

Offshore Vendor Evaluation

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1. Introduction

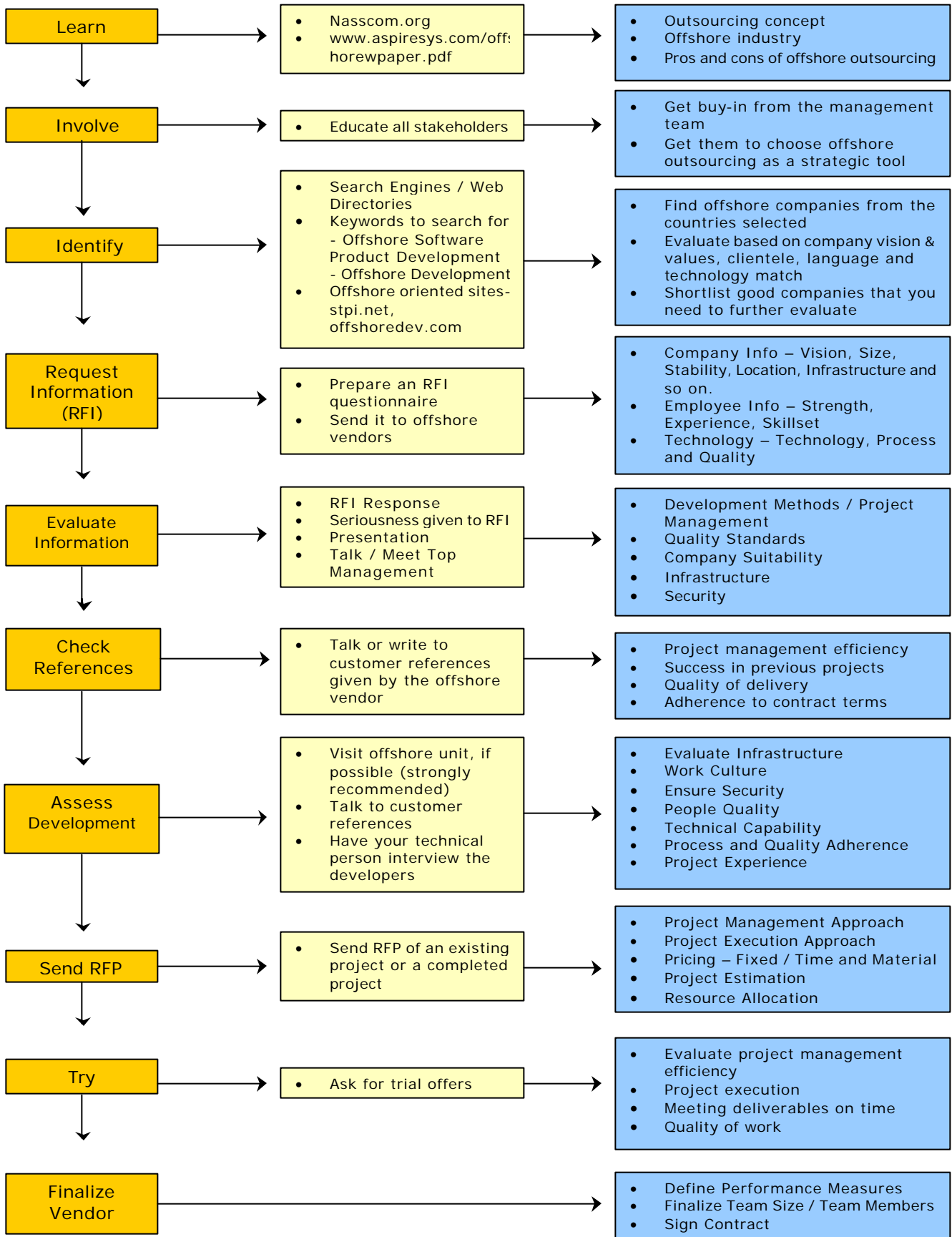
Offshore outsourcing is emerging as the most compelling strategy to many IT and software companies due to its cost advantages and efficiency in project delivery. An offshore outsourcing relationship is like a marriage between two firms, and requires a long-term commitment for the relationship to be successful. Hence, it is very important to ensure that you make a thorough evaluation of the offshore vendors before choosing the right partner. We make an effort in this paper to provide you with guidelines for vendor evaluation and to ensure that you choose an offshore development firm that best fits your company.

