



Strategic Outsourcing for Mid-size Enterprises (MSEs)

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Executive Summary

Mid-sized Enterprises (MSEs) need to focus on a number of key business challenges: reducing costs, improving employee productivity and building competitive advantage. The rising cost of IT services puts significant pressure on the scarce financial and staff resources of Mid-size Enterprises (MSEs). This reveals to us that offshore outsourcing would strongly appeal MSEs.

You don't have to be an industry monolith to take advantage of outsourcing. In fact, Mid-size enterprises are likely to benefit the most from using outside technology resources. According to Allie Young, senior analyst with Dataquest, "The pace of technology changes is overwhelming. To be competitive, companies must upgrade their technology, but they don't have the expertise in-house, so it's easier for them to turn to an expert." (Entrepreneur)

But less than one in five MSEs currently have an offshore outsourcing in place. The reason behind this is MSEs must overcome unique strategic challenges in order to make offshore outsourcing work. To maximize business benefits, MSEs must not only develop an outsourcing strategy and choose an appropriate vendor, but also build the right management skills, create effective communication channels, and then persevere in the process in order to learn and improve over time. Unfortunately, best practice advice and consulting expertise are largely skewed towards Fortune 1000 companies and often do not apply to MSEs.

We will discuss about why Mid-sized enterprises have been slow to embrace offshore outsourcing. This paper is intended for those looking at offshore outsourcing as an alternative to in-house or near-shore development. This paper gives you an insight how Mid-sized Enterprises can effectively plan and implement an offshore outsourcing strategy to obtain the same competitive advantages as their larger counterparts, including reduction in costs, improved process management and greater business agility.

Introduction

Despite a growing reliance on information technology, MSE managers remain focused on a few key issues: reducing their capital and operating expenses; improving employee productivity and satisfaction; and improving or extending their competitive advantage. These challenges are daunting enough to occupy the vast majority of an MSE owner's attention. Most executives view IT as a critical means to achieving these goals, yet virtually none have the time, resources or technological expertise to continually evaluate and deploy improvements to their increasingly important IT infrastructure.

Because the technology prerequisite for doing business becomes more expensive and complex, MSEs struggle to meet basic IT needs. While Fortune 1000 enterprises can amortize the rising cost of IT services across a large user base, Mid-size Enterprises (MSEs) must provide many of the same capabilities as of the Large Companies — from e-mail to high-speed Internet access to a dynamic Web site — with a fraction of the resources. Challenge becomes more greater for specialized requirements like e-business services and mobile applications.

Then the Question arises “How can MSEs provide enterprise-scale technology on a mid-size budget? Midsize Enterprises and outsourcers seem to be made for each other. One typically lacks skills as well as budget and the other specializes in delivering those skills at an affordable price. Offshore outsourcing appeals to MSEs offering technology expertise and superior process management at a lower cost. Many MSEs did not consider offshore outsourcing as a part of their business strategy. As of January 2005, only 19% of smaller to mid-sized enterprises reported having an offshore outsourcing strategy in place, as compared to 95% of the Fortune 1000.¹

¹ Ventoro (www.ventoro.com), “Offshore 2005 Research: Preliminary Findings and Conclusions.”

