

WHY, WHAT, WHERE AND HOW OF OUTSOURCING

WHITE PAPER

by

S5 SYSTEMS

This whitepaper is for IT/Product managers, CFO and other managers involved in making decisions related to outsourcing.

Although this white paper is created with experience gathered in the High Tech industry we believe that ideas can be used in other related industries.

S5 Systems
148 Colonnade Road, Unit 1A/1B
Ottawa, Ontario K2E 7R4
www.s5systems.com
services@s5systems.com

WHY, WHAT, WHERE AND HOW OF OUTSOURCING

This whitepaper formalizes the important and necessary steps required to initiate and successfully complete an outsourced project.

This white paper is based on our collective experience; we would like to hear from experiences, suggestions and comments.

WHY OUTSOURCE?

There are several good reasons why it would make sense to outsource your next project. It is however best that the reason of “Why” is identified and clearly understood. It is important the “Why” aligns with the company culture and requirements. Once the “why” is answered, this white paper provides necessary guidelines on “What to outsource”, “Where to outsource” and “How to outsource”.

“WHY outsource” is a key question and must be addressed before going to the next step.

Here are some of the reasons we find “Why” technology customers outsource:

- **Non-core expertise is required** - Company requires expertise which is not core expertise of the company.
- **Time-to-market is key** – Company does not have time or resources to deliver the project in the required time frame.
- **Scarcity of talent** – Company has difficulty finding talent in their geographical area.
- **Work load levelling** – There is a temporary surge of need for skills and or resources.
- **Augmentation of Team** – Many times technology companies like other companies to be knowledgeable of their technologies creating a support system which helps them in their growth periods.
- **Focus on core** – Outsourcing the non-core work enables the companies to focus their resources on the core – spending resources on high profit margin projects such as new product development.

WHAT TO OUTSOURCE?

When the “Why” of outsourcing is appropriately addressed the next question is “What” can or should be outsourced.

Here are some project examples which are best candidates for outsourcing. In general all this work is **non-core work** i.e. by definition is work which is not “core” to company business, this is work which is not the “bread-and-butter” for the company or is the basis by which the companies distinguishes itself from its competitors. Examples of such work are:

- Porting of existing software to new hardware or new operating systems

- Re-engineering of existing solutions to fit new requirements
- Bug-fixing and sustaining
- Quality assurance and compliance testing.
- Internal tools development

WHAT NOT TO OURSOURCE?

We believe that there is always work which should only be outsourced for other benefits of outsourcing (such as work load levelling, augmentation of skills). Following are examples of work which are outsourced only when there is time-to-market, resources or lack of requisite skills are issues to be addresses:

- New product specification, architecture and design.
- Development of core company technologies, algorithms.
- User interface design – User Interface being a key interface to the customers is best designed by companies core teams.

WHERE TO OUTSOURCE?

Once “why” and “what” have been addressed next is “where”. Where to outsource depend on a number of factors which help identify “where” to outsource question.

There are a number of choices where the project can be outsourced to:

- **In-house, local contractors** – This provides more control, however there is a discontinuity of knowledge when the contractors leave.
- **Local outsource houses** – Provides more interactive product development and continuity after the completion of the project.
- **Offshore development houses** – These are companies who have offshore R&D centers.

Factors affecting the “where” decision:

- **Deadlines**
- **Interaction requirements**
- **Product stability**
- **Innovation/R&D required**
- **Project size**
- **Project costs**

As mentioned there are a number of factors which influences the decision of “Where” to outsource, below are some guidelines:

Where	What and When
In-house, local contractors	<ul style="list-style-type: none"> - Core development, or development key algorithms - User Interface - New product development - Specification design, architecture or key products.
Local, on shore partners	<ul style="list-style-type: none"> - Innovation is the key factor - cost is not - Project requires frequent interactions

	<ul style="list-style-type: none"> - Project has tight deadlines - Project is of smaller size and duration - Need support after delivery
Off shore partners	<ul style="list-style-type: none"> - Repetitive testing and maintenance work - Longer time lines with large project size - Stable products and project well defined - Minimum interaction or innovation expected - Cost is a key factor.

Using the above guidelines and companies guidelines and principles select ideally “Where” the partner resides.

HOW TO OUTSOURCE?

Alright, now the “Where to outsource” is addressed; now lets look at the 6 step process required to deliver a successful project. These steps are guidelines of “how” a project should be executed and should be modified according to individual projects. We believe these steps form a good foundation for any successful project.

We invite suggestions on these

STEP 1: Create Requirements document/Request for proposal

It is imperative that the requirements and the expected outcome of the project must be documented. This has multiple benefits; more defined the project is more the partner company is able to plan better providing a more cost-effective quote/estimate of the work, final output can be compared with the initial expectations to gauge the degree of success of the project.

Requirements document/Request for proposal does not have to be very detailed especially if the project requirements are expected to evolve with the progress of the project. In such a case requirements document is a work in progress and is updated as project progresses for the first phase of the project.

