Outsourcing

How to Choose the Right Outsourcing Partner

Abstract

Offshore software development outsourcing offers many benefits, among them faster time to market, lower costs, access to high-level programming talent without the hiring hassles, and more time to focus on core competencies. But you'll get those benefits only if you choose the right outsourcing partner—the wrong choice can leave you worse off than before and straddled with additional costs, poor quality and a stalled or failed project.

Fortunately, just as there are tried and true methodologies for software development, the same is true of choosing an outsourced software development partner. This white paper outlines a simple, three-step process for narrowing down your choices in outsourced software development so you can quickly find the right partner to help ensure success for your project.

Introduction

Offshore software development outsourcing has become a multi-billion dollar business, with estimates as high as $80 billion for 2010 and beyond. Areas like India, Russia, China, and Eastern Europe offer large pools of talented programmers who can be hired for a fraction of the rate of U.S. developers. Businesses have found that, with the right offshore partner, they can speed their time to market, lower development costs, spare their own personnel to focus on core competencies, and gain access to high-level talent without hiring risks and costs.

Top 10 Reasons Companies Outsource

1. Reduce and control operating costs
2. Improve company focus on core competencies
3. Gain access to world-class capabilities
4. Free internal resources for other projects
5. Resources are not available internally
6. Accelerate re-engineering benefits
7. Expertise or skills not available in-house
8. Make capital funds available
9. Share risks
10. Remain competitive

But that key phrase, "the right offshore partner," covers a wealth of details, any one of which, if overlooked, can doom an outsourced project and put a business at a significant disadvantage at a critical point in its go-to-market strategy. Horror stories abound: over-promising, under-staffing, poor quality, security breaches, culture shock, and many other factors can turn expectations of profits into a nightmare of cost overruns and software that falls far short of what's needed to deliver the competitive edge desired.

Just like software development itself, choosing the right offshore software development partner requires a proper methodology, one that ensures that no important factor is overlooked, that the partner chosen matches your needs and can deliver on time and in budget. Fortunately, this methodology is considerably simpler to understand and execute then RAD or the waterfall model of software development. It comprises three simple steps that help you quickly focus your efforts on the partners most likely to succeed, and select the one that's right for you:

- **Preliminary Survey**: decide which vendors you'll interview to create your short list.
- **Create a Short List**: get more details to narrow your choices down to three or four vendors.
- **Project Document**: work with your short list to specify business needs, deliverables, and other details to get the information you need to make a final choice.

Of course, we can't do more in this white paper than outline this process and suggest some important questions that should be part of each step. Part of the preliminary survey can be done online, or through a consultant or analyst, to help you decide just how detailed a selection process you want or need to execute. But this overview will give you a sense of what's needed to avoid problems and help ensure success for your software development outsourcing project.

Preliminary Survey

In your preliminary survey, you'll rely mostly on public sources of information, referral and reputation. The primary focus is on narrowing the field to make the development of your short list of three or four potential partners a manageable task. Although much of this survey can be accomplished online, you shouldn't overlook your network of contacts in and outside of your industry: their experience may save you a lot of time. A good reference can promote a partner to the short list right away, although your own due diligence should never be neglected.

However you find the information, here's what to concentrate on in the first step:

- Specialization and partner size
- Expertise
- Business Models
- Methodologies
- Industry Knowledge
- General Company Background

Specialization and Vendor Size

Outsourcing is big business. The combined IT and software development outsourcing market is expected to reach $400 billion in 2011 - and that doesn't include business process outsourcing. So it's no surprise that many vendors, especially large ones, offer several types of outsourcing, such as software development, IT management, and business process, to make sure they don't leave any money on the table.

Now, if you're a Fortune 500 firm, outsourcing vendor size and specialization may not be an important factor, but for smaller firms, getting the attention of one of these behemoths can be difficult. Not, of course, at the beginning of the relationship, when a veritable parade of talent may appear before you, but what happens once the contract is signed? Who's really behind the curtain when the project is under way? And what happens when problems arise? How are glitches in the development process managed?

It's best to look for a firm that's big enough to do the job and small enough to make your firm an important client who will get prompt attention when it's needed, and whose satisfaction will be a priority. And this implies that the firm should be a software development specialist, rather than offering multiple outsourcing practices. With a smaller partner, you naturally want someone who's an expert at just what you need, rather than a jack of all trades.

