



Global Development Consulting, Inc.
Training and consulting for offshoring success

Critical issues in selecting offshore projects

by

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As companies face economic pressure internally and from customers, they're forced to re-evaluate strategic and operating models; in some cases, this includes evaluating outsourcing support offshore. In working with clients, deciding which projects should be sent offshore comes up often – sometimes before the decision is made to go offshore (which is the best time) but often the discussion is initiated only after projects have been sent offshore and problems have developed. Though it is sometimes difficult to anticipate all of the issues, taking the time to do a thorough evaluation of internal processes, the capabilities of your potential outsource partners, cultural aspects, customer expectations, and more will find the projects that will succeed offshore. It may sound simple but make sure you clearly define your objectives for outsourcing. This will lead you to an initial list of potential projects. Then you should apply the criteria presented in this article to see if they have the potential for success offshore. Here are some recent instances of offshoring and lessons learned that will help you understand the issues involved in project selection.

Ensure adequate resource pool offshore

This issue is not always obvious and based on recent hype in the press, most companies do not bother to check. A mid-sized networking company sent part of their technical support offshore to India. The initiative was started about a year ago and a variety of issues have arisen in that time. First, it took twice the time expected to get offshore personnel trained in the technologies used by the company. During the first year, the company reduced its internal staff but since the offshore personnel weren't ready as anticipated, they couldn't provide the level of support and service to clients and customer satisfaction took a nose dive. Both the offshore vendor and the company worked hard to get offshore engineers trained and gradually customer satisfaction improved. Just when the offshore vendor and the company began to feel that they had the offshore project on track, a group of key engineers left the offshore vendor for other opportunities. Back to hiring and training; customer satisfaction took another dive.

In retrospect, training issue could have been handled better by both the vendor and the company by planning a longer and more intensive training cycle. But the larger issue was the availability of talent in the market. The company assumed that the vendor could take care of it, since in this case the vendor is a large established company. This turned out to be a bad assumption. The company provided specialized training to the vendor's staff. They became an easy target for other companies competing for the same resources offshore and some of them were lured away. Attracting and retaining skilled personnel in a country like India in today's environment is challenging even when there is a large enough supply in the market place. However, if supply is limited, you leave yourself exposed to the risk of losing people and not being able to replace them.

This company is now evaluating if they should bring the project back onshore or even back internally. Given the dynamics of the situation either option may be better than leaving it offshore.

What could the company have done differently? In this case the company took at face value statements from the vendor, which proved to be optimistic. If the company had invested the time to validate the vendor claims independently, they would have spotted the issues and prevented this costly mistake. You must be actively involved in managing offshore partnerships; while you need to rely on the vendor, you also need to conduct your own due diligence in key areas.

ROI

A small software company recently considered offshoring; the proposal was to offshore the equivalent of four to six support reps. The financial analysis indicated that at this level, the overhead needed to establish and manage an offshore effort was significant and the cost savings after considering all associated costs didn't exist. The company decided against outsourcing. This example points to another criterion for determining whether a project makes sense for offshore -- return on investment. After all, one of the most common reasons for offshoring is to reduce cost. To do that, you have to look at the total cost of offshoring -- not just the salaries paid to offshore

personnel. For more details on this topic please refer to a previous article by this author titled "[The Hidden Costs of Offshore Outsourcing](#)," SSPA News, November 2, 2004.

Compliance with U.S. regulations

Some projects, notably those involving certain encryption technologies, cannot be sent to certain countries. Federal guidelines are updated constantly. You need to first make sure that you will not run afoul of the law, before you go too far with offshoring a project.

For example, if you are considering offshoring first level support, where there is no need to provide access to source code for offshore personnel these laws may not apply. On the other hand, if you plan to offshore escalated support that requires access to source code, this law may apply to you. In some cases, we've found that only a small portion of a product cannot be offshored but other components can be – for example in an entire operating system, certain modules containing encryption technologies could not be offshored (which was less than 1% of the modules) but the rest could.

In addition, if you do business with a state government agency, check to see if there are regulations that do not allow you to offshore support. If you are not sure, consult an experienced professional who can help determine what is applicable in your situation.

Other factors

In addition to these factors, other issues you should pay attention to include whether you have definable deliverables, the level of interface and infrastructure required between the offshore and the Head Quarters teams and how long and how much investment you need to make for transfer of information/training of offshore personnel, and more. Also make sure you have an enforceable SLA with the vendor.

To put the entire issue in perspective and to help you assess the likelihood of whether a particular project is a candidate for offshoring, here is a Project Selection Scorecard. Assign a score of 1 to 10 for each attribute. If you assign 10, it implies that you have the high confidence of success against that particular attribute.

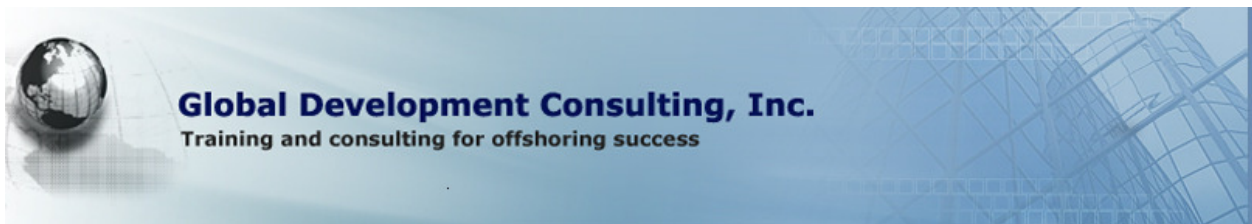
Criteria	Score (1-10)
1. Definable Deliverables (Can you clearly articulate what the offshore team needs to do?)	
2. Level of Interface (How much interaction does the offshore team needs to have with the U.S. team?)	
3. ROI (Financial Analysis) – Make sure you accounted for all offshoring costs.	
4. Specialized equipment needed by offshore team and associated costs	
5. Transfer of Information and Training (How long does it take, at what cost and whether you have personnel available to devote to this, in addition to doing their own current tasks?)	
6. Cultural fit (Contextual knowledge necessary); is it possible to train offshore personnel in this aspect within a reasonable time frame?	
7. Attracting and retaining offshore talent	

Total

A score of 56 (80%) or better is a good candidate; a score or 42 (60%) or less is a poor candidate. This score card is meant to be a guideline and is not a substitute for good management judgement. Regardless of what the score, you may have other compelling business reasons for making a decision either in favour of or against offshoring

Author

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