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**Real-World Outsourcing Strategies**

A Logical Advantage White Paper



**“The goal for strong businesses has always been innovation, not stagnation, and it is never truer than in today’s highly competitive, economically challenged environment.”**

**-Steve Nolan  
Managing Partner  
Logical Advantage LLC.**

## **Abstract**

As the United States begins to recover from one of the deepest recessions in over a half century, the consequences of slashed IT budgets and workforce reductions are becoming painfully apparent. Many IT executives who shared in the cost cuts are now realizing the impact on their organization’s efficiency. It simply isn’t good enough to explain to business stakeholders that delays to their initiatives are a result of trying to do more with less. The goal for strong businesses has always been innovation, not stagnation, and it is never truer than in today’s highly competitive, economically challenged environment. The pressure is on today’s IT executives to deliver more business functionality faster, through highly reliable systems and services.

Ever since the advent of web-based applications and their proliferation, a significant portion of today’s IT budgets has been spent on creating and maintaining these tightly integrated, custom-built applications. Because of this significant strain on time and energy, outsourcing application development and support to third party providers is becoming an increasingly viable option for many companies. There is a renewed focus to drive costs out of an organization, particularly when considering the people and process-intensive investments at stake. This white paper addresses the various options for both large and small enterprises interested in implementing a successful outsourcing strategy.

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## **Introduction**

Technology has become pervasive in today’s economy, altering almost every aspect of how business is done — from leveraging intelligence to streamlining supply chains, from improving employee productivity to enhancing customer service. Whether a company feels the pressure to cut costs, or is instead looking for a more affordable way to implement custom-built software, the need for highly efficient, cost-effective solutions is common to organizations of all shapes and sizes. In order to become more agile in today’s competitive global marketplace, many are considering application outsourcing to be the game-changer they need to stay viable.

In addition to the universal pressures of a tight economy, the Small-to-Medium-Business (SMB) owner faces unique challenges when faced with the lack of personnel, budgets and managerial resources. These demanding, company-specific needs sometimes elude the attempts of third-party outsourcing firms to address them. And yet offshore, near-shore and on-shore outsourcing models provide such significant cost savings that they offer viable alternatives worth considering.

A recent Gartner survey of 1,527 CIOs showed that 72% of those polled believe they have the wrong people on staff or not enough of the right people to get the job done.<sup>1</sup> In addition, a recent 2008 IBM study revealed that only 41% of projects were considered successful in meeting their objectives for time, budget and quality constraints.<sup>2</sup> Unfortunately, this trend is further exacerbated by recent cut backs and headcount reductions. In order to address these serious challenges, corporations deciding on a sourcing strategy have two options: fix their existing operation or outsource their area of need.

### **Building vs. Buying**

Now more than ever, IT executives have a range of options at their disposal for executing software development projects. These include insourcing, project-based outsourcing, fully outsourced solutions, co-sourcing, and acquiring and customizing a third-party packaged application. Unsurprisingly, most companies pursue a diversified strategy, outsourcing some activities while managing others internally. A 2007 Forrester study, for instance, revealed that 80% of its interviewed executives outsource at least some software development activities.<sup>3</sup>

Regardless of the chosen sourcing strategy, though, IT executives continue to be driven by the same fundamental responsibility: ensuring that business stakeholders receive a highly reliable solution that will meet their needs. For many, buying an off-the-shelf solution is the best way to fuel that pursuit. Buying can be a simple option if the pre-made solution meets all objectives or can be easily customized through an easily managed sourcing strategy. However, building still remains an attractive option for some projects, as this route allows the solution to be tailored to objectives from the beginning. The ideal choice depends upon the many other factors of the project, including timeframe, cost and the capabilities of existing sourcing options.

As the story of CoMag Marketing demonstrates, the choice between buying and building can sometimes prove to be a complicated one. CoMag Marketing Group, LLC. (CMG) of Princeton, New Jersey needed a custom-built solution that would allow them to better manage the wholesale distribution division of their supply chain — and they elected to solicit bids for the solution. A total of six local and national IT service providers responded, offering broad range of outsourcing partners and technologies, from an Oracle-based solution to a highly customized .NET solution that incorporated a hybrid mix of other Microsoft technologies, such as MOSS, BizTalk, and Dynamics CRM.

Once CMG's IT management team determined to build on a standardized Microsoft-based foundation, they contracted with three local IT service providers to outsource the development and implementation of the solution. However, early into the project, the unforeseen happened: one of CMG's largest wholesale distributors suddenly went out of business. "The main focus for this initiative was to streamline our ability to manage our distribution channel and provide greater transparency in managing our vendor contracts," says Sean Poccia, CoMag Marketing Group's IT Director. "As you can imagine, the unexpected announcement threw our entire supply chain upside down. We had no choice but to temporarily suspend several aspects of the project in order for us to get a better grasp of the impact to our supply chain."

