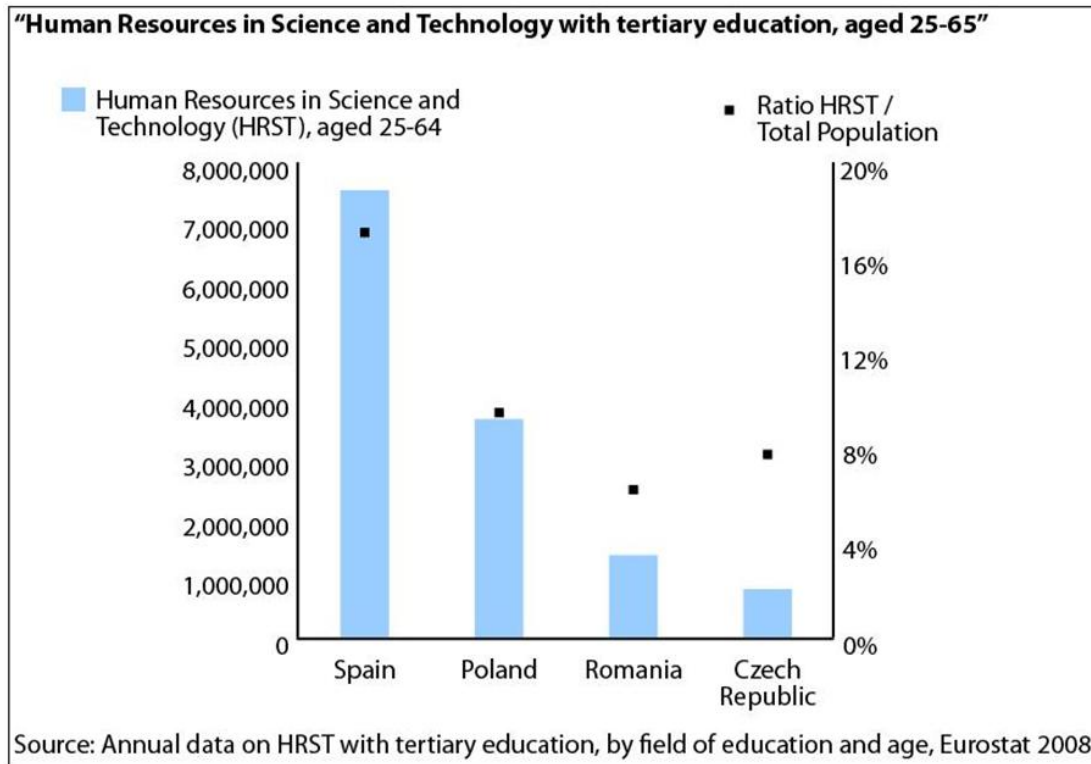


Figure 5: Spanish Software Factories

Accenture	Barcelona	Indra	Badajoz		
	Bilbao		Ciudad Real		
	Madrid		La Coruña		
	Málaga		Lérida		
	Sevilla		Madrid		
	Valencia		Málaga		
Atos Origin	Zaragoza	MatchMind	Salamanca		
	Barcelona		Valencia		
	Gran Canaria		Avila		
	León		La Coruña		
	Santander		Madrid		
	Sevilla		Segovia		
Avalon	Valladolid	Oesia	Sevilla		
	Bilbao		Alicante		
Ayanet TIC	Zaragoza		Profit	La Coruña	
Biko	Pamplona			Madrid	
Cap Gemini	Asturias			Sadiel	Madrid
	Murcia				Murcia
	Oviedo	Valladolid			
	Zaragoza	Valladolid			
Delaware	Albacete	Softtek	Madrid		
	Barcelona		Valencia		
EDS	Madrid	Steria	Cádiz		
	Zaragoza		La Coruña		
Elvex	Valladolid		T-Systems	Bilbao	
	Gijón			Madrid	
Espiral MS	Alicante			Tecnocom	Murcia
	Barcelona				Sabadell
	Madrid	Sevilla			
	Mataró	Valencia			
	Murcia	Valladolid			
Sevilla	Zaragoza				
HP	Barcelona	VASS	Barcelona		
	León		Madrid		
	Madrid		Reus		
Ibermática	Bilbao		Vector Software	Almería	
	Valencia			Barcelona	
IBM	Barcelona			VASS	Castellón
	Bilbao	Gerona			
	Cáceres	La Coruña			
	Madrid	León			
	Salamanca	Madrid			
IECISA	Asturias	VASS	Tarragona		
	Huesca		Barcelona		
	Madrid		Madrid		
				Albacete	
				Madrid	

Reference And Retention Rates Reveal High Satisfaction Levels

Among the interviews, there is plenty of proof of successful IT service delivery from Spain—from service specifications with substantial scope, technical requirements, and vertical expertise. Buyers should look at evidence of consistent performance and quality of delivery to determine Spain's credibility as a destination for IT service delivery. Below, we explore two references that reveal how firms harness Spanish resources within their IT strategy.

Food Manufacturer Sources Process Expertise For Business Intelligence

An international food manufacturer headquartered in France underpins its IT strategy with global delivery. The firm runs a captive center in India and engages with a third-party vendor for IT services (Level 2 support from the Philippines). It took the tactical decision to investment in Spain five years ago. The firm saw Spain as a potential center of business intelligence (BI) expertise to support pan European operations after seeing several vendors' source BI expertise by opening R&A laboratories in the country and seeing the high quality of the local IT labor pool supplied by Spanish universities. The firm now runs all pan-regional business intelligence activities from its center, located in Barcelona. The center provides daily sales analysis at the micro-strategy level, but more importantly, best in class information at the executive level to guide strategic product decisions that ultimately drive customer satisfaction.

