



Insider Strategy on Outsourcing - Identify Risks and Risks Management Strategies

Your Results.
Our Commitment.



1. What are the cost risks?

While you save much on staffing and time to market, there are additional costs associated with offshore outsourcing. The 5:1 ratio saving on staffing is not the actual saving you get from the offshore outsourcing venture. Without careful considering all costs associated with the venture, you risk cost overrun. Additional costs include vendor governance, travel, training, rising wage, lower productivity of the offshore engineers compared to in-house ones*, longer learning curve due to remote location, and etc. You can mitigate the cost risk by better plan, share the risk by adding incentive and penalty clauses to the contract, or transfer the risk by choosing Fixed Price model.

** There is a risk that offshore employees are not as productive as in-house engineers due to the lack of business domain and its impact on the ability to make decision. But that is not always the case. Many times clients recognize and appreciate offshore engineers' in-depth skills, creativity, passion and ability to learn and adopt fast.*



2. What are the schedule risks?

Schedule risks could have root causes from both vendor and/or client. A vendor may decide to matrix the team working on your project to a higher priority project. Or vendor may under-estimate the project scope due to inexperience in the client's business operation, compliance, and documentation requirement. Discuss with your vendor to make sure other works won't impact your planned schedule. Or ask for a dedicated team for your venture. Select the Agile or Iterative development model to help manage and deliver the product iteratively within a small time window. Clients themselves may also cause the schedule slippage. Incompetent project management including client's delay in providing requirement, signing off screen designs, or collecting feedback on beta program is a high risk. Some clients also pressure vendors to perform gold-plating by adding/sliding more features to the project at last minutes. To mitigate this risk, make sure your project management team is competent, well trained and have enough bandwidth. Encourage management staff to become Certified Project Management Professional (PMP), Certified Outsourcing Administrator (COA), and Certified Chief Resource Official (CRO).

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3. What are the staffing risks?

Opportunity comes and goes quickly. Sometimes you need to ramp up staff and complete a new project as soon as possible. But staffing up quickly is another challenge in the globally hot market with its shortage of IT professionals. Work with vendors that have a large network of partners. At least one partner will have on-the-bench staffs awaiting allocation. Other tactics include offering sign-on bonus (of which \$1K - 2K is fair and \$5K is considered lucrative for offshore employees), and creating staff retention incentive for the staff and the vendor. Retain staff, retain your knowledge. Do not let your domain knowledge bleed way. Choose vendors that take well care of employees, have programs to foster employee personal and professional growth, and possess values aligned with your company's values.

4. What are the technical risks?

Unless you try to outsource the development of your bleeding-edge enterprise systems or support hundred of gigabytes of data and thousands of users, technical risk is minimal. Offshore vendors with entities in North America often stay away from work that they are not capable of. They can't afford failure and loss associated with it. There are a few ways to minimize this risk. Test try pilot and prototype program. Interview offshore employees to make sure you select the best fit. And ensure vendor's training program for offshore staff.

5. What are the business risks?

Companies face business risks that can lead to intellectual property(IP) leakage, market dominance loss (due to prolonged time to market,) transition to new vendor, or reorganization of in-house team (when the outsourcing venture goes sour). First, IP is a lifeblood of your company and your software ideas should be guarded carefully by choosing trust-worthy vendor specifying conditions and consequences for violation. Plan to audit all security procedures and data security measures. Make sure your vendor informs you of any subcontract agreements, requires employees and contractors to sign IP protection terms equivalent with the conditions and consequences specified in your contract. Good vendors also establish high professional ethic value and constantly train and caution employees in this matter. Second, manage cost, scope, and schedule risks to ensure schedule achieved as planned. Finally, always set expectation and have contingency plan and exit strategy for your soft landing in case the venture is not a success.



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