

# velv

Our Team, Remotely Yours

## THE REAL ROI OF NEARSHORE SOFTWARE DEVELOPMENT IN EUROPE

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## — Introduction

European software companies are under pressure to deliver more with fewer resources. Salary inflation, long recruitment cycles, and the scarcity of qualified engineers have created a talent bottleneck in markets such as Germany, the UK, and the Netherlands. The result is slower product delivery and rising operational costs.

Nearshore development has become a realistic alternative to local hiring. It offers access to skilled professionals within the same time zone, without the complexity or cultural distance of offshore models. In practice, this approach allows companies to scale engineering capacity faster and with predictable quality.

This paper provides a clear and measurable way to evaluate nearshore value creation. It explains how to calculate ROI, outlines the main cost variables, and compares European countries where nearshore delivery is most common. The goal is to support decision-makers with practical data, not abstract arguments. Understanding ROI helps determine whether nearshore is a tactical solution for short-term capacity or a long-term strategy for structural efficiency.

## — What Nearshore Really Solves

Nearshore development bridges the gap between local hiring and offshore outsourcing. It extends an organization's engineering capacity while maintaining operational proximity. The main idea is simple: keep collaboration efficient by working within compatible time zones, languages, and business cultures. This structure reduces friction, improves coordination, and shortens delivery cycles.

Unlike offshore models, where teams operate across continents and time differences of six to ten hours, nearshore setups function as direct extensions of the client's own development process. Engineers participate in the same stand-ups, sprint reviews, and product discussions. The communication flow remains synchronous, which preserves agility and decision speed. This makes nearshore particularly valuable for companies using iterative delivery models such as Scrum or Kanban.

The impact is visible in three areas:

### 1. Capacity and speed

Recruitment bottlenecks in mature markets delay delivery. Nearshore hubs provide access to ready-to-start engineers with strong technical foundations. Time to hire drops from months to weeks, allowing faster scaling of teams without lowering standards.

### 2. Cost and efficiency

Labor cost differences between Western and Southern or Eastern Europe range from 25% to 45%. The savings are not only on salaries but also on benefits, workspace, and administrative overhead. The result is a lower cost per engineer while maintaining quality output.

### 3. Retention and continuity

Many companies underestimate the loss of knowledge caused by turnover. Nearshore partners often show higher retention rates because engineers see long-term project exposure and professional development. Stable teams preserve context and reduce ramp-up time.

Beyond these quantifiable gains, nearshore collaboration improves cultural alignment and technical transparency. Most European nearshore regions follow similar engineering standards, compliance frameworks, and working habits. This removes much of the hidden coordination cost common in offshore environments.

Nearshore development does not necessarily replace local teams, but it can. In many cases, it complements existing structures by adding flexible capacity and reducing delivery pressure. In other cases, when local hiring is no longer sustainable or strategically necessary, nearshore teams fully assume core delivery responsibility. The model is adaptable — it can scale from support extension to complete engineering ownership depending on the company's maturity and goals.

In short, nearshore development is not just about saving cost. It adds predictable capacity, maintains quality, and provides companies with the flexibility to decide how much of their engineering they want to internalize or externalize — all within the same region and regulatory environment.

## — The ROI Framework

ROI measures the efficiency of an investment. For nearshore, it expresses how much value is gained per euro spent compared to hiring locally. The basic equation is straightforward:

$$ROI = \frac{(Value_{Generated} - Total_{Cost})}{Total_{Cost}} \times 100$$

In practical terms, value generated combines direct cost savings and productivity gains, while total cost includes nearshore rates and integration overheads such as management and onboarding.

This framework allows companies to test different nearshore scenarios before committing. It helps estimate break-even points, expected savings, and long-term efficiency compared to maintaining full in-house development. Nonetheless, in this paper we will explore how you can adjust this formula to calculate your ROI more precisely.

## — Key Variables

Several factors determine the economic return of a nearshore setup. Local cost represents the total expense of employing engineers directly, including salary, benefits, taxes, and overhead. Nearshore cost refers to the rate charged by the partner company, which already includes employment, equipment, and infrastructure.

