

CHAPTER 4 OFFSHORING

4-1. THE EVOLUTION OF OFFSHORING OF DEVELOPMENT WORK, AND CONTRACTING FOR OFFSHORE SERVICES

The Information-Technology Promotion Agency, released a study report, "Trend of Human Resources in the IT Market," in May 2009, which included information on contracts made by Japanese companies for provision of offshore services to companies in other countries. From the results of a questionnaire survey of companies in a range of industrial categories, it was found that the value of contracts received in 2007, including both direct and indirect awards, totaled about JPY95.8 billion.

Contracts for offshoring of services for Japanese companies, by country, show a concentration in China of 60%, (Fig. 4-1) or JPY57.5 billion, followed by India's JPY20.6 billion, accounting for 21%. In sequence, these were followed by the Philippines and Vietnam. As is evident, the value of contracts awarded to Chinese companies predominated, and Japan is dependent on that country for significant percentage of offshore work.

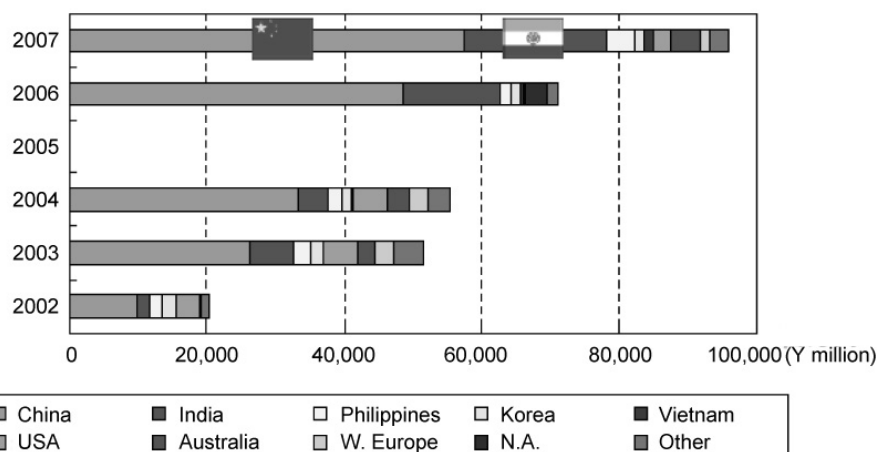


Figure 4-1
Offshore Development
Transactions (By Country
and Region)

Source: Information-Technology Promotion Agency, "Trend of Human Resources in the IT Market," 2009.

Regarding the work performed in major offshore development markets (China and India), the study found that programming and unit testing dominated, as 80-100% of responding companies cited these tasks (Fig. 4-2). More than 60% used offshore vendors for detailed design while more than 10% contracted for basic design. Upstream work – design – is becoming more frequent as a category of work suitable for offshoring, while downstream tasks such as programming and testing continue to be the most important. Offshore development in India includes task definition and R&D, reflecting the high level of technological prowess in software development in that country.

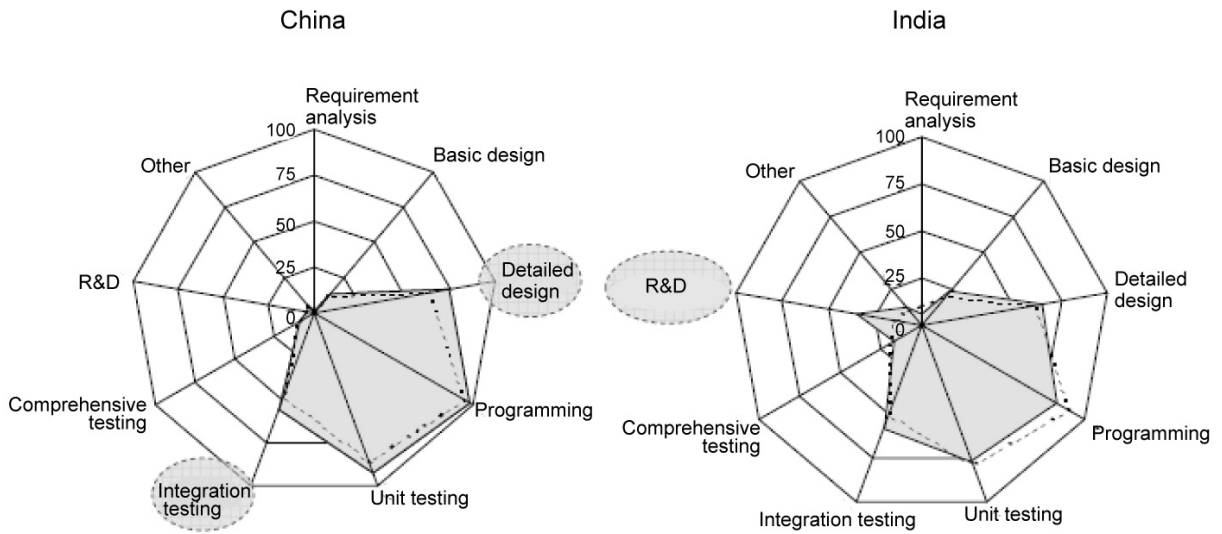


Figure 4-2
Tasks Given to Offshore
Developers (Major
Countries)

Source: Information-Technology Promotion Agency, “Trend of Human Resources in the IT Market,” 2009

Past data for the growth of the scale of offshoring by country was used to project the rate of growth and future scale of offshoring, with results as shown in Fig. 4-3. This estimation indicates that in 2012 the scale of Japanese offshoring demand will be grown to JPY201.2 billion. From this we can expect robust expansion of offshoring. Risks also accompany this growth, however, and include as important factors the increase in the cost of offshore services, the need to protect intellectual property, and country risk, which may restrain the growth of offshoring.

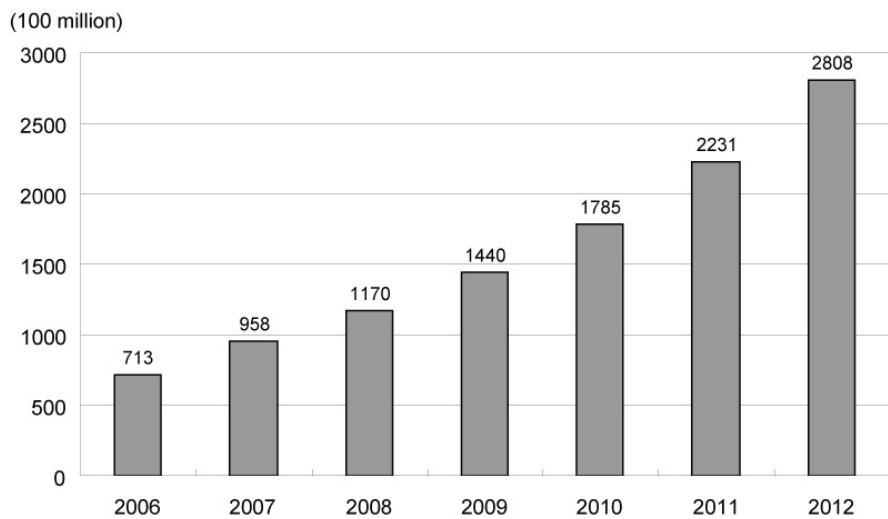


Figure 4-3
Projected Future Scale of
Offshoring

Source: Information-Technology Promotion Agency, “Trend of Human Resources in the IT Market (preliminary survey),” 2009