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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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The Pragmatic Bookshelf

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The Pragmatic Programmers

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Nick Krym

Edited by Kay Keppler

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The team that produced this book includes:

Kay Keppler (editor)
Potomac Indexing, LLC (indexer)
Molly McBeath (copyeditor)
David J Kelly (typesetter)
Janet Furlow (producer)
Juliet Benda (rights)
Ellie Callahan (support)

Printed in the United States of America.
ISBN-13: 978-1-93778-505-5
Encoded using the finest acid-free high-entropy binary digits.
Book version: P1.0—December 2012

Wouldn't it be nice to have a tool that could monitor your outsourcing team and vendors the way you monitor your systems and infrastructure? Beep! Here's a warning on your pager: "Sushma, a key employee, is ready to quit." Beep, beep! "Vendor is in financial troubles." Loud, nonstop buzz! "IP bridge!!! A rogue employee in the Shenzhen development center is about to transfer the SVN repository to a competitor!"

Yes, that would be nice. But seriously, how do you know when a relationship with your vendor is heading south? Of course, if all your partner's employees don't show up for work, you'd know that something is wrong, but by then, it would be too late. The earlier you identify developing issues, the better your chances are to nip them in the bud. To do so, you need to watch out constantly for early symptoms of a deteriorating relationship with your vendor.

16.1 Watching the Pulse of the Engagement

Even in small companies with high transparency and short communication channels, relationship issues can develop without many stakeholders realizing it. Since developing a "relationship dashboard" with clear key performance indicators is virtually an impossible task, you have to rely on your powers of observation to identify sudden or creeping changes in many dimensions, such as these:

Team Dynamics. The first and the most important barometer of the relationship is team morale. Use a simple rule of thumb: when team morale develops thunderclouds, expect some rain (or maybe worse) in your partnership. If people communicate a lot, have fun working together, connect at a personal level, and show impressive teamwork, that means great morale. If you see a lot of finger pointing, team members being distant from each other, and no one enjoying the work, morale is poor.

Communication Dynamics. A change in communications usually means a change in partnership relationships. If your contact suddenly stops returning your calls, if the style of email becomes much more official, or if you notice an increased frequency in communication gaps, chances are you're facing a brewing partnership problem.

Increase in turnover. Employees on your partner's side often understand relationships and the vendor's internal state of affairs, even if they're not in the "executive loop." When things get rough, people try to find jobs somewhere else. Since people often conceal their reasons for leaving, take turnover rates as a simple indicator. Its sudden or notable increase is a serious red flag and a call for an in-depth analysis of the partner, relationship, and situation.

Quality and Productivity. When your relationship with the vendor starts falling apart, staff motivation declines, causing an inevitable deterioration in the quality of deliverables and a notable reduction in productivity. Often negative trends in quality and productivity metrics are a strong sign of relationship issues.

Financial Dynamics. The financial dynamics of the partnership typically settle after three or four billing cycles. The invoices come on time/a week ahead/two weeks later, they are perfect/have mistakes, the vendor is paid exactly on time/after two past due notices are sent, and so on. If that pace suddenly changes, check if that's due to a change in the AP/AR department or to new policies or if it's an indication of an oncoming relationship disaster.

Of course, watching the pulse of the engagement is not solely your responsibility. Your vendor should be at least as concerned with the state of affairs as you are and typically would invest a great deal more in monitoring and keeping the relationship in a green zone. The most common tools vendors use to do this include the following:

- Account managers
- Offshore coordinators
- Organized bodies such as steering committees

The sheer variety of organized bodies prevents covering them at any depth; moreover, PMOs, steering committees, and other groups are structures not necessarily specific to outsourcing. But as tools for keeping an engagement running smoothly, account managers and offshore coordinators deserve to be covered at a greater level of detail.

