

How to Choose an Offshore 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 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.

Fortunately, just as there are tried and true methodologies for software development, the same is true of choosing a outsourced software development vendor. 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 \$60 billion for 2007. 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 hassles.

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 behind the eight ball at a critical point in its go-to-market strategy. Horror stories abound: over-promising, under-staffing, security breaches, culture shock, and many other factors can turn a dream 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 vendor chosen matches your needs and can deliver on time and in budget. Fortunately, this methodology is considerably simpler to understand and execute than RAD or the waterfall model of software development. It comprises three simple steps that help you quickly focus your efforts on the vendors 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 Overview Document (POD):** work with your short list to specify

10 Tips for successful outsourcing

1. Clearly define the scope and schedule of your project
2. Evaluate a service provider like you'd hire a full-time employee
3. Look for specific experience fit
4. Don't choose a vendor based solely on price
5. Review portfolios and samples
6. Start small
7. Tie payment to clearly defined project milestones
8. Negotiate ownership of work up front
9. Don't forget about support after the project is complete
10. Get it in writing

[Take the Survey: Offshore Outsourcing Knowledge](#)

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 your preliminary survey on-line, 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. The primary focus is on narrowing the field to make the development of your short list of three or four vendors a manageable task. Although much of this survey can be accomplished on line, 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 vendor 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 vendor 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 \$300 billion in 2007—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 your dazzled eyes, but what happens once the contract is signed? Who's really behind the curtain then? And what happens when problems arise?

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 vendor, you naturally want someone who's an expert at just what you need, rather than a jack of all trades.

Benefits of Offshore Outsourcing

- ✓ Step-change improvement in enterprise-level performance
- ✓ Reduced time-to-market
- ✓ Shared risk
- ✓ Increased innovation through access to world-class skills, resources, and industry knowledge
- ✓ Enhanced core capabilities
- ✓ Strengthened competitive positioning

[Offshore Prices in US](#)

Expertise

Another thing 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 vendor who knows only a few technologies, even if they're best in class in the ones you think are right, risks the "hammer and nail" problem: to those armed only with a hammer, every problem looks like a nail. Remember, you're hiring the outsourcing vendor 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.

On the other hand, it often makes sense to look for a vendor who has some experience in the overall market your product fits into, whether that's mobile whatever. 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 vendors 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 RAD, Waterfall/Cascade, and Agile, to maximize your chances for success.

Industry Knowledge

In some cases, it may be well to look for a vendor with expertise in your particular industry, especially when onerous regulatory and compliance issues are involved, as in various sectors of the financial industry. However, much of the time, this particular aspect of the selection process will be well down the priority list.

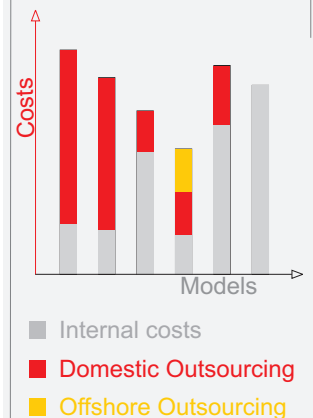
Company Background

This is a catchall term for other information you may be able to discover from the vendor's web site or other public sources, such as length of time in business, customer references, project management structure, facilities, and so forth. Often, however, you'll only get partial answers to your questions, and full discovery will

The Economics of Outsourcing

An independent study which compared six possible IT resource strategies identified a mix of corporate IT staff, outsourced US managers and outsourced offshore development as the most cost effective.

Curiously, it appeared to be the least risky. Product development models which rely only on internal IT resources were judged far less effective:



Offshore Case Studies

have to wait until the second step, when you actually start talking to the vendors to create your short list. Thus, we'll discuss most of this information in the next section, but you should try to find out as much of it in the first step as possible to aid in creating your short list.

There is, however, one aspect of company background that you may want to think about carefully right up front, and that concerns culture. Not company culture—you'll get some indication of that in step two—but national culture. This involves many different factors, and it's rarely a reason to rule out a company right from the start, but a knowledge of the cultural differences you may face can be a useful guide to interpreting all the other information you'll be gathering. For instance, as is well known, bluntly saying “no” is discouraged in many East and West Asian cultures, which can lead to communications difficulties if this is not taken into account. Language capabilities come into play here, as well. While the percentage of personnel with excellent command of written English may be roughly the same between two vendors (as one would expect, since the outsourcing business depends on this), one may have a higher percentage than the other of people with a good command of spoken English, due to the national culture, and this should be taken into account when assessing the vendor's communications capabilities.

Create the Short List

During this step you'll investigate more deeply to develop a short list of three to four vendors with whom you'll work in step three to develop the project overview document. You may want to work with more than this; some experts recommend choosing as many companies for your short list as the number of people on the committee you task with the investigation. But you shouldn't have fewer than three, on the same principle that governs the computers on the Space Shuttle, where the failure of one computer can easily be detected by the continuing agreement of the other two. In the case of choosing an outsourcing vendor, this gives you a better chance of detecting lowball quotes and other unrealistic promises.

