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IT OUTSOURCING CHECKLIST:

How to know if you're ready to start a technical partnership

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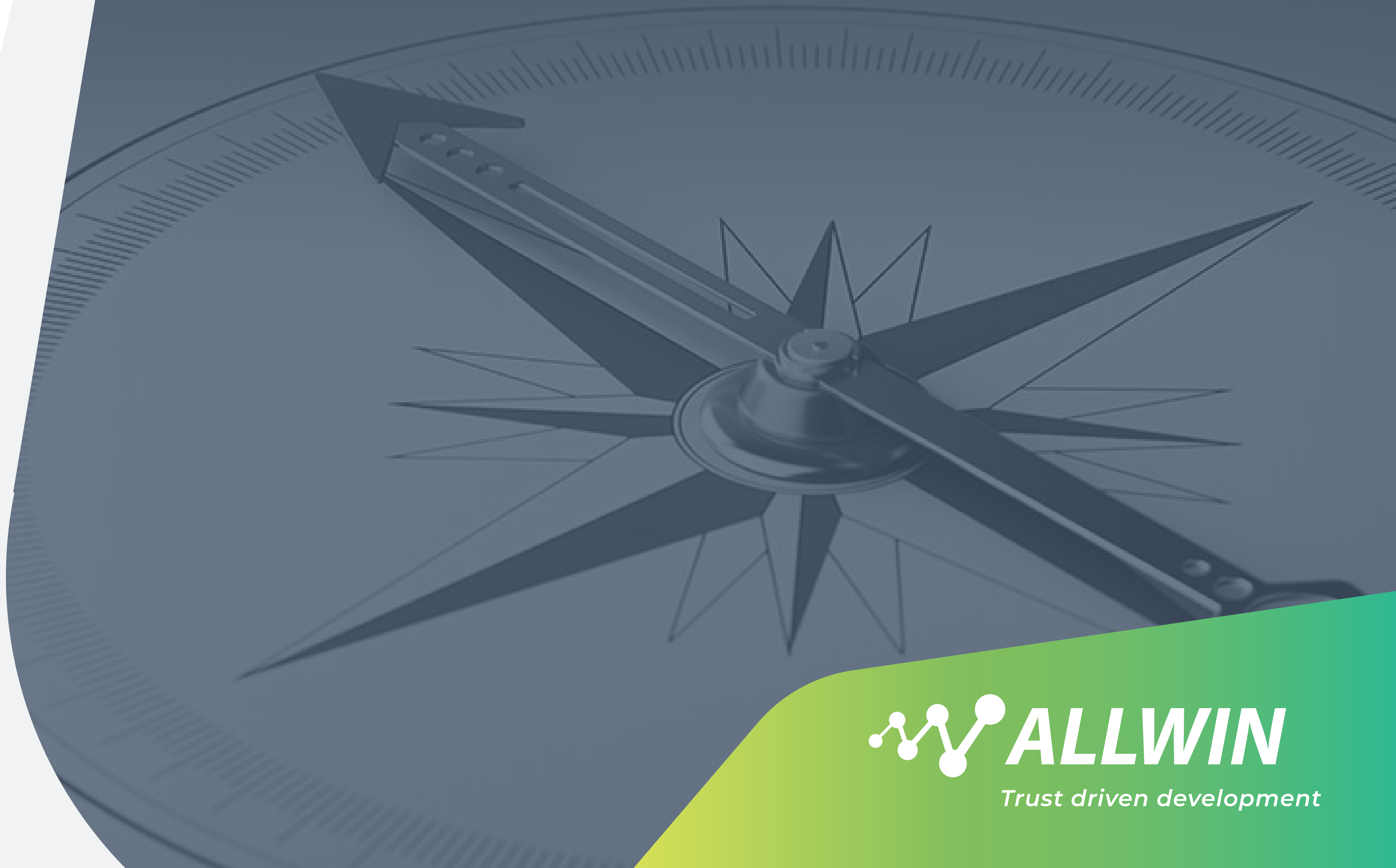

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Introduction

As outsourcing becomes a standard process for global tech companies, there's never been a more critical time to learn how to develop successful and strategic partnerships.

To ensure a smooth process with long-lasting, high-quality services, you need to cover all the basics. You also need to be prepared by making the right contingencies.

To prepare this White Paper, I spoke with several colleagues about their long years of experience in outsourcing partnerships. Most prominently, I learned that readying yourself for the unexpected is crucial.