Integration cost covers the effort of coordination, onboarding, and management time needed to align nearshore teams with in-house operations. It is usually between 10 and 15 percent of the total, though mature organizations often reach lower levels after the first six months. In modern nearshore models, this cost is absorbed by the partner and not charged to the client, although it may vary depending on the vendor and engagement terms. Additional variables may include project duration, productivity gains, and fluctuation in exchange rates. These inputs make the ROI formula flexible enough to adapt to different contexts. Decision-makers can test multiple scenarios to see how small changes in team size or hourly rates affect total savings.

## — Sample Calculation

### Example 1 – Local developer costs more than nearshore

Let's assume a local developer costs your company €9 000 per month, while a nearshore developer costs €6 000 per month.

*Note: To calculate the annual cost more precisely, use 21 working days per month, minus 32 days representing vacations and public holidays. This gives approximately 220 effective working days per year. Usually nearshore engagements are Time & Materials which mean the cost will be even lower than what we are assuming in these examples.*

For a five-developer team:

- Local annual cost = €9 000 × 12 × 5 = €540 000
- Nearshore annual cost = €6 000 × 12 × 5 = €360 000
- Savings: €180 000
- ROI:  $(180\,000 \div 360\,000) \times 100 = 50\%$

Each euro invested through nearshore returns €1.50 in value compared to local hiring.

### Example 2 – Local and nearshore cost the same. Or does it?

Now imagine both local and nearshore developers cost €6 000 per month.

- Local annual cost = €6 000 × 12 × 5 = €360 000
- Nearshore annual cost = €6 000 × 12 × 5 = €360 000

At first glance, the cost appears equal, yet ROI remains positive when considering operational factors such as faster hiring, lower HR overhead, and greater flexibility. Then you can easily measure the cost if there's a need to terminate with 1 employee:

- Notice period: average of 1–2 months of salary.
- Severance or legal compliance: 1 month of salary on average.
- Recruitment and onboarding of replacement: roughly 15–20 % of annual salary in time and fees.

Example:

If a local developer earns €6 000/month:

- Notice + severance = €12 000
- Recruitment effort =  $0.15 \times €72\,000 = €10\,800$
- Total overhead:  $\approx €22\,800$  per replacement

Spread over a five-person team, even a 20% annual turnover adds  $€22\,800 \times 1 = €22\,800$  per year in hidden costs.

By integrating this variable into the ROI formula, the result becomes:

$$ROI = \frac{(Cost_{local} + Overhead_{local}) - Cost_{nearshore}}{Cost_{nearshore}} \times 100$$

This adjustment often increases ROI by 10–15 %, even when base costs are equal.

It shows that flexibility and lower HR exposure are not soft benefits — they are quantifiable financial advantages. Also, even with identical rates, the nearshore model often reduces downtime and accelerates project delivery — gains that translate into measurable financial return.

Setup and onboarding costs are not included in either example, since under Velv’s operating model these are fully absorbed and not charged to the client. You can add any other relevant costs to your overhead for a more precise ROI result.

## — Country Benchmarks

The following table provides reference costs for mid to senior -level engineers across selected European countries known nearshoring destinations. These ranges are synthesized from 2024–2025 market data across multiple public and industry sources used in nearshore pricing analyses. The resulting numbers represent typical client billing equivalents (what a company would pay per engineer through a nearshore partner), not employee gross salaries.

Country	Average Annual Cost (€)
Poland	€65 000 – €90 000
Portugal	€60 000 - €75 000
Romania	€55 000 – €72 000
Bulgaria	€50 000 – €65 000

Several factors determine the effectiveness of software delivery models. The table below highlights how Portugal compares with Eastern European and offshore alternatives.