Offshore Account Manager

In the world of offshore outsourcing, the account manager is a critical role equally important for both vendor and customer. The definition of an account manager's role could range significantly from one vendor to another, yet in most cases an account manager is positioned as a single point of contact and point of escalation. In addition, an account manager plays at least three somewhat conflicting parts:

Farmer. In common sales terms, a "farmer" is a salesperson dedicated to existing accounts. Unlike "hunters," who seek and close new accounts, farmers develop existing relationships, find new opportunities within existing client organizations, and increase the scope of existing engagements. The main motivation of the account manager in this part is performance against the sales quota.

Spy-in-Residence. The account manager collects customer information that could be used to strengthen the vendor's position. Unlike an undercover mole, the account manager is a spy in residence with "legal access" to otherwise restricted information. The reason for this strange arrangement is an expectation that sharing information helps the customer as well in a win-win spirit of doing business. The main motivation of the account manager in this part is access to information.

Customer Advocate. Some vendors can afford the luxury of having an account manager to act on behalf of the client as a customer advocate and excellence champion. The main motivation of the account manager in this part is to increase the quality and efficiency of the vendor's performance, which could potentially conflict with the vendor's own immediate interests.

The account manager working with you probably will have some combination of these roles, and it's up to you to get the most from the relationship. Establish the best connection you can and maintain continuous contact. If for any reason you can't get along with your account manager, reach out to the vendor for a replacement. Remember, the account manager is the vendor's ambassador, and your relationship with the vendor is unlikely to be better than the one you establish with your account manager.

Offshore Coordinator

One of the proven methods to improve team dynamics is to have a dedicated person coordinating and overseeing activities between the offshore and onshore groups. This person should maintain communication, act as liaison between the teams, and if needed, interpret information from the local to the offshore language. Even if both sides speak English fluently, subtle differences in business lingo will need translation. This role is commonly called the on-site offshore coordinator.

Usually the on-site offshore coordinator is expected to have solid project management and communication skills, understand your operational methodologies, and have relevant domain expertise. Because the on-site offshore coordinator is usually expected to work long and odd hours, finding a good one is a tall order.

Filling the role of on-site offshore coordinator is usually done in three ways:

- The on-site offshore coordinator is your vendor's employee working on your site.
- You dedicate a person from your team or a third-party contractor to act as the on-site offshore coordinator or offshore manager for your site.

- The on-site offshore coordinator is your employee working on the vendor's site or in the offshore development center.

The third approach is the least common, most effective, and most difficult to implement, since finding a qualified person who would be enthusiastic about playing that role is usually difficult. The first approach is the most common, the easiest to establish, and the least effective. In part this is because the on-site offshore coordinator is commonly charged with additional responsibilities, such as sales, which conflict with the primary objectives of the role. On-site offshore coordinators often burn out from an unbearable work load.

Because the rate of an on-site offshore coordinator is typically not much different from what you'd have to pay a local employee, hiring a full-time local offshore manager often makes the most sense and could be incredibly effective. The main challenge is finding someone who can do the job and deal with its exhausting logistics.

16.2 Investing in the Relationship

Unless both you and your vendor invest in maintaining the relationship, the flow of your engagement will look like the story of a bad marriage: courting, expensive wedding, honeymoon, initial struggles, mundane irritation, aggravated frustration, and bitter divorce. Not the experience you want to have.

So let's say that you've found a great vendor and things are going well. What can you do to make sure that this relationship works out in the long run and you stay together, happy till death do you part (that is, until the project comes to a successful conclusion)?

Your first step starts with stepping into your vendor's shoes. You need to gain perspective and learn what your vendor needs to do to maintain a long-term relationship with you while growing the business and staying profitable. So let's take a look at the vendor's footwear challenges.

