



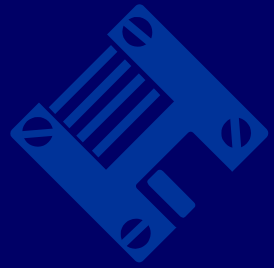
Lessons Learned in Software Project Outsourcing

© 2000-2005 Construx Software Builders, Inc.
All Rights Reserved.

www.construx.com

Construx

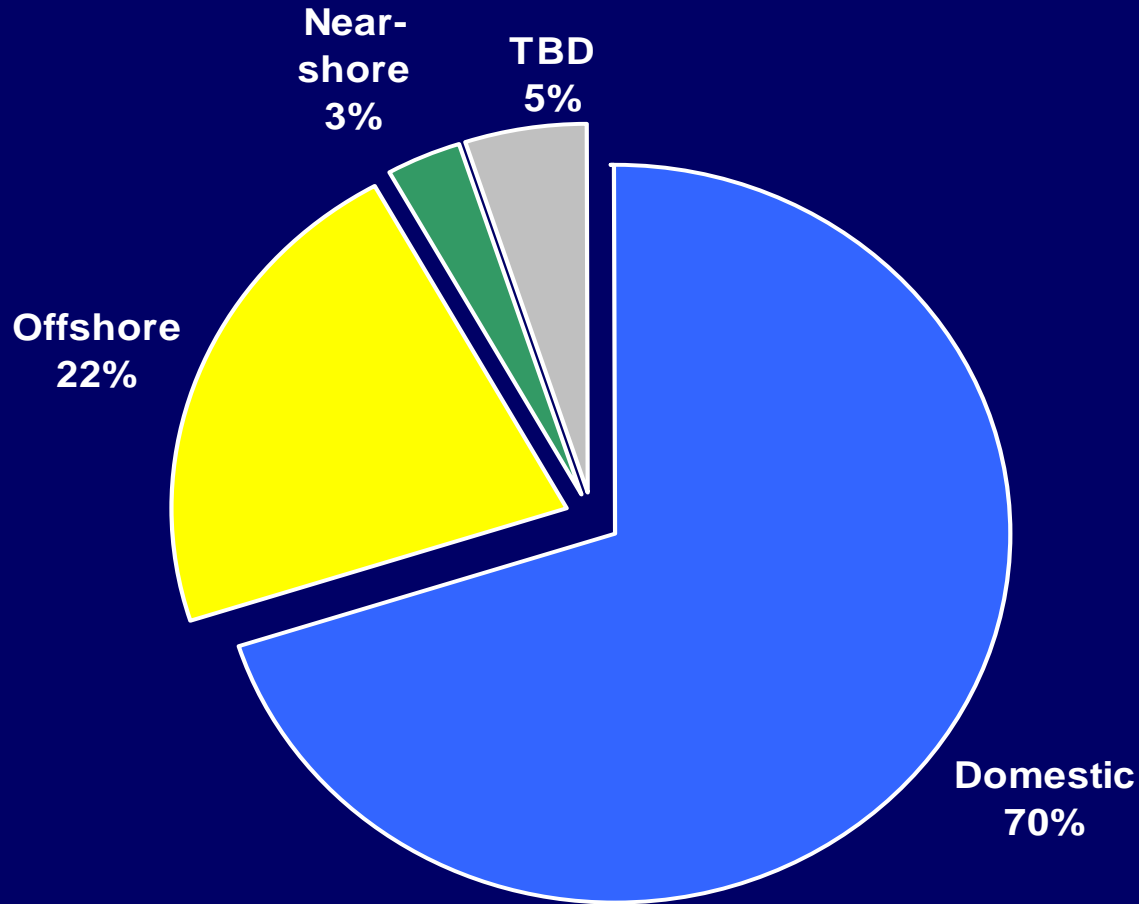
Delivering Software Project Success



“Outsourcing”

- ❖ **Outsourcing can mean a lot of different things**
 - ◆ Specific projects (e..g, “Widget 1.0” project)
 - ◆ Specific functional areas (e.g., call centers, human resources, data processing, payroll)
- ❖ **In 2001, 28% of global IT budgets was spent on outsourcing**
- ❖ **Target has been 43% by 2005**
 - ◆ 1999 projection was 70% by 2005
- ❖ **We have learned a lot about outsourcing since 2001**

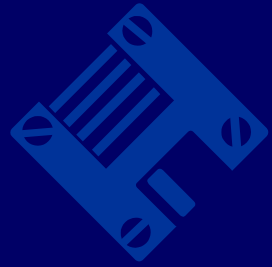
Where are Companies Outsourcing?



