

2017 Guide to Global Software
**OUTSOURCING
RATES**



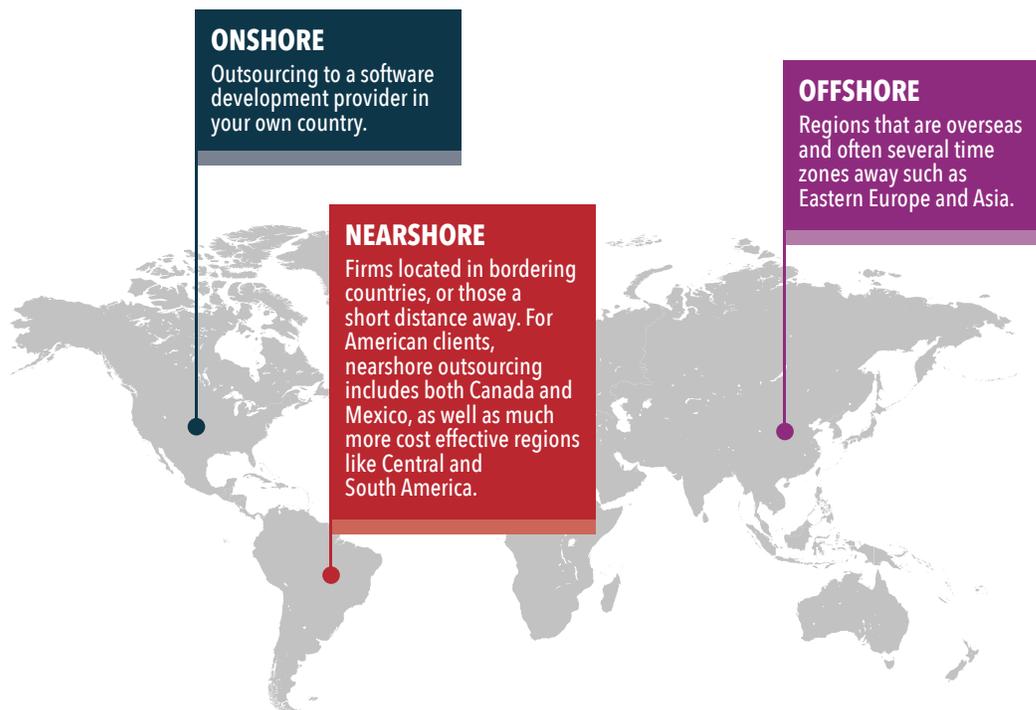
Introduction

Outsourcing your company's software development offers numerous benefits. Access to innovation and leading technologies, adherence to best practices, decrease in time-to-market, and deep pools of high-quality talent are just a few. One of the most attractive gains, however, is the ability to maximize your budget by paying less for considerably higher quality software.

The 2017 Guide to Global Software Outsourcing rates describes the cost benefits of outsourcing, variable cost factors, main considerations when factoring outsourcing costs, and the competitive global rates you can expect from outsourcing regions around the world.

Onshore vs Nearshore vs Offshore

Outsourcing is defined as offshore, nearshore, or onshore and change locations depending on where you are in the world. For instance, Eastern Europe is nearshore for Western Europe, but offshore for the US and Australia. Latin America is nearshore for North America, but offshore for Western Europe. These outsourcing terms are all about distance from the hiring company.



Outsourcing locations as defined from a North American perspective.



The best rates are nearshore and offshore

When compared to the United States specifically, offshore and nearshore programmers offer access to highly qualified software development teams for a fraction of what you'd pay for hiring, developing and retaining an in-house team. [Onshore outsourcing may provide cost savings as well, but the hourly rates won't be as low as going outside the US.](#) 

In general, with any kind of outsourcing, you'll save costs by eliminating the employee overhead that comes with employee benefits, taxes, training and retention. In the chart below, outsourcing saves \$350,000 for 10 offshore or nearshore developers working full-time over six months vs. employing those same developers in-house.

Sample Cost Savings from Outsourcing

	In-house Developer	Offshore/Nearshore Developer
Number of Developers	10	10
Man Hours Needed	1000	1000
Hourly Rate	\$50	\$25
Employee Benefits	✓	✗
Taxes	✓	✗
Training, Retention	✓	✗
Travel	✗	✓
Estimated Cost	\$600K Minimum	\$250K + Travel



Keep Cost in Mind, but Focus on Value

Outsourcing software development is always going to save you money when you compare the end costs of outsourcing with in-house of similar quality. But don't overemphasize cost as a priority when you outsource. Studies show that product teams that overemphasize development costs are more likely to underperform.