2. Evaluation Procedure

We have developed a step-by-step process for evaluating your offshore partner by carefully studying the evaluation methodologies of different companies. Although the conditions for evaluation differ from one company to another, there is no significant difference in the procedure for selection of vendor.

We have come up with a process chart that represents the complete process and indicates "what to" and "how to" implement the process in a progressive manner.

Evaluation Process Chart



3. Evaluation Criteria

There are numerous factors that influence the selection of the most appropriate offshore development partner for your company. We have identified, assessed and substantiated these factors, specifying the level of significance in the overall evaluation. Comprehensively listed below are these factors based on three major categories – Company, People and Technology:

Factors	Parameters	Importance
Company Information		
Company Vision and Direction	Synergy, Keeness in working with you	* * * * *
Company Stability & Investment	Commitment, Experience, Customer relationship, Company growth, Funding position	* * * * *
Size of the Company	Relative size, Comfort, Required team size	* * * * *
Location of the Offshore Facility	Country, Language, Manpower abundance	* * * * *
Infrastructure	Office infrastructure, Power backup, Internet / Communication, Software infrastructure, Networking infrastructure	* * * * *
Security	Physical security, Networking security, Intellectual Property security	* * * * *
Language	Official language, Common language	* * * * *
Culture	Openness, Timing flexibility, Learning, Intrapreneurship, Communication, Conducive environment	* * * * *
Flexible Contract	Schedules and deliverables, SLA, guarantees, Payment, Conflict resolution, Risk cover, Term, expiration, & renewal	* * * * *
Pricing	Pricing, Price stability, Hidden costs	* * * * *
References/Reputation	Customer relationship, Project management, Offshore infrastructure	* * * * *
Employee Information		
Skillsets	Skillset availability, Scalability	* * * * *
People Quality	Quality programmers, Hiring policy, Experience	* * * * *
Retention Rate	Retention rate	* * * * *
Technology Information		
Technology	Domain expertise, Adaptability	* * * * *
Project Management	Project planning, Risk management Status communication, Reports	* * * * *
Software Development Process	Certification, Development process	* * * * *
Quality	Coding standards, Code reviews, Testing	* * * * *

3.1 Company Information

3.1.1 Company Vision and Direction

significance 

"Companies are no longer simply contracting out the scutwork. And the more they outsource, the stronger their ties to their vendors."

Outsourcing: The New Partnership


Journal of Business Strategy, July/August 1997.

Outsourcing represents a long-term, results-oriented relationship between two organizations. Such a relationship demands that there is harmony in vision and goals between you and your vendor.

Parameters:

- *Synergy* – Vision and values of both companies need to have common goals and synchronize for the relationship to be successful.
- *Keeness in working with you* – No point in doing business with a vendor who is not interested in you. This will be amply shown by the responsiveness to your queries, RFI response, etc.

3.1.2 Stability & Investment

significance 

The vendor you are evaluating may be just riding on the IT wave and might have formed the company without laying strong foundations. This scenario has become especially very evident after the dot.com hype of last year. Many such companies have not even been in business for one full year, and have dissolved completely. Hence, it becomes very crucial that you gauge the stability of the offshore vendor.

Parameters:

- *Commitment* – You need to confirm that the offshore vendor has a great amount of commitment to the offshore business.
- *Experience* – Finding out the year of their establishment and the number of years worked in the outsourcing business would give you a good idea about the stability of the company.
- *Customer relationship* – Customer satisfaction is very critical to ensure the stability of the business. Evaluate their customer relationships and find out how long they have been retaining their customers.

- *Company growth* – You need to associate with a company that is growing and is doing well. Ask details about the company’s growth in the past few years to understand the stability of the company.
- *Funding position* – The Company you would be engaging for your development work needs to be self-sufficient with respect to funds. You need to confirm their funding position and ensure that they are safe.

3.1.3 Size of the Company

significance 

Size of the company is an essential factor in considering an offshore vendor. It is definitely important to make sure that the offshore vendor has enough resources and pays good attention to execute the outsourced projects in a timely manner.

In case of companies that are bigger in proportion to your size, there could be issues of not getting closer attention. Your projects may not be given importance, as they would not fall in the target segment of those companies. In case of companies that are smaller in size, there is a possibility that they would pull out resources from existing projects to attend to immediate requirements. This can delay your project delivery and result in a lot of misunderstanding and dissatisfaction.

