

Adaequare Business Solutions

Offshore Enablement Process

Enabling Offshore Development

A step by Step approach to define “Why”, “What” “How Much” and
“How” of Offshore Application Development and Maintenance

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Executive Summary

IT capabilities used to be a strategic differentiator - IT provided companies with new and unique ways to process business transactions and information – and created unique organizational capabilities. The advent of powerful, flexible and yet affordable systems has made it possible for even the smallest organizations to acquire the same capabilities that only large companies possessed just a few years ago.

IT has moved from being a differentiator to being a necessary part of doing business - *commoditization of IT*. Instead of the challenge of acquiring new capabilities, organizations are now faced with the need to manage *complex systems* and keep up with *change*. Technology has introduced an era of “hyper change”- a time of rapid and increasing rate of change. Organizations need to have the ability to change their infrastructure and resources rapidly in order to keep up with the changing business environment which demands more and more IT innovation. However, most of the IT Budget is spent on “Non-Discretionary” items like application maintenance, infrastructure maintenance and operations - leaving less than the required Budget for IT Innovations.

Introduction

Businesses are using offshore outsourcing to focus more on IT Innovations by cutting costs, optimal usage of internal resources, and efficiency improvements using matured processes. However, many offshore outsourcing engagements have gone wrong due to inadequate planning and improper management. Offshore Outsourcing is not an easy process; however, it can be relatively simplified by knowing, ***“What to Outsource, How to Outsource and How much to Outsource”*** before beginning an offshore outsourcing engagement.

A Portfolio Analysis (PA) approach to planning for Offshore Outsourcing of Application Maintenance & Development activities should be the first step in planning for Offshore Outsourcing. This analysis is much more than analyzing labor arbitrage. A detailed multi-dimensional analysis of the applications provides a clear understanding of the type of the application, its suitability to be outsourced offshore and transformational opportunities for efficiency improvements. An effective & efficient Application Portfolio Analysis followed by establishing the Offshore Organization, Process and Infrastructure are key factors for the success of an Offshore Outsourcing engagement.

Key Success Factors

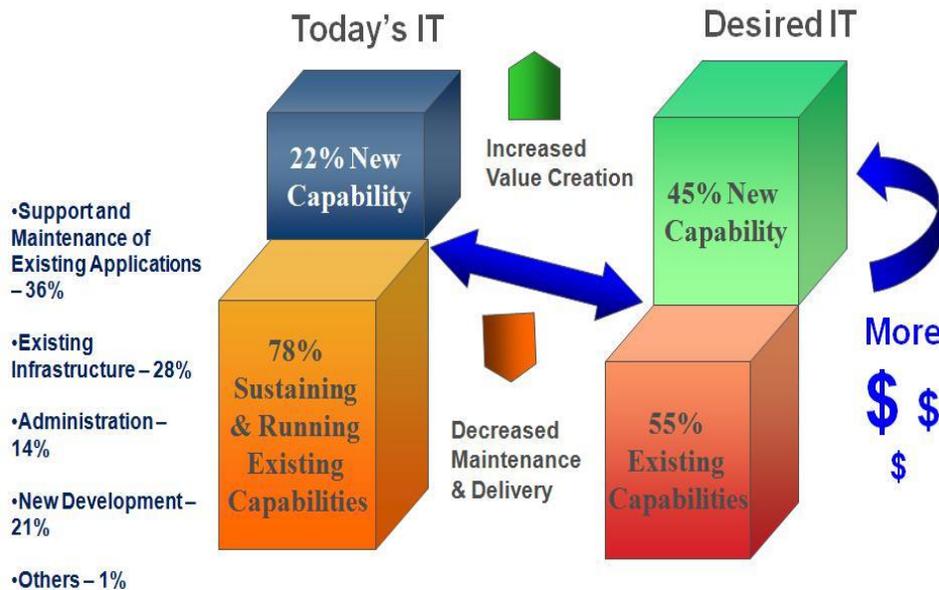
Achieving Revenue growth through IT Innovation and Reduction in Operation Costs are the key success factors for most of the Business.

Today the key priorities for the CEOs and the CIOs are:

- To Achieve Greater Strategic Agility
- Innovate Business Model and Process
- Improve Productivity & Reduce Cost
- “Do More for Less!!!” - with the existing Budget, Resource, Technology and Process Constraints

“87% of CEOs believe a fundamental change is required in next two years to drive innovation” – 2006 IBM Global CEO Survey.

Today, for a business to grow, there is demand for more and more strategic agility and productivity which can be achieved only through IT Innovation.