Vendor's Relationship To-Do List

In most service industries, the cost of revenue from new customers is substantially higher than the cost of revenue from existing relationships, so maintaining relationships has a direct impact on the vendor's bottom line. In addition to overcoming operational challenges and delivering products and services, vendors must invest heavily in relationships to stay in business, especially in these five skills:

1. *Communications.* The vendor must stay engaged and collaborate at all levels of the organization, from an individual contributor involved in the delivery to the project's executive sponsors.
2. *Flexibility, being prepared to change.* Even the largest and most conservative organizations are always in motion, and all aspects of the engagement constantly change. The vendor needs to move in sync as the client changes or shifts business priorities.
3. *Preventive Maintenance.* In an outsourcing engagement, something always goes wrong. It could be a minor issue, a widening communication gap, individual associate behavior, or a broken build. The customer could change its organizational structure, reshuffle the budget, or lose ground to a competitor. Left to fester, minor issues can result in engagement failures. The vendor must invest a great deal of energy in resolving issues and establishing safety nets and fall-back plans—a laborious task typically done by account managers.
4. *Balancing Act.* All service providers have to manage conflicting objectives that come from the essence of any business: reduce costs and increase revenues. Maintaining the balance between these forces is an exceptionally complex task, and the ability to do it right is the single differentiating factor that elevates the winners above the crowd of mediocre providers.
5. *Undercover Objectives.* Vendors need to cater to the stakeholders' personal wins. For example, a specific project success could be an organizational goal, but getting promoted as a consequence is a personal objective for the project's business sponsor. To be successful, a vendor must drive to accomplish all stated and hidden objectives. In fact, a flawless execution on organizational objectives but a failure to meet personal ones can result in a loss of business.

So, if you ever thought that the life of offshore providers was a walk in a park, think again. Now, let's get back to our goal—learning the steps we need to take to keep our vendor.

Your Relationship To-Do List

While most of the work of keeping the relationship intact falls on your vendor's shoulders, your own to-do list is also long. Let's cover the five most important elements of that list:

1. Help your vendor keep you as a customer. Now that you've tried on your vendor's shoes, you know how to help relieve any burdens:
   - *Communications.* Work together with your vendor to define, adjust, and follow a meaningful communication plan.

- *Flexibility.* While you can't help your vendor be more flexible or more prepared for change, you can help by keeping it aware of changes in your needs, structure, requirements, and other issues.
- *Preventive Maintenance.* If a light bulb burns out, you'd probably call for a maintenance worker. Let your vendor know; help it be proactive.
- *Balancing Act.* A vendor cost-versus-revenue challenge displays on your side as the quality versus the cost of services you receive. Establish reasonable expectations and benchmarks and communicate them to the vendor.
- *Undercover Objectives.* When it's appropriate, make personal wins known to the vendor. Position them as optional or secondary but still important. That should not be a tricky process unless your personal goals conflict with organizational goals. In that case, you may have a much bigger problem to deal with. Anyway, isn't that what golf is for?

2. Get to know your vendor. Understanding your vendor's organizational dynamics is critical in the long term. Learning about your vendor both at the organizational level and at the team/individual level is best done on the vendor's territory.
3. Help your vendor become a stronger partner. Honest and timely feedback is just one of the ingredients. Add technology exchange, methodology training, and mentorship to the mix. Your organization can have enormous potential in helping your partners build their expertise.
4. Become a reference account. At some point, when you've established a sufficient level of trust and experience with the vendor, you can become a reference account. Helping your vendor on the sales side plays in your favor in several dimensions, making your vendor stronger and more dependent on you as well. Don't become a reference account too soon, and by no means let your vendor take it for granted, or you can put your company's reputation—and your own—at risk.
5. Run the disposable outsourcing model. This step might sound controversial; nevertheless, it is exceptionally important. Try the disposable outsourcing model, which can help you keep the current vendor by removing anxiety and reducing tension. Operating within this framework helps the vendor deliver to your requirements and handle typical issues, such as staff turnover.

Now let's briefly cover a not-so-happy scenario—when your relationship with the vendor deteriorates. We're not calling it quits yet, but our relationship is painful enough to take a trip to a marriage counselor.