Poccia and his department scrambled to find a stopgap solution, ultimately deciding to re-prioritized different phases of the project and find a rapid solution to the contract management aspect of the project. This solution was an off-the-shelf product that could be easily customized by the outsourcing partner while still integrating with the other existing Microsoft investments. What began as building ended up buying.

### **Process Improvement vs. Outsourcing**

Aside from the question of building vs. buying, IT executives need to contemplate the pros and cons of process improvement as an alternative to outsourcing. The reality is that those with significant in-house development capability may be able to take an honest look at their development processes and find areas for improvement. Current conventional wisdom among software practitioners is that in order to deliver mission critical solutions to the business, one must have the necessary specialized skill sets, experienced management and leadership, as well as a repeatable, reliable process. Simply having a methodology in place isn't the solution. One must have the collective discipline to adhere to it and build upon it. But these weaknesses can be easily ameliorated by engaging with a process improvement partner, one who can mentor internal staff and help to implement best practices. This approach can be especially beneficial in the context of an actual project, where support can improve a team's ability to deliver and to support their business by executing a strategic initiative. Process improvement often delivers the benefits of performance gains and overall IT effectiveness, as well as cost savings.

Consider the case of Pratt & Miller Engineering of New Hudson, Michigan. A world-class engineering firm and respected industry leader in automotive, commercial, military, and aerospace industries, Pratt & Miller provides a full range of services for design, engineering, manufacturing, and vehicle program management capabilities. They had successfully designed and developed a number of internal applications utilizing their in-house development team. Though a large number of the applications were created with Microsoft Access and MATLAB, Pratt & Miller had begun to rewrite many using .NET and SQL Server. The redesign was meant to broaden the usefulness of these core business applications to those outside their original user pool (those in the racing industry).

**“Co-development was the ideal solution for our software development lifecycle needs. Through the process, we have gained long-term efficiencies and best practices for future projects.”**

- Chris Gilligan  
NASCAR Program Director  
Pratt & Miller Engineering

Chris Gilligan, NASCAR Program Director at Pratt & Miller’s Mooresville office, knew the foundation of their past success hinged on their ability to rewrite their Vehicle Engineering System (VES) into an enterprise class application. In order to ensure future success while taking into account the need for internal training, Gilligan decided to pursue a process development approach. “Our company has grown from a race team and a dedicated group of automotive engineers into a diverse engineering and manufacturing company,” he explained. “VES matured over the years from a homegrown application to assist our engineers in the field, into what it is today. In order to take this very mature Microsoft Access application and rewrite it from the ground up, we knew that we needed outside assistance with our software development life cycle. We needed a team of software development experts that could provide our internal team with hands-on mentoring for the entire application development life cycle, from gathering business requirements, creating technical specifications, to designing and architecting the application. We could have outsourced the entire project, but we found this alternative much more attractive. By leveraging our partner’s experience we were able to gain real world experience and working knowledge of their best practices.”

### **Outsourcing Development Services**

At times the lack of a sound sourcing strategy hinders development efforts, and time-stressed IT executives are left with no good internal options. Even while they struggle to improve their basic delivery practices, the demands for speed-to-market and cost effectiveness remain non-negotiable. For many application development executives, the pressure and limitations create significant internal problems that cannot be fully addressed by a process improvement approach. When Forrester Research asked application development executives to rate the degree to which their custom development, maintenance and integration efforts were challenged, IT executives responded that their biggest problem areas were quality, cost, time-to-market and predictability.<sup>4</sup> It is in these areas that outsourcing can greatly enhance a business’s application development services.

The argument to outsource is always complicated when an organization has its own internal development capabilities. Often, these internal resources lack the necessary experience to grapple with emerging technologies or the adequate bandwidth to start a new project. Outsourcing, however, offers the option of meeting IT goals without the need to increase budgets. In fact, a recent Forrester survey showed that while 46% of 258 Global 2000 enterprises have cut back their IT budgets, only 21% of these same organizations have cut back on their IT services spending. This tends to support the idea that outsourcing can offer realized gains while also delivering lowered costs, improved processes, and improved execution.<sup>5</sup>

**“To remain competitive in this global marketplace we elected to outsource all our application development and support to one local service provider.”**

- Jay Todd  
Chief Financial Officer  
Service Thread Manufacturing Co.

This was the case for EQmentor Inc., a Charlotte, North Carolina-based start-up. “Bringing the development in-house was never a consideration,” said Dr. Izzy Justice, the company’s CEO and founder. “Finding the specialized skill sets and capital outlay required for creating a robust development and SAS 70 hosting environment was daunting. Outsourcing it all was appealing to us for so many reasons, speed-to-market and cost being the chief among them.” Added to the needed specialization was a demanding timetable, one that forced Justice to consider risk management as the major deciding factor. In his situation, outsourcing the entire development was a perfect fit, since it ensured the success of the project without the added risk and expense of bringing development in-house.