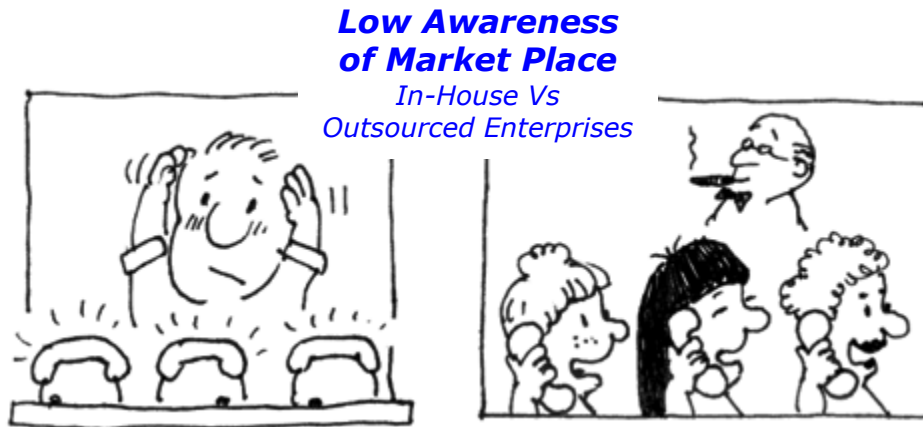
MSEs Outsourcing Challenges

MSEs face a lot of challenges, which a larger enterprise can easily overcome.

Low awareness of marketplace

While large enterprises typically have entire departments dedicated to identifying and vetting contractors, most mid-sized enterprises don't have such in-house expertise. With this dedicated departments and in house expertise, they carefully consider what projects to outsource and how to build a business case.

On the other hand, MSEs are skeletal and intently focused on immediate, day-to-day concerns. Often there is little bandwidth left over to develop an offshore outsourcing strategy. Lack of resources is what prompts many companies to opt for outsourcing as a solution.



Another setback in planning offshore outsourcing is the lack of guidance specific to Mid-size enterprises. Trade associations also can be good sources of information. But trade press focuses on outsourcing exclusively from the standpoint of activities among larger enterprises. This advice will be of little help to MSEs. This leads MSEs to fend for themselves through ad hoc researches and recommendations from colleagues. And simply doing a Google search doesn't help much. The search engine yields more than 700,000 results for "offshore programming." This creates confusion and reinforces the impression that offshore outsourcing is "only for big companies".

Mid-sized software Enterprises, like their larger counterparts, not surprisingly have been among the early adopters of the offshore services model. Many Mid-sized Enterprises are used to operating in an ad hoc style or don't have training in effectively dealing with contracted parties. A good off-shoring partner must "have a strong local presence that can effectively communicate needs to the offshore team." At the same time, it's wise for

MSEs to try to bring on board more staff experienced in working in collaborative, outsourced environments so that they can directly handle more of those communications.

Short Time Frame to Plan

Many MSEs do not operate with the multi-year strategic plans that are typical of Fortune 1000 companies. For Example, MSEs would be interested in 1-2 years of contract and they are interested in immediate conditions of country of choosing. They will be ready for constant change. Whereas larger companies choose 3+ years of contract and the choice of the country is strategic, goes before the vendor.



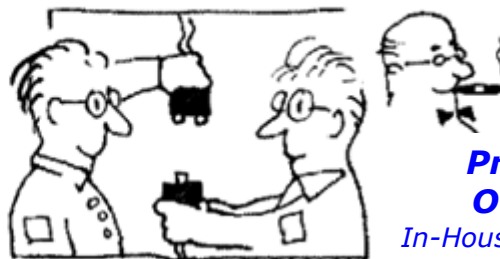
On the other hand, up-front preparation is perhaps the single most critical factor in successful offshore outsourcing. A recent study found the lack of preparation and planning on the part of the client to be the primary reason for the failure of offshore initiatives.

Most of the time MSEs fall into offshore outsourcing because of tactical necessities. A competitor would have introduced a new product that gives him an advantage. The increasing numbers of service businesses that are moving offshore have no choice but to adapt and adjust. Mid-size providers have a lot at risk. How will they meet this challenge? The same way companies always compete—by differentiating, partnering or diversifying among other things. Or when a key member in the IT Department has left the company. During such unexpected cases, many MSEs choose to go with an outsourcing vendor. The potential advantages of global sourcing won't materialize overnight or without work. The most common mistake for MSEs is to look only at the opportunities for cost savings and the heightened activity in the market, and rush into adopting global sourcing practices without truly assessing other considerations.