Source: 2004 *Enterprise Systems* survey

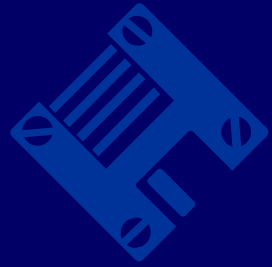


Reasons to Outsource



Reasons to Outsource

- ❖ **Improve company focus**
- ❖ **Free internal resources for other purposes**
- ❖ **Achieve development schedules not possible with internal staff**
- ❖ **Reduce and control operating costs**
- ❖ **Scale up for a specific project without increasing permanent staff**
- ❖ **Avoid historic internal problems with software development**

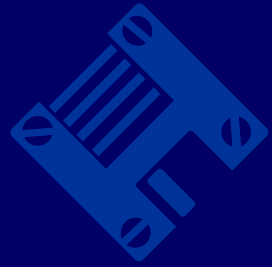


Reasons to Outsource

- ❖ **Gain access to world-class capabilities**
- ❖ **Leverage vendor's specialized project management or process expertise**
- ❖ **Leverage vendor's specialized vertical-market expertise (e.g., in CRM systems, inventory management systems, etc.)**
- ❖ **Make use of vendor's expertise in desired technologies**
- ❖ **Share project risk with another company**

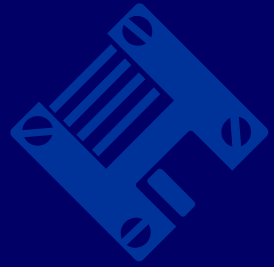


Reasons to Not Outsource



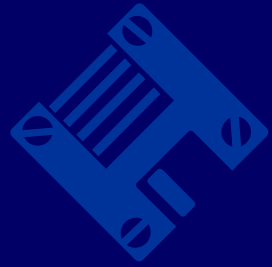
Reasons to Not Outsource

- ❖ **Loss of control**
- ❖ **Reduction in inhouse knowledge/expertise**
- ❖ **Intellectual property loss/compromised confidentiality**
- ❖ **Higher visible costs**
- ❖ **Hidden costs**
- ❖ **Cost differential is waning**
- ❖ **Loss of governance ability**
- ❖ **Vendor staff turnover**
- ❖ **Risk of vendor underperformance**
- ❖ **Internal employee issues (morale)**



