

# Offshore Outsourcing - Introduction (Part 1)

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The changing economy and globalization of business along with pressures on both the top line and bottom line is forcing organizations to look at various ways to reduce costs. In the last decade it has become obvious that Information Technology can offer immense competitive advantages to companies. This period has also seen the evolution of newer business models and channels that require Information systems to rapidly evolve and respond to these changes. Offshore outsourcing which was less than \$100 Million in the early nineties has suddenly grown to be a \$10 billion industry and despite major challenges continues to grow.

Offshore Outsourcing has served well in a hyper growth economy where shortage of skilled manpower was adequately met by outsource service providers as well as in a recessionary economy where arbitrage helps companies keep a tight control on IT budgets and projects. It is no wonder that the move to Offshore Outsourcing was led by the Fortune 500 in various verticals such as Securities (Fidelity, Franklin Templeton, Morgan Stanley, JP Morgan), Banking (Citibank, FirstUSA, VISA, ABN Amro, Deutsche Bank), Insurance (Aetna, NorthwesternMutual, Farmers, NY Life), Retail (HomeDepot, Nordstrom, Sears, JC Penney, Amazon), Manufacturing (GM, Chrysler, Nike, Boeing, Adidas, Monsanto, Nokia), Utilities and Energy (Dynergy, Siemens, Vivendi, Southern California Edison, Marconi), Transportation (APL, Roadways, Trafalgar Tours, BNSF, UPRR) and Technology (3COM, Cisco, HP, Compaq, IBM, Intel, Nortel, Sun, Microsoft, Apple, Dell, Seagate, Lucent, Motorola, TI)

These are joined by many small to large sized firms that have outsourced software development. The results have been a mixed bag. There are numerous examples of success - these are associated with projects that are stable with little or no variability. Examples of such projects include legacy applications maintenance, systems integrity testing, bug fixing, verification of protocol stacks or even ASICs and microprocessors verification. Other examples of success include porting of applications to different operating systems, internationalization and localization of software. Projects with a high degree of variability have seen different degrees of success or failures. Variability is driven by changing requirements, new developments with changing functionality. Factors that contributed to poor results include:

- 1) Distance
- 2) Variability
- 3) Inadequate skills or knowledge
- 4) Attrition in development teams
- 5) Poor architectural design
- 6) Absence of any development methodology or processes
- 7) Inadequate sponsorship
- 8) Unrealistic expectations
- 9) No user buy in or motivation
- 10) Poor project selection
- 11) Poor project management
- 12) Poor communication
- 13) Cultural mismatch
- 14) Technology risks
- 15) No acceptance or performance criteria

Some benefits of Offshore Outsourcing include:

- 1) Cost containment
- 2) Improved internal Software processes
- 3) Quick access to skilled resources

- 4) Better user responsiveness
- 5) Improved quality
- 6) Rapid response to changing customer needs
- 7) Enhanced productivity
- 8) Better ROI

Offshore Outsourcing is a major organizational commitment and before taking a step in that direction it would be wise to sit back and assess your organization's readiness.

## **GETTING READY FOR OFFSHORE**

Getting ready for Offshore Outsourcing requires certain critical steps:

- **NEEDS ANALYSIS** - What are the prime reasons to outsource? What are the long term goals and objectives of outsourcing?
- **INTERNAL CHANGE MANAGEMENT** - How do you prepare internally for Outsourcing, how and when do you communicate to people who will be affected by this
- **BUILDING PROCESSES** - If you thought internal development itself was complex, add time, distance and culture to this. How would a non-CMM company work with a CMM company?
- **GATHERING DATA** - How are you currently performing? How would you set goals for an outsourcing service provider if you did not have internal metrics?
- **IDENTIFYING SUITABLE PROJECTS** - which projects are least variable, least risky but essential
- **BUILDING A RFP** - What do you consider important in an outsourcing service provider? How would you establish the critical elements of a "relationship"?
- **SCREENING VENDORS** - What are the "must have" criteria?
- **ANALYZING PROPOSALS**
- **REFERENCE CHECKING AND SITE VISITS**
- **CONTRACTS**
- **ESTABLISHING SERVICE LEVELS**
- **GOVERNANCE OF THE RELATIONSHIP**
- **IDENTIFYING AND MANAGING RISKS**
- **CULTURAL ISSUES**

Offshore Outsourcing 101 will examine each of these issues in subsequent articles.