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It is Time to Switch Your Outsourcing Vendor

A White Paper

Background

As more and more companies are sharing dissatisfaction with their existing software development outsourcing arrangements, companies are evaluating risks and rewards of switching outsourcing vendors. When switching outsourcing providers significant risks can be avoided or minimized if best practices are followed. When faced with failing outsourcing relationship, it is critical to have contingency plans in place, identifying a replacement outsourcing partner and putting a transition plan in place before pulling the plug.

In this white paper, you will discover:
• Risks in switching an outsourcing provider
• How to choose a new outsourcing vendor
• Planning the vendor switch

Risks in Switching an Outsourcing Vendor

Studies show that if the software development project starts on a wrong foot, it rarely recovers. When an outsourcing vendor fails to meet their commitments early on in an engagement it usually sets some red flags with the management but often we do very little about them until it is too late. This usually leads to loss of budget, time, effort, business risk and overall huge frustration for everyone involved. Even though vendors may implement "continuous improvement" plans and promise to meet client expectations, statistics show that significant majority of projects don't bounce back.

The three risks that need to be managed to pull off a smooth transition include:
• Contract Risk
• Switching Cost Risk
• Knowledge Transfer Risk

Contract Risk: If your outsourcing vendor's service performance is subpar and their continuous improvement process is working for you, there are several terms you may need to review within your outsourcing agreement that will extricate you from the contractual agreement. By exercising these clauses you can immediately reduce your exposure due to non-workable outsourcing relationship.

• **Termination for convenience** - Most agreements contain a termination for convenience clause that will enable you to terminate the contract with or without cause, subject to written notice after an agreed upon initial minimum term.
• **Headcount reduction plans** - If your contract has an explicit headcount reduction clause, you may immediately exercise it, typically with written notice.
• **Staffing levels** – Most outsourcing agreements set minimum staffing levels, with a provision and expectation of ramping up supplemental resources via additional resource sign-offs or purchase orders. You can immediately take advantage of this clause and reduce the staffing levels to the minimum.
• **Change of control provision** – If part of your existing agreement you can designate new project owner who will have the ability to specify new service levels.
• **Contract renewal** – If you have an agreement set for renewal for initial trial period, it is simple thing to not renew.
• **Breach of contract** – Let this option remain the last resort.
In our experience, you should be able to use any combination of the above options effectively.

Switching Cost Risk: The idea here is to minimize duplication of effort during transition. No switch can be conducted without some period of overlap between the vendors. The issue boils down to reducing the financial burden of funding two vendors simultaneously and ensuring all the work and knowledge that has been paid for by the client to the outgoing vendor is available to the replacing vendor so rework can be minimized.
• Financial burden can be reduced by creative financing modeling with the replacement vendor so as to minimize P&L and Cash Flow exposure for both parties.
• Ensuring strict measures, reviews and monitoring are done to ensure the outgoing vendor provides all assets and documentation that preserves knowledge generated during the initial failed term so as to reduce rework.

Knowledge Transfer Risk: Knowledge transfer plan is the key when switching vendors. There can be an urge to rush through the vendor switching process, but the biggest mistake clients can make is not ensuring knowledge transfer is well managed. Having a well-documented and planned knowledge transfer process can ensure new vendor is productive and accountable, while minimizing project risks.

Well-structured knowledge plan should include but not limited to the following:
• **Client/Vendor Operations Overview**
o Identification of Team members & core resources
o Organizational Overview
o Communication Protocol
o Escalation Plan
o Expansion Planning

• **System Architecture**
o System Design Documentation
o Database Documentation
o Past bug lists
o Sample Database

• **IT Policies, Protocols and Procedures**
o IPR Protection
o Network & System Security
o Remove Access

How to Choose a New Outsourcing Vendor
You have decided to switch your outsourcing vendor; success will depend upon you selecting the correct replacement vendor and their ability to transition, integrate and reach steady state in a record time.

Here are six criteria that will help you select a new outsourcing vendor:
• Site Visit & Team Interview
• Top Management Attention
• Process Orientation & Maturity
• Prior Experience
• Contractual Flexibility
• Billing Flexibility
• Transparency & Project Visibility

Site Visit & Team Interview: Insist on conducting a site visit and interview of candidates joining your resource pool. This will ensure good quality resources with relevant technical and behavioral skills become part of your team.