Choosing Ideal Projects for Outsourcing

Aside from cost considerations, there are 5 things to determine for offshore outsourcing for MSEs

1. What types of functions or projects make good candidates for offshore outsourcing?
2. How big does the project need to be to make significant savings?
3. Is the project well defined?
4. Are the right resources readily available?
5. Is your environment easily learned?



**Projects to
Outsource**
*In-House Vs Outsourced
Enterprises.*

For MSEs not all projects are ideal for outsourcing. Any tasks involving proprietary knowledge, which cannot be safeguarded with agreements, are not suitable for outsourcing. Very technical and complex tasks can also be bad projects, since the amount of communication needed may be so high that the cost advantage is eaten up by having to explain everything. Very small projects may also be unsuitable, since the time to prepare the specification might be more than the cost advantage.

The characteristics of the project will also help MSEs determine if it is a candidate for outsourcing. While there is no "ideal" development project suitable for outsourcing, a project that has one or more of these traits is worth considering.

- Highly specified.
- Ill defined, but feasible.
- Highly innovative.
- Little reliance on functional experts.
- Generic functionality.

Development projects that are appropriate for offshoring

- Custom application development and maintenance
- Enterprise application development and maintenance
- Legacy systems maintenance
- Application and systems testing
- Quality Assurance
- User support and documentation

Source: Five Strategies for Offshore Application Development, LionBridge Technologies

Choosing a Vendor

One of the biggest challenges for mid-sizes Enterprise that want to place IT work offshore is finding a reputable provider. After deciding offshore outsourcing, a business must find the right vendor to support the effort.

There are five criteria's MSEs have to look at before choosing the partner.

1. Does the vendor have good processes?
2. What project support will the vendor provide on-site?
3. What reporting mechanism applies?
4. What sort of exit clause do you have?
5. Should you choose company or country first?

There are many vendors who claim to meet all the pre-requisites to become an offshore partner. But MSEs must follow a comprehensive vendor evaluation process before making the final strategic decision.

Selecting the right vendor is critical to success and may take several months. MSEs should create a selection process, which will include establishing a set of specific criteria to guide their choice. It's not unusual to have 500 hundred or more criteria for vendor selection. Determine what is absolutely essential in meeting goals, *e.g., vendor experience and history, business philosophy, location, security, stable team and leadership, technological capabilities, workforce education and skill levels, workforce language requirements, staff attrition and absentee rates, local infrastructure, price, ethical and systematic management practices, financial health, existing customer base, efficiency and/or effectiveness.* Pay visits and talk with the vendor's customers.

Vendor sourcing is complicated by the fact that there are different vendors for different processes. According to our estimates, there are more than 3,000 offshore vendors in software development alone. Majority of these firms are well equipped, has experienced staff and are highly competent. But the trick lies in finding the right vendor that would suit MSEs business process.

Right Evaluation Criteria's for selecting vendors

As the vendor evaluation becomes very difficult due to the fact that there are similarities among mid-size outsourcing suppliers it is important to specify the right evaluation criteria's.

Criteria for Evaluating Outsourcing Vendors

- **Skills.** Does the vendor have demonstrated application management capabilities and delivery models?
- **Quality.** Does the vendor abide by industry standards like CMMI, Six Sigma and ISO 9001 Quality Management system Certification?
- **Service.** What is the quality of service and reliability in order to meet customer requirements?
- **Financial Stability and Reliability.** Evaluating the vendor's overall business presence.
- **Price.** What are the cost savings? How will price vary with usage if your business grows or contracts? Does the vendor focus on SOA frameworks to bring down implementation costs?
- **Personnel.** Examine the vendor's technical skills, back-up depth, and presence at your facilities.
- **Value.** The vendor's ability to articulate a compelling value justification. How much attention can the vendor's top management team give to the proposed projects?
- **Corporate culture.** Will there be a good fit between the organizations?
- **Global delivery capabilities.** Can the vendor do business where you need to do business? Does the vendor have onshore staff to assist with project management and communication?
- **Security.** What are the vendor's security practices and data privacy safeguards?
- **Flexibility.** How will the vendor support you if you pursue future business acquisitions or divestments? How will the vendor help you as you change in a changing marketplace? What are the cost and service level implications?



