

# “Offshore Goes Downstream”

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### Power rates expected to spike by 20%

**BY SHIRI QUALYAN**  
JANUARY 27, 2003

Retail electricity prices could jump at least 20 percent in the Boston area this spring and summer as a direct consequence of the winter's wholesale natural gas spike, experts say.

Current electricity rates do not cover the utility company's wholesale electricity costs, said Bruce McLeish, who heads and acts as partner for the Boston office of Constellation, New Energy Inc., a subsidiary of Baltimore-based Constellation Energy Group. His competitors like Boston-based NStar and Massachusetts Electric Co., the utility division of Westborough-based National Grid USA will be forced to increase electricity bills to bring revenues more in line with costs, McLeish said.

"Electricity prices are almost entirely driven by the price of fuel, and the high natural gas prices are going to translate to higher (retail) electricity prices," McLeish said.

Mass. Electric, for example, is charging roughly 1.5 cents per kilowatt hour to commercial and industrial customers using so-called default service. McLeish predicts that Mass. Electric's default rate will increase by 1 to 1.5 cents per kilowatt hour, or 20 percent to 30 percent.

The state's electricity deregulation plan has a two-tier price structure covering the years from 2003 and 2005. Please see **ENERGY**, Page 10



**THE UNUSUAL FUTURE OF THE STATE**  
and its three former Yankee plant may increase New England's dependence on natural gas. See Page 10.

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### OFFSHORE goes downstream

**International outsourcing increasingly embraced by smaller companies**

**BY MIHAIL HOLCIK**  
JANUARY 27, 2003

**B**ob Allard's software startup, RetentionEngine Inc., is based in North Andover — but most of its employees aren't.

The company's engineers and designers — 20 out of 23 people on the payroll — design and develop corporate compensation software from operations in Croatia, a nation still emerging from both the former Yugoslavia and the Soviet-era Iron Curtain.

Allard, RetentionEngine's co-founder, president and CEO, said he couldn't be happier with the work his employees do, but offshore outsourcing also helps the company's bottom line. A software engineer may make \$75,000 to \$100,000 in the United States, but a Croatian salary can be a third to a quarter of that.

"They are highly qualified to build very good software and at a price (where) we can take advantage of some-cost benefits," Allard said.

Offshore outsourcing, which is the overseas exporting of white-collar jobs from teleworking to software engineering, is on the rise. It's a market that reached \$330 billion in 2001, according to the Yankee Group Inc. in Boston. Please see **OFFSHORE**, Page 11



**Bob Allard is co-founder, president and CEO of RetentionEngine Inc., a North Andover software firm that relies on offshore outsourcing to Croatia.**

### Cisco bumps its sublease space to 750,000 sq. ft.

**BY BILL ARCHIBALD**  
JANUARY 27, 2003

**BOULDER, CO.** — Cisco Systems Inc. is consolidating more than 3,000 people into the Boulder area over the next year, leaving vacant 750,000 square feet of space at leased offices in Chelmsford and other spaces in the Interstate 495 North market.

The move is part of the company's plan to shift out of office space it has been leasing and settle into buildings it owns in the Boulder area.

"My understanding is that they're going to use all these buildings that have just been finished," said Kevin Hanna, senior director at Chatham & Wakefield of Massachusetts. "It's good news for Boulder and the central 495 area. It's bad news for 495 North."

The company just announced 400,000 square feet of excess space up for sublease a year ago, but now real estate sources say that figure has swelled, with anywhere from 675,000 square feet to as much as 750,000 square feet available on the market by various accounts.

The consolidation of roughly 3,000 employees will take place in phases, according to Cisco spokesman Majum Roshidi, who declined further comment, except to say that the San Jose, Calif.-based Internet networking company did not know exactly which locations would be affected or when.

The move is additional — if not unexpected — bad news for the I-495 North office submarket, which has been hit the hardest of the Greater Boston area's. Please see **CISCO**, Page 11

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<http://boston.bizjournals.com/boston/stories/2003/03/17/story1.html>

## Offshore goes downstream

International outsourcing increasingly embraced by smaller companies

Mark Hollmer Journal Staff

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Offshore outsourcing, which is the overseas exporting of white-collar jobs from telemarketing to software engineering, is on the rise. It's a market that reached \$130 billion in 2001, according to the Yankee Group Inc. in Boston.

