

# **4 MYTHS OF OUT SOURCING (for project managers)**

**WHITE PAPER**

by

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**Having performed a number of outsourced projects for many product companies, we have found a common thread related to outsourcing. This issue discusses 4 common misconceptions we have experienced.**

**This whitepaper is for product/project managers, CFO and other managers involved in making decisions related to outsourcing.**

**Although this white paper is created with experience gathered in the High Tech industry, these ideas can be utilized in other related industries.**

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## 4 MYTHS OF OUTSOURCING – FOR PROJECT MANAGERS

This short paper discusses misconceptions related to outsourcing - understanding these would greatly help your decision process for your next outsourced project. These sources are based on our experience working with several companies who outsource successfully.

### OUTSOURCING REQUIRES MINIMAL WORK

It is a common misconception in high-tech that outsourcing requires minimal involvement from the outsourcing company. Our experience shows that this is quite contrary - an outsourced project is like any other project initiated by a company – there is a good level of upfront investment required to reap long term benefits of outsourcing. This upfront investment is required in creating the right outsourcing strategies, understanding the “benefits and pitfalls” of outsourcing, putting together a viable, working plan and choosing the “right” business partner. This upfront investment is critical for the success of any outsourced project.

**Considerable effort and planning is required to reap the benefits of outsourced projects.**

We recommend companies contemplating outsourcing projects to set aside requisite budget and time to create an effective outsourcing strategy.

### LOWEST COST PROVIDER IS THE BEST PROVIDER

Although cost is often the most motivating factor, many companies are blinded by the cost aspect of a project and take the route of choosing the company solely based on the lowest quotation. Many of these companies, after choosing the lowest cost vendor, find that either the vendor is not able to deliver, delivers a shoddy quality product or delivers at much higher costs no where close to the originally agreed upon delivered price and delivery date! .

**Do not ignore the importance of “right” chemistry – cost must not be the only factor for vendor selection.**

A quote that seems too low may be for one of several reasons; The lowest cost vendor may not understand the complexity of the project, may not appreciate the efforts required to create quality products or may be too keen to win the

business and subsequently over commits and under delivers. Any of these situations will negatively affect the quality of the deliverables.

In addition to the “cost” many other factors must be taken into consideration when choosing the “right partner”. Answering the questions below will help in identifying the right partner:

- ❖ Does the outsourced partner have the right chemistry?
  - ◇ Are they knowledgeable in the field of required expertise?

- ◇ Does the partner company have a quality process required to build the products for your industry?
- ◇ Do the two companies have similar cultures?
- ❖ Can initial investment in the partnership reap benefits for future projects? For example:
  - ◇ development of updated versions of a product
  - ◇ to help support older versions of your products
  - ◇ to help reengineer your technologies to other product platforms your customers may demand

Consider more than just the "costs" for choosing the right vendor. Choosing the "right partner" is a key step for success of any project. The "right" company has the following characteristics:

**Right Chemistry** - Right chemistry is created when the partnering company has experience and expertise in the field for the required project, has similar quality control processes and similar company cultures are in place.

**Right Quality perception** - As we know, requirements for "Quality" is different for different technologies areas. 24/7 uptime is expected in the telecom sector, where as such uptime is neither expected nor required for desktop applications. Quality is engrained in company processes and company culture, hence it is important to investigate and confirm that your quality requirements and expectations match that to your partner's.

Spend the requisite time to identify the "right partner"... it is well worth the effort!

## **HANDOVER THE WORK AND THE WORK GETS DONE**

Another common misconception in the industry, as shown by a high percentage of failed outsourced projects, is that minimal involvement is required from the outsourced partner after handing over the project.

In practice, even after the project is successfully handed off to the chosen "right partner", the company must expect to work closely with the chosen vendor to make sure that even in case of unforeseen issues which may arise, the project is completed and delivered meeting initial expectations. Depending on the size of the project, expect to spend anywhere from a few hours a week, to dedicating a fulltime person working with the outsourced partner or a team dedicated to interface with the chosen vendor.

**Communication is the key for successful completion of the project – do not ignore the importance of regular communications**

We recommend continuous communication between the two companies after the successful handover of the project.

## **OUTSOURCED WORK COSTS MORE**

**Outsourced projects bring many benefits – keep these in mind when doing cost analysis.**

Although many times it may seem that the outsourced project costs more, depending on circumstances, there are many hidden costs of performing the project in-house that should be considered of outsourcing when comparing the costs of performing the project in-house to outsourcing, such as:

- ❖ Focusing on the core enables requisite resources to create innovative and quality products improving customer satisfaction.
- ❖ Outsourcing enables work load leveling creating teams which can grow and shrink as project requirement changes.
- ❖ Projects in addition to technical resources require management and other company resources which often become bottle necked wasting other resources.
- ❖ In-house resources required for the project may be already over loaded; causing thrashing between different projects reducing productivity.
- ❖ Overloading creates project delay causing other dependent resources to be wasted.

## **CONCLUSION**

In conclusion keep the following in mind when planning an outsourced project:

- ❖ a substantial upfront investment is required to experience a successful outsourced project
- ❖ seek other qualities in the selection of the vendor rather than the lowest cost
- ❖ after initiating a project, keep continuous communication for best results
- ❖ consider the true cost of performing the project in-house when comparing with outsourcing costs

Keeping these thoughts in mind will positively help you guide your decisions on your next outsourced project.

The above is based on our experiences; we would love to hear your experiences. Please send along with other comments to [ptpteam@s5systems.com](mailto:ptpteam@s5systems.com).

S5 Systems has helped many companies deliver their projects on-time and on-budget. Please contact us with your project requirements and we will scope the work into a project report – at **no cost**.

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