Insights: Establishing Offshore Software Development Ecosystem

Today's organizations are forced to focus on not just the technology development but effective management of these developments. Increasing financial orientation has made offshore software development an integral part of today's technology strategy and technology portfolio of many organizations. Historically, offshore component has started as purely cost arbitrage, today it has evolved into strategic component where some of the organizations are using it as 24x7 round the clock software life cycle for faster time to market. Offshoring of research and critical component design are few examples that points to this fact. Specifically in investment management field, organizations have offshored financial research and information technology components. This paper will focus on the topic of software development outsourcing to offshore locations and points to consider for establishing ecosystem needed for successful offshore development projects.

Successful ecosystem takes time to be established and there is no silver bullet that will establish one size fits all organizations model. It has to be adopted based on the circumstances and culture of an organization but there are certain basic elements that need to be in place for a successful ecosystem. Examples of some of these critical elements are: Vendor Selection, Vendor Management, Pricing Model and Scope Management.

Vendor Selection

The most common misconception is to select offshore software development vendor based on pricing, this is more applicable for small and medium size organizations. In the short term it sound enticing but over the longer term it could prove expensive given the learning curve and higher switching cost for on boarding and managing offshore vendors. Vendor selection should also consider the skills required to do the job at hand as well as future needs of the organization and how well a vendor can serve those needs should be a critical selection criteria. The needs of the organization can start with technology but can expand into the areas such as communication channels, infrastructure, skills of resources, vendor location, and availability of resources in vendor locations. This is by no means an exhaustive list but more of an indicative list to understand non technical aspects involved in vendor selection. Contract negotiation and service level agreements (SLA) are also important aspects of vendor selection. Another important aspect that should not be ignored is dependence on a single vendor. Successful organizations have used pool of offshore vendors to mitigate vendor risk; empirical studies suggest that having two to three vendors works better in most situations.

Vendor Management

Once a vendor has been selected for offshore software development project, the management becomes a key success factor. Various metrics can be deployed to manage the vendor relationship with some of the areas that should be focused on:

- Response time for work requests against SLA promised

- Time taken to deliver against SLA and/or project plan
- Number of bugs detected in the work delivered
- Understanding of the domain (how quickly can they learn and provide value added feedback)
- Resource turnover and knowledge transfer processes

The most important point to understand is that offshore development needs buy in from all project stakeholders as well as time should be allocated for vendor management. Depending on the size of an organization, there should be some type of oversight needed to monitor, enhance and enrich these processes. These metrics need to be monitored periodically for accuracy and analytical value they provide at the same time feedback loop need to be in place to continuously enhance these metrics and if needed create new ones.

Other Areas

There are many other areas that constitute the ecosystem of offshore software development: scope management, communication, resource, knowledge transfer processes, pricing models are some of the examples. Managing scope is one of the common reasons for failure of an offshore project. It can become an acute issue given void of proximity with project stakeholders. One of the key to success is having smaller milestones and establishing a 2-4 week delivery/release cycle. The shorter release cycle effectively mitigates any communication risk and can create a continuous feedback loop to effectively manage a project and timeline. This works adequately on activities that do not require any research work. For the projects that involves some kind of research, proof of concepts tend to be better choice for managing scope. In any event, an effective plan of action is needed to address this critical issue of managing scope.

One more critical point worth mentioning here is the usage of pricing models. The most prevalent models are fixed price and time and material (commonly known as T&M). Both of these models come with their own advantages and works particularly better in specific situations. For the projects with well defined scope fixed price works best where as T&M model works better for maintenance type continuous ongoing streams of work. Organization size and amount of work being outsourced will also constitute a factor in deciding the pricing model. There are other types of pricing models being used, for example, smaller organizations where technology work tend to be sporadic, retainer type of pricing model works the best.

At the end, it is very clear that offshore software development has obvious business advantages but it also comes with its own challenges. Organizations, regardless of their size, need to establish ecosystem with dedicated attention to manage various aspects of offshore software development. Successful organizations will be the ones who can establish a blueprint for offshore software development based on their size, culture and remain flexible enough to enhance and enrich this ecosystem based on their needs.

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