EXECUTIVE SUMMARY

Intense competition and a strong desire to enhance efficiencies are now driving organizations across the world to embrace outsourcing in a big way. Software development outsourcing has come to be seen as offering greater business value by way of reducing cost & risks. Outsourcing also offers other benefits such as labor flexibility, quicker time to market, reduced hassles of hiring, ability to focus on core competencies and so on. However, realizing these benefits depends on your ability to select the right outsourcing partner. This whitepaper outlines a simple evaluation process to help you select the right outsourcing partner.
INTRODUCTION

Today, organizations need to meticulously weigh a range of considerations beyond costs in determining the right outsourcing partner. Choosing the right outsourcing partner is the key to a successful outsourcing experience. By teaming up with the right service provider, companies gain freedom to focus on their core tasks while benefiting from the outsourcing provider's expertise and infrastructure. A good outsourcing model can generate long-term benefits for both the customer and the provider, only if it is followed with the goal of complementing each other and fostering strong partnership.

Outsourcing experiences in the past has enriched us considerably. Today, we can borrow from these experiences and take a more matured approach in our outsourcing decisions. For example, it is an accepted fact now that achieving success in offshore outsourced project is more complex than doing the same project nearshore. This is because offshored projects call for more intense collaboration rather than the traditional buyer-seller relationship.

Therefore, offshored engagements today are endowed with more complexity than ever before. A recent study from Ovum says more IT leaders lean away from multiple outsourcing suppliers and short-term contracts, in search of stability and control. The need to seek a single outsourcing supplier for long-term contract is more than ever before for companies desiring to realize long-term business value. In its report, "2013 Trends to Watch: Bundled Outsourcing," Ovum observes that despite growing requirement for agility and for companies to deliver quick wins from current IT projects, there is recognition that, unless they do the groundwork, organizations will not be able to achieve the strategic transformations they seek. This calls for outsourcing the routine chores to a competent and reliable outsourcing partner.

Following are some highlights of the Ovum report on IT outsourcing trends in 2013:

- In 2013 IT buyers will be looking for stability, capability and accessibility in their outsourced service partners. The desire for stability and control now ranks as a number two priority, up from four or five out of 10.

- Buyers are looking for a sufficient breadth and depth of capability, technologically and geographically.

- Companies need to be more responsive and deliver rapid results. Organizations are now taking three to six months upfront to understand their exact requirements before committing investments.
• IT buyers have found that if they base projects on topical priorities, such as BYOD-driven mobility or big data/analytics initiatives, the business case is stronger. Money tends to flow more easily if projects are seen to tie in with these hot topics.

• Flexibility is important. As organizations plan ahead they need to set down a rigid roadmap for five years. Once a clearer understanding of priorities is achieved these can be met through work on their infrastructure.

• Good governance is the key. This calls for the right culture, the right infrastructure and processes, and an IT partner who shares the customer’s commitment to these principles.

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<tr>
<th>GLOBAL TOP REASONS FOR OUTSOURCING</th>
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<tr>
<td>- The ability to focus on core competencies</td>
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<tr>
<td>- Variable capacity</td>
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<tr>
<td>- Access to specific IT skills</td>
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<tr>
<td>- Quicker deliveries</td>
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<tr>
<td>- Increased flexibility to meet changing business and commercial conditions</td>
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<td>- Access to innovation and thought leadership</td>
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<td>- Lack of in-house resources</td>
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<td>- Increased efficiency</td>
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<td>- Lower ongoing investment in internal infrastructure</td>
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<td>- Tighter control of budget through predictable costs</td>
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<td>- Lower costs (due to economies of scale or lower labor rates)</td>
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CHALLENGES IN THE OUTSOURCING INDUSTRY

Outsourcing entails several challenges, any one of which, if overlooked, can cause failure to an outsourced project and put a business at a significant loss. Some of the commonly faced challenges of outsourcing are as follows:

- **Communication**: This is the key in any outsourcing relationship. Before selecting your outsourcing partner, ensure the ability of your outsourcing partner’s team to properly communicate with your team. This can be ensured by interviewing the service provider’s team.
Cultural Issues: Cultural issues may lead to compatibility problems between your team and the service provider’s team. Additionally, it can also negatively impact your business. Ensure that civil unrest, law and order, religion-related issues in your partner’s region or country will not impact your work.

Diverse Time Zones: Ensure that outsourced teams are able to synchronize across multiple times zones. A good idea is to select a single outsourcing partner who can ensure development round the clock, with the right project management tools in place.

