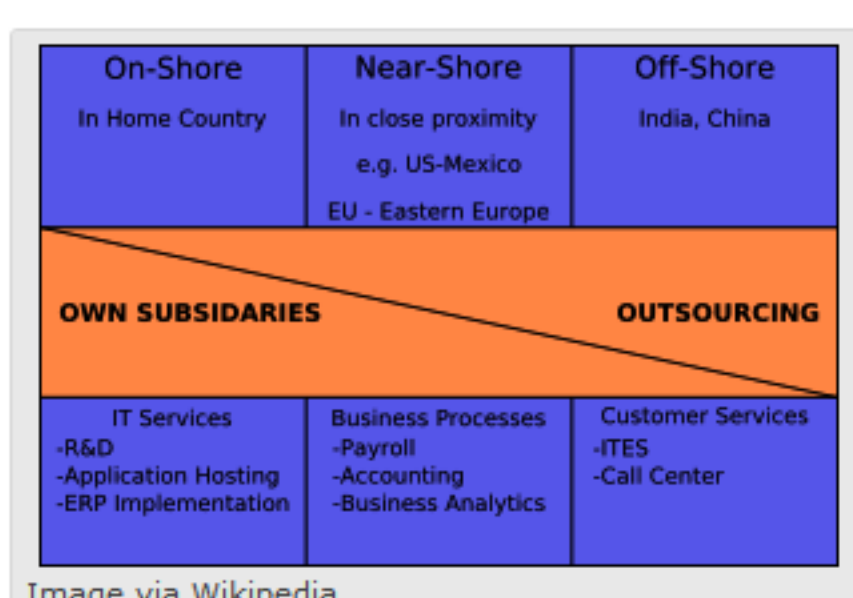


Choosing An Outsourcing Firm Will Become Easier

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Companies often ask potential outsourcing vendors “how do you work and how do we engage?” A simple question but hard to answer

because of what’s implied: how do we work today with others? How would we work with you in the future, when our engagement ramps up? Most people play it safe and come up with whatever they think will sound plausible to the client’s ears, but the simple truth remains—outsourcing is an industry in constant transition, and its not-too-distant future may look quite different from its present.

While the exact shape of the industry as large and diverse as outsourcing is impossible to predict, it is quite easy to see a few things that are ripe for change. Chief among them is transparency in vendor selection and engagement. Today, buying outsourcing services for all but the largest firms involves a remarkable leap of faith. Yes, vendors tout their past performance records, client references and offer full transparency along the way. But all of this data is provided by the vendor and rarely verified by the marketplace. I have yet to meet a vendor (including myself) who would not take pains to only make public its most marketable successes, hide its failures and largely leave the bulk of the actual on-going client work without mention. No one provides references of unhappy clients.

In recent years, clients have rightly responded to this information asymmetry by doing deeper due diligence, including site visits and pilot projects. Vendors welcome it as a chance to prove their worth. Yet this trend will take us much further. There will be databases, public or subscription-based, that will profile vendors and their staff in great detail. Prospective buyers will see all projects and sort through various parameters that may be relevant for them— geography, industry, functionality, technology and delivery methods.

Client references will be provided by the marketplace, not cherry-picked by vendors. Most well-established vendors maintain in-depth databases of their staff’s capabilities and are able to model how a certain team member would perform in a new client engagement. Once standardized and shared beyond company walls, this data will allow buyers to make much better team assembly decisions, including cross-vendor teams which have become increasingly important in an emerging multi-sourcing world.

This industry has made false starts with standardization before. A few short years ago, CMM certifications were all the rage, yet today no one remembers what it stands for. Buyers learned that a single stamp of approval on an entire organization is a poor indication of how a small group of employees will perform on a given task. Emerging data management technologies will help deal with the inevitable deluge of data from going from a company-level certification to individual staff search and verification.

The painful issue of measuring ROI of outsourced business is also about to change as more data becomes public. Today, companies have learned to measure simple things, such as cost savings realized through outsourcing vs. doing the job in-house. But the specific methods vary greatly from one place to another, often involving creative accounting and cost allocation. Numerous surveys show that companies, big and small, struggle to measure the full impact of outsourcing on their bottom line. There is no way for buyers to reliably compare their outsourcing stories to others or the industry average. What will make it easier is bringing large amounts of data about outsourced projects into light. The industry will have to work out a way to break complex problems down to small, measurable pieces that can be compared across projects and companies.

This “deduce and compare” process will be aided by the wave of cloud-based services sweeping through the technology industry. Once clients get comfortable with the security and operational implications of running their systems in the cloud, they will get used to picking and choosing increasingly smart cloud services and will extend the same logic to their vendors. Many software projects will look like “virtual assembly plants” with multiple vendors operating in a shared cloud environment.

Better visibility and more granular analysis of each group’s capabilities will also mean that there will be a further push for vendors to specialize. In order to stand out in the field of large, can-do-anything outsourcing firms, vendors will need to understand a client’s business deeper than ever and offer implementation methodology and metrics tailored for their industry. Clients will increasingly shift to hiring niche outsourcing firms whose expertise can be verified beyond fancy websites and impressive salespeople.

Will vendors resist making sharing all this data with the public? No doubt. But clients will eventually refuse to buy from those who don’t, and smart vendors will find this to their benefit.

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