5

REASONS

WHY

OUTSOURCING

FAILS

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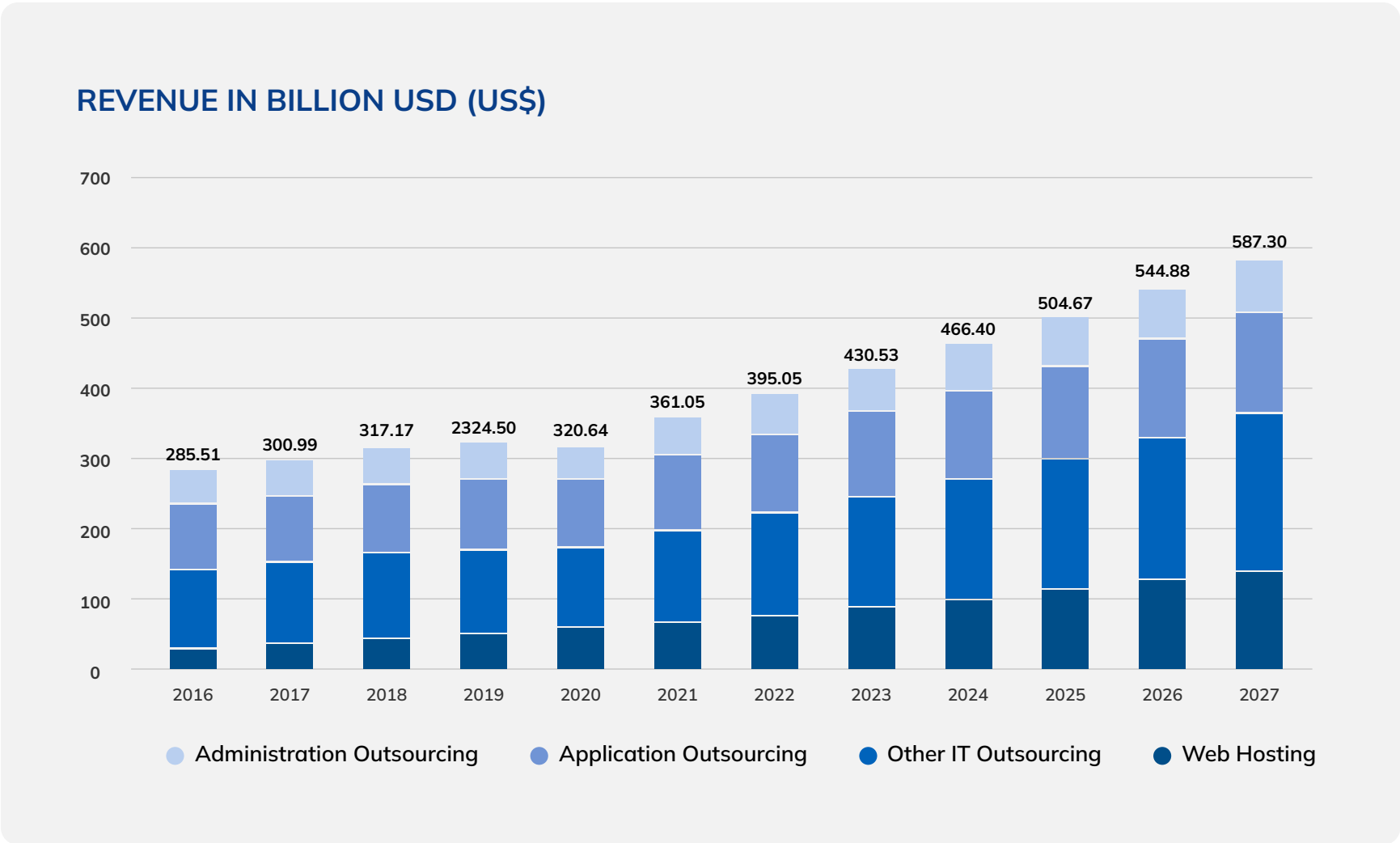
5 Reasons Why Outsourcing Fails

Final words

When used at the right time and in the right situation, outsourcing can deliver a multitude of benefits to your business. It can help you save employee resources, improve your business's efficiency, promote staff flexibility, fill in tech talent gaps, and lower expenses.

