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Beyond Skill and Costs: Key Criteria for Evaluating Onshore Development Partners

A Catalyst Business Brief

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Executive Summary: The growing adoption of agile and recognition that team proximity is core to successful innovation and transformation projects has given rise to a new model of outsourcing focused on onshore and onsite development. This shift is changing how enterprises think of outsourcing and the requirements that should be used when evaluating and selecting an onshore partner. With the onshore paradigm, cost is no longer a primary metric, having been replaced by more business value and outcome-oriented metrics such as speed, responsiveness, communication, culture and shared risk.

Mention the term "IT outsourcing" and many people's first thought is low cost, offshore workers.

However, the growing adoption of agile, combined with the communication, cultural and quality challenges of distributed development teams, has given rise to a new model of onshore and onsite outsourcing. Enterprises that adopt this model are better equipped to deliver engineering that drives revenue, transformative products and high-speed, strategic technology that is key to every large organization.

The shift from offshore and arms-length to intimate, co-located or onshore partnerships begets a corresponding change in the way enterprises source vendors. Selecting an offshore vendor was largely based on cost requirements. Those requirements do not work when selecting a vendor that will develop technology applied to an enterprise's core business.

This paper will help explain the requirements enterprises should use when evaluating and selecting such a partner vendor. It will argue that instead of cost, a vendor's culture, communication, speed and responsiveness, ability to share risk and ability to run test projects are among the key factors to investigate when selecting a partner handling development for strategic or innovation work.

IDEA OF ONSHORE DEVELOPMENT

Since the acceleration of the digital revolution in the 1990s, outsourcing has been synonymous with offshoring. Companies sought to globalize their engineering workforces to keep costs low and ensure engineering bandwidth. This was a result of rapidly growing need for technologies that automated internal business processes, such as finance or HR, or kept an enterprise operating...

The rise of consumer- and customer-facing digital technologies (social, mobile, cloud) and the importance of continuous development, integration and delivery have transformed enterprise IT. Every large enterprise is now in the business of constant innovation. They use engineering to transform and evolve their business models with increasing speed and meet the expectations of an impatient public.

Many enterprises have adopted agile development methodologies in order to meet these demands. These methodologies focus on collaboration, speed, quality and communication to facilitate innovation.

These agile tenets help enterprises develop better software faster, with better alignment with the strategic needs of an enterprise. But, they are difficult to implement with an offshore outsourcing model.

New Sourcing Models

The digital wave and agile adoption have combined to change the ways in which enterprises use development partners. Analysts talk about the need to match vendors to different types of development work.

Gartner describes this approach as "adaptive sourcing." It categorizes development projects as innovation, differentiation or run (systems of record).

Forrester's "multisourcing" model is similar and shares the overall premise: different vendors are adept at handling different types of work, and different vendor models are better suited for certain types of work.

Whatever terms you use to describe it, the idea is that you need different partners and therefore different sourcing strategies for different types of development work.

System of record applications, applications that keep the business running, deal with back-office or basic infrastructure services, may be best served when offshored. These types of projects are more linear in nature and are typically composed of the day-to-day operations of application and infrastructure services. These are projects that sometimes can be delivered in a more traditional waterfall environment without much innovation or customization. They require limited daily interactions or collaborations between business and development teams.

The teams responsible for innovation need to be more involved in the strategic direction of business units across an enterprise. That's why these teams are typically in the same country as the enterprise's core team. They often have a common cultural or interest base and can develop real-time, informal relationships across the organization.

The development work focused on innovation creates competitive advantages, drives revenue, builds brand and customer loyalty and capitalizes on short-term market changes. It demands close cooperation and communication between business units and development teams and usually requires an agile development approach and culture. It is also the type of engineering where the appropriate partner can offer real strategic value, if an enterprise knows what to look for in an onshore outsourcing partner.

Vendor Evaluation

A multisourcing strategy that uses offshore and onshore vendors for different types of work requires different methods for evaluating vendors during the selection process and throughout the duration of the relationship.

Offshore vendors are often selected based on price and skill set. Onshore vendors should be held to different standards.

Price is not the first thing to consider. While hourly rates may not compete with offshore, the total cost of project ownership is often less (see Catalyst's Hidden Costs of Offshoring business brief).

In addition, most onshore partners can present a portfolio of similar development skills. These vendors are all typically well versed in various development platforms, cloud operating systems and testing tools, for example.