But about 78% of the IT budget is spent on sustaining and running the existing systems leaving very little room for developing new capabilities, which is key to the success of today's business. Forrester study shows that about 53% of the IT budget is spent on salaries.

At a time when IT innovation is demanding an increase in the IT budget, the budget itself is not increasing. Most of the CIO's are constrained by "tighter IT budget" and "cost savings". The only way to create room for developing new capabilities through IT innovation and achieving cost savings are:

- Cut Costs in other IT spending areas (while maintaining the same level of service) and realign these savings for IT Innovations.
- Increase productivity gains & operational efficiencies by a transformation of the IT services & processes

Growing Trend

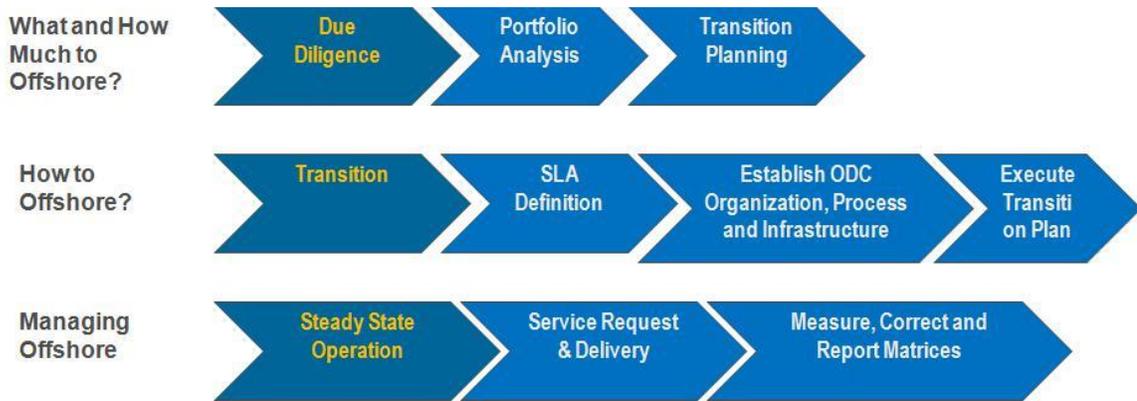
More and More Organizations are turning to Offshore Outsourcing as an answer to challenges.

Why Offshore?

Offshore Outsourcing has become mainstream and its advantages have been widely published. A growing number of businesses are taking advantage of Offshore Outsourcing to reduce costs, gain operational efficiencies through better processes and increased speed to market and effectively leverage their expensive IT resources and IT innovation activities. Offshore Outsourcing is very important for SMBs to be competitive in this market. With their limited IT budgets, focus on IT Innovation is mainly achieved through offshore outsourcing. Apart from cost savings, access to specialty skills, agile platform, faster turnaround time and flexibility in staffing during peak & lean periods are some of the other key advantages realized during offshore outsourcing.

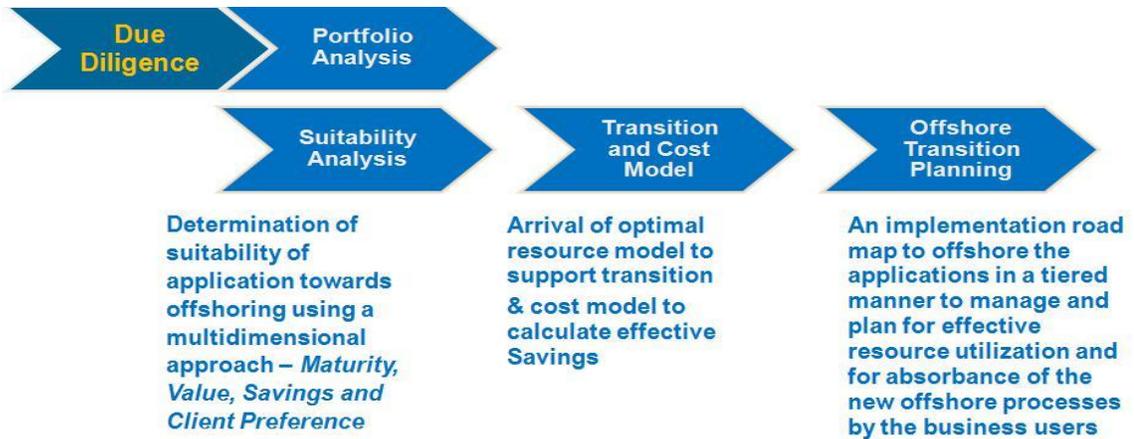
But we still need to answer “*What*” “*How Much*” and “*How*” to Offshore and these are discussed in the following pages.