Outsourcing Lesson #1

- ❖ **The separate development branch**



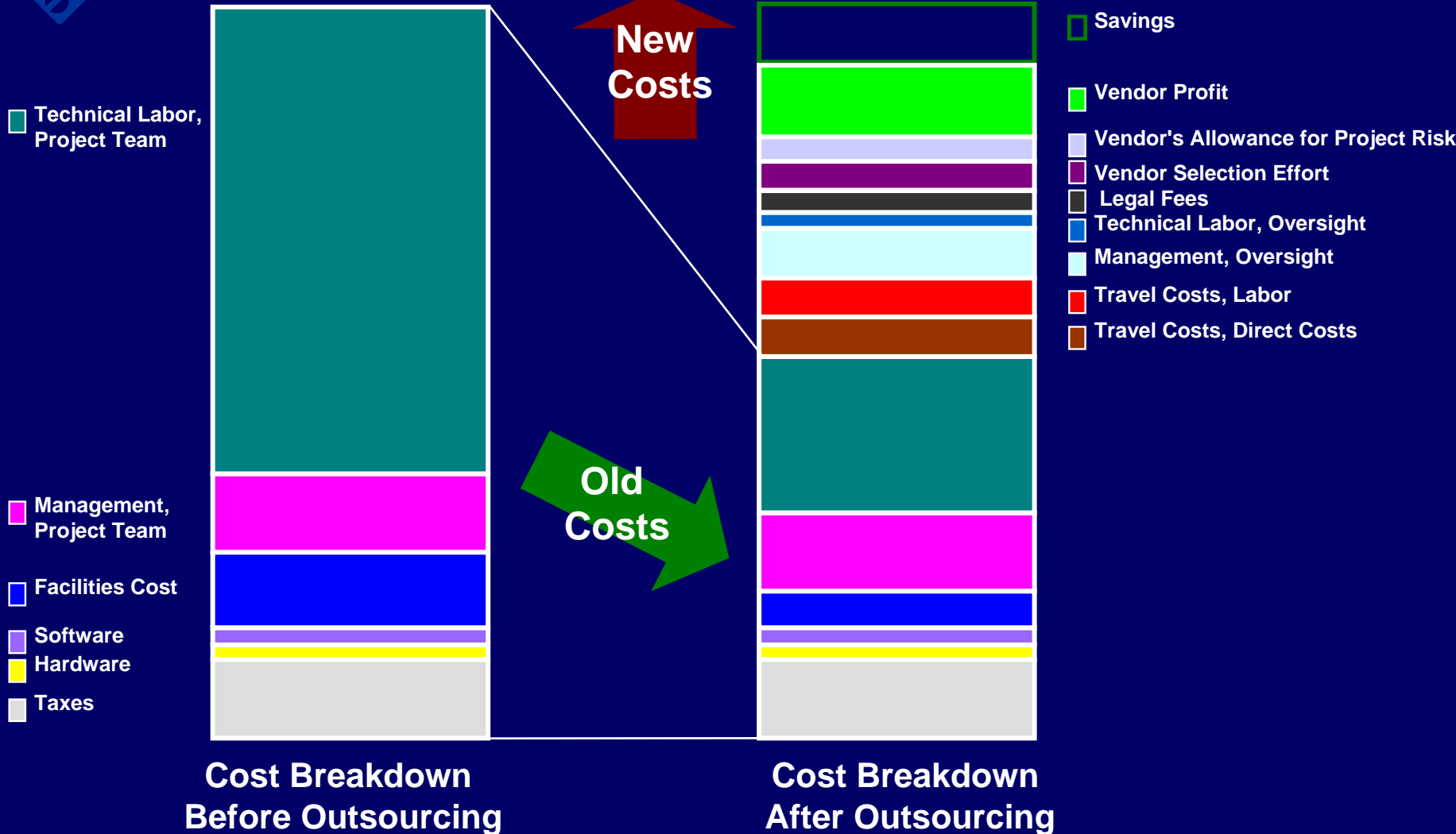
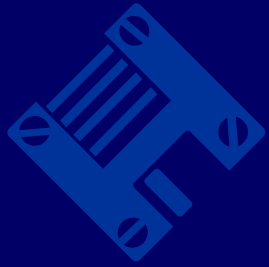
Bad Reason to Outsource

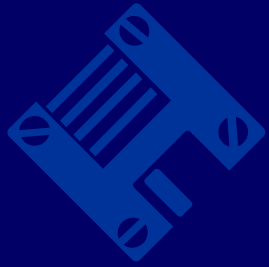
Reduced cost is a bad reason to outsource

- ❖ **70% of respondents said cost savings was a key driver for outsourcing**
- ❖ **Industry is concluding that outsourcing primarily to save money is a losing strategy**

Source: Deloitte

Outsourcing TCO— Factors to Consider



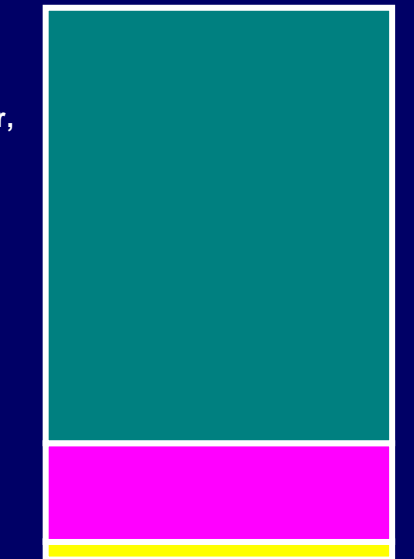


Outsourcing TCO— *Effort* Amounts

■ Technical Labor,
Project Team

■ Management,
Project Team

■ Governance

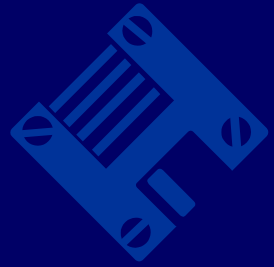


**Effort Breakdown
Before Outsourcing**

- Technical Oversight
- Management Oversight
- Travel Time
- Vendor Selection Effort
- Extra technical effort due to misunderstood business requirements