So, if there's a near-level playing field of skill and cost, what criteria can you use to evaluate and compare the value of onshore development providers?

While there is no single answer to that question, we've compiled a list of five key factors every enterprise should evaluate when selecting an onshore development partner:

- Culture
- Communication, transparency and outcomes
- Responsiveness
- Ability to share risk
- Ability to test drive the relationship

Evaluation based on these factors, and not cost or skill, is the best way to ensure innovation in your development efforts and receive the greatest value throughout your entire organization.

CULTURE

Under the general umbrella of culture there are several categories to consider. The first is general cultural fit. How does the vendor/partner mesh with your corporate culture?

Is your organization heavily matrixed or siloed? Does getting things done require building relationships and thinking "outside the box," or is that considered disruptive to the general flow of business?

Finding a development partner who fits in with how you do business is important for gaining full value from the relationship. Connecting at that cultural level builds trust between outsourced teams and the organization as a whole. This leads to better collaboration and communication, important factors in producing quality and valuable work.

Agile Culture

As mentioned, innovation projects require a commitment to agile methodologies. While any development partner can work within these methodologies, are they culturally agile? Do they practice them within their own organization? Can they help train and implement best agile practices in your company? And have they done so before?

That last question is critical if you want to transform your organization. A partner who has experience implementing and training agile offers more value than simply completing one project. They can help re-architect your company piece by piece to be more competitive, innovative and responsive to changing macro IT dynamics.

For this to happen, both vendor and client culture must be aligned. Furthermore, the client must be primed and open to move to agile. No matter how good a vendor is in training or shifting an enterprise to agile, if the enterprise isn't ready and willing, the effort will be in vain.

This shift doesn't need to come all at once, however. Best practices dictate that agile implementation should happen iteratively.

Start with a small project or group. Closely monitor the results. Then correct course or broaden implementation to other business units. A partner that has experience in agile implementation at the enterprise level should be familiar with this approach and understand how to get around potential roadblocks.

(To learn how to overcome obstacles to agile implementation, see Corporate Roadblocks to Agile Adoption.)

Developer as Consumer

If a development partner is to provide full value, they must understand the business objectives for the project and how customers, clients or employees will use it. For example, if a partner is tasked with developing a wearable technology app for runners, they should understand the needs and wants of the target customer. They should speak the same language as runners who will use the product.

An onshore partner can provide value by understanding the complexities of your industry. This expertise is built up over years of experience on projects within a certain field. Or it can be built up from the correct personal experience of engineers on the team.

Developers who understand these complexities from a user perspective can more quickly and effectively transform ideas into outcomes. There's no time wasted in reaching peak velocity or wasted budget with multiple iterations that fail basic use case scenarios or expectations.

Speaking the same language, whether of the customer, client or industry, allows development partners to understand the context for business problems. They can then move from just offering technical solutions to offering valuable consulting that can help grow business units. It's at this level of partnership where real value and innovation occurs.

COMMUNICATION, TRANSPARENCY, AND OUTCOMES

An important aspect of communication is reporting. Without accurate reporting, enterprises are left wondering if they are getting full value from development partners.

When the goal is innovation and the methods are agile, the standard reporting metrics of cost, scope and deadline are less relevant. You can't simply rely on vendors reporting on these metrics at the end of a project, because there is no longer a defined project end date.

Iterative progress, however, can be measured. Development partners should be able to report on such metrics as team deployment (how fast they can have a full scrum team in place), ramp up time to first sprint, time to peak velocity and time to first minimum viable product.

These new reporting metrics offer a better real-time look at product development. They can help you easily understand which efforts need more support, which should be allowed to fail fast and how to allocate budget.

Given that no two development efforts are exactly the same, development partners should be able to customize metrics. Neither client nor vendor should insist on a one-size-fits-all data reporting approach.

Investigation and negotiation at a project's start should uncover what metrics will best support the business case for the effort. Reporting and communication of progress toward goals can then be customized to fit these goals and ensure success.

Problem resolution

Everyone hopes that all development efforts will be problem free. But, reality dictates that inevitably, something goes wrong.

When it does, there needs to be clear, well-established communication channels for problem resolution. Every member of the client team should know his/her vendor counterpart. They should be able to reach out directly to their partner peer and be empowered to escalate an issue if the situation warrants.

