Not All IT Outsourcing Project Centers are the same – What's the difference?

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Evaluating IT Rural Sourcing and Project Center models and drivers

Project-Center based IT Outsourcing alternatives can provide solutions to many of the issues and challenges present in more traditional captive and staff augmentation delivery models.

This whitepaper will provide insight to what alternatives CIO's and sourcing managers have when it comes to moving IT outsourcing off-site. We will also review what is driving the need for change and what the benefits and challenges are with the various types of Project Center models.

Project Center delivery models have been around for several decades, but have been categorized or called a host of things making it hard for IT leaders and Sourcing Managers to follow the trends. The terms used to describe the various types have included Offshore, Low Cost Domestic Sourcing – LDC, Near Shore, Rural Sourcing, On Shore and Home Shore.

These types of Project Centers have been included in this report with the objective being to further understand the pros and cons associated with each of them. There are often multiple drivers to outsource, but not all drivers can be considered equal. The business drivers for Project Center IT Outsourcing must be clearly understood and prioritized to insure a good fit with your business drivers and needs.

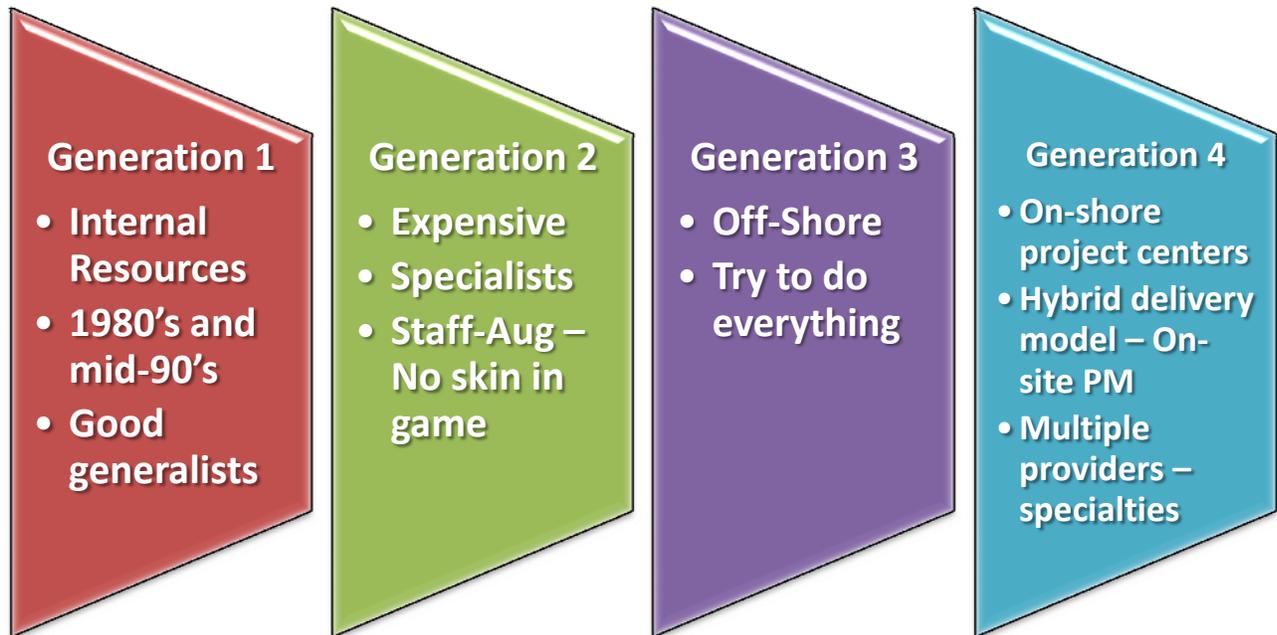**What is driving the move to Project-Center based Models?**

With over 20 years of case studies and offshore IT outsourcing experience now available, we can see the specifics of what works well and what does not work well with this type of Project Center delivery model. The panacea of giving all of your outsourcing work to one or two mega vendors for the best possible labor rate is over, as the limitations of the various offshore and on-site models become more evident.

Objectives for moving to a Project Center based delivery model:

There are many benefits available with a Project Center based delivery model. This type of model has evolved as the needs for IT resources have evolved and IT organizations have seen what works and what does not for each specific need.

