



Successful Offshore IT Outsourcing



Joe Hughes, Vice President of Sales and Marketing, SolovatsSoft, says that with outsourcing programs, "It is very important for the client to realize that this is a partnership and that both the client and the vendor must work together to make the relationship work; it's really a two-way street."

Joe has over 25 years of executive management experience in computer software development; he started his career as a developer and was involved in software development projects for a number of high-tech companies. He has managed large groups of software developers and has been involved in outsourcing software development for a number of years.

Any organization considering outsourcing will be concerned with ROI. How can an organization ensure that they employ the right development vendor in order to maximize their ROI?

The most important factors in maximizing ROI for an organization include written communication with local project management (PM) support and a vendor with high levels of the needed skills/experience, plus a low turnover rate for the development team.

Over the years, I've talked to a number of CEOs and CIOs about their major issues with generating an effective ROI for their organizations when outsourcing. The biggest issue seems to be the ability to provide in writing exactly what the development team will be doing. Many outsource vendors will claim that they understand the work to be done, but when the work is completed it doesn't match what the client wanted.

At SolovatsSoft, we focus on creating a design document at the start of the work that describes in great detail the work to be done. The local PM is essential to this process as they ensure good communication during all phases of the development process. The client provides input and must approve the completed document. At the completion of this document, both parties know exactly what needs to be done. This upfront documentation can increase ROI by 20 percent to 40 percent by eliminating unnecessary work or the need for additional time to develop what the client wanted.

The other key factor is to select a development vendor with experienced and skilled developers. In many of the most competitive outsourcing locations, the development team may have an average of only one or two years of experience. Nothing is worse for a client than to see part of the team leave the vendor after they have gained experience with the client's applications. Selecting a vendor like SolovatsSoft, with a low 6 percent attrition rate and an average experience level of six years for developers, can increase the ROI from 30 percent to 50 percent, or more.

The hourly rate is not the most important factor when selecting a outsource vendor, what really matters is the quality and the amount of work that can be done for that hourly rate.

Often a strategic sourcing plan that has a global solution will be dependant on location. India has well-established itself along with companies in South America as leading outsourcing providers. What is unique about Russian solutions? When people think of Russia as a sourcing option, what is the first thing that should come to their minds?

The most unique factor about Russian outsourcing providers is the skill level consistently found within their development teams. A quote from "Fortune" magazine says it best:

"Russian science and technology present an unusual mix of critical thinking, developmental breakthrough, and

professional hunger born of the proximity of actual hunger. At Intel, we have an expression," says Steve Chase, President of Intel Russia. "If you have something tough, give it to the Americans. If you have something difficult, give it to the Indians. If you have something impossible, give it to the Russians."

All of the leading outsourcing companies in locations around the world have some good development talent; however, in many of the more competitive locations, such as India, you find that a typical team may have a limited number of highly skilled and experienced developers. Russian outsourcing teams are well-recognized by people who have used outsourcing services from all of the major countries as having the most skilled and experienced developers in general.

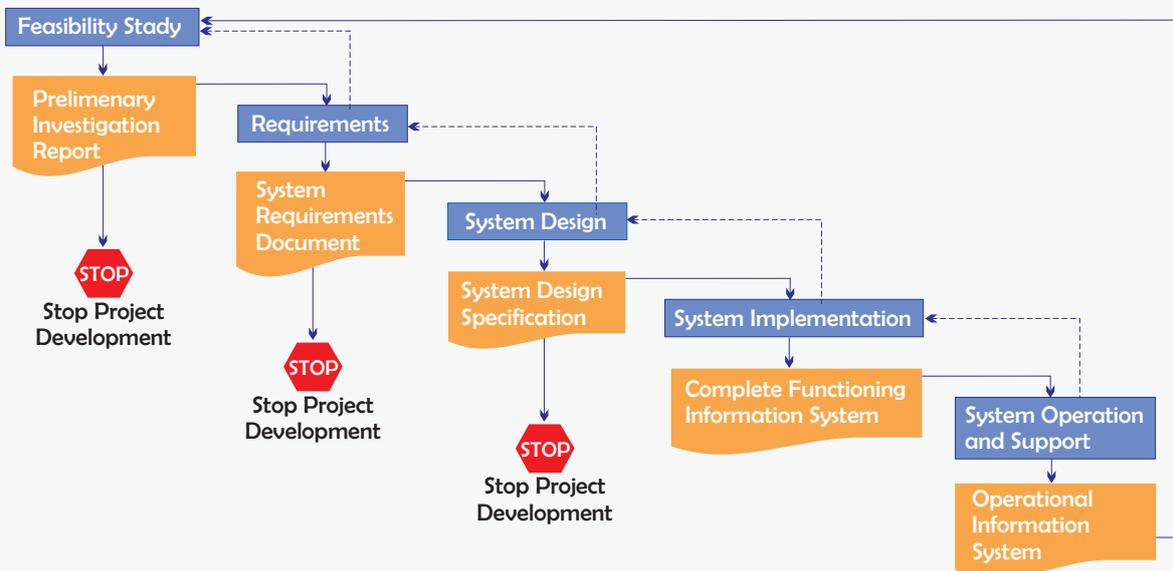
IBM holds a programming contest every year and major universities all over the world enter this contest with their best programming talent. Every year for the last five years, at least four Russian universities have placed in the top 10 teams. No other country has more than one university placing in the top 10; India, for example, has no university in the top 10.