This may seem obvious, but it's often not. Almost every partner will provide a senior point of contact to interact with peers and others in an enterprise. But, when the engineering tasks are strategic to an enterprise and involve product development or core innovation thinking, the correct approach is for formal and informal relationships to exist and thrive between every member of the partner's team and every relevant person in the enterprise.

These informal relationships are difficult, if not impossible, to establish by videoconferencing. They require the trust generated by informal communications and deep personal and professional understanding between team members. A vendor who commits to put a "client executive" onsite, with the rest of the team sitting elsewhere without any co-located time, typically fails to achieve this level of trust.

Moreover, an onshore partner should provide not only a client engagement team, but also a communication framework that establishes both a cadence for regular communications and a path for issue escalation. Establishing an escalation path that includes engaging management and senior leaders of the partner team is critical to resolving issues without taking development resources off of the project in question or other projects. Executive sponsorship and participation in such a team builds trust with the client and demonstrates a commitment to partnership.

If a partner is transparent, many issues should be resolved before they become problems. This ability is a direct byproduct of agile, open and honest communication. It helps to recognize problems before the fester. The earlier you can identify an issue, the easier, less costly and time consuming it is to fix.

RESPONSIVENESS

Agile teams are naturally highly adaptable. They welcome change and accommodate it by minimizing the disruption it can cause.

Similarly, effective agile partners should provide a custom fit for their customers, since every organization operates differently and has different needs. Responsive partners strive to understand your business processes, lingo and culture. They do not function as disinterested outsiders, but as members of your organization, willing to adapt to your ways of conducting business.

Providers of software development teams that proclaim, "We practice strict Scrum," or, "We are a Java EE shop," are not likely to be able to provide the flexibility innovative organizations demand. Instead, they are more likely to provide advice and services that align with their own competencies, when they should work with you to create an approach that ensures optimal outcomes.

Speed of Team Assembly

Every delay affects time-to-market and future profitability. Often, the greatest delay is assembling the right team. This could stem from having to hire new developers or waiting for other projects to conclude.

For innovation projects, you want to have a team available to start as soon as you are ready, whether or not you have all of your requirements defined. For the fastest moving, most mission critical work, you will want a partner that can deploy a team in days rather than weeks.

The ability to quickly assemble teams and deliver software offers a competitive advantage over slower moving competitors. The best partners have a deep bench of talented developers who have worked together in the past. These intelligently assembled teams can be quickly deployed and their familiarity leads to faster ramp times.

By aligning with a quick-responding provider, IT organizations demonstrate a shared sense of urgency with internal constituents and lines of business. This contrasts with other models that can substantially delay the start of a project due to the need to build up infrastructure to support communication and workflows between client and partner.

Scaling the Team

Projects often must change midcourse to respond to tweaks in scope, immoveable deadlines or market forces. Sometimes, there is no choice but to increase the size of a development team to compress, or "crash," the schedule.

Conversely, scope or budget can decrease. It may be preferable to reduce the size of the team to maintain forward momentum but reduce burn rates.

A partner should be able to accommodate these changes, allowing team sizes to wax and wane when appropriate. They should also be able to provide feedback on the impact of scaling the team.

Dynamically resizing teams has costs. New team members require ramp-up to be productive. Departing team members take with them domain knowledge that cannot be easily replaced. These drawbacks can be ameliorated if your partner offers a structured ramp-up process for new team members, as well as a transition period for those that are leaving. A good partner will be able to consult with you about optimizing team configuration to meet project goals and improve outcomes.

Choosing the Location of the Partner's Team

Much systems-of-record work can be accomplished anywhere. However, products that must quickly adapt to external market demands or changing requirements are best suited for agile development teams.

Agile teams work best when they receive continuous feedback and can communicate without obstruction. Particularly at the start of a new effort, it is imperative that you and the partner collaborate closely to ensure the success of the first sprint. This is best accomplished at the same physical location.

However, preparation for the arrival of a large team presents its own logistical challenges. It may actually delay the start of the project. And there is the added expense of bringing the team to you, both in terms of travel and IT resources. It may therefore be preferable to allow a team to work remotely, provided the partner is able to migrate the team, or just key members, onsite or offsite as needed.

A responsive partner should offer the ability to locate the team on-site, off-site or both. For example, the partner could provide you some or all of a team on-site initially and then migrate off-site once the project has hit its stride. Such a strategy would reduce both the risks associated with starting new projects and long-term costs once the team begins working remotely.