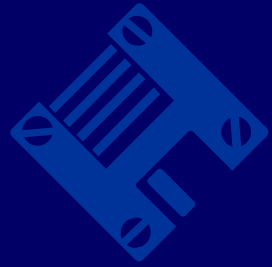


**Effort Breakdown
After Outsourcing**



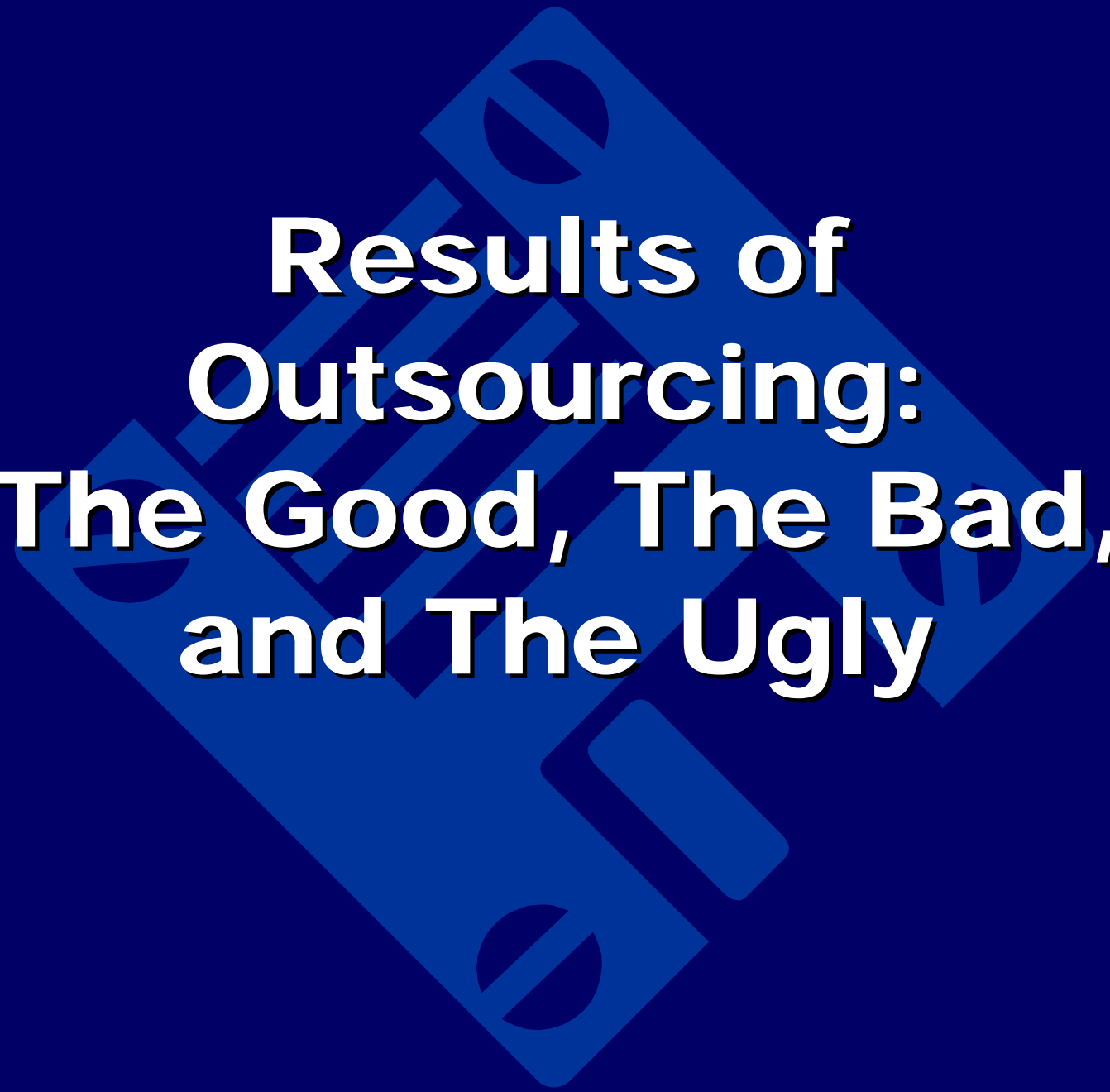
Outsourcing Lesson #2

- ❖ **Outsourcing in a Fortune 100 company**

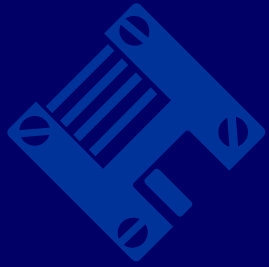


Commentary from Deloitte 2005

- ❖ **“Organizations looking for differentiated growth solutions should avoid outsourcing when based solely on cost savings.... In the near future, with structural risks that cannot be fully mitigated, uncertain cost savings, and a multitude of components to manage (people, process, and knowledge), outsourcing will likely lose luster for large organizations.”**



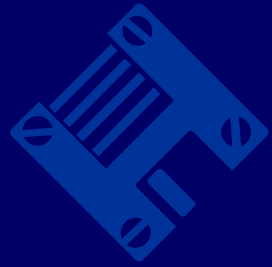
Results of
Outsourcing:
The Good, The Bad,
and The Ugly



Benefits

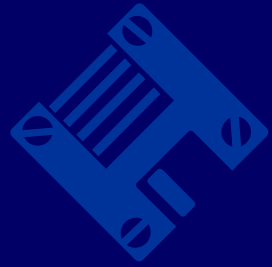
❖ Better Use of Staff

- ◆ Can hire an outsource company faster than recruiting permanent staff or waiting for them to become available
- ◆ Less commitment than adding permanent staff
- ◆ Can offload a project onto an outsource vendor to give overworked in-house staff a break
- ◆ Requires less management time (though not less expertise)



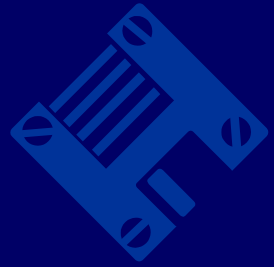
Benefits

- ❖ **Reduced Technical Risk**
 - ◆ **Can leverage vendor's expertise in specialized technologies**