Parameters:

- *Relative size* – Companies of the same size think and work alike. Hence, you need to look for vendors that match the size of your company.
- *Comfort*- Since this is a long-term relationship, you need to ensure that you are comfortable with the size of the offshore company you would be associating with.
- *Required team size* - For example, if you are looking for a 10 people offshore team, it is better to look for companies with the size of 30 to 100 people. For projects where you are looking for 100 people, you need to look for a company with 500 to 1000 people.

3.1.4 Location of the Offshore Facility

significance 

Offshore development hubs have been in the limelight for sometime now. The raison d’etre for choosing any specific offshore development country would depend on the socio-economic, business and political scenario prevailing in the offshore country.

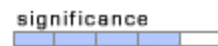
These scenarios differ from one offshore country to another based on the policies laid down by the Governments there.

There are several offshore development countries like India, Israel, Russia, Ireland, Malaysia, Philippines, and China, where it is inexpensive to set up offshore development centers (ODC). India occupies 80% of this market and it is advisable to consider India because it has the most experience in the offshore industry, and is very well equipped to handle offshore projects. Other countries are also growing now and are improving their communication skills.

Parameters:

- *Country* – You need to choose an offshore vendor from a country that is tried and tested. This is essential because many countries do not have the necessary infrastructure that supports offshore outsourcing.
- *Language* - Many countries do not promote English as a common language for communication. Hence, you might face difficulty in communicating your requirements and getting projects executed. Ensure that the country encourages a common language for oral and written communication that is known to you as well as your vendor.
- *Manpower abundance* – Excellent IT skill sets are not available in all countries. Hence, make sure that the country you are evaluating offers an abundance of skilled resources with requisite knowledge level.

3.1.5 Infrastructure




It is essential to find out if the offshore firm has adequate infrastructure apart from human capital to support projects of varying complexities. Often, the cost advantage in offshore development is realized due to an abundance of skilled resources in a country. However, offshore countries like India, Russia, Philippines, etc. still have to deal with the lack of proper infrastructure like power, internet / broadband connectivity, transport facilities etc. that may cause serious day-to-day problems in reaching milestones and quench any inherent cost advantage.

It is therefore imperative that you verify the prevalence of such issues in the offshore country and ensure that the vendor has adequate infrastructure backup to prevent disasters in executing your project.

Parameters:

- *Office infrastructure* – You need to check if the vendor facilities provide a comfortable working environment for offshore employees like air-conditioned facility, adequate seating space, etc.
- *Power backup* – Power shortage is an issue in many offshore countries. These countries usually need to arrange for additional resources to provide backup for power. You need to ensure that proper power backup is provided so that your project delivery time does not get affected.
- *Internet / Communication* – Again, Internet connectivity is an issue in some of the offshore countries. The vendor preferably needs to have multiple levels of backups for Internet connectivity like a leased line, broadband DSL, ISDN, etc.
- *Software infrastructure* – It is definitely better to check for the availability of all your software environments like the OS, databases, application servers and other software environments with your partner before you engage them for your projects. In situations where the infrastructure is not available, you need to ensure their capability to source them and set the environment in a timely manner.
- *Networking infrastructure* – You need to understand the network environment in your vendor company and ensure that they are secure and safe for your projects to be executed remotely.

3.1.6 Security

significance


Engaging an outside firm to execute your development work means sharing valuable information about your project. This is risky especially in cases of a proprietary product or in case of outsourcing your client's work to an outsider. Hence, you need to ensure that your vendors allow only the offshore team members to access your project related materials.

Parameters:

- *Physical security* – You need to enquire about the existence of a secure system like access card security in the vendor's company to prevent the entry of strangers into the company's campus.
- *Networking security* – Invention of sophisticated technology has only increased the fear of information being stolen. Hence, it becomes the top priority of the systems manager to set up a secure networking system. You need to talk to their systems

manager to understand if they have proper hardware / software firewalls installed in their network.

- *Intellectual Property security (IP)* – The most important aspect of ensuring security is the IP. You need to ensure that the vendor does not duplicate or misuse your project information for his or her company. You need to get them to sign agreement that talks about IP issues, non-compete and non-disclosure terms.

3.1.7 Language

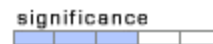


Common language to communicate is another important factor for the success of an offshore outsourcing relationship. When dealing with people whose native language is not English, there is a lot of risk of misunderstanding in both directions as well as poor documentation. This will always result in project delay and confusions.