And let's be honest - the cost of outsourcing is not cheap. Plus, it can be even higher if you disregard the often-overlooked details and costs.

But with the help of a precisely-defined strategy, you can maximize the benefits of any mutually beneficial cooperation.

> *This document highlights that the optimal outsourcing partnership is based on quality, speed and communication.*

Slow service does not only cause considerable frustration, but it also breaks trust. Miscommunication wastes the time of both parties and slows down the process. And unfortunately, in the fear of failure, outsourcers sometimes forget to create a checklist of essential aspects that would make their outsourcing partnership thrive. These include adequate planning, establishing a firm governance process, managing the legal and financial risks and coordinating the transition.

This document will look at the strategies and practical aspects of a successful outsourcing journey. And if you decide to optimize your business through a digital partnership, the following check-list of best practices and critical requirements will go a long way to support you.

Walking you through the 'what could go wrongs' and industry secrets, this paper aims to maximize your knowledge on the outsourcing lifecycle.

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Select a partner

The growth of IT-service outsourcing has been on the rise for a decade. But most service providers are located in foreign countries, thousands of kilometers away. And this physical distance makes it practically impossible to share all the relevant information and guarantees required for a successful outcome.

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Usually, outsourcing companies get in touch with prospects directly or advertise themselves through different channels such as LinkedIn. If you are a CTO, CEO or a chief architect at a company, you're bound to receive plenty of approaches from representatives at software houses offering their services.

Svetlanas, Wojteks, and Vladimirs based in other parts of Europe are particularly problematic, where the East triggers images of the great unknown. Combine this with the many assumptions and myths surrounding the rest of Europe and the situation leads to high levels of distrust from outsourcers.

Another common fear for outsourcers is the potential to receive poor service. And this is usually because companies don't know how to mitigate the risks of a less-than-satisfactory service.

Also, generally speaking, the quality of communication defines the rhythm and dynamic of co-operation, therefore a productive partnership must make use of compatible communication styles.

Finally, resource-limited entities, may only focus on the need to fill their employment gap fast, while forgetting to invest time in understanding the approach of the service provider.

Because of these challenges, outsourcing companies often struggle to determine the best way to select a partner to integrate into their business and working culture. Yet this period of the outsourcing process is critical. At the extreme, a wrong decision can cost tremendous time and effort, not to mention the changed perception of the whole industry. One bad experience could even falsely result in a wave of distrust for a country or an entire region.

While understanding that failure is an inevitable part of any business, preparation and mitigation of any risks are the best ways to ensure you're proactive towards success.

There are many reasons why partnerships fail, the main ones being: poor planning, exceeding project budgets, or a lack of strategic thinking.

So, partner selection should be approached in the right way. And it's for these reasons we've outlined a set of key factors you should consider during any planning phase.

Location

If you decide to approach an Eastern European partner to support your outsourcing needs, you must first give consideration to the most appropriate region. Cultures, working practices and prices differ between each territory, so you might want to filter your selection by your geographical preferences to find the best match.

The post-soviet region has developed fast, and is populated by 95 million inhabitants. And it's this highly educated workforce that enables Western-European businesses to gain access to world-class capabilities of IT service providers. Most outsourcers do not have strict criteria to determine which company they want to work with, but many argue that the brand-new Europe is in the CEE region.

Since it's accession to the European Union in 2004, the region has slowly earned recognition as the leading trade gateway between East and West. And this has enabled opportunities for growth of economic value and business transactions between worlds that were previously unheard of.

With the pandemic changing how we conduct meetings, previous travel restrictions or impositions are no longer a concern. But then again, once in-person meetings become possible, any of the above-mentioned countries are within a 1-2 hour flight from Northern European cities.

Screening

Beyond technological and geographical considerations, it is also important to review the cultural and linguistic aspects of a working partnership, particularly when it comes to communication.

Another downside of outsourcing is the risk of lower service quality; however, companies won't usually ask for more than 3-4 references to assess prior engagements of the vendor in the selection phase.

So, before engaging in any outsourcing agreement or transaction, you need to make sure candidates not only have enough experience, but that they're able to maintain positive relationships with their clients using strong communication.

ALLWIN's experience would suggest only a small percentage of potential vendors can supply ten or more contact references. Therefore, properly screening your prospective partner should be a top priority.