 - ◆ **Can avoid risk of having your staff foray into unfamiliar technology areas**
 - ◆ **Avoid training your staff on technology that may not be relevant in 6-18 months**



Benefits

- ❖ **Increased Business Value**
 - ◆ **Gain access to high-performance, intact teams and accelerate development schedules**
 - ◆ **Reduce or control operating costs**
 - ◆ **Leverage vendor's specialized project management expertise**
 - ◆ **Can avoid defocusing your developers on projects outside your company's core competency areas**
 - ◆ **Share project risk with a vendor company**

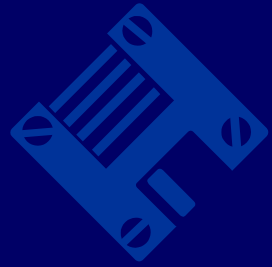


Outsourcing Lesson #3

- ❖ **Outsourcing development of a vertical market software product**

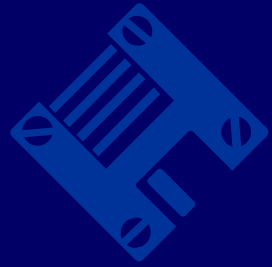


Risks of Outsourcing



How Much Risk Does Outsourcing Involve?

- ❖ **In 2003, 78% of companies that outsourced pulled at least one project back**



Outsourcing Goals vs. Results

	Percent Important	Percent Satisfied
Business Drivers		
Focus on Core Business Competencies	80	58
Align IT Strategy and Business Goals	69	27
Build World Class Processes	63	30
IT Drivers		
Improve Service Levels	84	53
Enhance IT Effectiveness	77	45
Supplement IT Staff/Resources	77	53
Shorten Implementation Time	69	31
Gain Technical Expertise and Knowledge	67	44