Expertise

A critical aspect to look for is expertise in multiple software technologies. You may have a good idea of what language or framework is right for your software, and you may be right. But what if you're not? What if there's a better way to do it? Choosing a partner who knows only a few technologies, even if they're best in class in the ones you think are right, risks missing out on potentially better technologies to satisfy and surpass your requirements and expectations. Remember, you're hiring the outsourcing partner for expertise you don't have internally, so why reproduce your own limitations in this choice? Look for a firm with developers in a wide variety of technologies to increase your chances of success.

Benefits of Offshore Outsourcing

- Reduced time-to- market
- Shared risk
- Increased innovation through access to world-class skills, resources, and industry knowledge
- Enhanced core capabilities
- Strengthened competitive positioning
- Reduced Costs

On the other hand, it often makes sense to look for a partner who has some experience in the overall market your product fits into, whether that's mobile, banking, healthcare, etc. While the foundational technologies may change, the functional demands of these fields do not, or do so only slowly, so you can leverage a vendor's experience in them to your benefit.

Business Models

You may be thinking of outsourcing only as a short-term project, but the most effective use of outsourcing, and the highest ROI, comes from a long-term relationship. Look for partners who can work to the traditional project model, time and material, or the dedicated developer model. This gives you the option of writing a contract that can transition from a project or time and material basis to a dedicated developer model. This will enable you, if the first engagement is successful, to leverage the understanding the team has gained of your software and business needs. If you're new to outsourcing, this may be the best way to go, enabling you to gain experience without the possibility of locking yourself into an unsatisfactory relationship.

Methodologies

Among developers, discussions of software development methodologies may often seem to devolve into religious warfare, but there's no reason you should get involved. Just as with software technologies, you want a vendor who's comfortable with multiple methodologies, such as Prototyping, Iterative, Waterfall/Cascade, and Agile, to maximize your chances for success.

Industry Knowledge

In some cases, it may be well to look for a partner with expertise in your particular industry, especially when onerous regulatory and compliance issues are involved, as in various sectors of the financial or healthcare industries. However, many times, this particular aspect of the selection process will likely be a lower priority.

General Company Background

It is important to get a clear picture of the background of the potential partner and you may be able to attain much of this from the vendor's web site. Often, however, this will only give partial answers and continued due diligence will offer greater insight into previous projects. It is recommended that customer references be reviewed to get a complete picture of the strengths and weaknesses of the potential partner.

Create the Short List

During this step you'll investigate more deeply to develop a short list of two to three vendors with whom you'll work to develop the project overview document. It is likely best to have three vendors to review as this gives you a better chance of detecting lowball quotes and other potentially unrealistic promises.

In this step you'll be investigating the following:

- Transparency
- Employees
- Communication
- Security
- References

Transparency

Transparency is a great goal but one that can only be approached but never fully attained, as it is a state in which you would have the same visibility of partner operations as you do of your own; a difficult expectation. It is truly a development of communication and relationship based on a long history of building trust with a growing business' clientele. Transparency is reflected many times in the customer reference review process in gaining insight into previous customer experiences.

Employees

One of the primary benefits of outsourcing is that it relieves you of the task of hiring and managing employees: you get the expertise without the costs and responsibilities. It allows for greater budgetary flexibility for better management during both high-volume and low-volume development environments. But although you no longer have to deal with HR tasks on a daily basis, it's still important to investigate the quality of the people available to work on your project. You may decide to review resumes of key personnel; during this step, you're looking for important statistics. Here are some of the high-level questions you may want to ask.

- What is the average number of years of work experience per employee? You may want to break this out by function: development, test, and project management, for instance. At this point you can also delve more deeply into employee and company expertise of specific technologies and techniques, adding to the information you gathered in the first step. How deep and broad is that expertise? Could the loss of one or two people potentially cripple your project because critical abilities left with them?
- What's the educational level of the employees that will work on this project? What percentage has technical, undergraduate, or higher level degrees? While not critical in and of itself, this statistic can be an indicator of technical depth.
- What's the average length of time employees have been with the company? What's the attrition rate? Again, you can break these out by function, and, in the case of attrition, by the reason for attrition. Attrition is a critical metric for many reasons, not least of which is that a low attrition rate means you won't continually have to break in new team members, which can have an impact on productivity, as well as crippling any sort of long-term relationship, which is the key to outsourcing success.