To increase the chances of a successful partnership, you must better-develop your vendor evaluation process. This should include steps such as assessing the financial situation of the competing service providers, data security, pending lawsuits, and the skillsets of the employees. Simply put, a complete set of information is needed on a potential candidate – companies cannot be shy in asking the right questions. So, make sure to ask tough questions, as an inquiry left unknown creates a liability.

This is not to argue, though, that you should be too strict. A company must also uphold flexibility in the process of decision-making. So, make sure to evaluate the different dimensions of flexibility that allow you to view potential vendors from different perspectives. Such aspects of flexibility are robustness, modifiability, and new capability (Chengxun Tan, Siew Kien Sia, 2006).

With this framework, you'll be better-placed to assess how capable a service provider will be in addressing varying levels of demand and change.

Can the new partner make modifications or innovate in response to serious changes or disruptions to employee fluctuation rates, for instance?

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Cultural differences

When an outsourcer decides to share responsibility and build a new partnership with a company from outside their country, it must first conduct research. Outsourcing means that a previously in-house-performed service will get into the hands of another entity. Sharing the same objectives and goals with the outsourcing partner is therefore mandatory, but it's not enough.

A key concern, therefore, will be choosing a partner that has a cultural fit with your objectives. Otherwise, it can lead to severe consequences.

There are many times outsourcers don’t renew their contracts with vendors after experiencing issues, many of which could have been realized during the selection process. Among such factors include language barriers, gender-related issues, religion, business practices, and time differences.

It is essential to assess how culturally-distant a potential vendor is from the outsourcer.

The Power Distance Index of Geert Hofstede, whose work focused on the values and culture of professionals in the IT industry, can offer guidance in understanding a partner of other origins. It mainly illustrates the attitude towards the authority of a potential vendor. Also, it demonstrates from whom the given culture is most likely to accept instructions.

With the pandemic encouraging new ways of working, understanding your partner's corporate culture is now easier thanks to tech-enabled meetings.

Outsourcers can now engage with the top 2-3 candidates over Teams or Slack and at flexible times throughout the day. Connective technology also means speaking more frequently with C-level executives, reviewing the ongoing projects the company is working on, engaging with developers, PMs, and chatting with office managers too.

This approach can help to understand how hierarchical their system is and internal communication styles, as well as their problem-solving approaches. Consider also how a company celebrates successes, their office routines, and any ‘unwritten’ rules such as expectations on working outside of usual hours.

Successful projects depend on the effectiveness of the personnel and their ability to communicate appropriately. At the end of the day, people do business with people. Slight nuances of behavior, which may go unnoticed in phone calls and web conferences, are likely to help the outsourcer predict how the main stakeholders of the collaboration will perform later.

Select the type of outsourcing

Defining your strategy will help to determine the value of your co-operation.

But to enjoy all the benefits of outsourcing, you must be able to make a serious decision: *which type of outsourcing does your business need the most?*

Understanding software development partnerships in theory is just as important as seeing the benefits from a practical, strategic and an economic aspect. And there are three main types of outsourcing theory to choose from, in collaboration with a vendor: tactical, strategic and transformational (*Brown and Wilson, 2005*).

Tactical Outsourcing

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This form of outsourcing focuses on partnership options that reduce costs and raise funds. When addressing one specific, single problem, it is most suitable to employ tactical outsourcing, and an experienced firm is necessary. In addition, if your business is price-sensitive and you need a rapid solution, this form of traditional outsourcing will bring you the most benefits. The advantage of tactical outsourcing are the visible benefits you experience within a relatively short time and the low level of risk the collaboration holds.

Tip: Consider jumping into a tactical outsourcing partnership if you have a smaller project with a short deadline, or if you need an MVP to scale up your team of developers for a few months.

Strategic Outsourcing

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If you're searching for long-term value and shared responsibility, you'll need a different approach. Strategic outsourcing is increasingly common in the digital industry. So if quality is more important than quantity and you strive to work with only a few expert-level software companies, you may prefer this type of partnership.

Strategic outsourcing is often used by businesses that would like to find time for core business activities, in the midst of busy management tasks. In a strategic relationship you share responsibility and risk, which provides real power to your partner. Goals and directions are usually defined commonly; therefore, you need to spend time with your service provider to build up a sense of trust. Trust has a tremendous effect on the quality of joint projects.

Tip: This type of collaboration requires you to pay increased attention to the relationship with your vendor. It also means that the introduction and everyday management may take more time, considering that the outsourcer has to welcome your new colleagues from abroad and familiarize them with internal policies, procedures and processes, and core values.

