



IT OUTSOURCING LIFECYCLE

How can the process of collaboration with an IT service provider look like?



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INTRODUCTION

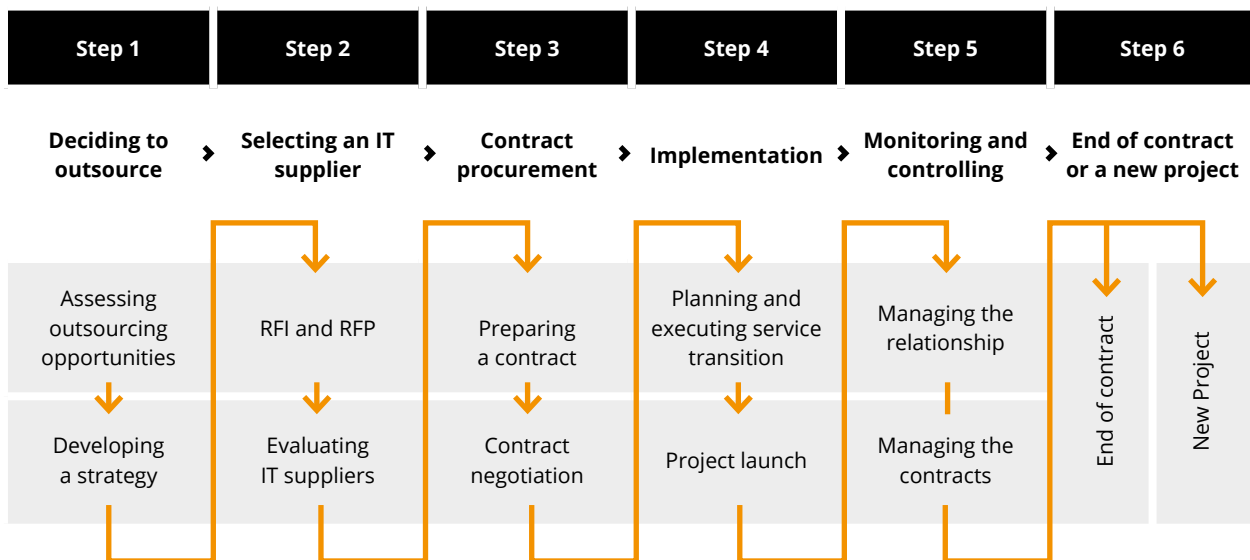
Today's organisations are under immense pressure not only to ensure business efficiency and profitability, but also to be ahead of the needs of their customers.

It is this very pressure and the need for transformation, that is increasingly driving organisations to consider using highly specialised IT skills via outsourcing.

This paper will take you through the journey of IT outsourcing from the beginning – the moment you decide to outsource, until the completion of your cooperation. It will show you

how the process of cooperation with an IT services supplier can look like, and provide some useful tips on what should be considered as the relationship matures.

The paper will guide you through the steps of the IT outsourcing lifecycle to give you with a good overview of the process and to help you make your outsourcing project a success.



DECIDING TO OUTSOURCE

The first step of the outsourcing journey is connected with your decision to outsource and the plan following it.

Deciding to outsource is one of those choices that will impact your organisation for the foreseeable future, which is why it's crucial to approach the project with due diligence.

When thinking about outsourcing, some decisions you will need to make include whether to outsource the entire IT service, or go with partial outsourcing, which types of ser-

vices to outsource and whether to use one service provider or [choose multiple outsourcing providers](#).

This step is also about organising your thoughts – reviewing the problems to focus on and your options in terms of outsourcing. **Finally, it is about preparing a strategy that will steer the outsourcing activities.**

WHAT PROBLEMS CAN IT OUTSOURCING SOLVE?

Traditionally, outsourcing was viewed through the lens of 'body leasing' and cost cutting, where clients could simply hire more resources from a far-away location for the same or lower cost. With significant development of the field and the change of focus from offshoring to nearshoring, it is much more than just about the headcount and the money nowadays.

You can rely on IT outsourcing to help you solve a number of problems, including the following:

1. a lack of expertise in a given technology or programming language,
2. an IT project which [requires to be rescued](#) or a product which needs to enter market quickly,
3. a sudden need to introduce a new solution, for example as a result of a legislative change,
4. having an [idea for a product but no product specification](#),
5. [having gaps in security](#) that bring the risk of losing money and reputation,
6. a product that would [benefit from user experience design](#),
7. [a legacy system](#) which requires modernisation or replacement,
8. a need for a [highly customised software product](#) adjusted to your individual requirements,
9. [having too much work](#) for the amount of in-house staff,
10. a need for a technology partner to propel your organisation towards innovation.

