

Quality:

A Key To Offshore IT Outsource Success.

Seminar with the Ottawa Software
Quality Association

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Table of Contents

1. Offshore outsourcing: The compulsion
2. But it's not quite Nirvana
3. Management framework basics
4. Quality considerations in the lifecycle
5. Some mitigation strategies
6. Summary

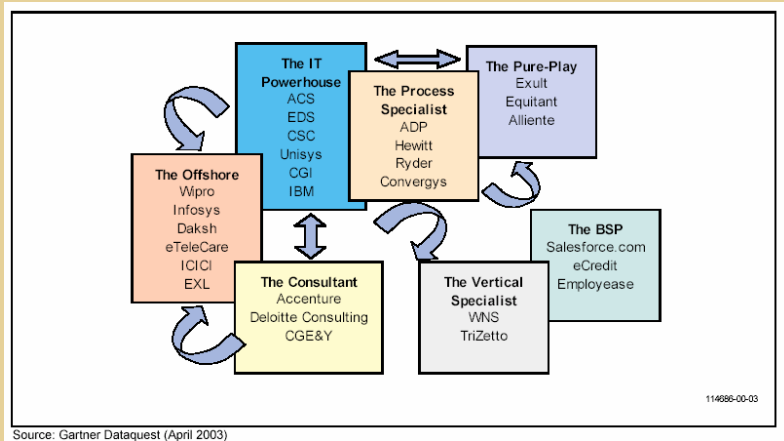
Offshore Outsourcing: The Compulsion

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Offshoring is a business reality!

- **Gartner quote: “Make no mistake: The changes associated with IT offshore outsourcing and global service delivery are potent, far-reaching and irreversible. They will seep into IS organizations at different paces and in different ways, and they will alter how IS organizations do business, and how IS professionals define themselves.”**
- **IDC research: Offshore spending of US technology services market to rise 10 per cent to \$16.3 billion, in 2003. IDC expects offshore spending to more than quadruple to \$46 billion by 2007.**

The Market Is Active



Who is doing it?

- **Gartner: Ultimately, offshore services will have a direct impact on most industries, although some vertical markets may be slow to embrace this trend. CIOs and IT decision makers should use case studies in other industries for benchmarking and learning tools. Organizations in leading edge — as well as trailing edge — industries can provide a rich foundation for developing best practices, and to forecast the short-term and midterm impact of offshore services.**



Why are they doing it?

Cost for **quality**

Access to resources
& capabilities

Freeing capital &
management focus

Transformation

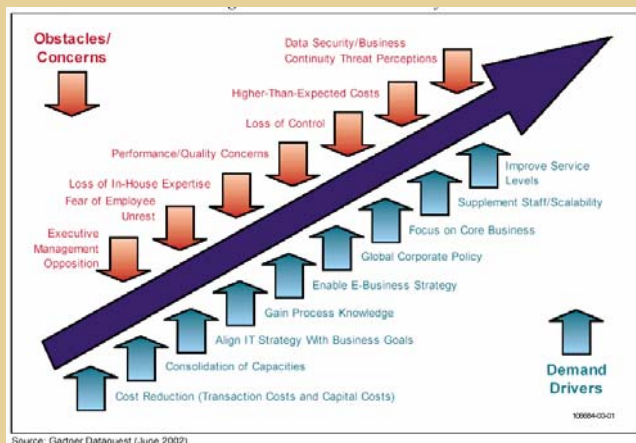
International Perspective: Canada & India -Side by side