We are very happy with the business analysts that we have in Spain, and the work they do for us is world-class.

Auto Manufacturer Complements Offshore And Transforms Business Processes

This European auto-manufacturer founded its first international SAP competence center in Spain. The center grew from 10 employees to 130 and supports most of the firm's international divisions with software development, solution templates, architecture design, and other SAP-related best practice. The firm recently moved SAP support and programming work offshore, leaving the more complex SAP design tasks and business analysis function in its center in Spain—however some of the promised cost savings and the quality delivered from India lagged behind expectations. The success of the Spanish competency center has led the firm to create a finance and accounting shared service center in the region, supplying business services to 13 different countries across Europe. The firm also intends to transform more of its business processes in similar fashion by centralizing other line of business activities in additional pan European shared service centers.

Spanish resources are less costly - easier to manage due to their proximity to our headquarters - and the rates are 40% lower than in our domestic market. I am convinced that Spain is a valid and good option for other companies because of its capacity to deliver, the flexibility of its work environment, and the availability of highly skilled resources.

Spain Offers Two Routes To Nearshore Value

European buyers seeking alternative destinations to India or a complement to their Indian offshore strategy should consider Spain as a credible destination for IT service delivery. But taking IT work to Spain does not guarantee success or drive instant savings. Any move nearshore will stress IT processes and challenge corporate culture, and getting this right determines nearshore success rather than picking the country or the vendor. That said, Spain offers the ingredients to make a nearshore move successful with its thriving technology economy, competitive software development rates, industry innovation, and potential to scale through Latin America. Vendors putting together global delivery strategies clearly see Spain as an IT service destination, and firms should investigate. We see two routes to value.

1. Spain As An Alternative Nearshore Destination

Our interviews reveal the problems of working with Indian resources and how European proximity solves some of these issues. First time executives looking to avoid the specific Indian problems of culture and language should look nearshore and select small projects and pilot applications with the right critical mass—limited projects that require limited interaction with end-users.

The first step involves analyzing internal IT organization to avoid the communication issues that often result from remote IT delivery. Companies must do their own internal due diligence on their internal IT processes before they do anything else. Without effective project management, requirements definition, and change control processes in place, it can be difficult for organizations to work with any Spanish supplier effectively. The interviews led us to conclude that first-time executives investigating nearshore should:

- **Make an inventory of current applications.** Get an accurate count of the applications and processes, their inputs and outputs, their architecture, level of documentation, and history to accurately assess any savings that moving them to a Spain or other nearshore destinations would provide.
- **Document current best practices.** List current development practices, such as specifications creation, documentation maintenance, acceptance criteria development, and change management. Doing homework at this level enables you to formulate more accurate service-level agreements and map how the vendor will link into your IT processes as well as improve them.
- **Pilot applications with the right critical mass.** Most firms started with a contained new development or the conversion of existing systems. Conversion of existing and well-understood applications will show the highest rate of savings because more of the work can be easily sent nearshore.
- **Invest in the business analyst function.** Employ business analysts that are experienced at soliciting and managing requirements and who are used to communicating those requirements to a nearshore vendor—you may need to retrain your business analyst function to make this work. This will ease any communication difficulties that emerge.

2. Spain As A Source Of Complementary Skills

Buyers looking to build out a global delivery strategy to complement an Indian resource should investigate the high-value IT service capabilities on offer. Leading edge industries supported by a network of centers of expertise and factory models and an ability to scale through Latin America, allow clients low competitive rates and high-quality services.

Appendix A: Survey Methodology

In August and September 2008, Forrester Consulting conducted 20 phone interviews with senior sourcing professionals from large European companies. This survey was commissioned by the Spanish Association of Consulting Firms (AEC).

All surveyed companies were currently using IT services from either offshore or nearshore locations. The study sought to qualify the value-risk-cost relationship that the Spanish market can offer to European firms looking to source IT services. The research objectives were the following:

1. How the trend of global delivery in Europe is progressing.
2. Understanding the multi-dimensional problems that offshore presents.
3. How Spanish global delivery can solve these problems.

The survey included large European companies from a variety of industries including banking and financial services, retail and distribution, telecommunications, food manufacturing, car manufacturing, media, healthcare, etc.

Appendix B: Endnotes

¹ This figure was taken from a research study undertaken by Forrester and McKinsey. It reveals that substantial savings are available from standardization and application life-cycle improvement activities as opposed to the pure labor arbitrage benefits—which, in this case, only account for 9% of the savings as opposed to 31% for the other activities.

² For example, Forrester recently reviewed a large-scale offshore outsourcing staff augmentation agreement in which the client (whose development processes are immature) is requiring the CMMi level-five provider to perform work using the clients' tools and processes rather than the provider's own high-quality, mature processes and tools. Clearly, in this situation, there is no direct way for the provider to improve the client's processes or productivity within the boundaries of the project.

³ The more you buy, the lower your rate. Providers often have several rate cards based on deal size: one for fewer than 25 resources, one for more than 50 resources, and one for more than 150 resources. Forrester took this snapshot of pricing in April 2007.