

# Secrets of a Headache-free PEO

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Product engineering outsourcing is the practice of hiring and paying a third party to develop an application or business process, instead of shaping it in-house. Contrux Software defines the benefits of outsourcing as “improvement of company focus, acceleration of development times and access to expert software development capabilities.” However, just like any other kind of business, outsourcing product development has its own risks and factors for success.

Secrets of a headache-free PEO depends on several factors; including specifying requirements, choosing a vendor and fostering a partnership, deciding to outsource, dividing of labor and building a strong relationship between vendor-client through good communication and periodic monitoring. Although these steps may seem basic, these requirements can lead outsourced projects to success. On the other hand, when organizations fail to perform any of these requirements, projects will also fail at an alarming rate.

### Lay Down the Ground Rules

One of the most important factors for a successful PEO is to define your customer requirements and monitor how well the vendors are meeting them. Although this may sound simple, many organizations fail to foresee that if they can't define what they need clearly and fail to put appropriate measurements in place, their outsourcing project is doomed to fail.

According to the Benchmark Research study funded by Orbys Outsourcing Consultancy, 28% of 100 UK companies and global firms did not evaluate business cases before contract signing. For this reason, 34% of the respondents failed to perform a complete PEO risk analysis and experience outsourcing failure even before transition stage.

“If you don't put the details in early at the RFP stage (request for proposal), you are unlikely to get a robust contract out of it”, says David Keighley, Orbys CEO. Many experts agree that once organizations specify their requirements and lay down ground rules before starting projects, both the vendor and client will have a better understanding of the expected project outcome and a relationship that will last even beyond the transition stage.

### Fostering a Partnership Is a Must

According to Michael Savoie, the director for the Center of IT and Management at the University of Texas, “If an outsourcing relationship is handled sloppily, you can actually wipe yourself out. A risk mitigation strategy is critical.” Once a highly skilled contract administrator handles the hiring process, the organization can make sure that background checks and compatibility of skill sets are made to guarantee that a vendor has high qualifications for the outsourced project to work.

In order to build a long-term strategic partnership with a vendor, flexibility is also an important factor. For buyers, it is important to meet the needs of a certain project even if it means resource extensions or holdbacks. With a solid vendor-client relationship, buyers would not worry about a fixed duration of project, especially if the outsourced project becomes shortened or prolonged without schedule.

A great example of a rock-hard relationship between client and vendor is IBM and E2open. Until 2001, IBM customers relied on their EDI (electronic data interchange) but chose to base their systems on XML technology (eXtensible Markup Language). According to IBM’s manager of B2B technology strategy & architecture Timothy Dinger, “It was one big challenge for IBM because of the XML communication protocols used by its customers, namely Oracle, Ariba, Commerce One, RosettaNet and SAP. As such, each protocol required IBM to develop and maintain a different software connector to facilitate customer orders”.

Although IBM started to develop the XML infrastructure and maintain connectors, the company was not ready to handle the job efficiently because it was both expensive and time consuming. Once IBM decided focus on core business activities, they searched for a third-part provider to develop, manage and maintain their XML connectivity and connections infrastructure. IBM settled for E2open, a 4-year old California-based company, which was robust enough to handle the job. While E2open started handling smaller tasks, its relationship with IBM grew broader until E2open took over the entire outsourced management of the IBM XML platform in March of 2004.

E2open and the in-house IT department of IBM worked closely to divide responsibilities and support functions. “From the very beginning, this was a partnership, instead of a supplier relationship,” says Timothy Dinger when asked about IBM’s secret in maintaining a good relationship with E2open.

### Communication Is Crucial

Outsourcing product engineering involves transferring duties to a third party vendor. Although a full-time staff may handle these tasks, regular communications between the company and its partner vendor are crucial. The company should ensure proper handover and succession planning because once the outsource team decides to leave, the in-house team will be left wondering where to pick up the project. An example of a solid handover plan is DataWorkforce’s “handover package” that includes a detailed report on the work done and contact information of vendors, which both helps in keeping the chain of information worry-free even when the in-house IT team is left with the project on their own.

Good communication is especially important when the outsourcing service provider is halfway around the world. Large PEO companies have contacts in over 50 countries with region-specific operators and global vendors. In order to organize such large division of labor, it is important that the head office make special efforts to keep in touch with its vendors to satisfy clients’ needs.

When a vendor meets or exceeds the project expectations, the company should recognize these efforts. A solid relationship between client and vendor lies in the trust and respect each party brings to the table. Good communication is the secret of a successful business relationship in any context.

### Making It Work for the Long Run

Although outsourcing product engineering lets companies hire temporary teams to perform minor tasks for them, it does not necessarily mean that they will only use their services for weeks, months or a few years. Since the IT industry evolves in an extremely fast pace, companies do not know when they’ll need outside help for upgrades. For this reason, it is best to keep good relations with trusted vendors in case the company will need help in performing future projects.

According to *The Key to Successful IT Outsourcing Engagements* by Stephanie Moore and Adam Brown, “a large number of outsourced IT projects or outsourcing relationships fail or do not meet client expectations.” While the vendor shoulders most of the blame for many of these failed projects, the company should also accept some of the blame because they allowed their external team to fail.

With the fast-paced growth of product engineering outsourcing, the future of IT management will ultimately focus on managing service delivery contracts, instead of supervising in-house programmers alone. The secret of a headache-free PEO, which companies usually overlook, lies in properly engaging and managing outsourcing partners.