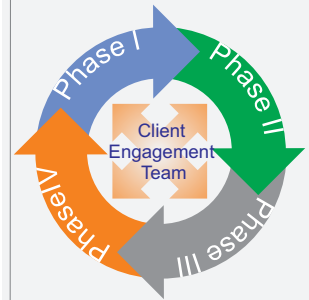
In this step you'll be investigating the following:

- > [Transparency](#)
- > [Employees](#)
- > [Communication](#)
- > [Facilities](#)
- > [Security](#)
- > [References](#)

Transparency

Transparency is an ideal that can only be approached but never fully attained, as it is a state in which you would have the same visibility of vendor operations as you do of your own. As such, it is not something that can be probed by asking specific questions. Instead, it may be considered a kind of meta-knowledge gained from the process of asking all the other questions involved in this step. As

Engagement Model



Phase I - Assess Client Goals

- ✓ Prepare
- ✓ Set a Baseline
- ✓ Identify
- ✓ Recommend

Phase II - Plan/Set Tuning Parameters

- ✓ Goals
- ✓ Time Frame
- ✓ Milestones
- ✓ Resources

Phase III - Launch Engagement

- ✓ Execute Plan

Phase IV - Review and Correct

- ✓ Pilot Project
- ✓ Compare with baselines
- ✓ Adjust Team, Approach

communication is the essence of transparency, any difficulty in getting answers to your questions, any hesitations or equivocation, should be red flags in your selection process. On the other hand, as noted in the sidebar, an equally red flag is constantly getting the “right” answer, or one “yes” after another. Look for a vendor who isn't afraid to say “no,” and justify the answer in terms of the benefit to you.

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 hassles. But although you no longer have to deal with HR tasks on a one-by-one basis, it's still important to investigate the quality of the people available to work on your project. During the third step, you may decide to require 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's the average 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 mastery of specific technologies and techniques, adding to the information you gathered in the first step. How deep and broad is that mastery? Could the loss of one or two people potentially cripple your project because critical abilities left with them?

What's the educational level of employees? What percentage have no technical degree, 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 be a real drag on productivity, as well as crippling any sort of long-term relationship, which is the key to outsourcing success. As well, employee churn can put your intellectual property at risk, as noted below in the section on security.

What are the language skills of employees? How many are fluent in spoken as well as written English? Depending on the project management model used, as discussed below, this may or may not be an important factor in your choice, especially since much project communication will take place in writing due to the time difference involved in most offshore outsourcing.

Communication

Communication is the foundation of outsourcing 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 vendor 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

Three Red Flags

During steps two and three, while you're talking to outsourcing vendors, there are three red flags to look for, any one of which is a signal that you may want to look elsewhere for a partner.

- ✓ **Your Wish Is My Command.** Beware of any vendor who always says “yes.” One of the greatest values any partner can offer is the ability to say no and explain why. And, all too often, complaisance during the bidding process turns into delays and defaults when reality hits home.
- ✓ **I Know Where You Live.** Avoid completely offshore vendors. Talking to engineers is hard enough when they're on the other side of the wall, let alone thousands of miles away. You need someone on the spot to take responsibility for communicating in a timely fashion with the development team.
- ✓ **The Godzilla Factor.** Choose a vendor to whom you matter: large enough to get the job done yet small enough to make you an important client whose satisfaction really matters.

a buffer to overcome the time zone difference, which can then actually work in your favor in some cases. For instance, outsourcing to Russia, which is almost exactly antipodal to the U.S. West Coast, allows a very effective overlap of working hours, with the PM to make sure that you have a responsible contact available during your normal working hours.

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 overview document you will develop in the third step is part of the process of developing such documents, and will give you a better idea of how well a given vendor handles this fundamental 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 unpleasant surprises.

Is the vendor capable of using a wide variety of communication methods, such as phone, email, IM, various collaborative tools (e.g., WebEx or NetMeeting), and so forth? 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? What kind of records are maintained for these communications, in case of a misunderstanding or dispute?

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 vendor measure project progress?

Facilities

Naturally, you're going to want to probe the outsourcing vendor's facilities, both developmental and testing. But it's difficult to specify a universal set of questions in this regard, as your software will determine in large degree what's needed here, especially when it comes to testing scenarios. For instance, an embedded solution is going to be much easier to test than an application destined for deployment on a global network. So here we'll concentrate on some very general parameters, starting with some important ones that have little or nothing to do with technical matters.

One of the first things to consider is the public infrastructure where a vendor's facilities are located, which can have a tremendous effect on productivity and business continuity. For instance, much attention has been focused lately on the

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 keep application maintenance inexpensively?
- ✓ How can I reduce my hardware, network infrastructure costs?
- ✓ Why does it so expensive to create the next version of new product?

[Offshore Product Development and Maintenance](#)

problems India's outsourcing industry is experiencing in comparison to Russia or China because of infrastructure problems such as power or traffic—your team won't be at its best if it faces a four-hour commute to work! Ask questions like:

- Is there adequate transportation to and from vendor facilities?
- How stable is the local and long distance phone system?
- How stable is the local power system? If there are frequent outages, does the vendor have adequate generator backup?
- What is the capacity and availability of the public/private network infrastructure?