Many Russian outsourcing vendors, like SolovatSoft, have a high percentage of developers with advanced degrees. At SolovatSoft, for example, more than 85 percent of the developers have a masters or higher degree.

The SolovatSoft development team adopts project methodologies based on the client's project specifications and requirements. Following are the basic popular models:

- System Development Life Cycle (SDLC) - Waterfall
- Prototype Development
- Rational Unified Process
- Microsoft Solutions Framework (MSF)
- Rapid Application Development
- Agile Development

A waterfall model with feedback can be very effective choice to design a system that is clearly described. In this case only a few minor changes can be made in system design or its requirements.



Like any other business practice, communication is a crucial part of success in strategic sourcing. What steps do you take to ensure that communication both within your organization and to the world is finely tuned? What is the primary medium currently used for communications?

We believe good communication is the crucial factor for successful outsourcing. Our business model is designed around making sure that we have a good channel between the client's needs and the developers.

The local PM is the first step to ensuring good communication. Having a U.S.-based PM to coordinate

communication and schedules are especially important during the early part of the engagement. We also believe that the written medium, design documentation and e-mails are very important; however, we believe that a good outsource team should use all available tools to meet the client requirements – as we also use IM and conferences calls in most of our engagements.

The most important phase is the initial engagement when the knowledge transfer needs to take place between the in-house team and the offshore team. During the startup phase, our lead and senior developers work with the client to develop the system design documents for the initial project. The purpose of these documents is to systematically specify requirements for the project and features to be developed. Both functional and non-functional specifications are captured in this document and it serves as the guidebook for design and development. In addition, during the creation of this document, future requirements are discussed to ensure the new version can support these future requirements.

When designing a sourcing plan, both client and service provider must take precautionary steps with regards to the goals they are striving to achieve. What are some basic or even meticulous steps that both sourcing providers and vendors should take to guarantee the success of their outsourcing program?

It is very important for the client to realize that this is a partnership and that both the client and the vendor must work together to make the relationship work; it's really a two-way street. The client should have a sole person responsible for the project who can be the primary interface to the vendor and will also be available to answer questions. As in all development projects, a great deal of knowledge transfer must occur very early in the project and it requires time from both parties to make sure that the goals are understood and communicated very clearly at the start of the project.

Benefits of Offshore Development Center

- **Constant Team** – The continuity of the same people helps to quick start projects, protection of investment, long-term relationship, mutual rapport building and a lower learning curve.
- **Adherence to standards** – The team of professionals being aware of the client's standards and procedures ensures adherence to standards. The overall business knowledge of the client helps in understanding of client applications
- **No Long-term investments** – Being actually a branch of your business in Russia, DDC does not require any long-term commitments or up-front investments. But it saves you from a continuous headache about incorporation issues, legal fees, payroll, and legal compliance, long-term office leases.
- **Full Operation Control** – You manage your DDC as if it were your local IT division. You have your development schedules and deliverables, which your DDC team adheres to.
- **Reasonable Expenses** – You pay only for what you need and use – there are no hidden wasteful expenses. You are not paying for any overheads or administrative costs associated with establishing a DDC.
- **Flexible Pricing and Financing** – DDC offers a very custom - friendly pricing practice with no hidden costs. You can choose among a variety of pricing models to suit your needs best.
- **Infrastructure** – Companies often face the space crunch during the expansion process due the non-availability and cost of the same. The advent of Internet has made distance a non-issue especially in a low cost country like Russia.

Many recent reports are citing Russia as a strong leader among outsourcing providing nations. What has been the catalyst for this revelation? Is cost relative to efficiency, or has Russia found a way to provide a high-quality service at a low cost?

The primary factor in Russia growth and leadership in outsourcing is provided by the high number and quality of technical expertise. Russia has a history of a technological culture.

Another quote from a recent "Fortune" magazine article says it best:

"A large number of Russian graduates are technical and many of these young scientists gravitated toward IT."

Every year, Russia graduates as many scientific and technology specialists as India – 200,000 – although Russia is 80 percent smaller by population.

