

Offshore and Me A white-paper on offshore outsourcing

Donnie K Foster, TENACITY Unlimited Founder and CEO

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Executive Summary

Taking a decision to outsource work offshore should be easy, especially if you already do some outsourcing - so, what's the problem? There are cost advantages, skill advantages, and time to delivery advantages. What are the risks and considerations? Who in your team is best to champion this effort? How will outsourcing affect your current team morale? Are your process and systems too unique or complicated to outsource? What are the required quality and success metrics? What happens when there is political unrest or a mass power outage at the remote site? How do you ensure your intellectual property doesn't end up on the black market or in the hands of your competitor? How can you trust someone halfway around the world to do what you can't seem to communicate across the office or between cubicles?

This white-paper discusses these critical questions and some softer items that you need to look at when considering the offshore business model and proposition. It is focused on information technology services, although similar considerations must be made for business process outsourcing or other domains. If you are a fortune 100 company, this information is likely redundant; if you're not, you'll find critical information, humor (war stories), and valuable guidance regarding offshore outsourcing. The focus of this paper is India, although some reference to other countries is included and the process is exactly the same. I recommend India for the US-based outsourcing for now, with some caveats (e.g. you are a German multinational). Your company culture will drive how you use the perspectives herein. If you have questions, just ask me.

The bottom line is to plan carefully, select the right partner(s), establish an operation with clear lifecycle based metrics, start slowly, and follow-up regularly. With this, you will have long-term, mutually beneficial results for everyone.

Introduction

Let's start with a story. The first time I tried outsourcing to India was in 1992. I was in Hewlett-Packard Company's IT organization. I needed "fresh blood" talent to help with innovations in the client-server environment. I had engaged a small team from Argentina who had done a superb job in the high level analysis but had failed in generating sufficient next-level requirements. I had been discussing the use of India, and through HP internal contacts, began to interview people on the phone. We used "yell-net" for the process (the infrastructure was pretty bad back then), and I ended up with consultants who could credibly yell back the loudest. Our intent was to bring people to the US and then take work offshore. The project was not successful with the first batch of folks; I managed to 1) de-motivate my staff, 2) delay the project, 3) go way over budget, and 4) not support my client users. Needless to say, it was pretty disappointing, and with practice and dedication, we were able to discover much better approaches to outsourcing

Over the next decade, we learned a lot about what to expect, how to validate information, find the right skilled resources, and finally, how to ensure you get what you ask for.

Since 9/11, 2001, a few things have changed... and have been updated in this paper. Increased world-tension and increased concerns about security and stability have made areas in the Middle-East and Asian Sub-Continent a little more foreboding to those looking for outsourcing. The slump in the economy has made for more IT resources available at reasonable prices "onshore". Changes have been made to this document to reflect those realities.

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A background primer on outsourcing: does it make sense?

Information technology (IT) outsourcing spending exceeded \$60 billion in 2001 and is expected to reach \$100 billion by 2005 according to IDC. The US and Western Europe are the primary buyers of outsourcing, but IT outsourcing is increasing in other countries around the globe. IDC estimates that US companies will spend nearly \$44 billion on IT outsourcing in 2005, while Western Europe will spend \$26 billion.

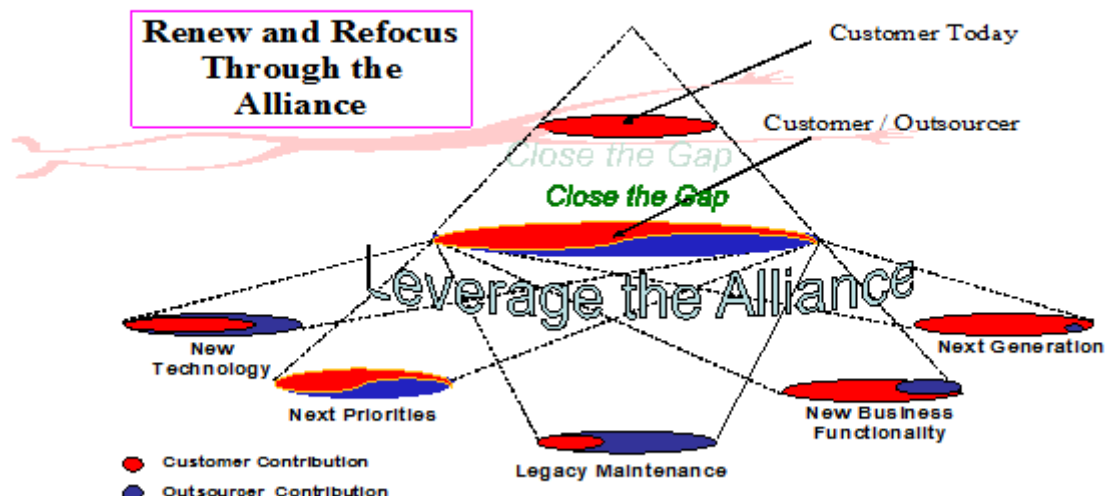
Roughly 20% or \$12 billion is spent on offshore contracts. Forty percent (40%) of the Fortune 500 companies do some amount of outsourcing. It is estimated that IT "offshoring" will more than triple by 2005 to 18 billion. After 9/11, 2001 these estimates were been put on hold has the world community took a collective <reflective> sigh and reassesses its priorities. The world-wide recession, Indo-Pakistani and Mid-East conflicts have resulted in some retrenching and reevaluation, but in 2003, more businesses are considering offshore outsourcing to help counteract the serious recessive tendencies and cost pressures in the current market.