Parameters:

- *Official language* - English is an official language in countries like India, Ireland, Pakistan and some other prominent offshore countries. In these countries, you can safely depend on a solid grasp of idiomatic English.
- *Common language* - Elsewhere, you need to ensure that there exists some common language for communication.

3.1.8 Culture



Many outsourcing relationships have come to an end due to cultural mismatch. You would tend to misunderstand the work habits of the offshore vendor. It is crucial to discuss and agree upon a common mode of work operations. The best way to avoid any issues is to understand, appreciate and accommodate each other's culture. It is also important that you educate programmers of the offshore vendor about your culture and make them feel comfortable working with you.

Parameters:

- *Openness* – A work culture that is very open and gives a comfort feeling to employees and customers is healthy for the company's growth. Ensure that the vendor has an open culture.
- *Timing flexibility* – You would be working with vendors with almost 12-15 hours of time difference. This means that you need to have programmers working

with in odd times for coordination, project delivery, and so forth. You need to ensure that they are not time oriented and would be ready to work with you at odd hours.

- *Learning* – Newer technologies are evolving everyday in the IT industry. You need to understand if your offshore vendor encourages learning within the organization and ensures that their programmers are up to date with new technologies.
- *Intrapreneurship* – It is very essential that employees own responsibility for their work. They will not be able to deliver the best quality if they consider their work as accomplishing the task assigned to them. You need to ensure that your offshore vendor creates an environment that allows programmers to own responsibility for their development work and take it to completion.
- *Communication* - Many companies have a bureaucratic organizational structure and a top-to-bottom approach that disrupts your communication with the programmers directly. This may cause delays in the project and dissatisfaction in the relationship.
- *Conducive environment* - Employees need to enjoy a very cheerful environment for them to be able to deliver their best. You need to ensure that your offshore vendor provides such an environment in their development unit.

3.1.9 Flexible Contract

significance



Signing a very clear and flexible agreement that ensures a comfortable feeling about your relationship with the offshore vendor is the most critical thing about an offshore outsourcing relationship.

Parameters:

- *Schedules and deliverables* – The contract needs to clearly mention the milestones, project deliverables and the deadlines to each delivery. It is also important to ensure that contract terms for failures to deliver, penalties for late delivery, etc. are discussed and documented in the agreement.
- *SLA & guarantees* – The agreement needs to define standards that need to be met to measure development performance like acceptance test criteria, coding standards, etc.
- *Payment* – It is essential to clearly define payment terms in the agreement.

- Payment cycle – amount that needs to be paid at the end of every milestone, or that needs to be paid monthly or weekly.
- Payment terms – period within which you need to make the payment after receiving the invoice.
- *Conflict resolution* – Even the best business relationships encounter problems from time to time. There could be issues due to not specifying the requirements clearly, or by not meeting the deadlines on time and so on. Be sure to spell out mechanisms so that each party can report problems to the other, and the means by which such problems may be formally addressed and resolved.
- *Risk cover* – It is important that you do not take very high risks while starting a relationship with an offshore vendor. You need to “TRY” the relationship before “COMMITTING” to the relationship. There are many offshore firms who make it easy for you to start, establish comfort levels, and then commit to a long-term relationship. You need to ensure that your partner adopts a similar strategy to get you comfortable with offshore development.
- *Term, expiration, and renewal* – Set a clear limit on the duration of the contract, and spell out the terms under which it will expire, and how it can be renewed. In general, it's better to require formal renewal in writing, rather than specifying conditions for automatic renewal. Likewise, it's often good to build in a contract review and price renegotiation as part of the renewal process, to account for changing marketplace dynamics and to help improve your relationship with an outsourcing provider.

3.1.10 Pricing



Pricing is always the final and deciding factor in any purchasing decision. Although pricing is very competitive in the offshore industry, it would vary from one vendor to another. It is essential that you measure pricing along with all the other critical factors while choosing the right partner. Also, you need to ensure that your risk is reduced to the minimum possible while engaging an offshore vendor.


Parameters:

- *Pricing* – There are two types of pricing in an outsourcing relationship. In one method, the pricing is based on an estimate of the project size. It is a fixed bid for a particular scope of work. For additional work, the vendor would estimate and come up with the additional cost. The other pricing model is

based on time and material. In this case, the vendor charges you an hourly, weekly, or monthly rate depending on the agreement and allocates dedicated resources to whom you can allocate any of your projects. You need to choose a pricing model that is suitable for you.

