

How to outsource software development and win

Introduction

Outsourcing is the use of another entity to perform a specific function in a business. The desired end result is increased productivity. The economic rationale for outsourcing is derived from the thinking of Adam Smith and his discourses on the specialisation of labour; there are gains in efficiency if tasks are modularised and performed by a specialist.

According to CIO Insight magazine (December 2003), 70% of companies outsource some of their IT function. Interestingly, for the 90% of Fortune 500 companies that outsource parts of their business, the average cost saving is estimated at 15%. By contrast, the average cost saving for outsourcing an IT function is only 6%. (Financial Review, June 2004).

This disparity is partly due to the still maturing IT sector. However, it should be noted that 55% of CIOs say the primary motivation for outsourcing is a lack of internal resources. These statistics suggest that some businesses are being driven to outsourcing and not necessarily choosing it as part of their corporate strategy.

There are winners and losers in the outsourcing game. The benefits and disadvantages depend on the project, the companies involved and the management strategies put in place. There are companies entirely satisfied with their outsourcing partners and there are others reeling from huge cost overruns and non-performing software.

So how do you harness the potential offered by outsourcing? How do you ensure that you outsource in the right way, and for the right reasons?

The benefits of outsourcing software development

Outsourcing allows you to decrease your TCO and increase your ROI because you can capitalise on access to specialised skills, broad experience, and simplified budgeting. And while your project is under way, you're free to get on with your core business.

Skillset

The ability to draw on the resources of an established development team means there is no need to recruit – and retain – staff. This alone can significantly cut the “ramp up” time of a project. When skills are in demand, keeping a team of disparate contractors intact for the life of a project presents something of a challenge in itself.

Experience

A good software service supplier will have sound project management skills and a comprehensive knowledge of development life-cycles. They'll also be fully conversant with the relevant methodologies. Their specialisation ensures a broader base of experience and therefore a greater awareness of the pitfalls. This increases the likelihood of a successful project. Most software projects fail through poor planning and management. This is a major consideration with large projects or those that must be delivered in a short timeframe.

Focus on Your Core Business

The principal company does not need to commit resources in an area it does not have expertise. Consequently it can concentrate on its core business functions.

Simplified Budgeting

Budgeting is simplified as project costs are agreed in advance. The structure imposed by outsourcing reduces the likelihood of a poorly defined and seemingly endless development project with budget overruns.

Pitfalls to look out for

Outsourcing is not without its shortcomings. Make sure you consider the following possible pitfalls when negotiating a contract with your provider. A quality outsourcing company will be only too happy to help you implement processes to mitigate these risks.

Security

Security is a grave concern. Any relationship with a supplier requires sharing knowledge of the business. There may be intellectual property that needs to remain secure.

Quality

Any new business relationship is dependent on the skills and the professionalism of the companies involved. There is no guarantee that the service provider will meet the necessary standards or even be able to deliver.

Knowledge Transfer

Outsourcing any function ultimately means a loss of in-house knowledge. To some extent this is a potential loss of control that could weaken a business.

Over-reliance

Opening a business to an outsider can introduce vulnerability. Businesses can find themselves unwittingly tied to one supplier because the cost of swapping to an alternative is too great. At the outset of the relationship the potential cost of swapping and the leverage the supplier may gain is not always immediately evident.

How to reap the benefits of outsourcing

Research of outsourcing relationships has shown that there are ways to mitigate the shortcomings and greatly increase the likelihood of success.

Know your provider

A company should diligently research the abilities of the service provider, checking their performance on previous projects, assessing the quality and ability of their staff and reviewing their processes, standards and methodologies. It is highly beneficial if the provider has experience developing software in the required field.

Mutually beneficial

The company should create a symbiotic relationship with the provider as a healthy partnership is beneficial to both parties.

Detailed agreement

It is essential to ensure that all parties' expectations are clearly understood. To promote a sound relationship a framework should be developed. The framework should address service level agreements, documentation of the agreed practices, the management of contracts, the management of the relationship & the control of performance. It should also detail processes for issue resolution and the transfer of assets & knowledge. Prior to any work commencing all contractual arrangements should be in place. These should also provide for the areas of warranty periods, intellectual property, non disclosure, incentives and penalties.

Pilot project

If practical, it is advisable to start small with a pilot project and allow trust to develop between the two businesses. A mature service provider is interested in the principal's long term business and the principal is interested in the provider's long term availability.

Stay in control

It is necessary not to lose control of the process. The relationship requires continual work from both sides. The company must maintain a strong management role in the project. To aid the management, the project should be well structured with well defined scope and deliverables.

Conclusion

Managed wisely, outsourcing will reduce costs and improve productivity. If you're aware of your situation, know what you wish to achieve, and develop a partnership with a professional supplier, the benefits are there for the taking.