Outsourcing Options: Build – Operate – Transfer Model

White Paper

Introduction

Companies in developed economies are increasingly looking at offshore suppliers for a variety of IT tasks. This is driven by the availability of highly talented and experienced developers in countries such as India, who are available at significantly lower costs as compared to local IT resources. As more and more enterprises turn to offshore service providers for their in-house IT needs, competitive pressures are forcing others to seriously look at the offshore alternative.

Forrester Research estimates that the demand for offshore outsourcing will account for 28% of IT budgets in Europe and the U.S. within two years. Further, the number of offshore IT workers worldwide (software developers working overseas on projects for Western firms) will go from 360,000 today to more than 1 million in 2005.

This is how Gartner Inc. describes the offshore outsourcing of IT services:

"It's big, and there's no turning back. Everybody is either doing it, planning to do it, or should be doing it."

Traditionally, there have been two options for U.S. based companies trying to adopt offshore services: engage a vendor who offers offshore services, or set up their own facility. While most companies tend to test the offshore waters with a small project or two, some tend to take the direct route by setting up their own dedicated development centers in their countries of choice.

The challenges of organizations trying to set up their ODC by themselves are many. Here are some of the salient risks:

Prior to discussing offshore delivery models, it is necessary to review the critical success factors for building a successful Offshore Delivery Center (ODC), as detailed below:

- **Structuring the administrative and infrastructure foundation**

  Finding the ideal location and setting up the operational infrastructure requires a local, qualified, trusted, and experienced team who has developed relationships with reputed local vendors. A tested and proven infrastructure that can scale and support the current and future objectives of the ODC is mandatory.

- **Understanding the human resource maze**

  With the IT boom in India (and other hot spots for offshore talent), recruiting and retaining staff is a major challenge. Foreign workforce culture, compensation packages, and employee career paths differ from that of the US. High turnover is detrimental to the seamless delivery capabilities of the ODC. Strong HR team and processes are critical to successful ODC operations.
• **Understanding of local laws and government bureaucracy**

Setting up an offshore subsidiary requires an experienced and trusted local network to navigate the bureaucracy and manage legal intricacies.

• **Defining and implementing the delivery process and methodology**

Due to the need for remote management and the time difference, additional emphasis is required for planning, coordination, and communication. Tested and proven productivity oriented processes are required for a successful ODC.

AgreeYa’s Agile BOT℠ (Build, Operate and Transfer) solution offers an engagement model that allows a client with interest in potentially owning and operating their own offshore development center (ODC), to undertake the process in phases. The phased approach allows an organization to evaluate the effectiveness and benefits of owning an ODC before undertaking the risks and costs associated with starting and running their own.

**Agile BOT℠ – Engagement Model**

Agile BOT℠ uses a phased approach towards undertaking ownership of the offshore development center. The three key phases of this model are:

1. Build
2. Operate
3. Transfer

**Build**

At the start of this phase, a core team will be identified that will consist of AgreeYa members and key members of your organization. It is necessary that your organization’s stakeholders and management be represented in this team to give the engagement direction and support.

The Build phase of the engagement will have two stages:

1. Project Initiation Stage
2. Project Transition Stage

**Project Initiation Stage**

This stage of the project will be executed onsite at your location and/or offsite at AgreeYa’s US locations. During this stage, AgreeYa will analyze, understand and document the following:
Applications that you wish to be outsourced or help you identify the applications that you can outsource. This will shape the Scope of Work and the profiles of team members who will be part of the ODC Delivery team and the infrastructure required to support the delivery.
- Service Levels that you expect to maintain
- The SDLC methodology to be used for executing application development and maintenance projects
- The performance metrics to be used to track projects and delivery
- The processes and document templates to be used to manage the projects. For e.g. templates of Requirements documents, Design document, the process for identifying, estimating and executing change requests, etc.
- Reporting formats to be used and their frequency
- Version control and other document/knowledge repositories to be used during the execution of your projects
- Organization structure of your IT team and the communication matrix to understand and document the interfacing structure with all the relevant teams within your organization.
- Effort estimate plan for at least the first three months of the engagement to identify the team size.
- Infrastructure decisions and support – Depending on your requirements, AgreeYa will either provide you with infrastructure that will be shared with other engagements in its ODC or will provide you with separate facilities. The setup time will depend and vary based on how you would want to setup your infrastructure. The typical infrastructure and facilities needed will be:
  - **Office Facilities** – Office facilities like cubicles, desks, cafeteria etc.
  - **Hardware** – Servers, desktops, data backup infrastructure, etc.
  - **Software** – Office automation software, development and maintenance work bench, testing tools etc.
  - **Networking** – LAN, WAN, and Internet connectivity.
  - **UPS/ Generator** – Power backup to the servers, desktops, and networking equipment for power outages.