- *Price stability* – The pricing usually changes after a particular time period like one year or so. Some vendors would increase the price by more than 30% per year once you start working with them, and you become dependent on their team. Hence, you need to ensure that you discuss the annual percentage rise before finalizing the vendor.
- *Hidden costs* – Some offshore vendors keep their pricing low while promoting their services till they get you to sign the contract. Later, they would produce an invoice with billing for separate services like documentation, project management time, etc. In case of a time and material contract, they may charge you additional amounts for overtime spent by their programmers. Hence, you need to ensure that the offshore vendor has an open pricing model and does not add any hidden costs to their invoice after signing the contract.

3.1.11 References/Reputation

significance 

The success of a company is reflected in having satisfied customers and repeat business from such customers. Customers would want to continue business with the same vendor only when they get the best service. Hence, it is essential that you talk to current customers of the offshore vendor and understand their capability to satisfy them.

Parameters:

- *Customer relationship* – The ability of the offshore vendor to satisfy their customers and add value to them is an essential factor in considering them for the relationship. Hence, ask them about current customer relationships and what value addition has been provided.
- *Project management* – In an offshore outsourcing relationship, you would not be able to frequently meet the vendor during the project execution. Hence, it is essential that you confirm their ability in project management, communication and meeting deadlines on time.
- *Offshore infrastructure* – In case you are not able to visit the offshore development unit, you need to find out from their references about the infrastructure and environment they provide for the people to work.

3.2 Employee Information

significance 

3.2.1 Skillsets

The lack of readily available skilled IT resources in countries like the United States is one of the primary reasons behind opting for offshore development. The availability of a large pool of skilled human capital in offshore countries brings in a wider choice and flexibility in selection and hiring of team members while keeping the associated cost structure low. This also paves way for any quick ramp ups in team size that may be needed at any point in time.

Parameters:

- *Skillset availability* – It is important that you find out if the vendor has enough resources to work on your project, matching the technology requirement you need resources in.
- *Scalability* – It is also important that you find out the capability of the vendor to source skill sets with short notice.

3.2.2 People Quality

significance 

Today, due to the promotion of IT education in countries like India, the availability of novice programmers is three times that of experienced software engineers. Many of these programmers do not have a basic foundation in software engineering. The attractive job market in the IT industry draws them from different backgrounds to join short term programming courses. Many firms hire such people due to their low cost availability. Although they may be capable and intelligent, they cannot be allowed to handle your projects immediately, as their approach to the problem may be different from qualified programmers. They may take longer to solve problems and may not follow the development process strictly. There have been many disasters in outsourcing relationships due to this factor. Many companies still continue to do this and have not learnt from their failures.


Parameters:

- *Quality programmers* - It is essential that you confirm the quality of people who would be working on your projects. You need to take a look at their resumes and earlier project work. It is also important that you have them

interviewed by your technical person. It may also be useful if you talk to references where the programmers have worked directly with customers, and get their feedback.

- *Hiring policy* – It is advisable for you to understand the hiring policy of the offshore vendor. You could ask them about how the programmers are selected and what criteria are considered - like education, aptitude / technical tests, interviews, etc. You also need to understand the standard against which your vendor benchmarks candidates while recruiting.
- *Experience* – It is important that you do not outsource your work to an amateur team. You need to find out the years of experience of the vendor's development team. Ensure that the average years of experience of the development staff works out to at least 3 years.

3.2.3 Retention Rate

significance 

Retaining good people must always be a top priority for any firm. This is especially true in the IT industry where there has been a high turnover of people because of heavy competition and better opportunities. Any good offshore development firm has to keep looking for innovative ideas to attract and retain their best people.

Parameters:

- *Retention rate* – The higher the retention rate, the better the company environment. You could expect better productivity from a firm that retains best talent. Find out the retention rate of the company and ensure that it is high.

3.3 Technology Information

3.3.1 Technology

significance 

Technology keeps changing all the time and in order to develop and maintain robust and scaleable applications, you need to know if the offshore firm is technologically skilled to handle mission-critical scenarios. It is imperative that the offshore services firm has a deep focus on technology and is also able to reinforce its capability to migrate to different technologies in the required time.

Parameters:

- *Domain expertise* – Find out if the offshore firm has domain expertise in your technology areas. The capability to develop your technology supported by good customer references would enable you to qualify the vendor to the next step in the evaluation process.
- *Adaptability* – Although it is good if a vendor has expertise in precisely your technology areas, it is not the most critical factor in case you require specialized skill sets. The ability of the programmers to quickly learn the technology is the most critical factor. This would demand that the programmers have the necessary foundation in technology (example – Object Orientation, Database & RDBMS Concepts, good experience in fourth generation programming languages, etc.). The essential factor here is that you need to check if the offshore vendor has the basic ability to deliver quality projects.