### **Outsourcing Support Services**

Strategic, even bold outsourcing decisions can help organizations become lean and successful. By outsourcing some of their processes, companies can regain their focus on what is most significant to them — building brand and shareholder equity. Key IT personnel are also enabled to concentrate on more mission-critical areas of the business. Many organizations who make the paradigm shift have also found that they can aggressively jettison non-core business processes. Nike, for example, has bolstered its success by maintaining direct ownership of its brand and key customer interaction, but little else.<sup>6</sup> By going beyond the question of “What should we outsource?” Nike was able to ask instead, “What should we not outsource?”

Regardless of an organization’s size, selecting the right outsourcing provider can be an exercise fraught with risk. As a result, many large enterprises have made the significant investment needed to build their own internal development capabilities. Most resource-strapped SMBs, however, do not have that luxury, and outsourcing is their only viable option. It is especially important for an SMB to find a service provider with small organization experience, or risk can be regained with the new relationship. Ideally, an outsource provider should also be able to support an application once it goes live, to ensure its ongoing success. To find the right outsourcing fit for the needs, an organization should be prepared to ask some hard questions. If outsourcing simple report generation and database inquiries isn’t cost effective, would hiring a less-experienced developer provide a better option? When it comes to future enhancements, is there enough senior oversight within the IT department to ensure the system will be architected correctly? More importantly, what happens when the application goes down?

Answers will differ from organization to organization. For Charlotte-based Service Thread Manufacturing Company, the clear answer was to outsource as much as possible. According to Jay Todd, the company’s CFO, “Our core business is manufacturing industrial specialty yarns and industrial sewing thread. To remain competitive in this global marketplace we elected to outsource all our application development and support to one local service provider. They are able to dedicate both full- and part-time resources to my business, they know my business and are, in effect, an extension of my business.”

Contrast the situation of Good Will Publishers Inc., a Gastonia, North Carolina-based publisher that operates seven divisions ranging from direct marketing, B2B and sponsorship marketing. Over the years, Good Will Publishers had invested extensively in custom-built applications to run their day-to-day business, and in the internal staff to develop those applications. Like many SMB organizations, though, their application development department consisted of just one person. As the applications began to automate aspects of the company's business, they quickly proliferated across the enterprise. Executives began to realize how dependent they had become upon these mission critical applications that, in many cases, lacked proper design and architecture. "Over time, as the age of the applications began to show, we found ourselves at the mercy of our development resource," claimed Billy Schiffiano, Vice President of Sales & Marketing. "Having a single point of failure was no longer an option. That is when we elected to outsource these support functions to a local service provider who can scale and provide the redundancy and peace of mind we need, allowing us to focus on the business."

## Conclusion

Application development projects are notorious for cost overruns and missed deadlines. In many cases, the final result doesn't meet up to the business's expectations and the reputation of project leaders and the IT department suffers. Meanwhile, it is no secret that the demands on IT organizations are increasing while budgets are being squeezed. In fact, a recent survey by one of the largest Indian outsource consulting firms revealed that 62% of organizations have experienced IT projects that failed to meet schedules, 49% suffered from budget overruns and 41% failed to deliver the expected business value and ROI.<sup>6</sup> For many companies, outsourcing on some level makes sense for alleviating the budget pressure while delivering successful applications.

The reasons for selecting a particular outsourcing strategy vary from company to company, as does the risk factor that has to be weighed when choosing among off-shore, near-shore or on-shore servicing models. Lower labor costs should never be the sole driving force in the selection, as issues such as time zone, communication and cultural differences can also dramatically affect the working relationship. When making the value case for outsourcing, it is also significant to remember that, aside from enhancing the ROI of the applications affected, implementing a successful application outsourcing strategy can also improve the core capabilities of an IT organization. Freed-up key IT personnel who can focus on critical aspects of the business make the IT organization more capable of supporting a company's innovation and growth. The best choice for IT executives will be a sourcing strategy that leverages a provider's delivery capabilities, as well as their industry experience, whether they are mentoring or simply executing. In a tight, aggressive economy, the strength of a sound application outsourcing strategy can empower organizations to outpace their competitors.

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Logical Advantage is an award-winning technology-consulting company serving the Fortune 1000 and many small businesses throughout North America. Our passionate, experienced software development practitioners help organizations solve their most pressing challenges by leveraging their investments in Microsoft® technology. Through our time-proven, collaborative and flexible approach, we help our clients design, build and implement custom solutions that provide sustainable, measurable results, delivered on time and in budget. At Logical Advantage, we make application outsourcing easy.

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