Shared Risk

One complaint many organizations have about agile is the perception that they are shouldering 100 percent of the risk burden. Since many agile teams work on a Time and Materials basis and don't feature milestones or even deadlines, it seems like they operate in a relatively risk-free environment. Meanwhile, organizations have to deal with budgets, corporate expectations and their own customers' needs.

Organizations have always had greater exposure to risk than their outsourced teams. However, the disparity of the risk share between organizations and their partners has grown perceptibly. With

little economic risk, an undisciplined software development team may introduce risk to the project. This introduces moral hazard, since the team faces few penalties for putting the project in jeopardy.

Greater transparency and willingness to share metrics throughout the project will help shift risk from client to vendor. By exposing project metrics like team velocity, committing to regular sprints and demonstrations of working product, and providing continual insight into progress towards project milestones, outsourcing partners build confidence and trust with their client partners.

By being transparent, the vendor puts its credibility on the line. It shows, from beginning to end, what is being done and what goals are being met. The client doesn't have to worry or wonder if changes in scope are affecting deadlines; they can see the progress as it advances, even if it deviates from the initial plan, and the client can definitively "see" the return on their outsourcing investment.

A partner also reduces risk through careful, thoughtful team assembly. When outsourcing a software project, you don't just want a team of outsiders to write code. You want a partner that shares your vision, strategy and risks. You are investing a substantial amount of time and money to bring the application to fruition. You should expect your partner to invest in your success.

Ideally, the team identified to develop your software will stay for the duration of the project. However, changes to the team are likely.

Developers respond to life events. Motivated software developers may want to leave to develop new skills. Or the team may want to involve a subject matter expert while the project is in progress. It is often healthy for a team to introduce new faces and perspectives from time to time.

However, software developers are not commodities. Swapping one out for another may cause disruption to productivity and decrease the value you are receiving from the team. Partners that are willing to invest in a long term relationship with you should offer reduced billing rates or even free ramp-up time for incoming developers, minimizing the financial risks of team change.

Although staff changes are a reality, you and your partner can share the risks and benefits of such transitions. Also, partners should work with you to proactively manage planned turnover to avoid more disruptive unplanned turnover that occurs when individuals look for greater challenges presented on a project over time.

Test Drive the Relationship

When an organization engages with a new software development partner, there's often an initial period where each side must discover how the other conducts business. Paths of communication must be established, stakeholders and project teams must learn to engage with each other and product owners need to work with the team to create useful requirements. This adaptation period is a necessary investment, but it does introduce risk into the project.

One way of ameliorating the risk of an initial engagement is to outsource a small, test project of 8-12 weeks. This project may be of limited consequence to the enterprise, but it should in no way be considered a throw-away project. It's an opportunity to add some value to the organization while discovering the nuances of the relationship. It will have been devised with the intent to add business value and be extensible should the enterprise desire more functionality in the future.

Agile as a Disruptor

When this test effort is an organization's first taste of agile, the development partner must be prepared to help the business overcome transformation hurdles.

For many enterprises, agile adoption is disruptive to their existing business processes. Agile software teams demand a high degree of stakeholder involvement compared to other methodologies. Even if the stakeholders understand and welcome an agile process, often personnel outside their organization may not know or care about how software gets created.

If an organization is new to agile, it will likely need time to adapt. The development partner should be equipped to educate and iteratively implement agile principles.

As delivery models for innovation work evolve, all aspects of the business are impacted – from application development to project management to funding. As a result, enterprises must be prepared to adapt their approach to sourcing, evaluating and managing development efforts and outsourced vendors.

"Old" metrics, like cost, have no correlation to quality or outcomes. Because of the critical nature of innovation work, evaluating vendors on these "old" metrics, puts the outsourced effort at risk. It also puts related business factors like revenue, productivity and brand at risk.

Vendors should be evaluated as partners, with consideration given to how the vendor will fit into your business culture and how effectively and seamlessly the vendor and your team communicate.

The most valuable business partners will be adaptable and flexible, ready to respond to your business needs even as they change. They will invest in your success, share in business risk and provide documented means for mitigating common risks like change in team members or change in scope. Valuable business partners will be willing to start small, to prove their mettle, and to act as a guide as your business and development practices evolve.

Catalyst is a provider of agile application development services and has been recognized by leading analysts for innovative, agile contributions to Fortune 500 and medium-sized enterprises throughout the United States.

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