Business issues that outsourcing solves

- How can I expand my software department with limited IT budget?
- Where do I find highly experienced software engineers?
- How can I quickly ramp up a software development project?
- Why do I have to pay my internal IT team between projects?
- How can I speed up my time to market on this product?
- How can I reduce my hardware, network infrastructure costs?
- Why is it so expensive to create the next version of new product?

Communication

Communication is the foundation of outsourcing and is critical to its success. It can be hard enough to communicate with engineers when they're merely on the other side of the wall—adding thousands of miles of distance and multiple time zones can only make it harder unless your outsourcing partner has excellent communications in terms of both management and methodology.

First and foremost, does the vendor have U.S. project managers, or is it completely offshore? Having a U.S.-based program manager to coordinate communication and schedules is critical, especially early in the project, when you and your outsourcing partner are still learning how to work together. A local project manager also acts as a buffer to overcome time zone differences, which works in your favor. It also allows for a single point of contact to manage the overall project on your behalf.

Second, does the vendor have a well-defined knowledge transfer methodology? There's more to an outsourcing project than just creating a product specification and throwing it over the wall to the vendor. Success depends on a defined process of progressive investigation, analysis, and definition of both business strategy and software goals. Pay special attention to how the vendor proposes to handle the knowledge transfer between in-house and outsource team at the beginning of the engagement, as this will set the tone for the entire project. How do they propose to coordinate the discussion between their team and yours? What documents will result from this initial engagement?

An outsourcing vendor should insist on detailed design documents that start from a clear statement of the business need the software is designed to address all the way down to the usual functional requirements, as well as a section for future requirements to make sure later versions can support the changes needed to support your company's business strategy. Indeed, the project document you will develop is part of the process of developing such documents will give you a better idea of how well a given partner handles this fundamental part of outsourcing. For now, you just want to get an overview of the vendor's methodology for developing the understanding of their clients' needs that is necessary for success. Anything less than a detailed methodology is a recipe for an unsuccessful project.

Is the partner capable of using a wide variety of communication methods, such as phone, email, IM, various collaborative tools (e.g., WebEx or NetMeeting), etc? What is their primary method, under what circumstances is each one used (or not used), and how do the various methods rank in contractual terms?

Some other questions you may want to ask include:

- How are status reports furnished, how often, and what do they cover?
- How are changes to the project requirements handled?
- How does the partner measure and report project progress?

Security

Security involves not only firewalls and access control at an outsourcing partner's facilities, but larger issues such as the intellectual property and contract laws of the country in which they're located, civil stability, and so forth.

First off, is the vendor incorporated in the U.S., or does it have assets here? Both give you increased leverage in case things go wrong. Require that all disputes be handled in U.S. courts. Lacking this clause in your contract, in the case of a dispute you'll be working through the legal system of another country, which is not only far more expensive, but gives you much less leverage.

What is the company's employee attrition rate? What kind of background checks does the vendor do on employees and contractors? If it uses contractors, how does it ensure that they meet the same requirements as employees? Probe the company's financial stability, as well. How long have they been in business, how many clients do they have, and what percentage of clients are continuing rather than new?

References

Finally, references should be considered an opportunity to probe further into the parameters considered during this second step. While you'll likely want to concentrate on references in your industry or a related one, it can be helpful to check references elsewhere as a kind of triangulation, as this may uncover potential problems that you otherwise didn't think of. Since references are naturally success stories, don't be afraid to probe deeper. Where did the reference encounter problems and how were they resolved?

The Project Document

Although many clients, especially larger ones, feel they need to rely on a detailed Request for Proposal (RFP) submitted to a dozen or so potential offshore outsourcing vendors, with the final decision made by the purchasing department, this is not necessarily the best strategy. From an outsourcer's point of view, the usual RFP generally contains only 50% to 75% of the information needed to develop a realistic bid, and often contain gross errors estimating the size of the project and the skill levels required.