A 2003 Dunn and Bradstreet survey indicated that 20% to 25% of all IT Outsourcing initiatives fail in the first two years. Another 50% fail within 5 years and identified the reason behind the failed outsourcing contracts as a fundamental mismatch between business drivers and outsourcing choices.

The diagram below illustrates the evolution of the various types of IT Outsourcing models and what they were designed to provide. Each Generation evolves to solve the challenges of the previous generation.

Generation 1
- Internal Resources
- 1980's and mid-90's
- Good generalists

Generation 2
- Expensive
- Specialists
- Staff-Aug – No skin in game

Generation 3
- Off-Shore
- Try to do everything

Generation 4
- On-shore project centers
- Hybrid delivery model – On-site PM
- Multiple providers – specialties

What are the various types of IT Project Center Outsourcing models:

There are various types of IT Project Centers; each has their own set of benefits and challenges. The majority of these Project Centers fit into one of 5 categories or a hybrid combination.

- US-Based in urban or metropolitan areas
- US-Based in rural areas – non major metropolitan based
- Off-Shore Project Centers – India, China, etc.
- Near-shore Project Centers – Canada, Mexico, Islands
- Home sourcing or telecommute models

The objectives or desired benefits for moving to these types of models can be summed up as follows:

- **IP Protection** – How do I insure that the information required to support and enhance my applications is protected?

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- **Labor Rate** – How much real cost benefit can I get, and how long can I get it for?
- **Culture** – Does the outsourcer understand US business culture and speak American English to minimize operational challenges?
- **Stability or Turnover** – How long can you keep the same resources and my investment in them?
- **Proximity/Time zones** – How easy is it to visit and collaborate with the remote Project Center Team?
- **Scalability** – How quickly can you find the talent you need to be successful?
- **Talent/Experience** – Can you recruit resources with the right skill-set or is a significant amount of training development required?
- **Productivity** – Is there an opportunity for the Outsourcer do the work faster? How will they accomplish this?

While many of the large IT Outsource providers (Accenture, Deloitte, IBM, WiPro, Infosys, and Tata) all claim they can provide all the benefits listed above, the reality is they will struggle with many of the benefits depending on the specific delivery model they use.

US-Based Urban or Metro area – This type of project center model is currently being offered by companies such as Tata (Cincinnati OH), Deloitte (Tulsa, OK), IBM (Des Moines, IA) and Accenture (Carolina area and San Antonio, TX). The driving factors behind these outsource providers establishing their project centers in these urban or metropolitan markets is heavily based on their ability to access large pools of talent, and government incentives to locate there. While many of these large outsourcers will claim that these project centers are focused on getting closer to their clients and talent, one of the unmentioned objectives is to come up with a solution to the reduction in H1B and L1 visas that have allowed immigrant workers to roam around to any client or location they desire.

This type of project center usually scores very well in the areas of scalability, access to talent, experience, culture and proximity.

This type of project center usually scores very poorly in the areas of labor rate, stability/turnover and IP protection, as IP Protection is often linked to low turnover.

US-Based in Rural Areas – This type of project center model is currently being offered by a number of smaller outsource providers looking to leverage low cost of living, quality of life and additional government incentives to create more jobs in rural America. Because of the challenge associated with recruiting resources to these rural areas and the turnover associated with leveraging recent college grads, the success of these rural project centers is heavily dependent on a company's ability to recruit train and maintain their resources. For this reason, most

successful Rural Project centers are niche players with a narrow focus on a specific technology they have proven their model can support.

This type of project center model usually scores very well in the areas of proximity, labor rate, IP protection and stability.

This type of project center model usually scores poorly in the areas of rapid scalability and access to a broad range of talent/experience.

Offshore Project Center – This type of project center model typically looks to leverage the low cost of resources and high availability of talent in a given country. Offshore models have been in place for several decades. These evolving countries are working hard to get over the hurdles that made them an attractive location for a project center in the first place.

Offshore project centers typically scores well in the areas of initial labor rate and scalability, but these benefits are only available for a limited amount of time before competition drives up costs and access to resources.