Once the requirements is documented and reviewed, send requirements to a short list of well-selected companies. A small well qualified group is better than a larger group selected at random. Expect to spend time and resources with each potential partner in order to receive a meaningful estimate/quotation.

Send requirements to a short list of well-selected companies.

A smaller well qualified group is better than a larger group selected at random.

STEP 2: Choose the right business model

Depending on the type and stage of the contract one of the following business models will work:

1. Fixed price
2. Time and Materials

3. Two phased model

Each of the above models has their benefits and short falls.

Fixed Price

Fixed price provides the piece of mind that the project is to be delivered at a known cost. However fixed price does not work well in scenarios where the project details are not well defined. Fixed price works best when the project is well defined and understood and have minimal uncertainties.

Key characteristics of project for fixed price:

- Requirements are clear and stable
- Minimum uncertainties
- Stable product/development platform

Factors affecting the selection of the "right business model" decision:

- **Clarity of requirements**
- **New product vs. stable product**
- **Innovation/R&D required**

Time and Materials (T&M)

Time and Materials works best for projects which cannot be sized accurately and the course of the project develops as new information is learnt and gathered or there are inherent uncertainties in the project. Example uncertainties include; hardware is not stable or brand new hardware, performance of algorithms is not known, performance improvement, creation of new and innovative solutions and R&D projects.

Key characteristics of project for T&M:

- Requirements evolve as project proceeds
- Many uncertainties
- Unstable or new product/development platform

Two phased model

Two phased approach provides the best of both models – however is suitable mostly for larger projects and comprises of two phases. Phase I is an investigative phase of the project where partner's team works with the customer to familiarize with the projects details – the hardware, software improve understanding of the uncertainties. Phase I would end with a fixed price quote. Length of this phase depends on the complexity and the size of the total project.

The advantage of this model over the other models is that the project in this model includes both innovation and fixed price quotation, both of which are not ideal for the other business models.

Key characteristics of a project for two phased model includes:

- Requirements are unclear at start of project
- Innovation and creativity is important
- Uncertainties need to be researched

- Stable and tested product/development platform
- Fixed or accurate estimates are requirements for budgeting

STEP 3: Choose Partner Location

Depending on the chosen project, choose the ideal location of the partner. This choice is important to help meet the requirements in step 1 above. See “Where to outsource?” for guidelines on choosing the right partner location.

STEP 4: Choose the Right Partner

Choosing the “right partner” is a key step for success of any project. There are two *key* words in this statement “right” and “partner”.

The “Right” company has the following characteristics:

Right Chemistry – Right chemistry is created when the partner company; has experience and expertise in the field required for the required project and has similar quality control processes and has similar company cultures.

Right Quality perception – As we know requirements for “Quality” is different for different technologies areas. 24/7 uptime is expected in the telecom sector where as such uptime is neither expected nor required for desktop applications. Quality is engrained in company processes and company culture hence it is important to investigate if your quality requirements and expectations match that to your partner’s.

The right “Partner” would have the following characteristics:

Candid and Open – The partner would be candid about their strengths and of their weaknesses. The partner will create open channels of communication between the two teams and if any issues arise will bring it forward rather than sweep it under the rug.

Spend the requisite time to identify the “right partner”; it will well worth the effort.

STEP 5: Start with face-to-face team buildings

Human factors are very important in determining the final outcome of a project and should not be ignored. Start with having the “partners” team meet with your team. This should be onsite where the “partner” can mingle and mix with your team and create the “team” bondage at an early stage.

Look for appropriate opportunities for outside the work socializing and team building – a game of ping-pong, darts, bowling or dinner together would create a bonding which creates an enjoyable working environment between the team members.

STEP 6: Communicate, Communicate and Communicate

Once the project is on the way – make sure there is open and regular communications between the teams. Communications can and should be at different levels – technical staff, project management and management. Here are some good ways to do this:

Status Reports

Short and sweet weekly status reports are good way to keep project status known. These reports are good starting point of discussions in the status meetings.

Status Meetings

Status meetings between team leaders are a good way to keep in touch and know about new or brewing issues. This provides a “two-way” communication between the “partner” and you.

Emails/Phone/Instant Messaging/Wiki

All available channels such as Emails, Instants messages and Wiki can be used for efficient and open communication between the team members.

CONCLUSION

For an outsourcing project to succeed all Why, What, Where and How of outsourcing must be considered and implemented.

Please send your experiences and comments to ptpteam@s5systems.com.

S5 Systems has helped many companies to deliver their projects on-time and on-budget. Please contact us with your project requirements and we will scope the work into a project report – at no cost.

S5 Systems

148 Colonnade Road, Units 1A/1B
Ottawa, Ontario, Canada
K2E 7R4

Email: services@s5systems.com

Phone: 877-GO4-S5SY or
877- 464 - 7579

<http://www.s5systems.com>