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| <ul style="list-style-type: none">▪ Status: Inshore Americas Leader▪ Geopolitical Risk: Low.▪ English: Good.▪ Cultural Fit: Good.▪ Skilled Labour Costs: \$26-30 p.a.▪ Workforce: 16 million.▪ Government support: Good.▪ Service Providers: CGI, Fujitsu, EDS, ABS, Keane Canada, IBM March Networks...▪ Clients: Allmerica, Fireman's Fund Insurance, and Toyota...▪ Outsource locale: Halifax, Montreal, Toronto and Vancouver.▪ Specialisms: Application management and development, e-business and contact centres. <p>Advantages</p> <ul style="list-style-type: none">▪ Reasonable quality and safe options for in-shoring from the US as part of wider BCP/DR; and▪ Acceptable time zone differences. <p>Disadvantages</p> <ul style="list-style-type: none">▪ Price in comparison with other offshore locations but cheaper than US. | <ul style="list-style-type: none">▪ Status: Global Offshore Leader▪ Geopolitical Risk: Medium.▪ English: Good.▪ Cultural Fit:▪ Skilled Labour Costs: \$5-8 p.a.▪ Workforce: 440 million.▪ Government support: Very Good.▪ Service Providers: TCS, Infosys Technologies, Wipro Technologies, RMSI and HCL and global outsourcing /IT services companies...▪ Clients: Numerous – a quarter of the Fortune 1000 offshore▪ Outsource locale: Bangalore, Chennai, Delhi, Hyderabad and Mumbai.▪ Specialisms: Application management and development, e-business, packaged software implementation, contact centres. Other niche service areas such as Geographical Information Systems (GIS). <p>Advantages</p> <ul style="list-style-type: none">▪ Best all-round offshore location of choice at present on quality & cost;▪ Large English-speaking labour force; and▪ Government active on supportive policies and legislation. <p>Disadvantages</p> <ul style="list-style-type: none">▪ India will be challenged to keep its dominant position over time. |
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But it is not quite Nirvana

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Current Obstacles and Demand Drivers



Hidden Costs of Outsourcing

Hidden Costs of Offshore Outsourcing

Cost of Outsourcing	Incremental Cost
Procurement (5-year agreement)	1–2%
Vendor governance	5 – 7%
Offshore Costs	
Travel	2 – 3%
Turnover	1 – 2%
Communication	1 – 3%
Efficiency	0 – 20%
Process Changes	0 – 10%
Cultural Differences	2 – 5%
Possible Cost Inhibitors	12% – 52%

Quality
plays
a role

Source: Meta Group

Some Unique Factors Of Going Offshore

- Distance
- Time zone
- Culture
- Language
- Legal systems
- Resource depth
- Security
- Holidays
- Geopolitical risk?
- Government support for BPO, and overall industry development
- Social, economic and political stability
- Susceptibility to natural hazards
- Quality of infrastructure across power, air connectivity and telco
- Expat constraints
- Knowledge transfer constraints

Problem Examples: Legacy Apps Overruns

▪ Situation

- Large scale heavy industry client. \$200M 10 year contract.
- Second year of a "water-tight" agreement
- Legacy application overhaul over runs by 100%

▪ Root Cause

- Client:
 - Previous poor quality legacy development
 - Poor program & quality management
- Vendor
 - Insufficient technical due diligence
 - They bought the job

▪ Recovery

- Re architect selected components of program
- Re-negotiate

Problem Examples: Development Disaster

▪ Situation

- Financial Services client \$30Million offshore app. development program.
- Six month delay on mission-critical, market timing sensitive application

▪ Root Cause

- Client:
 - Poor quality requirements.
 - Assumption that SEI level 5 means product meets business needs.
- Contractor
 - Program managers naivety on entry to contract.
- Both: Fixed price contract for full program

▪ Recovery

- Reestablished requirements set
- Re-plan and renegotiate.

Problem Examples: Broken Spiral

▪ Situation

- Oil & gas Industry client \$25 offshore application development.
- 25% Cost, 50% schedule overruns

▪ Root Cause

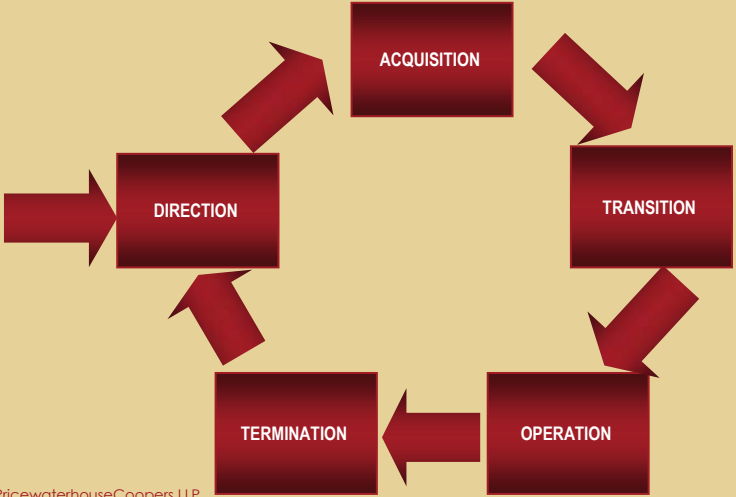
- Client:
 - First venture into outsource
 - Poor Program & Quality Management Vendor
- Contractor
 - Limited resource depth for quality staff
 - Poor provisions for travel in contract ... hence little on-site involvement
- Both: Using highly interactive development methodology