And it's not just for larger companies anymore.

Smaller companies like Allard's are increasingly relying on offshore outsourcing and the cheaper overseas talent it provides to stretch their bottom lines and cut costs in an economy that continues to stagnate here at home.

Some companies already have connections in the countries they tap for offshore outsourcing, so the move — combined with cheaper telecommunications costs — becomes an easy business decision. Others are turning to overseas outsourcing in Asia and Europe to fill gaps in expertise they feel domestic talent lacks or to maximize limited development funds when venture investment is at a premium.

"Many venture capitalists ... will immediately ask where the offshore development component is (with software startups) or they will suggest it, because it's a dramatic savings and it's proven," said Walter Wright, managing director of Rich May PC in Boston, a law firm that represents a number of emerging software and technology companies.

Wright and others say offshore outsourcing among smaller companies has increased dramatically over the past several years, but not everyone agrees.

Carrie Lewis, a senior analyst with the Yankee Group, said that smaller companies — particularly pre-profitable venture-backed startups — operate under thin margins and that "the idea of doing that would be a huge hurdle for them" unless they already have connections overseas.

What's more, smaller companies or startups hoping to sign a contract with an outsourcing company may find themselves passed over for a larger competitor.

John Gallagher, an assistant professor at the Wallace E. Carroll School of Management at Boston College, says "everyone is doing more outsourcing" and "some startups have considered moving work offshore to quell their burn rate." But established offshore-outsourcing companies they'd work with could easily choose bigger corporate customers, he said, who won't "flame out and not pay their bill."

That hasn't stopped a number of local startups and smaller companies from pursuing the option. Brian Boyle is chairman of GoldK Inc. in Waltham, a venture-backed financial services company that sells a web-based 401(k) management software system. GoldK said he decided to outsource for software development and quality assurance 18 months ago through Boston-based Strategiweb LLC, an outsourcing company that launched in 1999 and provides 12 outsourcing employees in Manila, Philippines, to supplement GoldK's 100-person staff here.

"It provided us a lower cost for slightly better quality talent and it gave us round-the-clock capability," Boyle said. "It's something we never thought we'd do at this size, but it has become easier for us to do" because of cheaper telecommunications and Internet connection costs.

Software company eCredit.com Inc. of Dedham, founded in 1993 to make automated credit and collections software, has relied on a wholly owned outsourcing subsidiary in Bangalore, India, for about five years for software development and coding. More than one-third of the company's 75 employees are based there.

Company founder Venkat Srinivasan already had connections there, so setting up the division proved to be relatively simple and effective, said eCredit chief technology officer Jim Butler.

Salary and development savings aside, the 10.5-hour time difference has helped the company increase productivity because "while we're sleeping, they're fixing stuff we can grab a hold of in the morning when we come in," Butler said. But that same time difference, if there's a miscommunication, "can cost an entire day."

Kubi Software Inc. in Lincoln, a collaborative e-mail software startup founded in 2001, employs 31 people here and is now actively exploring signing with an offshore-outsourcing firm to handle quality assurance and software translation into other languages, as early as this year, said company president John Shagoury.

"We're not in a point in our life where we need full-time people in either of these areas to augment whatever we have existing," Shagoury said. Engineering work could follow later.

As for Allard, he formed RetentionEngine with chief technology officer Niksa Radovic, a Croatian native. They incorporated based on technology created with accounting firm Ernst & Young LLP in New York City, Allard said. Radovic's brother, Stjepan, runs the outsourcing division in Croatia.

Allard said it made sense to keep the company's engineering talent in Croatia rather than to shift development here, in part to take advantage of cheaper expansion costs.

Thanks to the lower salary and production costs, RetentionEngine has become profitable on 2002 revenue between \$500,000 and \$1 million, has no debt and sought no outside investment other than limited angel investment.

"The clients are very happy," Allard said.

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