REVIEWING YOUR OPTIONS AND ASSESSING OUTSOURCING OPPORTUNITIES

While there is a number of IT outsourcing options available, such as **onshoring, nearshoring** and **offshoring**, this paper concentrates on the second option as we deem it to be the best, as explained below.

Nearshoring is a type of outsourcing where a given company uses the services of a partner from a different country, but in the region that is still in close proximity, for example from a country in Western Europe to a country in Central and Easter Europe. The main benefit of nearshore outsourcing is that, in contrast to offshoring, the two companies are in a similar time zone which facilitates communication and allows for frequent visits. Nearshoring is typically done in a country where team costs are lower, which is why it also tends to be cheaper than doing the same work onshore.

Types of outsourcing partnerships

Outsourcing models define cooperation between you and your outsourcing supplier. The type of partnership you select will determine the level of responsibility and control you have over this process.

The following table outlines some common engagement and pricing models in outsourcing. In the recent years, models which give more responsibility to the supplier (on the right-hand side in the table below) have been gaining ground as these allow you to concentrate on your core activities and leave the technical and IT project management matters to the experts.

→ [see the table on the next page](#)

Staff Augmentation	Dedicated Team	Agile Team	Managed Software Project	Business Analysis & Solution Design	Complete Business Solution
you hire one or more software engineers with required competencies	a whole group of engineers working exclusively on your project as an extension of your in-house team	an entire Agile team working exclusively on your product backlog as an extension of your core business	based on your product vision or specification, a team of software product development and software project management experts take care of your project	you approach an outsourcer with a problem, they conduct analysis and design a solution	your outsourcing team develops a comprehensive, end-to-end business solution to address your needs

GREAT IF YOU WANT...

<ul style="list-style-type: none"> to temporarily boost your team to stay entirely involved in the project and retain all control to quickly find missing competencies 	<ul style="list-style-type: none"> to extend your team's capacity to add specific knowledge or skills to your team to speed up your development process quickly 	<ul style="list-style-type: none"> to focus on product vision and users' needs to work in Agile frameworks with technical experts who will deliver your vision to have a continuously delivered business value 	<ul style="list-style-type: none"> to increase predictability and transfer project risks to the supplier to have a specific product built for you to control the project costs 	<ul style="list-style-type: none"> to have your business problem analysed by experts to receive documentation and a prototype of the solution that describes it sufficiently to help you make informed decisions help with legacy systems or automation of business processes 	<ul style="list-style-type: none"> if you do not have a specific vision of the solution if you do not have time or expertise to develop the solution in-house to transfer the overall responsibility for the product to the supplier
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MOST POPULAR PRICING MODELS

Time & Materials	Time & Materials	Time & Materials	Fixed Price	Fixed Price, Time & Materials	Fixed price
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SCOPE OF WORK

Individual tasks	Individual tasks/ components of a project	Individual tasks/ components of a project	Components of a project / Project	Project / System analysis & design	Project / System analysis, design and development
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ENGAGEMENT LENGTH

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OUTSOURCER'S RESPONSIBILITY

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DEVELOPING A STRATEGY

The success of an outsourcing endeavour depends on a number of factors, including a good understanding of the goals that you want to achieve with the use of outsourcing and executive and management buy-in.

It is worth preparing an outsourcing strategy which beyond **giving your outsourcing project direction**, will also help gain necessary support from management. The strategy will feed into the documents in later stages (e.g. RFP) and will help to keep your projects on track.

Another important thing to consider is the cost of the endeavour. But beyond monetary matters, it is worth remembering to include the non-financial objectives for the cooperation, such as for example introducing innovation into your organisation, meeting compliance requirements or allowing your organisation to focus on its core business.

Finally, at this point, it is also worth considering who will form the in-house team for the management of the outsourcing project.

Below are some questions you may want to consider when thinking about the overarching goals of outsourcing for your strategy:

- What are the strategic goals of the company?
- What are the core competencies of your business and of your IT department?
- Which IT skills do you need the most (greatest need for training, greatest difficulty in recruiting or retaining staff)?
- What is the gap between the current state of your services or products and the expectations or needs of your customers?
- Which product or service requires increased speed to market?
- Do you want to use outsourcing to maintain your organisation's competitive position? OR Do you want the outsourcing to be the source of your competitive advantage?



