



Insider Strategy on Outsourcing Analyze Costs and Benefits

Your Results.
Our Commitment.



1. What costs should be included in the analysis?

When planning for offshore outsourcing venture, client should consider costs for vendor governance and project management (i.e.: schedule, scope, cost, quality, risk management), offshore staff, communication (e.g.: IP phone, web conference, travel and accommodation, visa sponsoring), and materials (i.e.: infrastructure and development environment, software, hardware, COTS). Usually offshore staff cost is inclusive with facility, healthcare, social security tax, training, activity, bonus, HR and management overhead.

When the outsourced tasks or processes form an entity with internal synergies, the management overhead effort and cost are reduced. Though there should be no cruising in the outsourcing venture, you and your team can find it much pleasant to manage the venture at this point.

2. What can the company benefit from offshore outsourcing?

Companies expect many benefits from offshore outsourcing:

- ▶ Staff saving on a ratio of 1:5. A US engineer often costs 5 times as much as an offshore engineer with similar technical experience. (Yes, the US engineer has better business operation experience than the offshore one because of the location and language advantage.)
- ▶ Ability to open an offshore subsidiary with minimal risk and effort. If your vision is to establish an offshore subsidiary to utilize full advantage of the low cost labor, the Build-Operate-Transfer (BOT) outsourcing model is for you. The outsourcing vendor will establish and manage the offshore organization and completely transfer the organization to you as a legal subsidiary or entity after a specified period (1 or 2 years).
- ▶ Ability to focus resources and energy on core competencies and/or more marketable functions. An independent software vendor (ISV) knows the customers best and can focus in-house energy on business analysis and design while outsourcing the software implementation and testing functions. A financial service company can outsource the IT department's work to take advantage of world-class IT expertise, improve IT service levels, and stay focused on the company's main business.
- ▶ Access to world-class IT expertise. A large attorney firm with an in-house IT department can leverage the IT expertise from outsourcing vendors to create exceptional applications that enhance productivity of the attorneys and the firm. A department store, a car rental fleet, a marketing agency and many more can all benefit from reputable IT vendors.
- ▶ Ability to offer around the clock development or support. An application service provider (ASP,) who monitors and updates systems 24/7, finds it easier to hire and retain offshore staff for North American night shifts. An independent software vendor (ISV,) who needs to respond to clients' inquiries about software issues, can have in-house and offshore team work around the clock to provide timely responses.

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- ▶ Ability to expedite time to market and quality at reasonable costs. This can benefit your new idea, initiative, or start-up. Starting is always tough with a long "to do" list and many constraints such as capital. Offshore outsourcing can make this possible. You can also add more quality assurance resources and capabilities. Remember that you can have 3-5 offshore test engineers for the cost of 1 in the US.
- ▶ Flexibility in implementation of on-demand management and service delivery disciplines. IT service demand in your company is up and down. It becomes expensive to level staff while the work load is low. In this case, offshore outsourcing gives you the most flexibility because offshore outsourcing exit strategy is almost effortless.
- ▶ Predictable cost on transactional tasks. You are an independent software vendor with a product to support. For each hotfix or service patch released, you need to regression test the entire system. The offshore team can take this work as a fixed price project to perform manual or automation tests on your entire application.

3. What are the best functions to outsource and why?

- ▶ **Software Test:** Software testing could be the best choice for your first offshore outsourcing venture since testing is important but does not require as much coordination. Quality testing requires well-written and accurate test cases, which should be in place anyway no matter whether you outsource or perform the tests in-house. Repeatable tasks and processes are what project managers should lead the team toward in order to reduce errors, improve schedule, and prevent rework. While rigorous tests like system acceptance test, regression test, performance test, and stress test are good for offshore outsourcing, small tests like unit test, smoke test, silk test, and web services test could be done in-house prior to handing off to the offshore team for running a complete test set. For enterprise system, it's common to take months to complete thousands of test cases. One independent software vendor reduces regression-test time for its enterprise product from 2 months to 1 week by outsourcing the work to the offshore team whose size is 3 times as large. The offshore team records the test scenarios and performs automation test for the entire suite every time a small or large patch is release. If you don't have the test cases yet, you may know what to do next - create the test cases.
- ▶ **Operation and Maintenance:** This is another low risk area that you can outsource. O&M work provides resolution to customer incident support request and implements hotfix or service patch for the system in maintenance mode. You still have your in-house team support and manage the operation during office hours. Your offshore team will help while you sleep. Make sure you keep training materials and continually create training opportunities for subject matter experts (SME) to share functional and architectural knowledge to the offshore team. SMEs are often developers who developed the system. If the development work was done by the offshore team, make sure you also have SMEs in-house. You have got to control the eggs in your basket.

- ▶ **Software Re-engineering:** Companies with many legacy applications often need them to be enhanced, redesigned, or re-engineered to better serve new business operation. With the legacy system in place, client and vendor can have a better idea of the scope of the re-engineering effort. An offshore team can also understand how the system used to work and what are expected in the new system. However, extensive collaboration is required here. Unreasonable performance enhancement expectation, cutting-edge technology selection, or scope creep are 3 major factors that lead to re-engineering failure.
- ▶ **Custom Application Development:** Similar to the re-engineering effort, you must know what you want and collaborate with your vendor to confirm that the design, screen captures, and implementation meet your requirements. Start small, be more agile, test often, and you will be well on your way to finding the synergy with your vendor. Once that relationship flourishes, you can plan for more opportunities with the vendor.
- ▶ **Database Administration:** Database often requires 24/7 performance monitor. Maintenance down time must not be during usage or office hours. Nightly cron jobs or scripts must be executed at night. Besides specific update scripts to the database, the tasks are often easy to define. All of these make perfect sense to outsource the work to an experienced offshore vendor.
- ▶ **Database Performance Analysis:** The biggest challenge many enterprise systems must address is to meet the performance standards. Addressing this challenge is one of the key factors for the success or failure of the project or even the company itself. To mitigate the risk of committing valuable resources to the development of an architecture or product that is sub-optimal or has inadequate performance characteristics, companies now model the data and infrastructure to simulate the real world environment. Given the performance dimensions (i.e. functions, business usage, max, min parameters, and etc.), vendor team can create data, simulate the scenario, perform performance and stress tests, and analyze the results.



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