



Onshore Outsourcing Helps Venture Capitalists Strengthen Investments By Gasparro, Paul

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[This column lets experts in the information technology industry discuss the challenges and trends in their special niche in the marketplace. -Ed.]

After a venture capital (VC) firm invests in a startup or expansion company, its commitment to that company doesn't end; in fact, it's just beginning.

Eager to see their investments increase in value, VC firms often introduce various resources (advertising agencies, technology consultants, recruiters, even channel partners) to their investment companies in the hopes that these vendors can provide services that will help grow the company, both in the short term and the long term. Chris Albinson, founder and managing director of Panorama Capital, is familiar with this practice. His company, founded in 2005, invests in "passionate entrepreneurs building leading companies in life sciences and technology" To Albinson, investing involves far more than plunking money on the table; it means helping a company realize its full potential.

"Obviously, I'm looking for the best possible return on my investment in a company," says Albinson, whose clients are scattered across the U.S. "If I'm familiar with a vendor who can provide a service that will help a company improve some aspect of its operation, I am going to recommend that vendor. Simply writing a check then sitting back and assuming that the investment will do well is not the smartest approach."

Increasingly, Albinson finds himself recommending software development outsourcing firms. In fact, outsourcing this function of a company makes sense in a variety of scenarios. Certainly, it is a sound strategy when the project does not necessarily revolve around the investment company's core competency. It also helps the company manage expenses by not introducing new capabilities for what may amount to just two or three discreet projects; in other words, it's a good alternative to building an internal team.

Bring Out the Best

Regardless of why the outsourcer is being used, it's the VC's responsibility to bring the good ones to their client's attention. "If VCs are doing their jobs right, they are helping

companies grow faster using less money," says Albinson. "Over time, the good VCs have recommended a large number of vendors to their clients. In doing so, they've learned which ones can provide value and help guide a young company through the critical early stages of development."

When it comes to software development, many companies have been lured by the siren song of offshore resources, particularly places such as China or India, where the labor rate can be as low as 20% of the going rate in the US. Since cost and cash management are critical drivers for virtually every business, especially for startups or expansion-stage businesses, it's a song that is hard to resist. However, low labor costs can be deceiving because they can be more than offset by hidden costs, many of which might not even be considered until after the engagement has begun.

Keeping It Local

Consequently, savvy VC professionals are often recommending "onshore" options to their North American clients. While some of these reasons are financial, others go far beyond pure dollars and cents. To begin with, there is the issue of proximity; in this area, looking eastward toward India may not be the most prudent decision.

"India is as many as 12 time zones away from the westernmost parts of North America," says Albinson. "This means that setting up a conference call or video meeting is going to be very inconvenient for one of the parties. Plus, it's difficult to have any 'real time' communication if someone has a creative idea on the spur of the moment."

Travel is also a major consideration, especially when you're talking about the furthest reaches of the globe. "When you start up an outsourced project, you either take a bunch of people over to the outsourcer or they come to you," says Albinson. "This is necessary to get everyone up to speed. The airline flights, the accommodations, and everything else become a significant investment. On the other hand, flights within North America are a fraction of the cost."

Language issues also can often present a near insurmountable challenge, according to William J. Wilcoxson, general partner at Axiom Venture Partners. "Even if you find an offshore outsourcer that has English-speaking capability, certain phrases and idioms in English don't always translate to another language the way the speaker means them," says Wilcoxson. "So you may not be conveying the right message, even if you're both speaking the same language. That can lead to losses of time and, if mistakes are made on a project, money."

Intellectual property (IP) issues can also present a real predicament to a young company with a solid blueprint for the proverbial "better mousetrap." According to Wilcoxson, "Not all foreign countries are responsible when it comes to observing IP or copyright laws. A company with a great new idea or proprietary information may have its IP jeopardized by an unscrupulous offshore outsourcer. That's not to say it can't happen with a North American outfit, but, generally speaking, IP laws are taken far more seriously on this continent."

In offshore outsourcing situations, turnover always has to be considered, says Wilcoxson. "There has been a lot of turnover in the overseas development partners, which has led to difficulties in getting projects delivered on time, within the specified cost parameters, and with the required level of quality," he says. "Even if I'm paying labor costs that are 80% less than what I'd pay in North America, the time and effort to bring new people up to speed on the project, the increased management costs, the delay in bringing the product to market, and the potential impact on quality all take a financial toll."

So Albinson and Wilcoxson make a case for using onshore outsourcers, particularly for software development for new products or product enhancements. Both men have turned to software outsourcing companies such as MapleWorks Technology for help. We focus on network communications, from network management to telecom products to voice, data, and video convergence. The company prides itself as having the capacity to develop commercialized products at 35%-50% less than U.S.-based resources.

"MapleWorks is partnered with one of our current investments," says Albinson, who adds that the company has been "very helpful in terms of getting a lot more development done on a cost-effective basis ... increasing the value of the investment companies we've put them in touch with."

Paul Gasparro is the vice president and co-founder of MapleWorks Technology (www.mapleworks.com). He has more than 30 years of experience working with major telecommunications service providers and phone and computer equipment manufacturers. He also holds several patents in the fields of computer telephony integration. MapleWorks Technology's development center is based in the Ottawa tech region, with access to 82,000 experienced technology workers and the campuses for RIM, Nortel Networks, Alcatel-Lucent, IBM, Mitel, and more.