Focus on value instead of cost. Don't hire the cheapest software outsourcing firm you can find because in the end, you may "pay the price" via project delays, costly mistakes, bad code and technology, and more. Instead, focus on bringing on the best, most highly skilled engineering staff to get the job done right.

When looking for a quality outsourcing provider, be sure to investigate how your outsourcing partner can increase value in terms of technology, innovation and depth of experience.

Total Cost of Engagement (TCE)

The Total Cost of Engagement, or TCE, is a complex cost factor separate from compensation or hourly rate. When hiring your own developers in-house, for instance, TCE includes a base hourly rate, plus taxes, healthcare, retirement plans, vacation, etc. Comparatively, when you outsource, many of the in-house costs disappear, but it's important to be mindful of other costs you may not consider right away. For instance, an offshore developer in a remote part of Southeast Asia might quote you an amazing rate, but management and travel costs should be added to the TCE.

Most outsourcing experts suggest that the TCE can be as high as 30% on top of your budget, so it's important to consider the costs when making a decision.

In House vs. Outsourcing

Salary

\$55/hour

Benefits, taxes

\$15/hour

Office space, networking, administration

\$10/hour

Total Cost of Engagement

\$80/hour

Hiring, benefits, taxes, overhead

\$30/hour

Communication, travel

\$10/hour

Management, oversight

\$5/hour

Total Cost of Engagement

\$45/hour



Outsourcing Rates Vary Based on 3 Factors

There are 3 major factors that impact the rates you'll be quoted when outsourcing software development: location, experience and length of engagement. These factors must each be considered independently when budgeting your software engagement.

1 Location

Hourly rates will vary depending on region - and often within regions themselves varying from city to city.

[Major global regions for outsourcing software development are North America, Latin America, Eastern Europe and Asia.](#)

North America



North America - specifically the U.S. - is one of the biggest tech-hubs in the world. Software developers have access to well-respected universities and colleges and the talent pool is deep. Despite this, the huge demand for developers has caused a shortage.

Because of this and the high cost of living, software providers charge are some of the top earners in the U.S. economy.

 **Key Advantages:** Familiarity with U.S. laws and regulations, cultural match, English language skills, travel proximity

Latin America



Software outsourcing in Latin America has grown tremendously, especially in countries like Mexico, Argentina, Colombia, and Peru.

Because of their close proximity to North American clients, these countries compete favorably with India, China and other outsourcing destinations.

Universities in Latin America have robust IT programs and yield enough programmers to easily honor software outsourcing commitments. Costs are higher than other regions, but remain a bargain compared to hiring in-house.

 **Key Advantages:** Workday overlap, English language skills, cultural affinity, travel proximity

Eastern Europe



Eastern Europe has placed a particular emphasis on educational programs rich in engineering and the sciences. As a result, this region boasts a significant number of highly skilled professionals in the software development field, but at low costs that leave North American and Western Europe far behind. By cost, the market separates into two segments: Ukraine, Belarus and Armenia (lower cost) and Poland, Hungary, Bulgaria, Romania and the Balkans (higher cost). All countries in the area have solid expertise in data, algorithms and embedded systems.

 **Key Advantages:** High technical ability, low cost, English language skills, cultural affinity

Asia



[Outsourced IT and software development has played an important role in the economy of many countries in Asia.](#)

As a result, the industry attracts highly skilled individuals that have been educated at the top global universities and colleges. The region separates into two broad categories: the first includes India and China where you're likely to find top-level talent but may have to make sacrifices on cost or dependability due to adverse work conditions. The second includes smaller countries like the Philippines and Vietnam where you'll have access to the same top level talent at reduced rates, with a higher degree of job satisfaction leading to more stable software providers.

 **Key Advantages:** Low cost, deep talent pool, well-earned software outsourcing reputation



② Experience



Outsourcing rates also vary based on technical experience levels, technical expertise, industry expertise and overall outsourcing experience.

Naturally, senior developers cost more than junior developers, but in many nearshore and offshore regions you can engage companies who provide experienced senior developers for the same rate (or less) than you would be able to hire an inexperienced junior developer locally.

Insist on outsourcing companies with a high-level of expertise in relevant technologies. For example, if you want to develop an iOS app, narrow your search to companies that aren't just moderately experienced in iOS applications, but who are in fact specialists with superior technical skills. A high degree of focus on only those who specialize in what your software engagement requires doesn't necessarily mean you'll pay higher rates, but it is guaranteed to increase the value of your investment.