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Transformational Outsourcing

Transformational outsourcing holds the highest risk but also the top benefits. As a result, it requires a different kind of preparation when forming a partnership.

More emphasis is placed on quality, while the price is less critical for the outsourcer. With the help of this type of agreement, you redefine your business while achieving sustainable competitiveness and visible achievement. Simultaneously, however, it requires a high level of business maturity. Transformational outsourcing brings rapid improvement in performance. It is all about sustainable, long-term change in the whole operating unit of a company.

Tip: Be aware that despite the benefits, you may encounter conflicting business goals with your outsourcing partner.

At ALLWIN, most our collaborations are based on strategic outsourcing.

Conventional Outsourcing	Transformational Outsourcing
OBJECTIVE	
Hand off noncore function to specialist provider to cut costs and focus managers on core issues.	Transform the operating model through partnering to achieve rapid, radical enterprise-level performance improvement.
PARTNER ROLE	
Run support function	Collaborate to transform business
APPROACH	
▪ Standardized services ▪ Transaction-based, fee-for-service pricing ▪ Narrow scale and scope of services	▪ Integrated services to radically change business ▪ Outcome-based, risk-share financial structure ▪ Accelerated delivery
TYPICAL BENEFITS	
INPUTS	
▪ 20%-50% cost savings ▪ Access to best practises ▪ Improved career opportunities ▪ Improved management focus	▪ 50% cost savings ▪ Access to critical skills ▪ Improved career opportunities ▪ Improved management focus
OUTPUTS	
▪ Same consistent service level ▪ Shared financial risk	▪ Higher consistent service level ▪ Improved flexibility, speed ▪ Shared strategic risk
OUTCOMES	
	▪ 50% market share increase ▪ Revenue doubled ▪ Basis of competition changed

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Select a pricing structure

Since most outsourcing strategies focus on creating business value by reducing costs, pricing plays a crucial role in achieving the desired benefits. So, before launching the first project, both parties must be clear on which price rates and payment conditions they'll use during the collaboration. From a client perspective, it is also essential that the total cost of service is adequately estimated. The key to pricing models is transparency. Therefore, an excellent service provider will enable the customer to see behind the cost drivers and help them identify and understand the numbers behind the services.

For outsourcing services, there are two most common pricing models: time and material and project-based. Both have benefits and values, while obviously, they hold disadvantages and limitations. Pricing types, though, may vary depending on the fraction of your software development partnership.

Time and Materials Model

In general, the most flexible approach is Time and Material; simply put, it is based on the actual hours worked. If the outsourcer doesn't have a proper estimation in advance and some details are missing from a long-term project, they mostly apply the T&M model. It is exceptionally safe and scalable, considering you only pay for the hours spent on development by a pre-defined and commonly agreed hourly rate. However, one of the most significant risks of this type of collaboration is transparency; both parties need to create a set of rules and define delivery dates as well as work in a transparent reporting system.

For instance, this type of practice helps to prevent misunderstandings regarding worked hours at the end of the month.

Nevertheless, at the onboarding phase of T&M cooperation, mostly, the fixed pricing model is used. At this period, you pay by the pre-defined milestones. Once the last pillar of the startup phase is completed, the vendor is eligible for your payment. In this scenario, the outsourcer holds relatively low financial risk, while from the service provider's side, there is a considerable amount of liability.

The other advantage of this model is that resources are ratable by educational level, experience and skillset. Typically, they are clustered in junior, mid-level, senior, architect and MVP groups. In most cases, there is no added value from the service provider in the T&M cooperation. However, there are some top companies, including ALLWIN, that not only include highly skilled developers but give access to business analysts, project managers and design professionals as well.

Fixed Priced Model

With this model, the outsourcer has a well-defined scope of tasks recorded as detailed lists of requirements with a specified time frame. In this scenario, the fix priced model allows the client to pay the amount which was previously agreed with the vendor. This model is good for businesses that prefer predictability. In a fixed-priced partnership focused on mitigating financial risks, the service provider always adds overhead to make sure any incoming issues are directed to the client's expenses.

If you require a whole team that is only focused on your project, then you might choose a dedicated team. If so, these developers have to become real members of your crew, even though a dedicated project manager mostly supervises them. You also have to decide if you are going to agree on an hourly billing rate or if you pay a daily fee for your remote colleagues.

Define shareholders and set up project governance

From the moment you chose the partner you'd like to work with, you have to consider who will be the stakeholders of the day-to-day collaboration; this is called project governance.