Some technical aspects of vendor facilities that you'll want to probe include:

- What test automation systems is the vendor familiar with?
- What bug tracking systems is the vendor familiar with?
- How is IT support handled?
- How long does it take to add the hardware and software needed for a new engineer or other personnel?

Security

Security involves not only firewalls and access control at an outsourcing vendor'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.

Secondly, what's the status of intellectual property law and attitudes in the vendor's country? For instance, a 2002 case in India of source code theft was fortunately resolved by the intervention of an undercover agent without loss to the outsourcing client involved. However, because stealing trade secrets did not violate Indian law, the perpetrator could only be prosecuted for simple theft—not much of a deterrent considering the value of what was stolen! Is the vendor's country a member of the World Trade Organization, and does it adhere to the intellectual property protection objectives laid out in the Trade-Related Aspects of Intellectual Property Rights (TRIPS)?

What is the company's employee attrition rate? As noted above, high attrition can increase the risk to your intellectual property. 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?

For facility security, review the vendor's physical and electronic security. How extensive is their firewall, intrusion prevention, and network access control infrastructure? What kind of physical access control is maintained in the vendor's

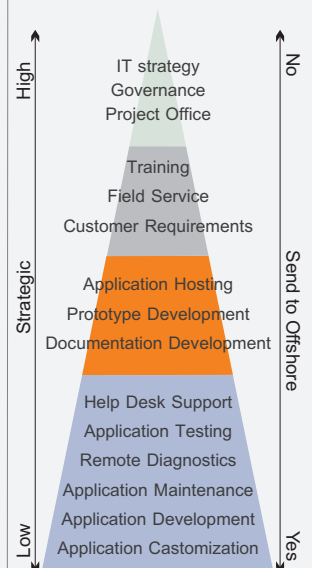
Strategic Outsourcing

Offshore IT outsourcing is no longer just about saving money. The focus is now on value and risk assessment.

Strategic outsourcing aims to redirect an organization's resources to focus on its core competencies.

Core competencies for some organizations consist largely of strategic planning, brand management and project management.

Strategic outsourcing enables organizations to quickly change course, enter new markets and access new technologies. Strategic outsourcing focuses on results.



facilities? What about remote communications? Will any of your team be working remotely, and if so, how is your IP to be protected?

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 Overview 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 the optimal 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 Overview Document (POD), 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 Overview 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 POD—a high-level summary of the business need and how the vendor'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 vendor should restate your strategic goals or business needs in terms that firmly relate to the software functionality required.

Top 10 Reasons Companies Outsource

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

[Why Outsource to Russia?](#)

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 whom the vendor 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

The poet Paul Valery said that a poem is not so much finished as abandoned. The same is true in commercial software development, where the decision to stop work and ship is often dependent on market demand and competitive issues. But outsourcing projects work best when there are formal and measurable decision points, rather than depending on subjective judgments like "I don't think it does enough."

The POD should specify what constitutes a finished product, and outline a mechanism for bringing the two parties together to discuss 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.

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 details this provides is critical for avoiding unpleasant surprises, and helps you judge how realistic the price specified is.

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 by resources so that you can judge if it is adequately staffed. How many 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 spend? You may also want the vendor to attach the resumes of key personnel at this point to give you a more accurate idea of the expertise being offered.

Price

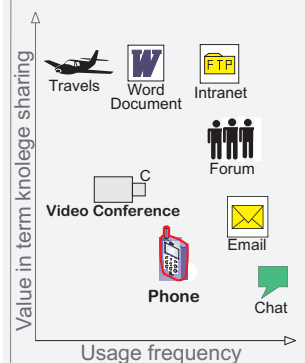
The price given in the POD should include a firm figure for the discovery and analysis phase, but only an *estimated* cost for the design, development and deployment phases, which can only be accurately estimated after discovery.

In judging the price, employ the project timeline as a reality check. Is one price low

Communication Tools

As a result of instantaneous telecommunications capacity and affordable high speed computers, any activity that can be digitized is a candidate for offshoring.

Global availability of cost effective, high speed digital internet connections, combined with net based and other communications tools such as email, instant messaging, faxes, videoconferences, and cellular phones have empowered foreign workers to provide services that do not necessarily require direct physical contact.



- Travel: every 2 months
- Word documents: 1 every month
- Phone: 3 calls per week
- Intranet: 1 topic modified per day
- Email: several times per day
- Chat: continuously

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 overview document (POD) with each vendor on the short list—can help avoid unpleasant surprises, ensuring that your outsource project goes smoothly and delivers the benefits you expect.

About Solovatsoft

Headquartered in San Mateo, California, Solovatsoft has two state-of-the-art development centers in Russia and a third under construction in Ukraine, both countries known for their pool of top programming talent. The company uses US-based project managers for instant response.

With 15 years experience in software development outsourcing, SolovatSoft helps small and midsize businesses to stay ahead of a wide range of technology initiatives with real-world technology solutions that drive business results.

For more information, please visit our website at www.solovatsoft.com