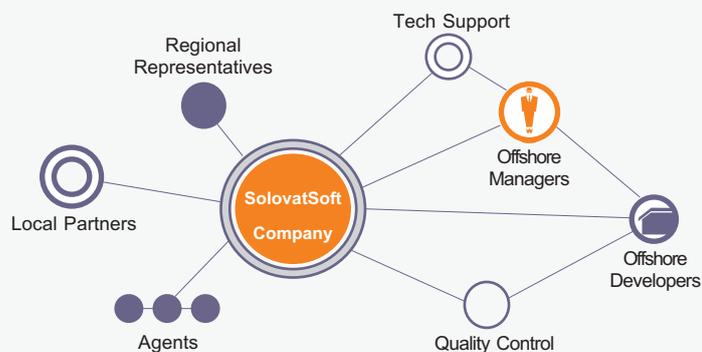
Russia's software exports now exceed \$1.8 billion annually, and the country is the third largest software outsourcing destination in the world, after China and India. 'In these other countries, there was no technological culture like we had in Soviet times,' says Dmitry Milovantsev, Russia's deputy minister of information technology and communication, hinting at the country's potential."

One of the important factors associated with a quality outsourcing platform is guiding the process along through its inception to its daily utilization. How important is it for an organization to guide their outsourcing program along from infancy to maturity? How can this equate to improved efficiency and agility?

The real gains in outsourcing occur after the vendor and client have become used to working together and the knowledge transfer of the client's goals and business requirements are clear to the development team. After a year with a dedicated development team, the client organization can expect to see productivity gains of 20 percent to 40 percent.

Corporate Structure

- System Analysis Department
- System Development
- Application Development
- QA Department
- Professional Service
- Technical Support Department
- Project Management
- Design Studio



Security is a concern for all organizations. What should organizations know about security as it relates to the loss of sensitive customer data to a breach? How does a security breach affect an organization in the long run? What types of precautions can a sourcing organization take with regards to security?

Although outsourcing can greatly reduce labor costs, because countries have different laws, regulations and enforcement motivations, many companies have to deal with a range of unfamiliar issues to ensure their work is secure. For example, in 2002, an employee at the Indian company Geometric Software Solutions Ltd. (GSSL) became a lethal weapon after he was fired. He stole a copy of a customer's source code, contacted several of their competitors and sold the information to the highest bidder. Fortunately, the ex-employee unknowingly sold the code to an undercover Indian intelligence agent. Unfortunately, stealing trade secrets did not violate Indian law, so the perpetrator was only charged with a simple theft.

Because of these different rules and laws, choosing an offshore outsourcing company can be difficult. When an organization looks for a vendor, it is important to look under the covers and do the necessary due diligence. Also, it is a good idea to address the following issues:

- ✓ If the company is in a country that is a member of the World Trade Organization, it may adhere to the intellectual property protection objectives laid out in Trade-Related Aspects of Intellectual Property Rights (TRIPS).
- ✓ If the company is incorporated in the U.S., it can be sued under the U.S. legal system.
 - If the vendor has assets in the U.S., it can be more easily controlled by the U.S. legal system.
- ✓ Ensure the company does background checks on all employees and contractors.

- ✓ Review the company's history, how financially stable it is and the retention rates of employees.
 - Many offshore vendors experience high turnover, which increases the risks of loss of control over your company's IP.
- ✓ Review if the vendor uses subcontractors and how they ensure this crew meets the same requirements as their employees.
- ✓ Give the proper amount of time and effort to due diligence before moving forward with a vendor.
- ✓ Review physical security and business continuity measures.
- ✓ Understand the political context of the country the company resides in. If there is potential for civil war or other types of unrest, this is not where you want to do business.
- ✓ Require that all legal disputes be handled in U.S. courts. Document it in your contract.

One method of delivering a quality service as an outsourcing organization is by allocating their developers to clients to act as a member of the client's team. How is this method different from a more traditional model? Does the personal touch ensure client satisfaction?

This is actually our most successful business model. We provide outsourcing services in three different ways, including the traditional project model, time and material, and the dedicated developer model where a team of developers is assigned long-term to a specific client.

Many clients only think of a short-term project for outsourcing, but to get the maximum benefit from an outsourcing model, the dedicated team is best in providing client satisfaction.

As the developer becomes familiar with the client company, culture and their software, they become more productive. Just as in hiring a new employee, there is always a knowledge ramp up period when the outsource development team becomes familiar with how the client company operates and with the specific product goals.

For clients, the most productive and cost-effective model is using a long-term development team. The learning curve is high in outsourcing and when you find the right type of development vendor that can supply the skill set and experience level required, then a dedicated team can deliver the best results.