**Choosing a
Vendor**
*In-House Vs
Outsourced
Enterprises*

These criteria's are applicable both for larger as well as MSEs. In addition to these MSEs must consider other 2 factors.

1. **Vendor Reputation.** What is the vendor's track record? Evaluate vendor references, industry specific experience, etc. Prospective clients should also evaluate the amount of repeat business given by the vendor to the same client. Repeat business with long term relationships not only indicate the client is satisfied with vendor but also reveals the business value of partnership.
2. **Stability of Vendor's Management Team.** Quality and stability of the supplier's management team are paramount in the selection process for MSEs. These are the people who will maintain continuity of contact between the organizations by assisting in significant problems.

MSEs can gain a strong sense of vendor's stability and reliability over the long run with these additional criteria's.

Making Offshore Outsourcing Work

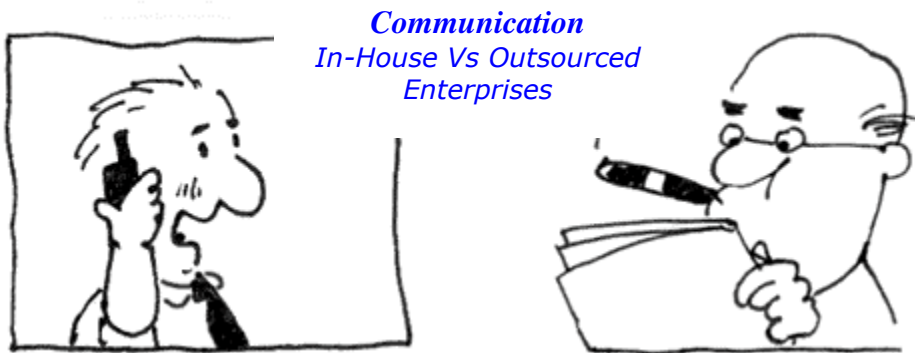
After successfully developed the outsourcing strategy and identified an appropriate vendor and negotiated a contract, a final challenge still remains: making the arrangement work in a way that maximizes business benefits. Key factors include

- Communication
- Be in Control of the Transition Phase
- Maintain the relationship
- The role of project management
- Review and Evaluate the Relationship

Communication

Communication is much more than just language. When dealing with a globally dispersed team, communication becomes rapidly more complex with special challenges

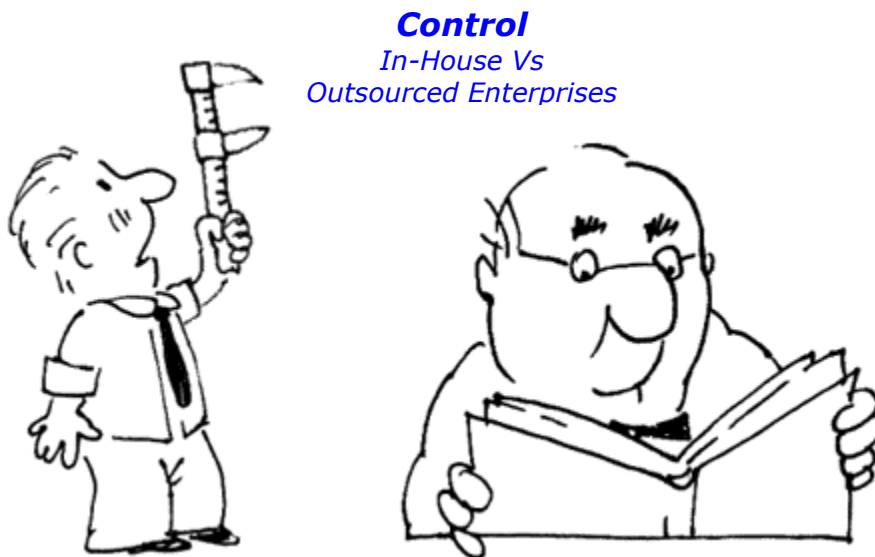
of additional locations, time zones, date lines, and simply distance. All of these factors, if not managed effectively, can quickly result in an inability to communicate the right things to the right people at the right time. It is important to establish effective communications prior to starting an offshore outsourcing project.



