Efficient Product Engineering Outsourcing:

Key Issues for Software Engineering Companies to Consider

A whitepaper on the advantages of efficient product engineering outsourcing that works even for small companies exploring such options.

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Executive Summary

Any software company that is drawing up a business plan today will have to answer this question from the investing panel: What is your outsourcing angle?

Historic licensing and patent-ownership models are breaking down, and the market is filled with free, low-cost, pay-per-use, and other flexibly-priced products, necessitating the need for software companies to be competitive—in pricing, features, and quality. This has generated a paradigm shift in the way software companies build their team, products, and go-to-market strategies.

From the traditional, low-end transactional work of business processes, outsourcing has evolved up to the top rungs of the value chain, where increasingly complex projects are being conducted through virtual team collaboration. As the open source movement provides compelling proof, global team participation has brought robust tools to the market, and has lowered the cost of ownership, maintenance, and sustenance.

Outsourcing till now was confined to the large companies that had the investment capabilities and economies of scale to set up their own shop or bid out large projects attractive enough for service providers to execute on. Not anymore, as the market has embraced outsourcing as a pragmatic, possible, and efficient element of business. Increasing number of start-up, small and medium software companies are exploring the option of outsourcing. This paper will serve to bring to light some key issues to be considered in this exercise.

We welcome your reviews about the information we are sharing with you, and encourage a no-commitment dialogue about your outsourcing initiative.

1 Why should you consider outsourcing?

While companies are typically following established patterns and trends of the market to initiate an outsourcing exercise, it would be worthwhile to stop and ask ourselves: Why would we have to outsource?

Though cost is a good reason, the primary consideration should be beyond just cost. The advantage of reaching a product in the shortest time to the market is an indubitable reason to consider outsourcing. People, time, and money are always in shortage, and it is a logical consideration to focus the executive talent on core components of the development process: architecture, product marketing, sales, and so on. The development engineering, testing, QA and maintenance/support consume large number of resources that can be outsourced to strategic partners who bring deep experience as well as ready and willing work force in such offerings.

The cost component is definitely another reason to consider outsourcing. India is a leading outsourcing geography that brings talent, experience, and the maturity of development work—meriting a closer look. Though salaries, cost of business, infrastructure and so on have gone up in the last few years, the country still is a lot more economical as a partner. Availability of technical talent, proficiency in English, proven work ethic and years of international software delivery experience are some of the key drivers.

2 Why should you consider third party outsourcing?

It is always an exciting idea to consider establishing a captive outsourcing unit in a foreign geography all by yourself, but let us stop here for a minute. If you plan to outsource non-core activities, isn't the effort of running outsourcing hands-on itself non-core to your company? Why would you want to spend precious time, people, and money to set up your own entity in a foreign geography?

A third party outsourcing vendor brings wide and deep experience. Since outsourcing is the core focus for such vendors, they bring the abilities to:
• **Hire large teams of the right talent within the right timeframe**—this is not possible when one attempts to establish their own captive units, as potential employees do not consider such enterprises as long-term.
• **Scale the team to suit the project**—at many stages in the project, your requirement for people varies. The third party vendors are the

right partners to offer the benefit of scale to your project progress. They can seamlessly move those "transient" resources from a ramp-down project to another ramp-up project without the clients having to deal with personnel issues.

• **Manage the initiative**—finding the right talent to manage your project requires consistent experience, and this is something that only a third party vendor can bring to the table. When you experiment with a captive unit, simply managing it requires large doses of patience, cultural sensitivity, focus, and unflagging strength

• **Minimize business impact**—attrition is a key element to impact business efficiency. Continuously recruiting and training fresh resources and judiciously placing them in various client projects as shadow resources is something a vendor partner will provide, so that if any project team member were to leave, these resources can take over with minimal downtime. This is possible when these shadow resource program can be spread across multiple projects. Captive units cannot afford this.