Similarly, you may want to narrow your search to specialists in a particular industry. Whether you work in finance, pharma, nonprofit, or one of the countless other industries that software can benefit, you'll find software developers loaded with industry-specific experience. It's not always crucial to choose a software outsourcing provider with significant experience in your industry, but it can help improve communication and productivity. Industry experience will increase the value of your software by capitalizing on your provider's previous familiarity with the goals, hardships, and standards common in your industry. Rates will vary depending on the industry and region.

And finally, companies who are proven experts with years of experience as a trusted outsourcing provider certainly have the ability to command better rates than companies without experience. You'll want to work with outsourcing companies who know how to work with clients and engagements like yours. Don't be a training ground for a newcomer just to get a lower rate.

③ Length of Engagement/ Size of the Team



The complexity of your software engagement will impact the resources your outsourced software development team requires to complete it. In general, longer engagements with bigger teams will always come with an increase in overall cost, but provide greater long-term value.

Software outsourcing companies benefit financially from providing large teams of developers over long periods of time. Because of this, companies are often willing to offer better rates to clients who need more of their services, longer. If your software engagement requires 20 to 30 developers on a two year time commitment, you should expect to pay a lower rate than you would if your engagement only required 3 to 5 developers for under a year. Committing to short term software engagements increases the risk of putting developers on the bench while waiting for the next engagement, which is why long engagements (while more costly overall) yield higher value rates.

Naturally, you may be cautious about making a long-term commitment to an outsourced software development team that you haven't worked with prior. Long-term commitments provide better value overall, but it is important to include a termination period of 30 to 60 days in your agreement. This mitigates the fear of over-committing while leveraging the highest value term agreement. Be sure to make a psychological commitment to success when outsourcing, but ensure you're able to exit the agreement should performance issues or a change in business conditions arise.



How Rates Are Quoted

Rates are rarely quoted the exact same way region-to-region, let alone across the board. Here are some common elements of a rate quote:

Full-Time Equivalent (FTE)

FTE expresses the hourly rate of developers as an annual salary. If you're quoted an FTE rate and your engagement will last 6 months of full-time work, you would be looking at paying 0.5 FTE.

Blended Hourly

Software developers may produce a quote based on the blended hourly rate of all team members dedicated to your engagement. In general, you want to be sure the blended rate is fair, and that you aren't getting a deal on one senior developer while overpaying for several junior developers.

Risk Factor Surcharges

Many outsourcing companies add a risk factor cost to compensate for a heightened risk of failure because they don't know you and your proposed software engagement may not be their specialty. These risk factor charges may be 25% – 50% more than the price they would charge a perfect-fit, no-risk client.

NOTE: Accelerance clients avoid risk factor surcharges. With Accelerance as your outsourcing advisory firm you'll establish trust and confidence between you and your global service provider faster than you would on your own - which means increased savings for you.

2017 Global Outsourcing Rates

Full Time Employee (FTE)	North America	Latin America	Eastern Europe	Asia
Business Analyst	\$100-\$186	\$35-\$45	\$35-\$45	\$30-\$35
Architect	\$180-\$265	\$40-\$50	\$40-\$50	\$40-\$50
Project Manager	\$130-\$212	\$40-\$50	\$35-\$45	\$35-\$40
Jr. Developer	\$95-\$101	\$25-\$35	\$25-\$35	\$20-\$30
Mid-level Developer	\$120-\$127	\$35-\$45	\$30-\$40	\$25-\$35
Lead Developer	\$160-\$170	\$35-\$50	\$40-\$50	\$30-\$40
Sr. Developer	\$140-\$148	\$35-\$50	\$40-\$50	\$25-\$35
Jr QA	\$70-\$74	\$20-\$30	\$25-\$35	\$20-\$30
Mid-level QA	\$90-\$95	\$30-\$40	\$30-\$40	\$25-\$35
Sr QA	\$130-\$154	\$35-\$45	\$35-\$45	\$30-\$40
Graphic Designer	\$72-\$148	\$30-\$40	\$30-\$40	\$30-\$40

Sources: All regions as reported by highly-qualified software outsourcing companies working with Accelerance.

NOTE: [*teams with a mix of junior, mid-level and senior developers perform best.*](#) 🐦 A lower-cost team of all junior developers will lack the experience to be productive, while hiring only senior developers in an attempt to get a team filled exclusively with the most experienced developers will cost you more and may cause team-work issues. Balanced teams are your best option.



Outsource with Confidence

Accelerance is on a mission to connect clients looking for software services with the most-talented outsourcing companies planet. We're the only company in the world that conducts thorough screening and business background checks to identify world-class global software teams. Accelerance research analysts review technologies, methodologies, English and communication skills, track record of success, company size, leadership, hiring practices, ratio of senior to junior employees, industry experience, and more.

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