**Deliverables**
AgreeYa will help you formalize the above processes and tune them to suit your offshore engagement needs. All the above information will be documented by AgreeYa in the 'Engagement Document'. At the end of this phase AgreeYa will deliver this document to you for sign-off. This document will be a “Controlled Document” which means that: during the execution of the engagement this document may be revised, but only through a pre-defined Change Control procedure.

**Project Transition Stage**
During this stage of the project, the Core Team members will engage in the following activities:

1. Knowledge Transfer (KT)
2. Pilot project execution
Knowledge Transfer

During this activity, the Core team members will engage in understanding the relevant application set within your organization. This activity will concentrate on the technical elements of the applications and understand how they integrate and deliver. This activity will include the following tasks:

1. Overview of the products/applications currently deployed, their functionalities, architecture, end user/admin workbench, and how they mesh together to enable your business requirements and strategies.

2. Understand the high level architecture of products/applications to be able to visualize how the new applications would be integrated to the existing products/applications.

3. Understand the relevant database schema, the development and production environments, and the service level standards that are met by every product and application.

4. Understand the process to be used for deploying code into the Test environments and production environments.

5. Understand the Installation Procedures and Guidelines used, including Naming Conventions, Coding Standards, and Folder Structure.

6. Understand the Testing and QA Process and the tools and techniques used to meet the required service level standards. Also, understand the Defect tracking tool used (if any).


8. Establish access to repositories of Documents, Standards and other materials.

The KT activity will be planned by the core team, so that knowledge on all aspects of the engagement and its delivery components are covered. Onsite and Offshore resources of AgreeYa will participate in this activity. The KT activity will be conducted using the “train-the-trainer” model. A representative team will be trained onsite. Relevant training material will be prepared. The representative team will then return to the ODC, use the prepared material and other documentation to train the rest of the offshore team through classroom lectures and hands-on sessions.

Deliverables
• Technical Framework Document
• Training Material in terms of presentations, and documents

The documents will be signed-off by you and will add to the list of Controlled Documents.

Pilot Project Execution

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During this phase, some work-packs like Change Requests or Test Problem reports will be identified and the AgreeYa team with the help of the Core Team will execute these work packs in the offshore mode. This will enable the team to understand what works and what doesn’t in terms of processes and also will give the AgreeYa team a hands-on feel for the applications and the work bench used by you. The team will execute these identified work packs using the defined process and documents.

It is a good practice to keep these work packs small, so that feedback of the delivery teams can be used to tune the processes, communication pattern and other operational aspects of the engagement. These revisions will be incorporated into the Engagement Document.

**Deliverables**
1. Deliver the identified Work Packs
2. Deliver the project execution, project management and project metric related documents
3. Functional and Technical Documentation for the work packs
4. Revised Engagement document

**Operate**
This phase of the engagement involves servicing the work packs from the ODC. Initially, it is a good practice to start the offshore delivery with less complex work packs and as the team gets more knowledgeable and comfortable with the applications systems, process and communication scheme more complex application development and maintenance work packs can be executed taken up.

To provide guidance through this phase, establish the project processes and enable communication between the onsite and offshore team, AgreeYa will deploy Onsite coordinators at your project location. The onsite coordinator will also enable the project team and your Project Manager in other ways like Issue escalation, risk management, resource management and project management.

Detailed below are the typical roles for the engagement. Depending on the Scope of Work and the Effort Estimate, these roles can be taken up by one or more individuals.

1. **ODC Project Manager** – Will manage the project and the resources, ensure delivery deadlines are met, coordinate with the onsite coordinators and onsite project managers for highlighting risks and issues in the project and will report the status of the offshore teams
2. **ODC Software Development Lead** – Will analyze/ design for the work packs, allocate work to the Software Development engineers, manage resources, ensure quality and will maintain delivery schedule

3. **ODC Software Testing Lead** – Will manage preparation of test plans, formulate testing strategy, allocate and manage resources and will ensure quality delivery on time

4. **ODC Software Development Engineers** – Will develop code following the best practices and conventions effectively

5. **ODC Software Testing Engineers** – Will follow the test plans and test strategy to ensure that the final product has minimal defects

6. **Onsite Project Coordinators** – Will manage communication between the onsite and offshore teams, help the onsite project manager manage project risks and project resources, raise issues, help the teams resolve them in a timely manner, and report status of the project

7. **QA Lead** – Will ensure that the Quality guidelines of the engagement are met by reviewing documents and deliverables for quality assurance and will perform check point reviews to ensure that the source code configuration and IPR requirements are being met.