Offshore Enablement Process



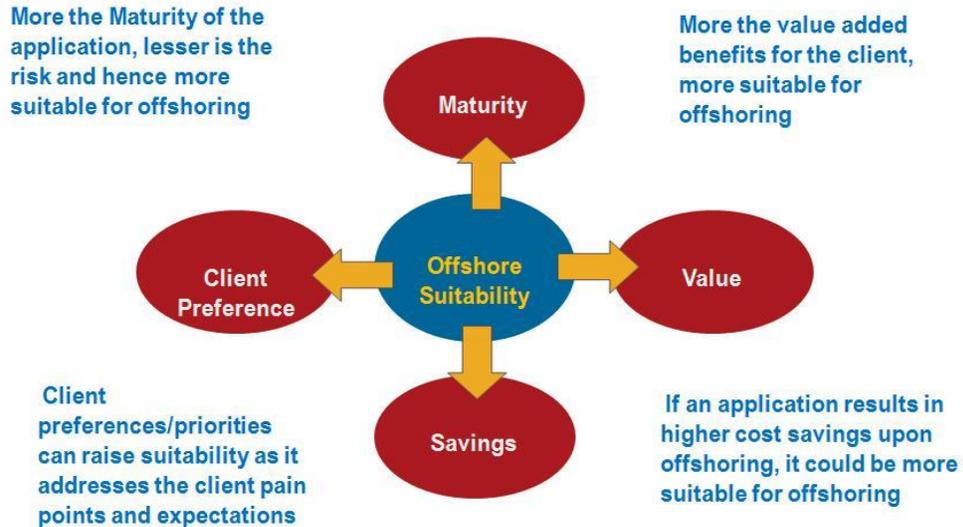
What and How Much to Outsource Offshore

The first step in the offshore enablement process is to define “What” and “How much”-to outsource offshore – the Due Diligence Phase. The two major activities in this phase are Portfolio Analysis (PA) and Transition Modelling. Portfolio Analysis is a unique, short-term, high-value assessment to lower development & maintenance costs, reduce risks and increase the quality of IT service.



Due Diligence Phase

Offshore Suitability Analysis



Maturity Modeling

Maturity Modeling is used to assess the risks associated with offshoring an application. The more matured the application, the lesser is the risk associated with offshoring. Applications are categorized into three major categories: Commodity Applications, Core Applications and Business Differentiator Applications based on the Complexity and Criticality of the applications. Maturity analysis is then performed for each application in the portfolio using multiple dimensions e.g. Volatility, Criticality, Complexity etc.

Value Modeling

Value Index is an indicator of “Add On Value Benefits” that are significant and could make a significant difference to the customer. Value Index is measured against the current state of the applications, systems and processes. Value Analysis is also a multidimensional analysis that considers system level norms and application level norms.

Savings Modeling

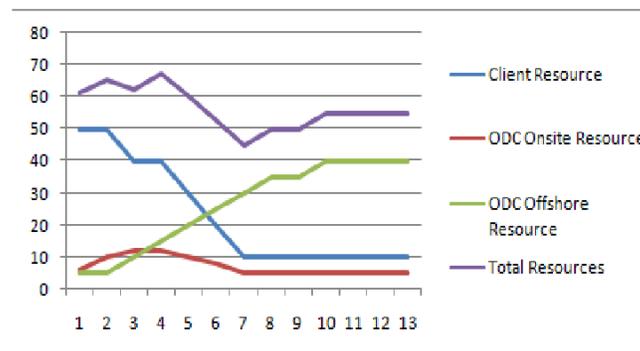
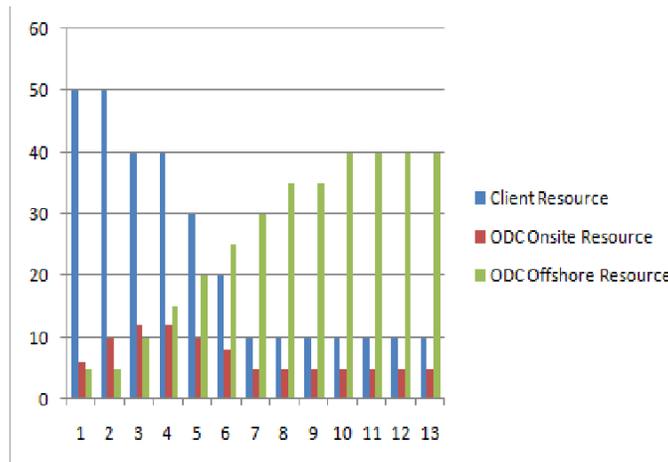
Savings Modeling provides an early insight into the cost savings potential for various applications because of offshoring. The first step in Savings Modeling is to perform Transition Modeling followed by Cost Modeling.