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Roles and responsibilities of colleagues must be formally and precisely-defined, and you should follow a disciplined approach when creating a well-functioning system of the information-flow. The success of the partnership mostly depends on effective leadership and identifying key shareholders, and thus their roles within the outsourcing partnership are essential.

The transaction of the process is rather complex, and with every well-planned step, the outsourcer mitigates risk and ensures they can easily control any upcoming issues.

Who is involved in the team?

Project manager, sales representative, developers, a lead architect, tester, administration manager, and product owner. Alignment must be created between the actors of the collaboration and clear boundaries set in regards to each person's duty.

Who would translate business initiatives into projects?

Who manages business initiative projects?

If the developer runs out of tasks, who should he turn to for more?

It is also important to define the tasks at the beginning of every sprint and complete them smoothly. Both parties need to mutually agree on principles on a strategic, functional, and operational level to create a strong and long-lasting partnership.

Communicate. Seriously.

At the very beginning of any collaboration, you must consider which communication channels you intend to use during everyday work.

However, no communication channel can substitute straightforwardness and assertiveness.

Communicating with precision will help both you and your outsourcing partner to collaborate better. Besides the legal framework, it's the key to both party's success. Vendors cannot read minds - sharing information is crucial to ensure they understand the outsourcer's needs.

To run daily interactions smoothly, parties must find the central platform in which developers can talk to each other - team chat apps are great tools to stay in touch during the day.

Plus, responsibility is a critical issue in all aspects of the partnership. When it comes to being in contact with the outsourcer's customer, one must also decide how closely you allow them to communicate with the remote team.

> *What happens if one of the developers receive a requirement through e-mail?*

> *How should that be handled?*

> *Is he authorized to respond, or should he forward it to the project manager?*

> *Will your customer know that you are working with an outsourcing partner?*

A remote team has to be fully instructed/ briefed and informed on the communication strategy within the project.

It is not enough to give the tasks to the remote colleagues, they also have to understand the big picture.

Furthermore, while having daily meeting sometimes may feel unnecessary, there is value in maintaining correspondence; even if it seems like there is nothing to share at the end of the day, stick with that pre-scheduled 15 minutes.

Oftentimes, issues arise that you may not have noticed before. Lack of communication and miscommunication throughout the outsourcing process will impact both parties at all levels.

Shared knowledge between the vendor and the outsourcer is key to a productive partnership.

A defined framework is essential to ensure an adequate flow of information. As most of the time, the outsourcer decides to work with a vendor outside of their country of origin. In this case, technical communication efforts are particularly important. Being able to share complex technical information requires a deep level of knowledge. This can be overcome, though, using tech-assisted meeting platforms or instant messaging software.

To provide an example, when an outsourcer starts working with its new vendor, it can be challenging to think of them as part of its team. However, the highest quality of work and collaboration can only be expected if newcomers are fully involved. It's a handy and commonly applied practice that at the beginning of a project, the developers from the vendor's side visit the office of the outsourcer for a few weeks to get familiar with their developer colleagues. During the pandemic, however, this is easily overcome using shared communication platforms.

And besides the technical part, the relationship they build will play a crucial role in later communication and in handling the challenges during the development of the product.

Tip: Create key milestones that describe how the communication will flow throughout the processes between the stakeholders