It takes time to establish efficient communication, exchange useful information and gain real value from the relationship. Most MSEs fail to realize that the most benefited offshore outsourcing engagements is not one-time events.

Be in Control of the Transition Phase

If the transition is poorly managed, the relationship could be a very difficult one. If there is unnecessary confusion, skewed expectations, and developing mistrust at the beginning, things are only likely to get worse. Often, one of the critical success factors is transferring knowledge and expertise, and developing a common business understanding and language.

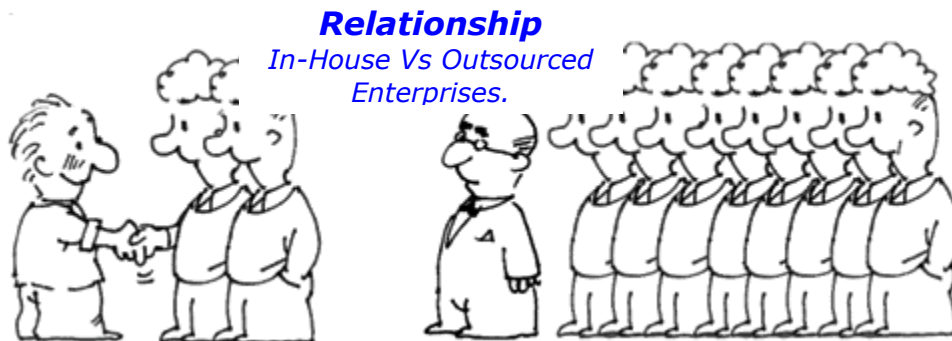


Also, MSEs must make sure that there is clear and comprehensive documentation. If you were outsourcing software development, for example, there would need to be excellent documentation on such issues as file protocols, hardware and software platforms, etc.

Maintain the Relationship

It is the responsibility of the senior management team to ensure that the right people are managing the relationship. It is also vital that pre-planning work outlines the scope of engagement and that everyone is clear on roles, responsibilities and ownership of tasks. When outsourcing becomes a problem, it does not get automatically solved. Instead, outsourced resources must be managed carefully as in-house resources.

From an outsourcing perspective, it's all too easy for organizations to fall into the trap of abdicating responsibility for the project to the vendor and failing to manage the project on an ongoing basis. This results in projects being late due to lack of specification on requirements and acceptance criteria. Regardless of the size of the company, a successful offshore outsourcing engagement requires clients to communicate complete information about goals and requirements. No amount of technical expertise on the part of the vendor can make up for poor requirements definitions or weak communication links.



Neglect is one of the most common causes of failure in alliances. Following the transition, it is vital to ensure that the business and relationship stay on track. On the 'hard' side we need to be asking tough results-oriented questions: Are the desired outcomes being accomplished? What improvements can be made in our integrated processes? Do we have the right metrics in place? On the 'soft side': Do we have the right balance between trust and control in the relationship? Are our co-managers working effectively? Are there areas of training we need to give extra attention to, e.g., virtual teamwork, and working across cultures, etc?