STEP 2:

SELECTING AN IT SUPPLIER

Selecting an IT provider to do your business project with is a highly responsible task. Your decision is likely to impact your organisation's efficiency and strength for the upcoming months, if not years.

A good choice will mean the right level of technology support to propel your organisation. But selecting a wrong IT supplier can be detrimental to the health of your company.

THE PROCESS OF SELECTING AN IT SUPPLIER:



COMPLETING A REQUEST FOR INFORMATION (RFI) AND A REQUEST FOR PROPOSAL (RFP)

Request for Information (RFI) is a form sent from your business to an outsourcing provider which serves as a request for presenting capabilities of the provider, based on high-level requirements prepared by your organisation. The RFI is normally sent if your business does not have a shortlist of proven service providers, or wishes to develop a more thorough understanding of what type of companies are available. Since suppliers' responses to the RFI may be generic, it is good practice to follow it with a Request for Proposal (RFP).

Some businesses go straight to the RFP, without sending out the RFI. The RFP is normally sent to a smaller number of outsourcing companies, for example if your organisation

already has a shortlist of proven suppliers that would be good for this particular project. The RFP contains much more information about what you wish to achieve and should ideally be based on the ideas that you developed for your outsourcing strategy.

RFI and RFP templates for IT outsourcing

Well-written RFI and RFP will help you make the process of evaluating potential software development partners time- and cost-efficient and will help you ensure that what they offer is aligned with the needs of your business. You can use the following [RFI Template](#) and [RFP Template](#) which have been designed specifically for IT outsourcing services.

EVALUATING IT SUPPLIERS

After a number of IT outsourcing companies have replied to your RFI/RFP documents, it is time to shortlist some promising suppliers and proceed to a supplier comparison process.

Without doubt, a comparison like this requires an in-depth assessment against a number of criteria (such as the suppliers' experience, location, infrastructure, capabilities, etc.) to minimise the risk of failure for your business.

IT supplier evaluation matrix

It is best to use a checklist system, which includes all criteria required and where you rate each of your shortlisted suppliers against the criteria. You can use [this tool for comparing outsourcing service providers](#) which has been designed specifically to make the process of assessing IT suppliers fairer and quicker.

The tool, mentioned above, will allow you to generate reports on your suppliers showing you the weak and strong sides of each.

The evaluation should not finish with the scoring matrix, though. Make sure to **complete reference checks** and, if possible, **conduct site visits** to know exactly what kind of companies you are dealing with. If you have not got one already, it is recommended that you **start a shortlist of good quality suppliers** to save time preparing RFIs in the future.

Once the IT supplier has been chosen, it is time to proceed to Step 3: Contract Procurement.

CONTRACT PROCUREMENT

IT OUTSOURCING AGREEMENTS

Contracts are extremely important in IT outsourcing partnerships as they give both parties a sense of control over their partnership. Again, having a defined outsourcing strategy

helps you define what is important to you and what you want to achieve with outsourcing which will be helpful when negotiating contracts.

Usually, the contracts are prepared on three levels:

STRATEGIC LEVEL		TACTICAL LEVEL			OPERATIONAL LEVEL	
Framework agreements	Transfer agreements	Service agreements	Project agreements	Secondment agreements	Service-level agreements (SLAs)	Secondment contracts
Define overall issues for the cooperation: payment terms, pricing model, liabilities and damages, contract period, etc.	If your staff will become employed by the outsourcing provider, formalise the transfer of staff, assets and service contracts.	Broadly define the services that are to be provided to your organisation by the outsourcing service provider.	Include specification for an individual project: milestones, conditions, allocated resources, etc.	Contain well-defined roles and rates for human resources or for the project against agreed rates (e.g. per hour – time and materials pricing model).	Provide the detailed requirements of Service Agreements in relation to the outsourced team.	Provide the detailed information on resourcing issues.

→ continue to the next page

Some aspects which are extremely important but tend to get missed off the contracts include:

- intellectual property rights, e.g. for the software that the IT company produces for you,
- non-disclosure agreement (NDA),
- arrangements for how to make changes to contract terms,
- responsibilities of each party in relationships involving more than one outsourcing provider,
- clauses ensuring IT provider uses the latest technologies,
- requirement for implementing a recognised practice on information security (e.g. ISO 27001:2013),
- regulations on subcontractor use,
- 'rolling forecast mechanisms' – agreeing to indicate in advance the resources required for a given project,
- exit strategies for circumstances of contract termination, including transition plans and transfer files,
- clear dispute resolution procedures and escalation paths.