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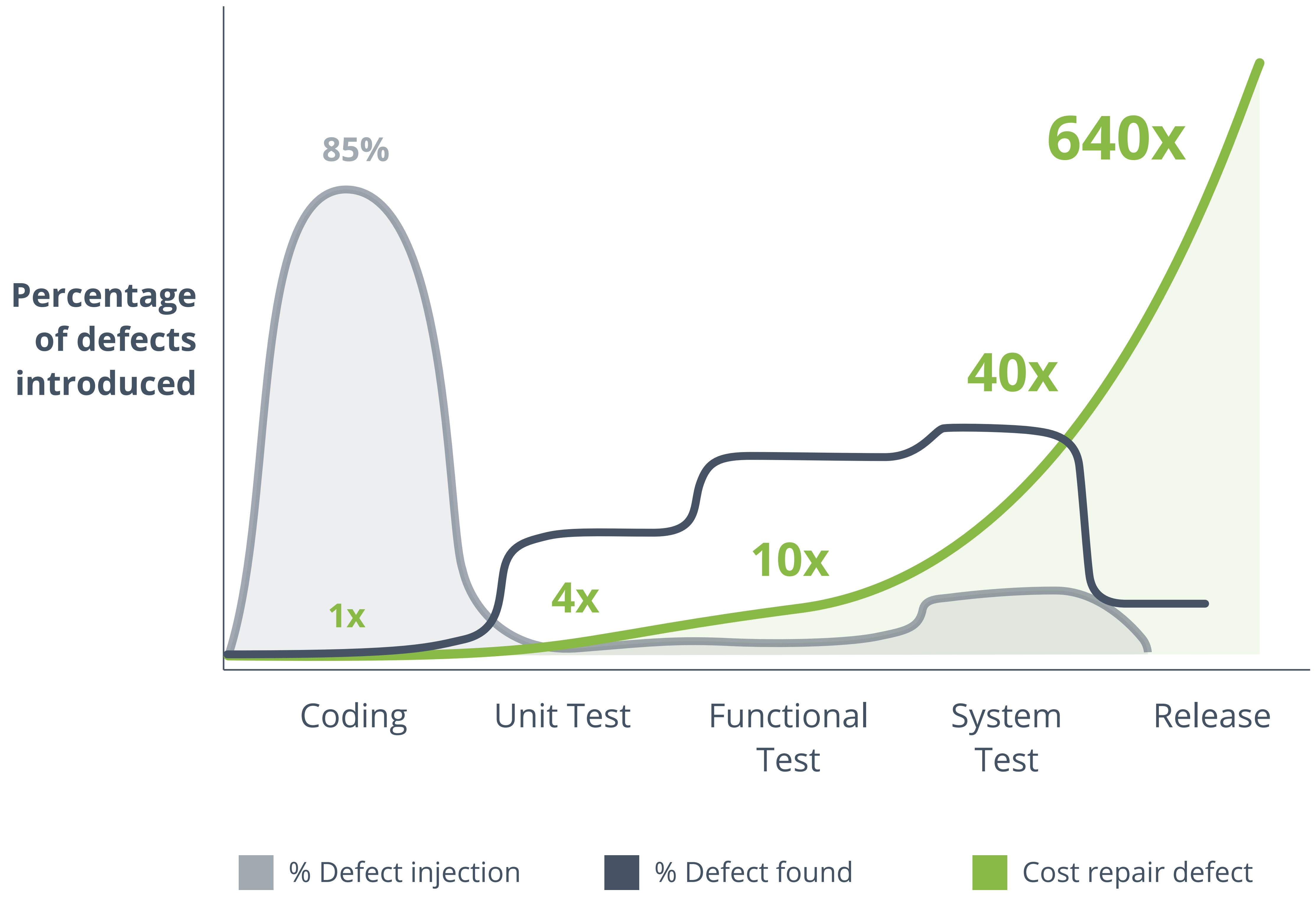
Align code standards

Code quality and transfer processes are just as critical to the process as communication and planning.

Bad codes can bring a project to its knees and differing code standards could negatively affect a partnership and make the product vulnerable. Therefore, the outsourcer needs to share its code standards with the new partner fully, which is in both party’s interests.

The quality of the product depends on the accuracy of the coding styles adhered to. Companies often underestimate the need for complete transferring of the domain knowledge, but the software quality must be impeccable. It ensures that the product is stable and competitive.

The code is what defines the degree of a software company's professional excellence. When choosing an outsourcing partner, it is essential to make sure that they are top-of-the-class.



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Test strategy includes:

scope, documentation formats, test processes, test environment, risk analysis team reporting structure, client communication strategy

Track the hours your remote colleagues spent on development. Jira is like a close friend to a developer. Using only one platform will make the administrative work easier and it keeps the workflow transparent. Do you require your remote team members to learn a new technology during the project? Make sure that there is a ticket for it on the board.

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Conclusion

Managing outsourcing partnerships is a complex process.

You'll need to consider plenty of aspects and address them from the start, as this will help to inform your contracts and agreed delivery commitments. In the IT sector, our activities are defined by numbers and rules. And successful business outcomes depend on accuracy.

However, there is also the aspect of managing people whose work and shared responsibility must be correctly synchronized.

Contracts and rules won't substitute the level of trust needed between the outsourcer and the vendor. Openness and transparency in all stakeholders are indispensable for the co-operation to become an ongoing success.

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Want to find out more about working with ALLWIN as a trusted software development partner?

Contact us now: info@allwin.hu

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