**Transfer**
At a predefined time, AgreeYa will start the process of forming your subsidiary in India and transfer the assets and resources to your subsidiary. This phase will entail the following activities:

1. A subsidiary will be set up by AgreeYa on your behalf, as per the applicable Indian laws with a suitable ownership structure

2. AgreeYa will identify multiple premises based on your pre-defined criteria and help you finalize on one of them as your India offshore development center

3. Once the premise is identified, AgreeYa will help you furnish and equip the premises with office infrastructure, and Networking

4. AgreeYa will then ensure a systematic transfer of all Hardware, Software to the new premises

5. AgreeYa will assist you in staffing your new company with its Management (CEO, Delivery Head etc) and Support (Admin, HR, Finance etc) staff.

6. The delivery team at AgreeYa ODC will then be re-organized as per your and AgreeYa’s understanding on who will stay with AgreeYa and who will be transferred to your subsidiary

7. A transition plan will then be put in place to transfer the delivery team resources and hire replacement resources based on pre-defined criteria.

8. All documentation and Knowledge harvesting activities will be completed in a phased manner

9. The code base and all documentation will be transferred to the new subsidiary as agreed upon
10. The new subsidiary will now run on its own and AgreeYa will provide hand-holding to the new management and team for a stipulated period of time.

Once the above activities are completed, AgreeYa will sign a release agreement with you. However, AgreeYa is flexible to assist you with back office and support services, till you are comfortable that your personnel can own and operate them.

**Cost Structure**
The following is a representative idea of the costs that would need to be budgeted for, during the course of this engagement

**Setup Cost**
- **Facility Infrastructure** – This will be a setup cost if you decide to buy out a premise. If you opt for a leasing option this will be a recurring cost
- **Furnishing and Office setup** – Cost of interior design, cubicles, and accessory equipments like telephone/ VOIP systems, Air Conditioning, Generators for backup, Security systems, and Fire Alarm systems etc.
- **Computing Infrastructure** – Cost of Servers, Desktops, LAN/WAN, Internet and UPS
- **Recruitment** – Cost of recruiting Management Team, Support Staff and delivery team replacements

**Operating Cost**
- **Operating Facilities** – Cost of Lease Rent, Electricity, Water, Security, Maintenance, Communication
- **Support** – Cost of support for Hardware, Software and Networking
  - **Engineering** – Cost of Compensation, incentives, recruitment, organization building and morale boosting exercises
  - **Travel** – Inland and International travel for Management and Delivery team members, as required
  - **Communication** – Cost of Local, International voice calls and teleconferences
  - **Hardware and Software** – Cost of regularly upgrading Hardware and Software to keep them under the support agreement
  - **On going training** – Cost of training on new software tools and techniques and cost of professional or management training

**Transfer Cost**
This cost will be charged by AgreeYa at the time of transfer of the subsidiary unit to you. This cost will depend on the items that are transferred to you, and the time duration that AgreeYa spent in building and operating your offshore facility.
BOT – Benefits
This model can yield consistent, high quality and cost effective results. This Model offers the option of starting-up a subsidiary for better-cost effectiveness.

The key benefits to you include:
- An attractive option of establishing a subsidiary with minimal upfront investment
- Minimal management bandwidth required till the teams are up & running
- Utilize the AgreeYa’s delivery experience and infrastructure
- Utilize AgreeYa’s experience in local culture, bureaucratic processes and contact network to set up an organization
- Mitigation of risk in initial hiring & building a team
- Time, effort and financial savings in team building
- Transferred team hits the ground running from day one
- Flexible pricing options and availability of an elegant exit strategy
- Typical infrastructure cost savings up to 40% to the customer
- Typical facility cost savings up to 30% to the customer
- Option of pursuing the India market for your products and services
About AgreeYa Solutions

AgreeYa Solutions ("AgreeYa") is a business and IT consulting firm with headquarters in Folsom, CA and a Global Delivery Center in Noida, India. AgreeYa has consistently focused on providing complete technology solutions to its customers. This focus has helped us to be the 5th fastest growing company and the 3rd largest IT Services Company in the Sacramento Region for the year 2004, as published by the Sacramento Business Journal.

AgreeYa has also been selected as one of the top 50 tech firms to be included in the SARTA Technology Index™, an innovative tool that measures the health of the regional technology economy in the nine county greater Sacramento region.

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