While India is the leading IT offshore outsourcer (about 83%), other countries (China, Russia, Malaysia, Philippines, Mexico, Ireland, etc.) also are taking market share. Each of these countries has cost/benefit trade-offs, and should be considered depending upon the need. Many companies are spreading their risk by picking at least one major offsite outsourcer and an additional one to mitigate risks (in the same country, usually). In North America, there is a small, but growing niche business in Canada and Mexico due primarily to currency advantage, proximity and affinity with NAFTA neighbors. Cross-border outsourcing is referred to as "near-shore". Israel has a thriving offshore development business, driven by a competitive edge in IT security expertise. Another pertinent example is Ireland which has built up a presence through highly advantageous tax laws for IT companies. This paper uses "offshore" as a general term for any form of "offsite outsourcing", and the same process can be used for the various permutations available today.

Gartner suggests that the average stay of a programmer in any one job is 11 months (before the recession). The IT industry is an unusual one and is driven by: cost containment, reduced time-to-delivery; emerging technology needs; and the pressures of recruiting, hiring, retaining, and training a skilled workforce. In order to get the development and maintenance work done right in a timely fashion, managers should look offshore for

partnerships bearing value, economies of scale, and most importantly, the long-term commitment. Cost savings can be as much as 60% while freeing up critical IT staff to work on strategic new initiatives. The chart to the right illustrates just one example of how offshore outsourcing has been used.

Collaborative Approach



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Why India?

India is a wealth of culture, history and talent. For an American, it can be overwhelming; with throngs of people, vehicles, animals, and textures of the very rich and the very poor in an oppressively close proximity. It is a unique cacophony of sounds, sights, and smells that can only be experienced. Even after a dozen trips, a new adventure awaits you with every entry stamp. The maharajas had it right when they said that: "India holds every sort of treasure imaginable and many that have yet to be imagined."

A key treasure is a highly educated, skilled, and motivated populace. With a British English based technical engineering and science system, India has over 300,000 people employed in the IT software engineering and services sector. In addition:

- In India there are more than 320 universities, 32 engineering colleges and 700 private training organizations. In 1983 the output of IT graduates was 1000, which rose to 60,505 in 1996. There are now 300,000 software professionals employed in India
- Indian government initiatives that support the Indian software industry have resulted in relatively low cost telecommunications (satellite and land based), special export facilities, and incentives for foreign firms setting up operations. India exports services to over 100 countries
- Many of the top-end level 5 SW-CMM (Software Capability Maturity Model) companies are based in India. This process maturity has been developing for many years, where other countries are just beginning

In 1991 India began lifting foreign trade and investment restrictions, inviting substantial economic growth after years as a closed economy. As a result, it is probably a decade ahead of many other countries who are seeking outsourcing business, investments, and partnerships. Other countries are developing the infrastructure and have a good start with the skills, but still lack the English "mother-language"¹ and experience that gives India the advantage.

From an economic perspective, India has enjoyed a steady rise of GDP and personal wealth during the last decade that are largely attributed to the governmental reforms that lead to more privatization, investments, and exports (of hard and soft goods). This in-turn has created a consumer market in India that demands more products and services from international providers.

That doesn't mean that India is the only choice. Depending upon your company's origin, primary language and culture, other countries or settings may be appropriate. Similar due diligence should be exercised regardless of where you set-up your offshore operation.

¹ After Hindi, English is the most commonly spoken language in India and probably the most read and written language in India. English has a status of assistant language, but in fact it is the most important language of India. English symbolizes in Indians minds, better education, better culture and higher intellect, it's a status symbol. Higher education course are usually taught in English. Indians who know English often mingle it with Indian languages in their conversations. English also serves as the communicator among Indians who speak different languages or dialects.

Even today schools in India that emphasis English are considered better schools and the same is the case at university levels, even though there is a trend towards speaking local dialects more than in the past. Most Indians are capable and used to speaking English too quickly for Western listeners, and it is advised to remind them to speak slowly and clearly so that you can readily "hear" them.