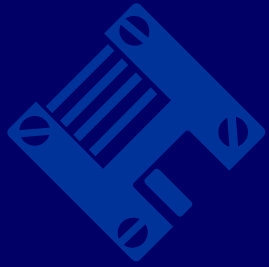
Source: Gartner Group



Most Common Sources of Cancellations and Overruns

1. Ill-defined or changing requirements
2. Poor project planning/management
3. Uncontrolled quality problems
4. Unrealistic expectations/inaccurate estimates
5. Naive adoption of new technology

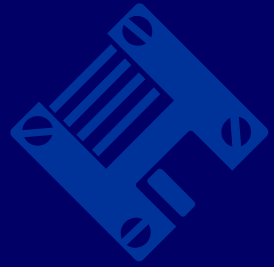
***All these sources of failure
are exacerbated by outsourcing!***



Most Frequent Problems

Problem	Caused by	
	Seller	Buyer
1. Lack of experience with outsourcing arrangements	19%	60%
2. Lack of understanding of your business	59%	10%
3. Lack of risk management	59%	8%
4. Lack of responsiveness	45%	8%
5. Staff experience	42%	26%

Source: Adapted from *Intelligent IT Outsourcing*

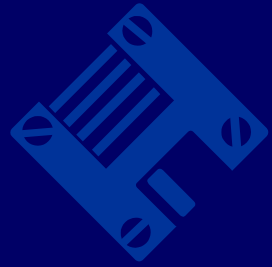


Outsourcing Lesson #4

❖ Switching from RUP to XP



A Successful Approach to Outsourcing

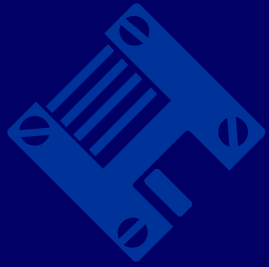


Elements of a Successful Approach

1. Preparation
2. Vendor Selection
3. Contract Structure
4. Performance



Preparation



RFP

- ❖ **A good RFP lays the groundwork for success**
- ❖ **A bad RFP makes success much more difficult**



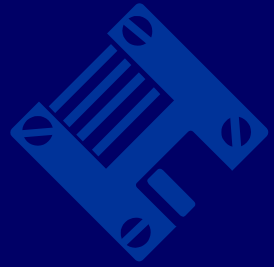
RFP

Typically includes the following content:

- ❖ **Requirements**
- ❖ **Operational concept**
- ❖ **Statement of work (engineering, QA, and management tasks)**
- ❖ **Work breakdown structure**
- ❖ **Required documentation/deliverables**
- ❖ **Schedule (including major milestones)**
- ❖ **Cost estimate**
- ❖ **Evaluation criteria**
- ❖ **Proposal preparation guidelines**

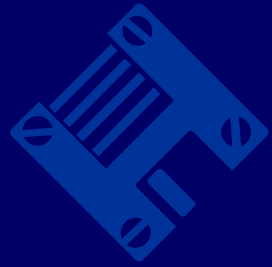


Vendor Selection



Proposal Evaluation

- ❖ **Criteria should be defined in advance**
- ❖ **Criteria should be as objective as possible**
- ❖ **Criteria should include the full set of relevant factors--technical ability, understanding of business domain, management ability, depth of staff, organizational maturity, etc.**



Outsourcing Lesson #5

- ❖ Indian “CMMI Level 5” company



Alternative Approach: Use of Trusted Vendor(s)

- ❖ **The RFP and proposal evaluation process can be time consuming and expensive**
- ❖ **Developing a relationship with one or more trusted vendors can reduce the client's overhead and accelerate development schedules**



Contract Structure



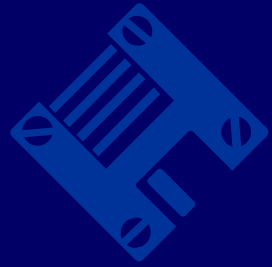
Aligning Interest Through Payment Structure

- ❖ **This is done through pricing structure, and there are lots of options**
 - ◆ **Firm fixed price**
 - ◆ **Time and materials**
 - ◆ **Cost + fixed profit**
 - ◆ **Build to cost**
 - ◆ **Two-phase acquisition**
 - ◆ *And many others...*



Friction Arises from Unfair & Primitive Allocation of Risk

- ❖ **Time and Materials--allocates all risk to client (incidence of “friction” is about 50%)**
- ❖ **Fixed Price--allocates all risk to vendor (incidence of “friction” is about 65%)**
- ❖ **Incidence of litigation is higher with fixed price than with T&M**

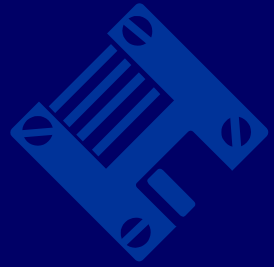


Risk Allocation (cont.)

