



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

What Business Value Are You Receiving From Offshoring?

By

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Let's reduce costs by going offshore with some development or service functions! The board and management agree to set up offshore activities in a place like India, China, Russia, Slovenia, or Bulgaria. Time passes. Everyone is happy. Right? Well, maybe.

Most companies are finding that their goals are not being met in a consistent way. Issues creep into the picture. These issues are really symptoms of deeper problems. Issues that frequently arise are:

- Product schedules begin to slip. Your staff starts complaining that low productivity in the offshore operation is eliminating the cost benefits that you justified the movement to offshore in the first place. The offshore operation requests substantial added resources in the budget cycle.
- Customer satisfaction relative to functions provided by the offshore group starts to decline. Customers feel the product is moving away from their needs or the call center doesn't seem to "understand our needs".
- Politics develop between the marketing, product management and/or development functions in the US and the offshore operation. There is finger pointing and the US based groups complain about the offshore group doing their own thing and the offshore operation complains about lack of solid product requirements and communication problems with the US groups. Teamwork, a strong point of the company, seems to break down on any subject dealing with the offshore operation.
- Frequent changes occur in vendor personnel at the offshore location. Members of your US team, who provided training and support to the initial offshore activities, have been reassigned to other duties and now the changes in the vendor personnel need support from your staff once again.

Almost every company with offshore operations encounters these and other issues along the way. There are some fundamental problems underlying the issues. While easily stated, the problems are not immediately obvious, especially to those who have been involved in the offshore projects from the beginning. Here are some of the fundamental problems that are frequently encountered:

1. **Benefits from offshoring are questioned.** While on a per person basis you are paying the offshore vendor much less than what a U.S. person costs you, some of your staff is telling you that offshore productivity is really low; that it takes 2 to 3 persons offshore for doing the same work that used to be done by one experienced person here. Added to this, there are costs associated with travel, communications and duplication of equipment, to name a few. The implied conclusion by at least some of the staff is that it is not saving money after all and it was a bad idea to have gone offshore. Even in the beginning if you have found that the offshore initiative was saving you money, the situation can change over a period of time – one factor is the escalating labor cost offshore. An assessment of "Business Value" combined with regular audit of productivity and cost will provide you one of the key metrics to effectively manage the offshore initiative.
2. **Vendors develop problems.** When you were working with the vendors to set up the initial project(s) for offshore work, they were attentive and you felt they considered you to be the most important client in the world. They took the time to expose their people to your company's specific needs. Now they seem distracted and distant and the people don't seem to remember all of your needs. Call center activities can lose the meaning of scripts they follow and that can lead to consumer dissatisfaction. Key members of the team that supports you may change either due to attrition or due to the policy of rotation. Chances are high that their own workload has expanded to the point they are stretched too thin. With lots of offshore activity, competition for labor is intense in the offshore site. The vendors must seamlessly scale their own business. Some are better at it than others. Added to this the focus of many senior managers is business acquisition. Your project which is now in the delivery cycle can suffer. Regular audits can catch and nip such problems in the bud before severe issues arise.
3. **Attracting and retaining offshore staff becomes an issue.** You invest valuable U.S. staff time to train the offshore team and put in a lot of hard work to do trial runs. At this point, several months have passed; you now conclude that they understand your issues, you reassign and/or

remove staff at your U.S. location, because you can afford to duplicate staff only for so long. Not much longer after this move, you learn that key developers and/or team leads have left the offshore team. Even though the offshore organization says that they will address it, you realize that there is no way that they can do it, without investing additional resources from the head quarters.

Conventional response to this issue is to improve compensation. While this is necessary, it is usually not sufficient to address the issue on a long term basis. For example whether you are offshoring only routine tasks or providing an opportunity for the offshore team to do new development can make a difference.

Another factor that can influence attrition is the choice of right business model to begin with. Some companies have gone offshore and established a 10 to 20 person subsidiary. In the current environment where the demand for skills is so high, if you do not have local branding, it can be hard to retain key developers since they can see better career opportunities at a larger well established organization. An audit that goes beyond personnel policies can help uncover issues that will deal with this issue.