Factor	Portugal (Nearshore)	Eastern Europe	Offshore
<b>Time zone alignment</b>	Full with Western Europe, overlap with US	Partial with Western Europe	Limited overlap
<b>English proficiency</b>	High (#6 EF Index 2024)	High–medium	Varies
<b>Talent availability</b>	Strong STEM base, high graduate rates	Strong, competitive market	Very large, varied quality
<b>Cost efficiency</b>	Lower than Western Europe; more cost-effective than Poland, competitive with other Eastern countries	Rates approaching Western Europe; higher than Portugal, but competitive vs other Eastern Europe	Lowest base rates, but higher risk of hidden costs from time zone gaps, rework, and cultural misalignment
<b>Cultural fit</b>	High alignment with Europe	Medium–high	Lower

## — Case Example

A London-based fintech faced increasing hiring delays and high turnover in its internal software team. To maintain delivery speed, the company engaged a nearshore partner in Portugal for frontend and DevOps support. The first team members were integrated within two weeks and joined the same agile rituals as internal developers.

The nearshore rate was 35 percent lower than London's market average, and incurred no integration costs. Over 12 months, total ROI reached 32 percent. Beyond direct cost reduction, release frequency improved by 25 percent, and the internal team's focus shifted to higher-value product design.

The company also reported fewer interruptions in delivery caused by attrition. The nearshore engineers remained for the entire project duration, providing continuity and maintaining shared knowledge across sprints. This stability became one of the main qualitative benefits, complementing the measurable ROI.

## — Conclusion

Nearshore delivery is not only a financial decision but a structural one. It changes how organizations scale technology, manage risk, and build long-term product capability. Beyond immediate savings, nearshoring creates a flexible layer of engineering capacity that supports consistent delivery in increasingly volatile markets.

The ROI model makes the economic case explicit. By quantifying cost, productivity, and risk, it allows decision-makers to evaluate nearshore strategies with the same rigor applied to any capital investment. The comparison across European destinations shows that ROI is not only a function of hourly rates — it depends on factors such as retention, onboarding time, and operational resilience.

For many companies, the first nearshore engagement begins as a cost-relief measure. Yet the real value emerges when nearshore teams evolve into continuous delivery units that retain knowledge, shorten release cycles, and integrate seamlessly with internal staff. This maturity stage turns nearshoring from a transactional resource model into a long-term strategic capability. A well-structured nearshore partnership enables predictable scalability, knowledge continuity, and faster adaptation to technology or market shifts. It also reduces legal and HR exposure, as flexibility in team composition and performance management becomes built into the operating model.

When evaluated through ROI and long-term impact, nearshore development stands out as a sustainable framework for growth. Companies that measure ROI early and track it over time can align financial efficiency with delivery performance — ensuring nearshore teams are not just cost-effective, but an integral, high-performing extension of their engineering organization.

### **At Velv, we help companies reach this stage of maturity.**

Our model goes beyond team augmentation: we design, integrate, and maintain nearshore engineering units that operate as true partners — aligned with your processes, quality standards, and long-term vision. This approach has positioned Velv among Portugal's leading nearshore software development partners, trusted by global companies seeking measurable ROI and lasting delivery impact.

## — Sources and Methodology

All figures and benchmarks in this white paper are based on publicly available data from reputable European and global sources.

### Salary benchmarks and labor costs

- Glassdoor – *Software Engineer Salaries by Country in Europe (2024–2025)*
- Levels.fyi – *Engineering Compensation Data for European Markets (2024)*
- Eurostat – *Labour Cost Levels by NACE Rev.2 Activity: Information and Communication Sector (2024)*
- Stack Overflow – *Developer Survey 2024*

### ROI and productivity assumptions

- Workdays / year = 21 days × 12 months – 32 (vacations + holidays) = 220 days
- ROI Formula:

$$ROI = \frac{(Value_{Generated} - (Cost_{Total} + Overhead_{Local}))}{(Cost_{Total} + Overhead_{Local})} \times 100$$

### Risk and HR flexibility estimates

- OECD – *Employment Protection Legislation Index 2024*
- Mercer – *Global Talent Trends 2024*
- SHRM – *Hiring and Turnover Cost Benchmarks 2023–2024*

### Market context and regional comparison

- Forbes Technology Council – *A Guide to IT Nearshoring in Europe (2025)*
- PwC – *European Nearshoring Trends 2024*
- KPMG – *IT Outsourcing and Nearshore Delivery Benchmark 2024*