Offshore project centers typically scores low in the areas of IP Protection (No US Law), culture and proximity. Additionally, while there is often a large talent pool, the ability to credentialize resources with the same level of legal governance in the US is almost non-existent.

Near-shore Project Center – This type of project center is typically located outside the US, but close enough to solve some of the problems created by Project Center locations in distant 3rd world countries. Typical locations of these centers are places like Canada, Mexico, the Dominican Republic and the various island communities near the US.

Near-shore project centers score well in the areas of labor rate, culture and proximity, and can provide some short-term stability, but they score poorly in the areas of IP protection and scalability.

Home-shore Project Centers – With the rapid advancement in internet technology and the deployment of this technology to almost every corner of the US, the "Virtual" project center where resources typically work a significant amount of time at home has begun to develop in the IT Outsourcing space. This model has long been available for various BPO needs for call-centers, but has only recently been introduced to the IT industry.

Very few of the big IT Outsourcing companies such as IBM, Deloitte, Tata and Infosys have embraced this because experience has shown that there is a 15% to 25% reduction in productivity for the majority of the IT resources working in this

type of model.* The reason this model is being adopted by smaller outsourcing organizations is largely due to the low startup costs, and the increased ease of recruiting IT resources to work in a virtual environment. This is not a bad way to engage 1 or 2 resources in an off-site staff augmentation role, however, this model is not capable of delivering long-term cost, scalability and productivity benefits to its users.

*TCS Cincinnati Project Center report March 2010

Now that we have outlined the various types of IT Project Center models and outlined the business drivers these models are trying to support, we need to put the pros and cons into the context of your specific needs. Regardless of what IT Outsourcing companies state in their marketing materials as "benefits", these benefits can't and won't be achieved on an even level across a specific project or application.

In order to identify the best possible partner and model, CIO's and sourcing managers must prioritize the main drivers and benefits outlined earlier, and stack rank their importance.   For example, offshore might provide an initial low labor rate point, but may not deliver the required level in areas of culture and proximity. An Urban or Metro area project center may provide access to talent, scalability and proximity, but will cost more, and may have higher turnover.

It then becomes important to move past the single-vendor solution for 100% of your outsourcing needs, and map your specific needs to specific models and vendors who provide those models.

Additional questions and considerations when determining the right delivery model and vendor.

- How will these Off-Site project center resources be managed by your company? If your IT Managers are used to working with on-site or staff-augmentation models, this will be a major shift for them. Contracts, communication plans and feedback mechanisms will need to fit the Project Center team you are hiring to do the work as well as the managers who will oversee the outsource provider. It will also be important to have the right governance mechanisms in place and Managers who understand how to use them.
- Based on the number of resources you need in a project center, and the complexity of the work, should you use a "hybrid delivery model" that leverages some on-site resources from your vendor to help with work-load, project management and accountability? The ratio of on-site resources to project center resources depends on the type of work and location of the project center. These ratios run from 1:10 on the low end to 1:30 on the

high end. A hybrid model significantly reduces the level of risk specific to your internal IT Management Team, and places it squarely on the shoulders of the Outsource Project Center Team. While CMM Level 5 and Six Sigma are all attractive credentials, many firms use them as a crutch to put the burden on your company, and reduce the risk on the Outsourcing Company.

- Selection of the type of work to outsource is also important. If you have not been successful with the work you want to outsource, your project center outsourcing team will struggle as well. You will find it difficult to articulate and capture the desired results in a Scope of Work or Master Service Agreement. According to Brown and Wilson's "Black Book of Outsourcing", appropriate starting points for outsourcing are those process areas that are necessary to the business, but can be run more effectively by another firm.
  * Douglas Brown and Scott Wilson's Black book of outsources. Page 45.
- Do you want to take your own internal resources with a high degree of IP and knowledge of your business, and focus them on more strategic initiatives? Perhaps you want to eliminate expensive captive resources or staff-augmentation resources with little skin in the game, and look to a Project Center Outsourcing model to reduce costs and risk on needs that can be easily communicated, executed and measured.

Asking the right questions, and more important, the right follow-up questions:

According to a Gartner Report on Evaluating Rural Sourcing in the US, there are several key questions Gartner recommends asking any potential outsourcing vendor. While these questions are a good starting point, it is important to understand the details behind the vendors answer to really understand how successful their model will be for your specific drivers or needs.