A realistic bid can only be developed through an interactive process that basically comprises a two-way interview between client and potential outsourcing vendor. That's why this methodology instead narrows the field down to three or four vendors with close to the right capabilities, and then relies on a Project Document (PD), developed interactively with each of them, to help make the final decision. This document, and your experience developing it, will tell you a lot more about the vendor than any RFP.

The Project Document should include the following:

- High-level descriptions of the business need and how the vendor's solution meets it
- Clearly-defined acceptance criteria and procedures
- Project timeline and milestones
- Price
- Legal and contractual issues

Business Need

This first section of the PD—a high-level summary of the business need and how the partner's solution satisfies it—sets the stage for the knowledge transfer that will begin the actual project. It offers an opportunity to judge just how well the vendor understands your business, its strategic and tactical needs, and the demands these will place on the software under development. Look for a summary that is more than just a regurgitation of your marketing and sales collateral. Instead, the partner should restate your strategic goals or business needs in terms that firmly relate to the software functionality required.

Naturally, you cannot expect complete understanding in what is, after all, a preliminary document, but difficulties here likely indicate a rocky road ahead. Pay attention to who the partner assigns to work on this document with you, and the questions they ask. How fast they come up to speed is certainly important, but even more important is completeness. A vendor that takes a bit more time, and asks more questions, is likely to deliver a more accurate estimate of costs and timeline.

Acceptance Criteria and Procedures

Outsourcing projects work best when there are formal and measurable decision points that are monitored through the process, rather than depending on subjective judgments like "I don't think it does enough" or "it runs too slow", etc.

The PD should specify what constitutes a finished product, and outline a mechanism for bringing the two parties together to monitor and discuss the project as well as any needed changes to the requirements and how that will affect the price and delivery. This includes the designation, in functional terms, of the parties on both sides who are responsible for acceptance and what process needs to be followed in order to accept the finished product.

Project Timeline and Milestones

The project timeline and its milestones are intimately related to acceptance criteria, but here the focus is on breaking down the project into clearly-defined steps to which the acceptance criteria apply. The detail this provides is critical for avoiding unpleasant surprises, and helps you judge how realistic the price for the project is, in practical terms.

A good rule of thumb for a project timeline is as follows:

- Requirements Analysis: 10% of total project time
- Specifications: 20% of total project time
- Coding and testing: 40% of total project time
- Integration and system testing: 20% of total project time
- Acceptance testing: 10% of total project time

The timeline should break down the project not only by time but also by resources so that you can judge if it is adequately staffed. How many project managers, developers, architects, quality assurance managers, and the like will be employed in each stage, what level of expertise will they have, and how much time will they be expected to spend on the project? You may also want the partner to attach the resumes of key personnel at this point to give you a more accurate idea of the expertise being offered.

Price

The price given in the PD should include a firm figure for the discovery and analysis phase, but only an estimated cost for the design, development and deployment phases, which can only be accurately estimated after discovery.

In judging the price, employ the project timeline as a reality check. Is one price low because only eight hours of a junior developer's time was allotted for acceptance testing, as compared to another bid that allots 40 hours and both a developer and a QA manager? Compare what's specified against how you would handle the project internally. If the time allotted for a given task would be impossible for your people, it's likely to be impossible for the outsourcer as well.

Legal and Contractual Issues

Obviously, you're going to have your attorney or corporate counsel go over the final contract before signing, but this section of the project overview document will help you judge some of the issues mentioned in the section on security, above. What are the procedures for handling a dispute, and under what jurisdiction will that take place? This section should, at a minimum, specify the ownership of intellectual property, terms and conditions of payment, and the limits of liability.

Summary

Offshore software development outsourcing can yield faster time to market, lower costs, access to high-level programming talent without hiring hassles, and more time to focus on core competencies—but only if you choose the right partner.

Following a simple three-step methodology—executing a preliminary survey, developing a short list, and then interactively creating a project document (PD) with each potential partner on the short list—can help avoid unpleasant surprises, ensuring that your outsource project goes smoothly and delivers the benefits you expect.

About Miri

An ISO certified software consulting firm, with enduring proficiency in providing Software Development, Web Application Development, Website Design, Embedded System

Development and Customized Software Application Development stands proud to say that *Quality is our essence*. Miri was founded in the year 2003, its corporate head office is in Fremont, California, U.S., with branch offices in Chandigarh and Delhi, India.

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