Reluctance to Lose Control and Flexibility: Outsourcing entails maintaining a contractual relationship with a service provider. Also, you may need to reshuffle the organizational structure to increase efficiency. Reluctance inside the company to outsource can be handled through proper communication and training.

Some Functions Too Critical to Outsource: When outsourcing, organizations always find themselves in a fix whether to outsource critical functions like accounts, payroll, etc., to a third-party. As a matter of fact, outsourcing key functions to experts who can perform them more accurately can actually help organizations enhance their efficiency.

Lack of Innovation: Usually, innovation is not considered as the first priority in outsourcing. Companies often seek a cost-effective partner and tend to ignore evaluating whether partners have an innovation culture, vision, and well-defined processes.

An Inflexible Delivery and Pricing Model: An outsourcing model based on deriving only the cost benefits imposes tight constraints on the volume or even type of resources available. Rigid arrangements often make it difficult for businesses to manage rapid and serious fluctuations in business volume. It is a good idea to seek a partner who can offer services that are totally scalable, both up and down, at short notices. Flexibility should be fabricated into the delivery and pricing model right from the beginning.
**Excessively Short Contract Terms:** Contract terms are often as short – usually two, three or five years. Organizations need to realize that it makes financial sense in an outsourcing partnership only when the relationship is long-term.

**Lack of Trust:** CIOs are often unwilling to share their insiders’ knowledge, fearing loss of confidential information. Select a partner based on a set of well-defined criteria instead of just instinct or low price. Key criteria include: a proven track record of delivering similar kind of outsourcing projects; financial strength; stability; and transparency.

**HOW TO EVALUATE YOUR IT OUTSOURCING PARTNER?**

**Match Your Project Needs with the Capabilities of an Outsourcing Partner:**
Strong onshore relationship requires partners who can deliver between the lines of stipulations. See whether the partner can actually provide you a hybrid delivery model combining onshore project management and offshore development resources or has an onshore team consisting of only sales people. The bottomline is to check whether the claims made by the partner are factual or not.

**Look for a Partner Who has the Experience of Executing Similar Kind of Projects:**
Select a partner who has the experience of developing projects similar to your project and possesses the expertise on technologies and tools that your project requires. This will make it easier for you to ensure optimal outcomes and communicate effectively with the partner. You will need to check the success track record of prospective partners of delivering similar type of projects. You can do this by asking them evidences to match their claims.

**Find a Trustable Partner:**
For an outsourcing project to be successful, you must be able to trust your partner. You will need to provide your partner clear project specifications and expectations to derive optimal results. Following are some of the “trust factors” you should check while assessing your outsourcing partner:

- **Competence:** You must be sure of the abilities of your partner.
- **Experience:** Find out whether the partner has worked with reputable organizations, is equipped with the relevant experience and has a strong reference list.
- **Transparency:** Good partner reveal their processes transparently. Contracts with such partners are usually structured around how they handle problems, communicate and give you real-time project visibility.
Collaboration Plan:
Evaluate how your partner intends to collaborate with you during the project. You may like to assess whether your partner is able to collaborate on the following:

- Executive involvement
- Frequent in-person meetings
- Formal Communication plan
- Escalation Matrices with SLAs
- Online Collaboration tools
- Regular status meetings

WHAT TO ENSURE BEFORE GETTING INTO PARTNERSHIP?
As of 2013, most outsourcing companies today evaluate the following before deciding on their outsourcing partner.

- Executive Commitment
- Selecting a competent team where members have the required skill-sets
- Experience in similar technology and domain
- Enough effort and time in transition
- Robust infrastructure
- Proven background in meeting quality and security requirements by means of certifications, such as CMMI, ISO 27001, etc.
- Ability to continuously invest in technology and services delivery platform
- Provide strong reference checks for similar work
- Ability to offer a mix of onsite teams and offshore (80:20 is a good mix)
- Capable of providing a strong change management and training program to employees
CONCLUSION

This paper highlights that outsourcing is no longer a simple decision. Experiences gathered over the past two decades has revealed that outsourcing entails varied complexities which can be best managed when evaluated from distinct perspectives. To be successful outsourcing organizations should undertake what can be termed as “Smart Sourcing”. This smart sourcing is not only about looking for cost arbitrage or convenience but is about taking a more rational and holistic approach where partnership with outsourcing players are forged only after a rigorous diligence.

About the Author:
Avirag Jain has 25+ years of rich experience in the IT industry including managing large on-site, off-site and offshore projects. He currently heads the Offshore Development Center of R Systems International Ltd. as CTO and EVP. Avirag is a science graduate with PGD in Cyber Law. He also holds an MBA degree with specialization in Finance and International business.

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