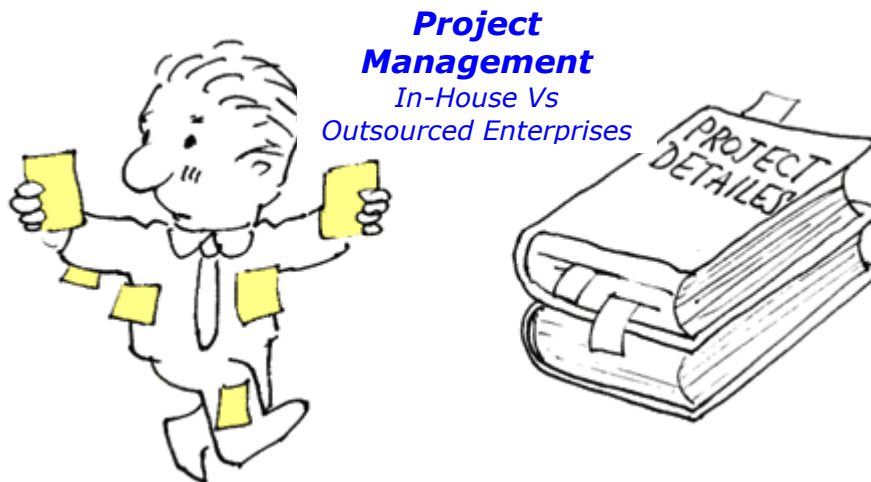
The role of Project Management

The role of project manager is vital in driving the ongoing process flows and communication mechanisms to keep offshored projects on track. In broad terms, project management focus should be applied to:

- Driving best practices
- Comparing planned progress to achieved progress
- Tackling communications problems
- Taking up outstanding issues
- Resolving dependencies
- Reviewing projects in context

Indeed, according research from Forrester Research Inc. (Unlocking the Savings in Offshore, Feb 2003), companies cited the following three reasons are their biggest challenges adopting offshore:

1. My company's lack of project management skills
2. We do not have a good process for specifying the work
3. We do not have the right performance metrics for managing offshore performance



The project manager is pivotal to all three challenges. However, analyst firms identify project management as a key skill sorely lacking inside of organizations, an alarming realization that threatens to endanger the predictability of delivery for offshore projects.

Getting the software delivery process right by implementing the right infrastructure to drive discipline across the application lifecycle provides the project management office

with the visibility and control to manage multidisciplinary teams, project activities, documentation, and communication.

Review and Evaluate the Relationship

Business environments change and factors that were key to a successful business 2 years ago may change this year. As well as regular progress check meetings, it is good to have an annual review meeting among key managers to discuss the relationship at a more strategic level.

Summary

Offshore outsourcing is an increasingly prominent feature of the business landscape. To do offshore outsourcing well requires thoughtful analysis, trust-building, smart management, continuous involvement, and discipline. To do it well over time requires that it become a core management capability in the business. Offshoring has become a mega-trend in the industry, as more customers leverage their partnership to increase global competitiveness. Mid-sized Enterprises face unique challenges in their effort to leverage offshore IT outsourcing. The strategic challenges that MSEs face today is Low awareness of market place, Short time frame to plan, choosing ideal projects for outsourcing and selecting an appropriate vendor. If MSEs want to maximize their opportunities through offshoring, they must approach the task as a long-term investment in skills, processes, tools, and infrastructure. Choose a technology partner that helps set the foundation for a higher level of success and control, raising the bar on the application development process.



About ZSL

ZSL, Inc. is an **ISO 9001** certified provider of Onshore, Offshore & Near shore technology services. We offer substantial cost savings and enhanced performance associated with a secure and effectively managed global development model. For over 10 years, ZSL has been partnering with a loyal following of clients seeking to leverage our proven delivery methodology, as well as 24/7 access to the very best technical resources and development tools available anywhere.

ZSL leverages specialized knowledge in

- Custom Enterprise Application Development
- Enterprise Reporting
- Enterprise Data Management & Administration
- Enterprise Application Integration
- Q/A Testing
- Mobile/Wireless/Web Application Development

ZSL's customer base includes mid- sized Enterprises across a broad range of verticals, as well as respected leaders in Finance & Banking, Insurance, Life Sciences, Telecommunications, Retail, and Manufacturing. ZSL was ranked 318 for the year 2006 in the VAR Business 500 and was recognized among the fastest growing companies.