A vast majority of big and small companies choose to outsource rather than build their own in-house team. Google, Slack, and Alibaba have already taken advantage of outsourcing by luring other smaller companies to follow their example. The global IT outsourcing market is projected to reach **$587 billion by 2027, progressing at a CAGR of 8.26%.**

REVENUE IN BILLION USD (US$)

Year	Revenue
2016	285.51
2017	300.99
2018	317.17
2019	2324.50
2020	320.64
2021	361.05
2022	395.05
2023	430.53
2024	466.40
2025	504.67
2026	544.88
2027	587.30

Legend:
- Administration Outsourcing
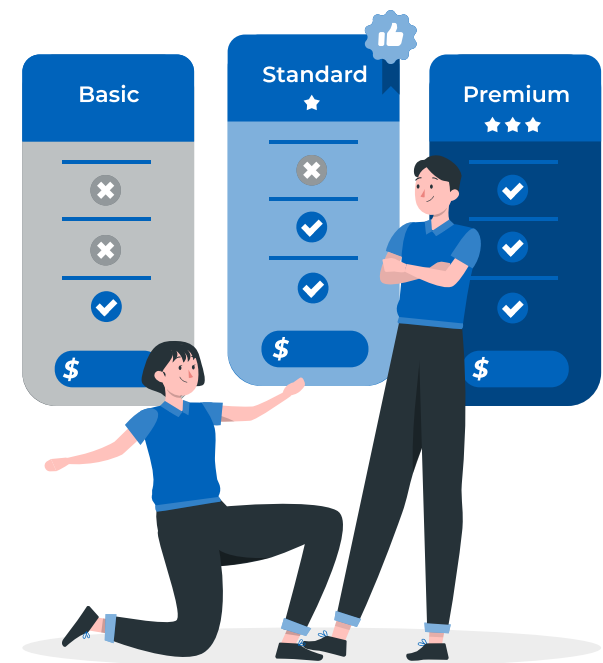- Application Outsourcing
- Other IT Outsourcing
- Web Hosting

But as we know, not all companies succeed in outsourcing. The problem is that sometimes, companies turn to outsourcing for all the wrong reasons. Based on our experience, we can single out the top five reasons why outsourcing fails.

① Unrealistic expectations

The majority of managers tend to choose the lowest price and expect greater output than mentioned above, which makes the contract unprofitable for IT outsourcing providers. As a result, they may look for alternative ways to recoup their losses, or you will get a much higher bill than discussed before.

In fact, **45% of IT projects** tend to go over budget due to a lack of information, critical details, and unrealistic expectations. So it's important to understand the risks, possibilities, and potential costs involved in completing a project.

%, projects >$15 million, in 2010 dollars

Project type	Average cost overrun	Average schedule overrun	Average benefits shortfall
Software	66	33	17
Nonsoftware	43	3.6	133
Total	45	7	56

Source: McKinsey-Oxford study on reference-class forecasting for IT projects

② Poor communication

Unclear communication is one of the most widespread problems businesses face when outsourcing. A whitepaper published by SourcingFocus revealed that 28% of 1,000 respondents identified poor communication as the key reason for outsourcing failures.

Here are some warning signs that you should keep an eye on when choosing an IT outsourcing vendor for your project:

Long response time

While communicating with your IT vendor, you should expect to get timely responses. The only exception is time differences. Hiring an IT outsourcing provider somewhere in the Asia-Pacific region may be cheaper than in Eastern Europe. Still, time differences can lead to longer response times.

No personal touch

When an IT outsourcing provider refuses to talk and prefers to do everything through chat or email, this is a warning sign that you shouldn't ignore.

Language barriers

Choosing an offshore partner can introduce not only significant time differences but also language barriers and cultural differences that can affect communication.
The best way is to hire companies that can communicate clearly in English.
Types of meetings may differ in length, purpose, and team members involved, but they should be in your outsourcing journey.

3 Faulty cooperation model

The specific nature of your software development project defines the optimal partnership model. What works well for long-term projects may not be suitable for short-term projects with a well-defined output.