- ❖ **Fairer options are available**
 - ◆ **Two-phase fixed price**
 - ◆ **Cost plus fixed profit**
 - ◆ **Cost plus incentive payments**
 - ◆ **Fixed price per function point**
 - ◆ **Build to cost**
 - ◆ **Etc.**
- ❖ **Fairest contract structure depends on technical characteristics of the project**

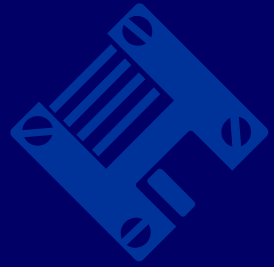


Performance



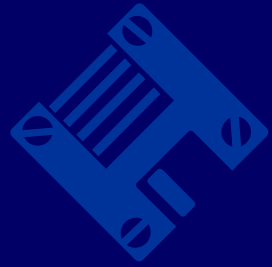
Typical Problems

- ❖ **Administrative overload**
- ❖ **Creeping functionality**
- ❖ **Missing tracking indicators**
- ❖ **Poor responsiveness**



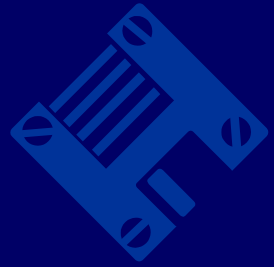
Active Management is Key

- ❖ **Even if you outsource, you must still manage the project**
- ❖ **Outsourcing means less work, not no work**



Key Capabilities

- ❖ **The buyer side must retain key capabilities to track, accept, and integrate the product**
 - ◆ **Governance**
 - ◆ **Systems thinking**
 - ◆ **Relationship building**
 - ◆ **Architecture planning**
 - ◆ **Integration**
 - ◆ **Facilitation**
 - ◆ **Monitoring**

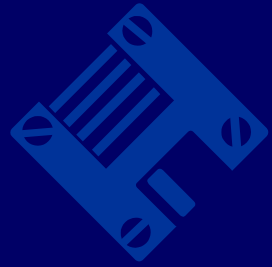


Outsourcing Lesson #6

- ❖ **Outsourcing by project management consulting firm**



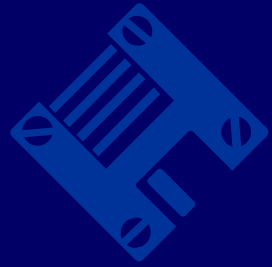
Summary



Summary

Outsourcing saves you time and effort:

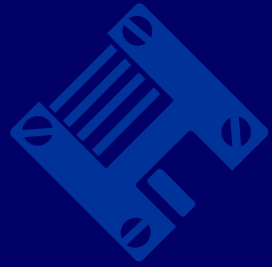
- ❖ **No design work**
- ❖ **No coding and debugging**
- ❖ **No system testing**
- ❖ **No detailed project management**



Summary

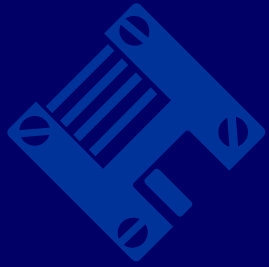
Outsourcing doesn't save you:

- ❖ **Requirements development**
- ❖ **Requirements change control**
- ❖ **Top-level project management**
- ❖ **Top-level project tracking**
- ❖ **Acceptance testing**



Summary

- ❖ **There are good reasons to outsource; cost savings is not one of them**
- ❖ **Problems arising from poor requirements become worse with outsourcing**
- ❖ **Problems arising from poor management can become worse with outsourcing**
- ❖ **Loss of core competence is a more common issue than companies think**
- ❖ **Consider all alternatives before deciding to outsource**



Construx

Delivering Software Project Success

- ❖ **Training**
- ❖ **Coaching & Consulting**
- ❖ **Software Projects**

sales@construx.com

www.construx.com

+1 (425) 636-0100