▪ Recovery

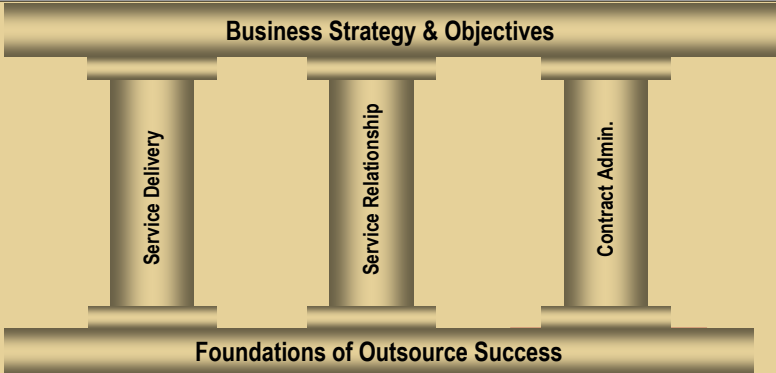
- More contractors staff on client's site
- More clients staff on contractor's site.

Management Framework Basics

Outsourcing Contracts Life Cycle



Outsource Pillars

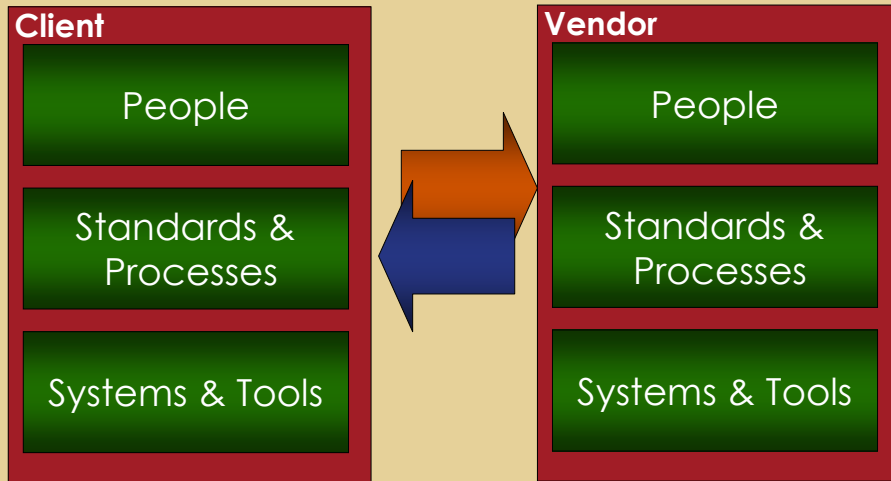


Ensures that the service is being delivered as agreed, to the required level of performance and quality.

Keeps the relationship between the two parties open and constructive, aiming to resolve or ease tensions and identify problems early.

Handles the execution and adherence to the terms of the contract and changes to the contract documentation.

Quality Is Also A Two Way Street



PricewaterhouseCoopers LLP

19

Quality
considerations
during the lifecycle

Quality During Direction

The quality of the architecture of the existing businesses processes and systems drives:

- Business Case
- Ability to carve-out.
- Appeal to the vendor market.
- Cost of initiation.