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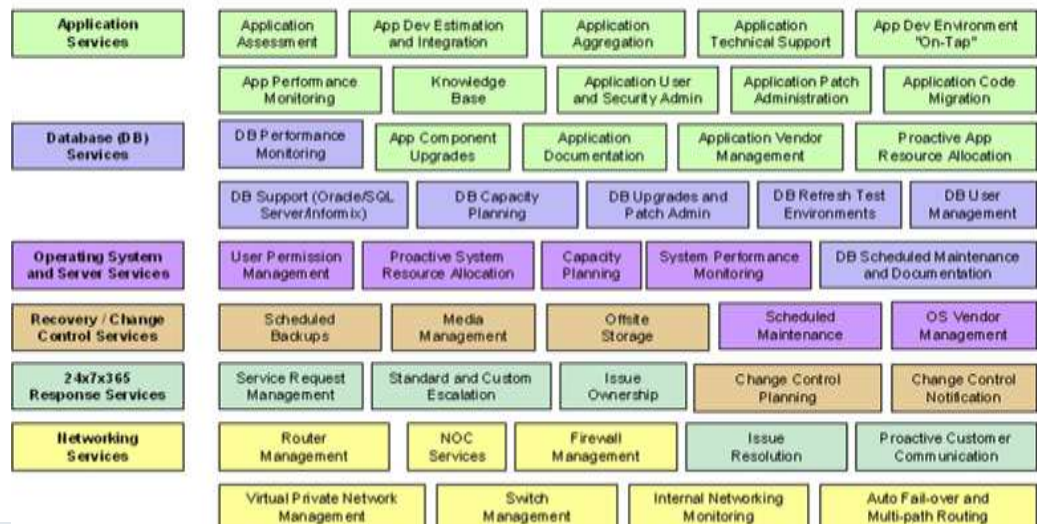
Seduction in Services

What can you outsource offshore... everything or anything, in moderation. The intent of this section is just to whet your appetite, and let you know that there are some incredible opportunities with the right kind of outsourcing. Some of the key areas currently offered include:

- Software product and application outsourcing:
 - Software maintenance and enhancements of legacy systems
 - Data cleansing
 - Software development -rewriting of core systems and re-architecting efforts.
 - Help Desk/Call Center operations
 - Data and Voice network management
 - Disaster back-up/recovery
 - Product development and release updates
- Business Process Outsourcing (forms processing ... basic high-touch services)
 - “High-Touch” people services
 - Processing and administration of life insurance and pension policies
 - HR business process outsourcing
 - Payroll, check-processing, and distribution
 - Payroll tax, regulatory compliance
 - Insurance and other form transcription
 - Telemarketing - promotions and sign-up
 - Sales prospecting, qualification, and appointments
- Other, more skilled outsourcing services are currently in test or being developed (telemarketing ... high-skilled secondary and even basic research)
 - Sales
 - Paralegal
 - Health-care advice
 - Competitive positioning
 - Marketing secondary research
 - Monitoring

Outsourcing Services

An example of one IT offshore offering is illustrated to the right, and shows the type of services that can be successfully outsourced.



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Preparing for a successful offshore relationship

Companies in North America usually decide to outsource offshore because of the obvious cost advantage. However, there are a number of hidden costs and risks that are sometimes ignored that must be properly considered to ensure that offshore is the correct answer. With adequate due diligence and observation, this can help ensure that you are making the right decision.

The following suggested actions will help ensure that you are successful in developing the right plan and relationships, setting up and executing the operation, and insuring that consistent communication and follow-up are performed.

Key Success Factors for offshore outsourcing

The following 6 factors are critical for insuring that an offshore outsourcing activity is executed correctly:

1. Strong leadership
2. Establishment of a clear plan
3. Selection of the right partner
4. Setting up the operation
5. Insuring the right level/amount of communication
6. Monitoring, reviews, and regular follow-up

Each of these will be discussed in the following pages.

Offshore suppliers generally offer a range of models to meet the requirements of their client base: e.g. turn-key fixed price software development, requirements analysis, systems design consultancy, dedicated offshore development centers (a long-term relationship in which the client has far greater control over the resources), on-site teams, time and materials projects, BOT (Build, Operate, and Transfer). In reality, the only limit is your imagination and sound financial analysis.

While there are few barriers to what can be outsourced, there is a minimum required size for effective offshore operation. For example, a 10-person day coding project is never going to be a successful offshore development project unless it is in the context of a longer-term relationship. Typically clients to the offshore business may start with a small pilot project but this is a relationship defining project where both parties are looking for a partnership that extends well beyond that pilot.

The following sections will discuss how to verify the capabilities of your offshore partner(s). The amazing fact is, with the right relationship and development of the right offshore team, I believe that anything is possible. However, if you are not meticulous, the wrong team can ruin you.