4. **Your offshore organization wants to increase head count.** When faced with low offshore productivity and high attrition, some offshore entities attempt to persuade head quarters to allow them to hire more people. The argument is: “after all, offshore labor is cheaper and hence throwing more bodies at the task is a no brainer”. However, this is not always the right approach. If you scale up an operation that does not have in place necessary management processes in the first place, it will only make matters worse. Once the offshore organization is running efficiently, you may decide to staff up to handle additional work load. An assessment of “Business Value” from offshoring and existing management processes can help address this issue.
5. **Initial projects are not set up right.** This typically happens where a prior relationship existed between a member of the management team and a vendor in the offshore site or between a board member and a vendor in the offshore site. The project gets off to a fast start because of the relationship, but before too long, schedules are being stretched out, fingers are being pointed between US groups and the offshore group. “They are doing what they want to do not what we need”, says your domestic team. The requirements are not well documented and we can’t get a straight answer from them” says the offshore group. Many companies rely on the prior relationship and things are no longer working smoothly. An audit of projects almost always identifies issues that need correction.
6. **Processes become broken.** Even when the initial projects work well, problems can enter the picture. Domestic groups are accustomed to dealing with issues by walking to the adjacent cubicles and talking through things. With continents and time zones separating the teams, processes must be razor sharp and maintained religiously or they will break down. The companies that are best at offshore activities will tell you that they must periodically review all processes to assure the goals will be met for the offshore site and that operations are smooth both domestically and offshore. Typically, symptoms of broken processes include time and cost problems, politics between domestic and offshore groups, and breakdown of teamwork. Periodic audits are needed to identify and correct such problems.
7. **Out of sight, out of mind.** Management has plenty to focus on these days. Nothing goes smoothly all the time. The problem du jour can consume a management team and offshore activities are increasingly left to operate in a vacuum. Depending on the nature and severity of the problems that distract management, the situation offshore can get very severe before it hits the radar screen. By then many things are broken. “I didn’t hear anything about it and assumed that everything was OK.” How did it get broken so fast? A regular program to review offshore projects from a process and procedure viewpoint can avoid this situation.

These problems can be solved and goals from offshore activities can be achieved. Like any other operating issue, it requires attention and a focused program to have a successful offshore effort.

Business Value assessment to get a handle on how well the offshore initiative meets your objectives, coupled with a regimen of periodic review can be done in a cost effective manner and can avoid big problems. The key is building the mechanism in your operations so that the reviews are expected and anticipated by all members of your team.

GDC Inc. has worked with many companies to assure successful offshore projects. We help people set them up right from the start. We do periodic audits to assure that processes and issues are identified and corrected. We are professionals in this subject area.

To determine if you need to take steps to assure your offshore operations are achieving the goals that you have set, please take a moment to complete the following score card on your offshore operation. Assign a score of 1 to 10, with 10 being the highest for each factor and total them up to see where you stand. For example take factor no 1; do you have a clear written statement specifying the company goals for going offshore? Do you have at least a 3 year plan for offshoring with expected financials? Does everyone associated with offshoring clearly understand the long term goals of offshoring? You assign a 10 if you answer yes to each of these questions. When you add up the scores for each of the following questions, if you score less than 80% (80), you need to consider undertaking assessment of your offshore initiative.

Assessment Score Card

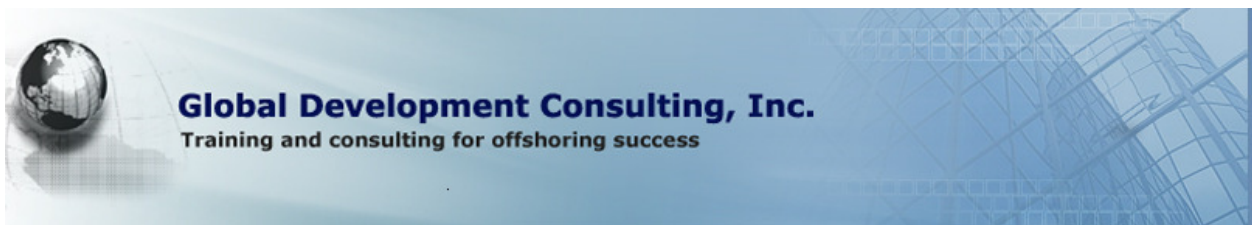
	Factor	Your score
1	Do you have clearly established goals for your offshore initiative?	
2	Is your offshore organization meeting original expectations?	
3	Is there consistent expectation between head quarters and offshore organization at all levels?	
4	Do you have a clear understanding of productivity of your offshore organization compared with its U.S. counterpart?	
5	Do you have a clear understanding of total cost of offshoring – not just salaries?	
6	Do you have a clear understanding of the real contribution of your offshore organization?	
7	Besides engineering processes, have you integrated management processes, culture and goals?	
8	Is it meeting current and future needs of the company?	
9	Do you have regular program reviews? How useful are they to manage your initiative?	
10	Have you established clear guidelines for project selection?	

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Authors

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