Comparing "Build" vs "Made-to-order" Offshore entities

Risk	High risk: • Substantial set up time • Delayed ROI • Risk of "Client India" failing	Low Risk: • Early Start of operation • Define SLA's with Xoriant to guarantee performance • Option to ramp up and ramp down at any time
Cost	High: • Company setup • Infrastructure • Employees' high salary expectation from a "Multinational Company" (typically 20% higher). • Client may have to assign employees on expat terms. • Higher travel cost due to frequent visits to HQ.	Low: • Xoriant will invoice "Actual Cost+ Fixed Management fees" • Strong management experience in offshore outsourcing helps in maintaining control on costs • Leverage our relationship with suppliers to achieve economies • Xoriant will take the onus of managing projects • Client can assign team members to operate out of Xoriant office
Ability to find the talent pool	High: As Client India	High: Xoriant + Client to jointly advertise the "Client Development Center," press conferences, organize job fair in various cities
Management Processes	• Client will need to 'micromanage' the center on a day-to-day basis. • High overheads as client will have to invest to define new processes to integrate remote teams.	• Xoriant will work on SLA's with Client, and in turn will handle all backend issues. • Xoriant has pre-defined processes for US-India projects coordination.
IP Protection, Core competency ownership	High: Own operation	High: Client owns the operation at a pre-defined date

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3 What should you consider outsourcing?

This is the key question to answer in your outsourcing initiative. It is critical that we should identify the internal strengths of your current team, the time-to-market plan for your products, the geographies you plan to address, and so on. Planning the outsourcing should not be based on roles within the company, but rather on the business goals, objectives and team strength.

Once we identify these, we can easily map out what are core to the company, and what can be outsourced. Typically, start-up and funded companies tend to build teams of experts in product building, architecture, design and marketing. This leaves some key areas to consider outsourcing:
- Product development (coding and build-out)
- Testing and quality assurance
- Implementation and integration
- Porting and localization
- Global customer support

Third party vendors typically bring extensive experience in customer-facing implementations. However, some key vendors bring the ability of translating this experience to product development, where the knowledge can be an advantage in the project. Since testing and QA are critical to

the product success, performing these from the beginning saves time and costs compared to later stage execution.

Some software engineering outsourcing firms bring the capability of taking over customer support, version controls, and sustenance engineering quite seamlessly. This gives the small companies the immediate advantage to go global without the heavy overheads.

4 How do you initiate an outsourcing exercise?

As the saying goes, the bullet that leaves the gun will not come back. Processes that leave the company have very little chance of being brought back. This is an advantage in disguise. In many instances, companies have chosen to create an outsourcing initiative right at the start, so that they can create resource wealth and efficiency internally from the beginning. It is important that software development companies create the right path to outsourcing. Some ways of doing this include:
- **Create a hybrid model**—partner with a vendor to bring in staffing resources to manage tasks that will be outsourced eventually. This team will work on the processes but will also manage the process from an offshore service unit. Such a hybrid model will give you the confidence that the project will not stop for the duration of ramping up the outsourcing initiative

• **Clearly mark goals and set standards**—based on your product-to-market plan, it will be good to evaluate goals and standards for the vendor to achieve, within set time frames. This gives both the parties the right level of commitment.

• **Share the bigger picture**—vendors can bring in only as much value as you can share with them. If we manage to keep the vendors in view of the common goals, initiatives, and the bigger picture, it will power the relationship to newer heights

• **Develop patience**—effective outsourcing involves matching personal chemistry on your side and the vendor's, mutual understanding of differences in goals, aspirations and incentives of the team members on the two sides and appreciation of the finite time needed to ramp up the understanding of your domain, technology and market environment. The vendor will be valuable only as much as you care to involve them as partners in your business.

5 Is outsourcing worthwhile for smaller companies?

Yes. In our experience, Xoriant has helped numerous start-ups, funded companies, and growing companies in their product development effort with the following abilities:

• **Flexibility to change**—your product goals, markets, customers, and plans change. These changes can be flexibly and quickly driven by partnering with a third party outsourcing firm

• **Best-of-breed resources**—since vendors work with numerous clients, their talent bring a mix of diverse technologies, tools, and expertise to ably support your product vision

• **Value-based engineering**—as with any product, discovering what works and what doesn't is at the cost of the customer. Partnering with a vendor gives you a powerful view into the experience gained by the vendor in terms of the real values that matter to customers across different product companies

We hope this paper has given you sufficient actionable information to plan your next outsourcing initiative. Xoriant Corporation will be delighted to speak with you to answer any questions that you have, understand your requirements, and explore how we can tailor our capabilities to meet your needs.

About Xoriant Corporation:

We are a Sunnyvale, CA-based IT Services firm with global delivery centers in India. Over the last years in business, we have helped numerous Fortune 500, medium and small clients in leveraging the benefits of offshore, onshore, and dual-shore professional services. Our industry expertise spans financial applications, software development engineering, web-based applications, wireless, and supply chain. Some of our clients include, Principia Partners, TIBCO, Instantis, InSync Software, and others.

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