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Outsource It!

A No-Holds-Barred Look at the Good, the Bad,
and the Ugly of Offshoring Tech Projects

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Selecting a Country: Sample Walkthrough Exercise

Let's see how we can make this information work to choose a country for our outsourcing project. First, create a table of selection criteria ([Figure 4, Country comparison example, on page 6](#)). Next, identify the weight factors. The weight you assign to each criteria is unique to your organization and possibly even to a specific engagement. For example, a time zone difference would have a much higher weight if you were running an agile project compared to a waterfall project. Keep in mind that weight factors can also change over time.

Now sort the table ([Figure 5, Country comparison example sorted by weighted total, on page 6](#)) by weighted totals. Note how the rural United States popped up to the top of the list due to its rating in heavily weighted categories.

For example, I performed a country analysis for a midsize software development company in Washington, DC. The company was looking for a partner to do substantial, continuing customizations of its SaaS product. The scope of each customization project would keep a midsize team of Java developers and QA engineers busy for roughly three months.

Many members of the company's engineering team were from eastern Europe. They had a great level of tolerance for weak English skills and a poor operating environment, as well as a bias toward doing business with companies in eastern Europe. Our analysis of nine countries produced interesting results, with Poland, Russia, and Hungary bubbling to the top. The winning country? Russia, with a company that had its offices in Novosibirsk. (See [Figure 6, Eastern Europe country comparison example 1, sorted by weighted total, on page 6](#))

In another case shortly thereafter, I ran a similar analysis for a company in Germany that was planning to outsource some of its ASP.NET development. The results in that case were notably different ([Figure 7, Eastern Europe country comparison example 2, sorted by weighted total, on page 7](#)). The process of vendor selection took some time. As we came back repeatedly to the destination evaluation spreadsheet, we saw changes in preference as the weights and ratings changed. Eventually the company picked a large vendor that had offices in several eastern European countries, including Hungary.

Choosing a single destination is not a mandatory step. However, even narrowing your preferences to a few countries before lining up your prospective outsourcing partners is very helpful.

Country	Infrastructure	Operating Environment	Access to Skills	Cultural Compatibility	English Skills	Rates	Resource Turnover	Political Climate	Time Zone	Total	Weighted Total
Weight	8	8	10	5	6	7	8	4	4		
Argentina	5	5	6	8	6	4	6	6	6	52	340
Brazil	6	6	5	7	4	4	6	8	8	54	345
Canada	10	10	4	10	10	2	6	10	10	72	452
Chile	7	7	4	6	2	7	8	6	10	57	371
Costa Rica	6	6	4	7	4	6	8	4	8	53	349
Mexico	7	7	5	8	6	5	8	6	10	62	401
Peru	3	4	6	6	4	6	10	4	9	52	344
Uruguay	4	4	4	6	4	6	10	6	9	53	340
USA (Rural)	10	10	5	10	10	3	7	10	10	75	477

Rating Key: 2=Poor, 4=Fair, 6=Good, 8=Very good, 10=Excellent

Figure 4—Country comparison example. Note ratings and weights are for illustration purposes only.

Country	Infrastructure	Operating Environment	Access to Skills	Cultural Compatibility	English Skills	Rates	Resource Turnover	Political Climate	Time Zone	Total	Weighted Total
Weight	8	8	10	5	6	7	8	4	4		
USA (rural)	10	10	5	10	10	3	7	10	10	75	477
Canada	10	10	4	10	10	2	6	10	10	72	452
Mexico	7	7	5	8	6	5	8	6	10	62	401
Chile	7	7	4	6	2	7	8	6	10	57	371
Costa Rica	6	6	4	7	4	6	8	4	8	53	349
Brazil	6	6	5	7	4	4	6	8	8	54	345
Peru	3	4	6	6	4	6	10	4	9	52	344
Argentina	5	5	6	8	6	4	6	6	6	52	340
Uruguay	4	4	4	6	4	6	10	6	9	53	340

Rating Key: 2=Poor, 4=Fair, 6=Good, 8=Very good, 10=Excellent

Figure 5—Country comparison example sorted by weighted total

Country	Infrastructure	Operating Environment	Access to Skills	Cultural Compatibility	English Skills	Rates	Resource Turnover	Political Climate	Time Zone	Total	Weighted Total
Weight	6	4	10	4	5	9	9	4	4		
Poland	7	7	6	7	6	6	6	7	4	56	340
Russia	8	6	6	10	6	5	4	7	4	56	327
Hungary	8	9	6	6	6	4	5	7	4	55	323
Ukraine	6	4	6	10	5	6	5	5	4	51	312
Romania	6	6	6	6	5	4	7	6	4	50	308
Czech Republic	6	8	4	6	6	5	6	6	4	51	301
Moldova	4	4	4	7	4	8	7	5	4	47	299
Byelorussia	5	5	4	8	4	7	6	4	4	47	291
Slovakia	5	5	4	7	4	6	7	5	4	47	291

Rating Key: 2=Poor, 4=Fair, 6=Good, 8=Very good, 10=Excellent

Figure 6—Eastern Europe country comparison example 1, sorted by weighted total

The next step is creating a long list of prospective vendors that could qualify for the project/initiative you have in mind. To do so, you need to define high-level criteria that are specific to your organization, so let's use an example.