Contracts serve well in controlling the partnership with an outsourcing provider, but you should not underestimate the power of informal, human-to-human approach. In today's rapidly changing market reality, it is almost impossible to

predict everything and have it written down in a legally-binding document. This is where a friendly relationship with your outsourcing provider can bring you flexibility and adaptability your company may need.

CONTRACT NEGOTIATION

Having everything covered in your agreements is one thing, but having everything agreed to by an outsourcing partner is another. It is therefore important to have your best negotiators ready for this. You might want to avoid leaving the negotiations solely to your legal or procurement departments as they are likely to push mostly on driving costs down. This not only brings the risk of downplaying the items beyond the price tag which you find important (e.g. time, quality or specific services), but can also alienate your future partner.



STEP 4:

IMPLEMENTATION

PLANNING AND EXECUTING SERVICE TRANSITION

Transition can be defined as the implementation of the new way of operating. It involves handling over the services to your new IT partner either from the previous IT service provider, or from your organisation with an aim of achieving operational performance.

Service transition requires careful planning to ensure it is conducted with minimum disruption to your business and customers.

There are some critical activities that you need to include in your plan:

- knowledge transfer
- determining new governance models
- implementing new governance structures, monitoring and reporting
- implementing new processes
- introducing standard communication channels

As this phase has some significant risks, preparing a **risk register** and **contingency plans** is a must.

PROJECT LAUNCH

It is a good idea to have **additional resources ready on standby** in case you or your new service provider experience any issues during the launch of the project. Additionally, a good practice is to implement some **periodic check points** for your new service provider to ensure that the knowledge transferred has been comprehended and that the new IT partner understands their new contractual agreements.

STEP 5:

MONITORING AND CONTROLLING

MANAGING THE RELATIONSHIP

Working with a remote team presents certain challenges, at least initially when you need to break the ice, get to know the team and let the team get to know you and your company.

It is good to strive towards a true partnership with your IT supplier.

There are three fundamental, interconnected elements to such partnerships:



Communication is absolutely crucial when it comes to the success of outsourcing. You and other colleagues that work directly with the outsourced team need to know what the

objectives of your company are, and be effective communicators to pass the vision on.

If you have a relationship based on trust and openness, the outsourcer is more likely to tell you there is a problem as soon as it occurs. Trust and openness also make communication easier, and communication is crucial for the project to progress smoothly.

MANAGING THE CONTRACTS

Having a friendly relationship with an IT partner can, to some extent, support contract management. However, a proactive and ongoing management of SLAs is something which can make the difference between project success and failure. To ensure success of your outsourcing programme, make sure to monitor and control various aspects of the projects and establish a measurable method of performance monitoring.

END OF CONTRACT OR A NEW PROJECT

When a contract ends, a decision must be taken in terms of what to do next. There are three options:

- Contract extension – the same contract is extended for another period,
- Contract renewal – a new contract is drafted,
- Contract termination – contract is terminated and the cooperation ends.

With good quality IT outsourcing companies, it is quite often the case that contracts are extended or renewed to cover

CONCLUSION

IT outsourcing is extremely complex and there are a number of things you need to be aware of before starting the cooperation to make the most of it. Hopefully this whitepaper has provided a useful overview of the entire process and has given you some helpful tips on what to consider to make your outsourcing endeavour a success.

other projects or services (e.g. support and maintenance). Once a decision to terminate a contract has been made, it is the time to see how the exit strategies you included in the contract, together with transition plans and arrangements for transfer files are working. It is good practice to keep a 'lessons learned' document which will be valuable learning material on your experiences with outsourcing for future use in your company.

MORE INFORMATION

If you have found this whitepaper useful, we also recommend that you visit our portal [StartNearshoring](#) for more informative materials about nearshore outsourcing.

You can also explore our offer available on:

www.future-processing.com

SOURCES:

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ABOUT THE AUTHORS

Future Processing is an IT services company which, since 2000, has been solving business problems of industry leaders worldwide through the use of the latest technologies.

We pride ourselves in the high level of technical expertise and an individualised approach to each project which result in the highest quality of our solutions.

We are a Microsoft partner and an ISO 27001:2013-certified software developer who has won many awards, including the Global Sourcing Association's Outsourcing Service Provider of the Year (2016). Our team of 900 IT specialists includes some of the best software engineers in Poland.

Visit [StartNearshoringan](#) educational portal aimed at CIOs, CTOs and upper management interested in technology who are looking for practical knowledge in the area of nearshore IT outsourcing.

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