Time & material, a dedicated team, and a fixed price are key contract models used in the software development domain.

> The choice of a cooperation model depends on the project type, duration, payment scheme, work schedule, and specifics.

The fixed price model is the right fit for a pilot or small project, but it may not offer the necessary flexibility for making fast changes. The fixed price model has no rival when it comes to kicking off a project, but after evaluating the outcomes of the pilot stage, it may be better to switch to another cooperation model.

The time & material cooperation model is a good fit for projects that require fast changes or need to perform in conditions of uncertainty. It allows adding or removing product features easier than any other cooperation model. T&M works well with long and medium-term projects.
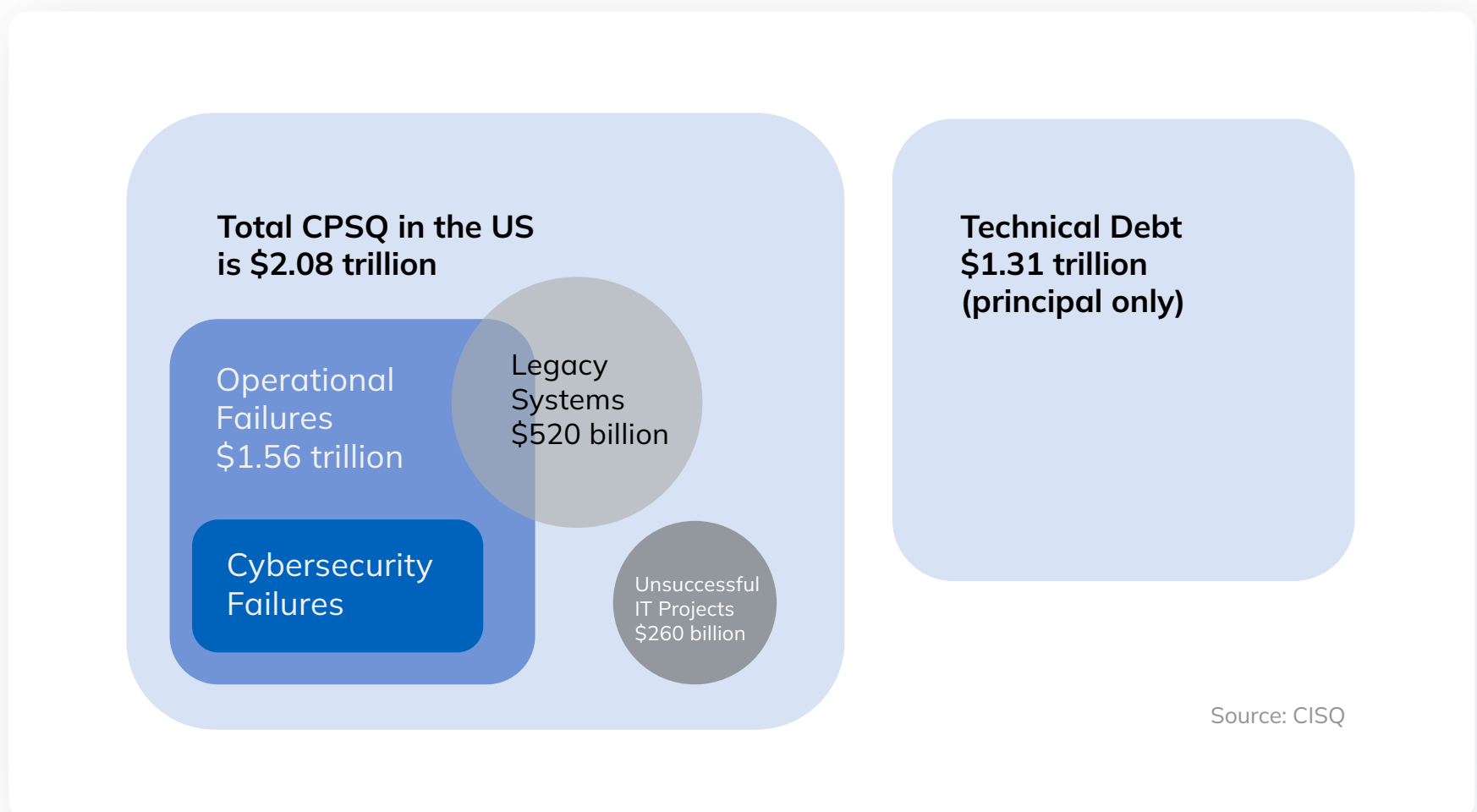
A dedicated team is one of the cooperation models that provide businesses with specialists working exclusively on a project. This means that you'll have a full team that commits all their time and experience to turn your app idea into a full-scale project. With this model, you have ultimate access to the niche-specific development expertise.