Top Management Attention: Many outsourcing companies have been growing by leaps and bounds over the past few years; having an outsourcing vendor that ensures top management attention that you are important for their business and thus will enable success.

Process Orientation & Maturity: Any outsourcing vendor you select should have shown process orientation and maturity through certifications, well-honed process methodology and successful use of repeatable processes to build efficiencies. The certifications may include SEI CMMi (Level 3-5) and ISO certifications. This will ensure success during the transition process as well through the life of the engagement.

Prior Experience: One should check the outsourcing vendors experience in managing project switching and rescuing projects. Such vendors will have proven and well hone transition methodology and project transition plans in place. Having relevant prior experience is a good indicator of process success and reduces your project risks.

Contractual Flexibility: Any outsourcing vendor you choose should be confident in their ability and thus show flexibility towards the following key clauses in your agreement.
• Termination for convenience
• Headcount reduction plan
• Minimum Staffing Levels
• Change of control provision

Beware of vendors who are not comfortable in being flexible towards these clauses as shared above; they may be trying to lock you down contractually.

Billing Flexibility: Outsourcing vendors who show flexibility and willingness to work with you through a creative billing arrangement during the transition period may be more committed and confident about what they can do for their clients.

Transparency & Project Visibility: Many vendors talk about transparency, project visibility and continuous improvement in their sales and marketing talks but not many are able to show you how they measure success. A confident outsourcing vendor is able to demonstrate this by collecting real time performance metrics, analysis of such data points and show evidence of structured continuous improvement process. They will share a management dashboard with you that will give you visibility into the project, project plans, mitigation plans and performance of the teams. They will provide an open forum to discuss risks, issues and status of next steps. They will have a process to conduct a periodic "client pulse check" to seek feedback on how they are doing so they can ensure client satisfaction. All this and more will ensure stronger partnership between the client and the vendor and ensure collaboration.

Planning the Vendor Switch
Successful vendor switch requires you to have well-planned and structured transition planning with incentives for all parties involved.

Transition Planning:
• Assess project, business, financial, and logistical risks involved with transition.
• Identify, review and rationalize the termination criteria with legal counsel
• Select a new outsourcing vendor using your key criteria that are important for you
• Develop a transition plan with the new outsourcing vendor that includes identification of tasks and activities involved, timelines, ownership, along with active identification of risks, issues and real-time mitigation and resolution plans.
• Develop and sign outsourcing agreement with the new vendor around the success of the transition plan.
• Communicate the transition plan and offer incentives to the existing vendor for cooperating during the process.

Execution:
• Engagement Kick off meeting with the vendors and internal teams
• Finalize implementation plans and share details
• Declare prerequisites
• Infrastructure and environment setup
• Project knowledge transfer & training

About ISHIR

ISHIR is a global diversified outsourced IT services company and we make outsourcing successful for our clients.

We assist our clients to achieve their business objectives by successfully outsourcing their non-core business processes and functions in the areas of technology and digital marketing.

We have been part of the outsourcing industry since 1999 and have successfully implemented strategic offshore programs in the areas of custom software development, software product development, casino game development and outsourced digital marketing production services to India. ISHIR has been servicing clients thousands of miles away, maturing into a core dependable extension of a client's internal team.

ISHIR has extensive experience in providing outsourcing of non-core business processes - **IT functions** (Custom Software Development, Software maintenance, SharePoint consulting and development, mobile app development, software testing, Remote Managed IT services, Cloud and Software Virtualization solutions), Interactive (web design and development, game development), Managed Web Hosting, setting up Built Operate Transfer (BOT), specialized R&D facilities, and **non-IT functions** (Digital Marketing (Search Engine Optimization, Paid Search, Display and Social Media marketing services) Business Process Outsourcing (Data Entry, Data Cleansing, Lead Generation, Research, Photo Editing, Online Customer Support, Finance)).

We have vast experience in offshore outsourcing and have matured into a dependable outsourcing partner providing substantial value and savings to our clients, often exceeding up to 65 percent. We leverage our people, processes and effective use of technology to catapult our clients to achieve their business potential.

Next Step: **Discover how ISHIR can accelerate the success of your business. Contact us today:**

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