3.3.2 Project Management

significance



The importance of project management is very pronounced in case of offshore outsourcing. You need to ensure the existence of a clearly defined and professionally followed project management system in the offshore vendor's development unit.

Parameters:

- *Project planning* – Project delivery needs to be planned properly and estimated well to deliver on time. You need to ensure that the vendor uses proper tools to manage the planning activity and meets milestones on time. Also, you need to ensure that the project will be managed by experienced and successful project leaders/managers.
- *Risk management* – It is imperative that the risks involved in executing the project are identified and assessed before starting the project. Project risks should be monitored throughout the lifecycle of the project and steps should be taken to alleviate them. You need to ensure existence of an efficient risk management system.
- *Status communication* – You need to ensure that there is good communication maintained throughout the project duration. Regular meetings with the developers and project managers on pending tasks and benchmarking the project status against schedules ensures that any deviation is identified early on and corrective action can be taken.

- *Reports* – There needs to be a proper reporting system that helps you to keep track of project status. The report needs to be well made with respect to providing complete status of the project. Ask for their sample reports and get a feel on the level of details they cover in their reports.

3.3.3 Software Development Process



The software development process adopted by the offshore firm bears a lot of significance while choosing the right firm to entrust a project. A well-defined process reduces the software development risk and allows the project delivery date to be rightly predicted. Also, managing a project becomes very simple when a standard process is followed uniformly throughout the organization. Documentation at every stage of the development cycle is another good thing about following a standard process.

Parameters:

- *Certification* – There are Organizations like the International Standards Organization or the Software Engineering Institute (SEI – Carnegie Mellon University), which provide certifications like ISO 9000 and CMM to firms that follow standard processes. Companies with certification from these organizations should be strictly following project development processes to ensure quality delivery.
- *Development process* – Certification from these organizations is not the only factor in choosing an offshore company. Vendors may follow a different process that suits their company. Hence, you need to ask and understand if they follow a process that is suitable for your company. They should be flexible enough to accommodate any changes in their process to ensure that you are comfortable working with them.

3.3.4 Quality



Quality is the most significant and prime factor in offshore outsourcing as it deals with satisfying customer requirements. Some key parameters to improve and maintain competitive advantage in the offshore industry is to offer better services, better customer orientation, guarantee quality in the end product and reliable delivery times by abiding to industry quality standards.

Parameters:

- *Coding standards* – Usually, companies define their own coding standards for each programming language. You need to ensure that you are comfortable with the coding standards followed by them. In case you have a specific standard that you would want them to follow, they need to be flexible and adopt them for coding. You also need to understand their naming conventions and verify if all the programmers follow the same convention throughout their project.
- *Code reviews* – You need to understand what code review practices (like code walk-through) are followed by the offshore firm. You need to know how they do their coding and whether the code is well documented for future upgrades and maintenance. A good practice is to ensure that psuedo-codes are written and approved by the module or project leaders before the actual code is written.
- *Testing* - It is essential that the offshore firm follows standard testing procedures at every stage of the development cycle to make sure that the end product is of high quality. You need to understand the level of detail they attend to while doing testing. The percentage of testing time in the development cycle would give you an idea of the level of importance given to quality.

4. Source

Having acquainted you with the factors that influence your decision making in an offshore vendor evaluation, we are now outlining some of the ways to find necessary information for the evaluation.

- Vendor's website
- Request For Information (RFI)
- Materials like correspondence with vendor representatives, brochures, white papers, process documents, quality manuals and other documents from vendor.
- Vendor's presentation about company, work culture, development methodologies, etc.
- Talk with Customers, Partners, Project managers, Developers and System Administrators.
- Vendor's hiring policies and procedures

- Resumes
- Interview with programmers
- Project demo or source code sample
- Visit to the offshore development unit

5. Conclusion

All said and done, to realize the potential of an offshore vendor, it is absolutely essential that you try them out with non-critical work before entrusting them with major development work. Moreover, offshore development is rewarding only in case of longer engagements and not for one-time projects. Successful offshore relationships are those that have been groomed over a period of time. But, you need to start somewhere. Hope you find this document helpful in making that start.