Country	Infrastructure	Operating Environment	Access to Skills	Cultural Compatibility	English Skills	Rates	Resource Turnover	Political Climate	Time Zone	Total	Weighted Total
Weight	8	7	10	8	9	6	8	7	4		
Hungary	8	9	5	8	6	4	5	7	10	62	448
Czech Republic	6	8	6	8	6	5	6	6	10	61	442
Poland	7	7	6	6	6	6	6	7	9	60	436
Russia	8	6	7	5	6	5	4	7	7	55	409
Romania	6	6	6	5	5	4	7	6	9	54	393
Byelorussia	5	5	6	6	4	7	6	4	9	52	373
Ukraine	6	4	6	5	5	6	5	5	8	50	364
Slovakia	5	5	4	5	4	6	7	5	9	50	354
Moldova	4	4	4	5	4	8	7	5	9	50	351

Rating Key: 2=Poor, 4=Fair, 6=Good, 8=Very good, 10=Excellent

Figure 7—Eastern Europe country comparison example 2, sorted by weighted total

4.3 High-Level Vendor Selection Criteria

Imagine that we need to outsource sustenance engineering activities for a large-scale eCommerce application developed in the .NET framework, while your internal team rewrites this system from scratch using a different approach. Currently the cost of sustenance engineering is roughly US\$2M.

Let's define high-level vendor selection criteria using the Golden Rules of Vendor Selection as the guidelines.

Rule 1: Size Matters. Using 1 percent and 20 percent of the vendor's revenue stream as a guideline, we determine that we should be looking only for vendors that generate between \$10M and \$200M a year.

Rule # 2: Look for a Good Match. Based on our system's technology and production environment, we'll look for a vendor with experience in these areas:

- Large-scale eCommerce, developing and supporting systems that service millions of users and billions of transactions
- .NET/Microsoft SQL Server/JavaScript/WebServices
- Sustenance engineering and production support

In addition, knowing our company culture and development methodology, we can add a couple more criteria:

- Experience with and preference for agile
- Understanding of startup mentality/experience with startup companies
- Referenceable customers in our industry

Rule # 3: Aim for the Top. We do not have any established relationships we can bank on. So to ensure that we can get access to top execs and appropriate attention share, let's reduce the size of the companies we are looking at and put our upper revenue boundary at \$50M.

Rule # 4: Check the Certs. Given the state of our own processes, we may want to look at companies that have at least a few scrum masters on staff.

Rule # 5: Remember Babylon. After we look at the team that will be working with the vendor, we decide to look only for companies where the majority of employees speak English.

This list, combined with destination criteria, is a great place to start. We're now ready to generate the list of prospective vendors.

4.4 Generating a List of Prospective Vendors

The challenge of finding the right match is only amplified by an abundance and diversity of providers. Easy routes, such as publicly announcing your search by posting a question on LinkedIn, for example, or by responding to unsolicited emails and cold calls, will not produce a good list. At best you'll end up with unqualified prospects, and the very few good leads you have will be indistinguishable from the gazillions of bad ones.

You owe yourself some R&D. Outsourcing directories, lists, and sites provide enough information to introduce you to industry players. If you want to outsource a lot of work, say \$50M a year, start with some of the lists of top providers, such as the "Global Outsourcing 100." Analyst reports from sources such as Gartner or Alsbridge are also good resources.

If your outsourcing volume is small and major players such as IBM, Tata, or Infosys don't appeal to you, try the directories from outsourcing associations. They provide basic company information in specific geographies. And if the scope of your outsourcing engagement is really small, you may want to turn to the freelance marketplace directly or through boards or brokers.

How big should your initial prospect list be? That will depend on the complexity of your selection criteria and, to a large degree, your own bandwidth. The longer the list, the more complex and time-consuming the selection process will be. But even a short list doesn't guarantee simplicity. You can paint

yourself into a corner with a very short list, which will deprive you of negotiating power and increase the chance of a fruitless search.

Think about the quality of the vendor names on the list. Probably all large companies can produce a response that meets the expected quality benchmark. But a fair portion of responses from midsize and small companies might be disappointing. So if you're working with small companies, your initial list would need to be much longer.

Now you've got a nice, solid list of qualified prospect providers. It's time to take your protein pills and put your helmet on as we move to the next steps of vendor selection. The first step is pruning the list.

4.5 Detailed Vendor Selection Criteria

We're ready now to define our detailed search criteria and zero in on "best fit" partners. Take a look at [Appendix 5, Vendor Search Criteria, on page ?](#), for ideas.

To manage a potentially long list of search criteria, a spreadsheet could be the best way to go. Include what you need and your acceptable boundaries, and add a column for comments, which will help keep all stakeholders on the same page:

Group	General Criteria	Specific Criteria	Min	Max
Macro	Geography	Time difference, hrs	0	8
		Cities within travel distance, hrs	0	16
		Cities with population of	1,500,000	10,000,000
	Size	Company size in revenue	10,000,000	50,000,000
		Company size in number of employees	150	1000
	Business Model	% of projects delivered on T&M basis	20%	70%
		Average size of T&M project, man*months	25	200
	Business Focus	% of revenue from software companies	25%	75%
		% of revenue from startups	25%	75%
		% of revenue from companies in hi-tech industry	10%	75%
Critical	Financial Stability	Consecutive years of profitability	5	
		Cash reserves as % of revenue	10%	
	Capability	Capability Maturity certification level	CMMI3	
	Methodology Match	Minimal experience running scrum, years	5	
		Percentage of projects using scrum	25%	
		Commitment to allocate certified scrum master	Y	
	Delivery Track Record	Number of projects completed	10	
		Overall scope of projects completed, m*months	150	
		Percentage of successful project completion	85%	

Now, with the selection criteria in our hands, we can move on to identifying prospective vendors.