Assess your readiness
Informed courage

Quality During Acquisition

■ You may well get what you ask for:

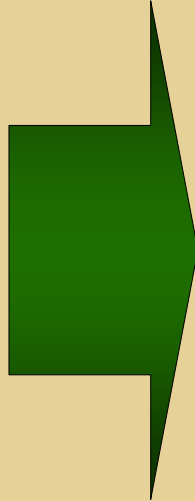
- Service Levels.
- Architecture and interfaces.
- Application requirements definition.
- Policies, standards, quality requirements.
- Contract management provisions



Build for all
future phases

Quality During Transition

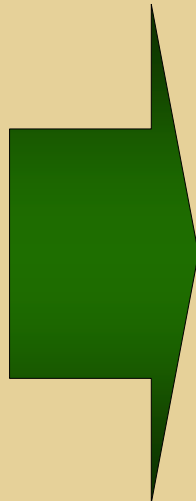
- **Planning**
- **First design phase**
- **End-to-end contract administration**
- **Managing the bumps**
 - ODIFs
 - ODYFs
- **Discipline**



Focus on Program Management

Quality During Operation

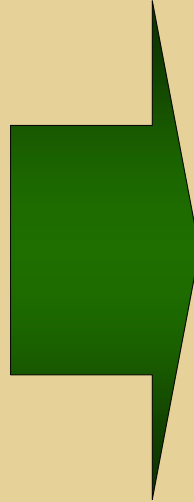
- **Quality Control.**
- **Quality Assurance.**
- **Expect integration defects.**
- **Expect a “Program Refresh”.**



Maintain controlled flexibility & discipline

Quality During Termination

- Quality may drive termination
- Quality may also limit ability to terminate



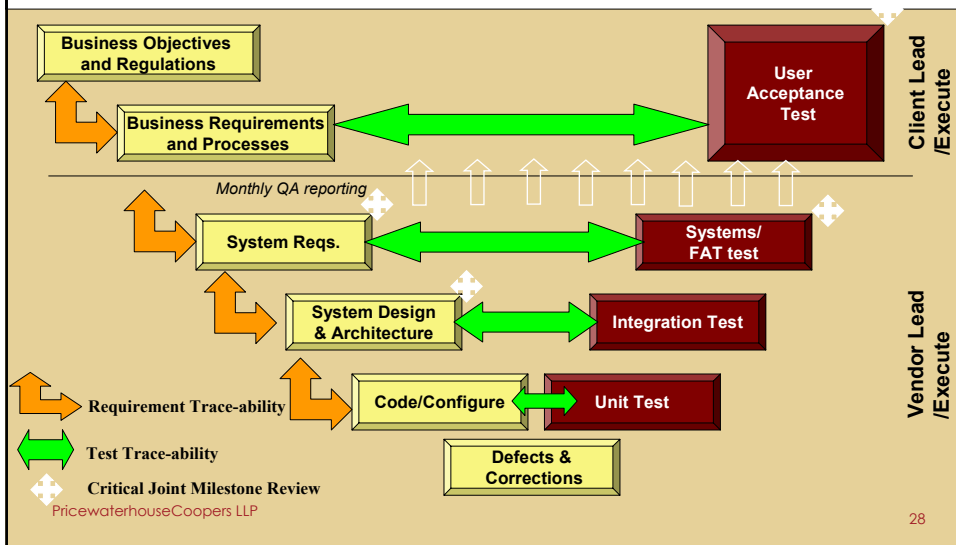
Evaluate options well
before termination

Some Mitigation Strategies

Clients

- Carefully evaluate readiness, options and chose direction before getting into the program.
- Build a comprehensive yet cost effective management framework.
- Ensure it contains Quality Management on both sides of the equation.
- Manage, assess and improve quality throughout lifecycle.
- Work with government to manage the impact and prepare for the future.

Clients & Vendors Back to the waterfall?



Vendors

- **Assess and position appropriately in market niches.**
- **Manage market through alliance and acquisitions where viable.**
- **Address the quality gap based on market demand.**
- **Work with government to manage the impact and prepare for the future.**

Summary

Quality is a key to meeting outsourcing objectives and this is particularly true in the offshore scenario.

Quality is an imperative for both the vendor and the client and must be managed so that both sides' objectives are met.

It is therefore imperative to have both an effective management framework and to manage quality throughout the outsource lifecycle.

Furthermore, the risks and impact of offshore outsourcing will be far reaching for Canada. Comprehensive strategies are required to manage these issues going forward.