Gartner Advice:

- Evaluate the outsourcer's network of skilled workers and how they will acquire the talent required to support your needs.
  - If the Outsourcer says they tap into colleges, realize that the average college graduate has little to no business skills, and only stays with their first employer for an average of 18 months. While you may be able to get low-cost labor that knows the latest Micro Soft or .Net technologies, you will lose IP, Labor rate and productivity as your vendor continues to have to reinvest in recruiting, hiring and training resources.
  - Turnover at the "individual resource" level costs approximately 20-25% to hire and re-train that resource. This often represents 80% to 90% of the savings.

- Asses the levels of technical skills and supporting local infrastructure that the rural outsourcer has access to.
  - Since vendor technical skills inventories are hard to tap into and evaluate, the evaluation of this should be done via reference calls to existing clients.
  - Look for references that have been with the outsourcer for a few years, and have had to deal with turnover for the most accurate feedback.
  - Understand how much of the business, staff and facility was built with government funds and how much was actually created with earned revenue. While government subsidies can be a great way to keep Project Center startup costs down, they hide the vendor's ability to run a cost-effective, yet profitable business.
- Evaluate whether the outsource provider has a critical mass of technology skills in the area. This is not done by viewing sample resumes like a traditional staff augmentation model. This is done by talking to the outsourcer's clients and understanding the type of work they have been successful with.
  - Certain types of skill sets will be better served by one Project Center model over another. Web-based applications, applications that come with a cookie-cutter implementation and support process will be better served by project centers that are fed resources from colleges and universities vs. applications that have a high-degree of customization to the business, and require a strong understanding of the business.
  - What does the client portfolio for the outsource vendor look like? Are they similar or just like yours? Most big outsourcers claim to be good at everything, but struggle to deliver on that promise.
- How does the outsourcer conduct engagements to determine if it would deploy resources on site or conduct all work in rural locations.
  - The answer to this question is critical because it impacts the time-line associated with when you will see a reduction in overall cost, and an increase in productivity.
  - To best evaluate the right approach, look at the on-boarding process for your own internal IT resources that support your application. Do they attend training? Do they shadow? Do they have a specific set of tasks they need to master before they can work independent? Your Outsource Partner needs to be able to embrace what has worked for your team in the past, and incorporate that into their model and resource pricing.
  - If it typically takes a direct hire or staff-augmentation resource 6 weeks to get proficient in the application, don't believe that your

Outsource partner is going to be able to get off the ground any faster. Once the outsourcer understands the learning curve, and has successfully gone through it with a couple of resources, they will be in a better position to help make this process more efficient and effective.

- Understand the importance of creating a long-term, win/win relationship with your outsource partner. Everything your outsource partner does has a cost, and that cost will either be passed on to you, or your partner will absorb them and potentially be unable to meet your needs in the long-term.
    - o Many companies looking to leverage outsourcing will look to short spikes in need or expertise and look to the vendor to provide this. You will pay a premium for this level of responsiveness and flexibility, if the vendor can even deliver it. Given the time it takes a resource to understand your scope and needs, it may cost you more to use this type of flex resource than internal.
    - o It's too expensive to carry a bench, and bench resources are typically not the best available.
    - o A very predictable workload over a longer period of time will yield the best results from your outsource IT project center partner.

Conclusion:

Not all IT Outsource Project Center models have the same capabilities, despite the industries sales and marketing materials that state they can provide all of the benefits their clients need from the models they have. To maximize the benefits you gain from the use of a Project Center model, you must prioritize the benefits of Labor rate, culture, scalability, proximity, productivity and talent in regards to your specific objectives and business drivers. While they are all important benefits, they can't all be considered equally important.

Based on that prioritization, you now have the ability to map that list of priorities to the model that will yield the highest degree of success and minimize your risk. While many outsourcing initiatives are born out of the need to obtain expertise that does not reside in house, realize that if you have not figured out how to successfully manage the application being outsourced to the needs of your business users, your outsourced project center partner will also struggle. Pick applications and work that you know well, and you will be in a better position to manage your Project Center outsource vendor successfully.