Transition Modeling

Transition modeling is used to comprehend the optimal time and resource distribution needed during offshoring based on the following parameters:

- Onsite/Offshore Resource Percentage
- Base Resource Level
- Steady State Resource
- Ramp Down Percentage
- Staggering Months
- Transition Phase Duration

At the end of Transition Modeling, the resource distribution model during Transition Stage and in the steady state will be defined. An example of resource distribution is provided below for illustration purpose:

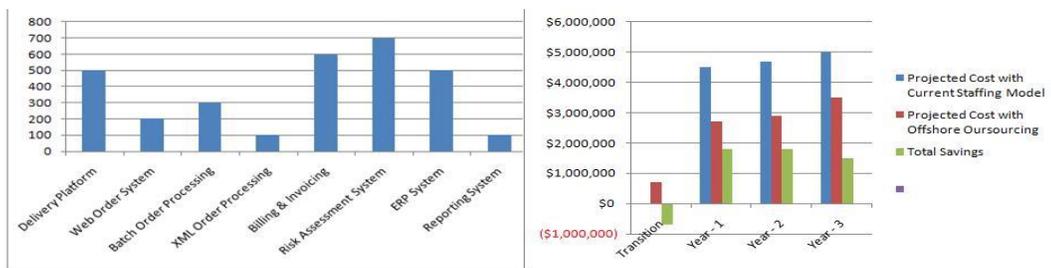


Cost Modeling

Cost Modeling provides an early insight to client on potential cost savings due to offshoring at application level. Transition Model is the key input for Cost Modeling.

Cost Modeling is performed on the basis of actual cost parameters:

Resource Data	Cost Data
<ul style="list-style-type: none"> Steady State Onsite Resources Steady State Offshore Resources and Resource Types No of Client Resources in Steady State 	<ul style="list-style-type: none"> Client Resource Cost ODC Resource Cost Inflation



Application Level Cost Savings (in 1000's USD)

Overall Cost Savings

Transition Planning

A final implementation road map on a tiered approach is derived using inputs from suitability analysis and transition & cost models. The associated risks and mitigations are also identified. The following diagram shows an example of application transition plans and tiers:



At this point, the Applications are classified on the basis of Suitability/Portfolio Analysis and the Offshore Transition Plan is ready.

Transition Phase

The next Phase is Transition. The two major activities in the Transition Phase are:

- Defining the Service Level Agreements (SLA)
- Establishing ODC Organization, Process and Infrastructure

Defining the Service Level Agreements (SLA)

SLA defines the support functions that the Vendor Team will commit to, throughout the engagement, assigns priorities to these functions, and establishes baseline service standards and commitments. SLA is the reporting vehicle for the performance measurement and provides the opportunity to identify service-level improvements throughout the engagement.

The SLA should be viewed as a dynamic document and should be periodically reviewed and changed when the following events occur:

- The environment has changed
- Client's expectations and/or needs have changed
- Workloads have changed
- Better metrics and measurement tools and processes are evolved

Establishing ODC Organization, Process and Infrastructure

One of the Key Factors for successful offshore operations is to define the ODC Organization Structure, Process and Infrastructure.

Organization Structure

- ODC Program Management Office
- Offshore Team Structure, Roles and Responsibilities Definition
- Onsite Team Structure
- Onsite & Offshore Collaboration Model

Process

- Software Development Process, Enabling tools and infrastructure
- SQA Process, Best Practices, Review Checklist

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- Requirements Management Process
 - Architecture and Design Process and Guidelines
 - Change Management process
 - Configuration Management process
 - Communication Process

Infrastructure

- Collaborative Project and Portfolio Management Infrastructure
- Communication Infrastructure
- Change Management Infrastructure
- Configuration Management Infrastructure
- License Management Infrastructure
- Test Infrastructure

This document describes the motivation for offshore application development and maintenance and describes at a high level, “What and How Much to offshore?” and then describes how to establish an offshore development center.

About Adaequare

Established in 2001, Adaequare is a CMMI Level 3 Certified software services company specializing in product development, data and test engineering. We assist IT teams in delivering high performing solutions to the business with faster time to market and high returns on investment.

With a global presence across 3 different locations, we focus on medium to large businesses and encapsulate consulting, results-driven engagement and delivery models which are important to our target customers.

We work with several companies in the USA such as CoreLogic, Tria Beauty and have been either a dedicated IT partner or a preferred IT partner. We have offshore delivery centers in India that support our customers in product development, Tier 1 and 2 support and testing with over 300+ resources.

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