Do your best to account for all the possible factors facing your project before choosing a cooperation model.

General Contract Types of IT Outsourcing

	Fixed price	T&M	Dedicated development team
Size of project	small & medium	small & medium	large
Requirements	predefined	not set	evolving
Flexibility	little	high	high
Budget	predefined	not set	estimated
Client's control	little	significant	full of partial
Warranty	predefined	not set	not set
Methodology	waterfall	agile	agile

④ Low-quality work

Hiring an IT outsourcing provider without relevant domain expertise can lead to wasted resources and outsourcing failures. When outsourcing software development, you need to review, check, and test the completed work. US companies lost around $2.08 trillion due to poor software quality, where nearly $260 billion was spent on unsuccessful IT projects.

Total CPSQ in the US is $2.08 trillion

Operational Failures $1.56 trillion

Legacy Systems $520 billion

Cybersecurity Failures

Unsuccessful IT Projects $260 billion

Technical Debt $1.31 trillion (principal only)

Source: CISQ

Skipping QA can result in unnecessary expenses, poor code quality, and bugs. Having an experienced QA in your outsourced development team is a great way to solve problems associated with low code quality.
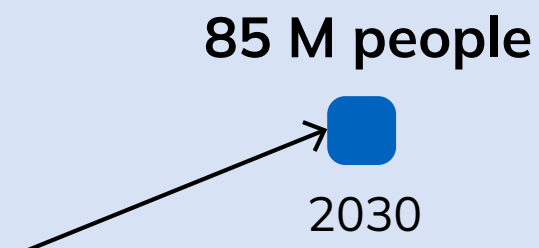
⑤ Prejudiced public opinion

Outsourcing is associated with low-quality work and shipping jobs overseas to save a pretty penny. But even FAANG companies take advantage of outsourcing to save time, money, and improve their services.

Nowadays, the global human talent shortage reaching unbelievable levels can leave your business far behind. Globally, the demand for tech specialists is growing faster than the number of employees with the right skills. According to a new Korn Ferry report, more than 85 million jobs may remain unfilled by 2030 due to the global talent shortage. This could result in revenue losses in excess of 8.5 trillion.

By 2030, there will be a global human talent shortage of more than 85 000 000 people, roughly equivalent to the size of Germany.

85 M people

2030

Outsourcing can be a true business saver in highly complex and challenging business environments. IT outsourcing vendors can attract top tech talents to ensure competitive results. It's not just about cost reduction but efficiency enhancement such as the latest tools and technologies, state-of-the-art infrastructure, and technical support.

Final words

Outsourcing can be a one-stop solution for businesses of all sizes and industries that helps them stay ahead in today's digital world. Finding the right outsourcing partner with all the necessary skills and expertise is your key step to successful software development outsourcing.

Rushing into outsourcing without a clear product vision and full understanding of the market can lead to misaligned expectations, miscommunication, overspent budget, and increased management overhead. To avoid putting your project at risk, you need to consider all the factors affecting your outsourcing and make the right decisions.

If you want to power up your business with a quality software solution, feel free to contact us. We're here to help you with software development issues covering the full cycle of software development, from ideation to launch.

Thanks for reading!

Do you need an efficient IT team for realizations of your ideas?

Contact us for fast and cost-efficient delivery of your software solution.

GET A QUOTE

Glorium Technologies

Founded in 2010 and based in New Jersey, our company is an ISO-9001 and ISO-13485 certified software solutions supplier.

Glorium Technologies professionals deliver projects in the shortest timelines without losing quality in the process as they utilize some of the techniques and strategies for effective team collaboration described in this book.