Today we are going to discuss the history of innovation in outsourcing looking thru evolutions of various sourcing models.

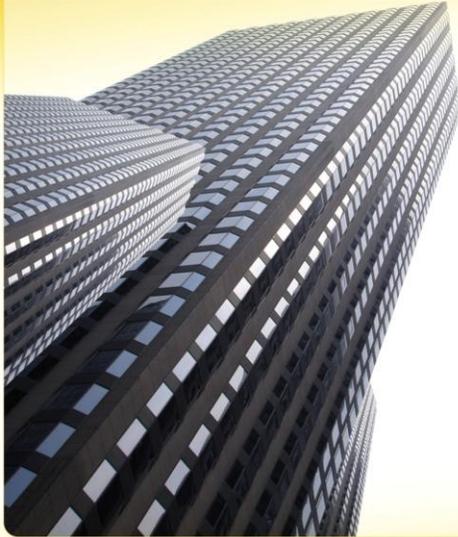We'll talk about what is sourcing and why out-sourcing. Then going thru various outsourcing risks we'll see how those risks were addressed by new outsourcing models to arrive at Remote In-Sourcing and Service Level Agreements.

INTETICS: History, Stats, Certifications, Awards

- Established: 1995
- Head Office: Chicago, Illinois, USA
- 3 Development Centers:
  - Minsk, Belarus
  - Kiev & Kharkov, Ukraine
  - Number of rep. offices worldwide
- Over 400 employees
- Customers in 30+ countries

- ISO 9001 & ISO 27001
- 70% Certified Staff (MS, Sun, Zend)
- Microsoft & Oracle Gold Partner
- 2011-12: #1 Outsourcing Rising Star
- 2006-12: Top Outsourcing 100
- 2007-12: Global Services 100
- European IT Excellence Award
- NOA Outsourcing Award
- 2002-03 Deloitte Fast 50 in Eastern Europe
- CRN Fast Growth 100, Inc.500/5000
- Top 50 in Chicagoland, Software 500

First of all, let's share some information about our company. Intetics is a mid-size global outsourcing company focused on creation and operation of remote dedicated information technology teams for software development, engineering and data processing. The company was established by me in 1995 in Belarus. Then headquarters of the company were located here, in Prague, for about 6 years. Then moved to the USA. We have 3 development centers in Belarus and Ukraine with about 400 employees. The company is ISO 9000 and ISO 27000 certified, Microsoft and Oracle Gold partner, and has received multiple industry awards both in Europe and United States. The greatest our achievement is getting #1 outsourcing rising star award from International Association of outsourcing professionals.

Let's answer two questions: What is outsourcing and Why Outsourcing exists? From my viewpoint outsourcing is international transition from trading by goods only to trading by services. Technology development, primarily invention of Internet, allowed to utilize international labor on variety of service applications and, for the stake of business effectiveness, it was immediately done. So, outsourcing and globalization are modern "piece drivers" if to believe to baron de Montesquieu. And I think he was right.

For Why Outsourcing, there are 2 primary reasons. The first one is shortage of expertise or specialists that posses certain expertise. In various researches on reasons for outsourcing this same shortage may be called Talent shortage, Getting strategic flexibility, concentrating on Core focus, etc. But this is all sound like synonyms for the same: lack of certain expertise and people. The second reason is obvious, Cost. Businesses not only want to get expertise but want it in a cost efficient manner.

Everything of course is expected to be done with already achieved internally or better quality.

I would say that if there was no shortage of expertise, people most probably would not do outsourcing. And there are a lot of organizations that are in position to in-source everything. For example Google, sitting on an advertising money machine, maintains large scale development in-house and I know a couple of similar organizations. Even one of our clients who developed the initial product offshore, now employ programmers in Hamburg, no matter at what cost.

So, the expertise is certainly available on any market and any business can hire, or in-source it, locally. Of course, if you have budget to hire those local expensive specialists and manage them. Then there is a whole bunch of different situations, as usual normally distributed, with tendency to outsource more and more in attempt to get maximum efficiency and competitive edge.

As usual, in this process 3rd party engagement, everybody tries to get all services Fast, Good and Cheap, despite a project management law that you can get just two of three. You see, it's not possible to get into this little white triangle. But nonetheless, usually client organizations still insist on this.

Outsourcing engagement are driven by the same desire – getting Fast, Good & Cheap at the same time, no matter what.

Despite…

… this number of risks for any 3rd party or outsourcing engagement.

There are many, many of risks involved: Strategic, Operational, Financial, Transactional, etc.

So, after such picture, it's clear why people still prefer in-sourcing: if something goes wrong in your own organization, you have full control and power to fix it. But if something goes wrong in a 3rd party organization, you can struggle.

Filtering Risks: Legal coverage & Insurance
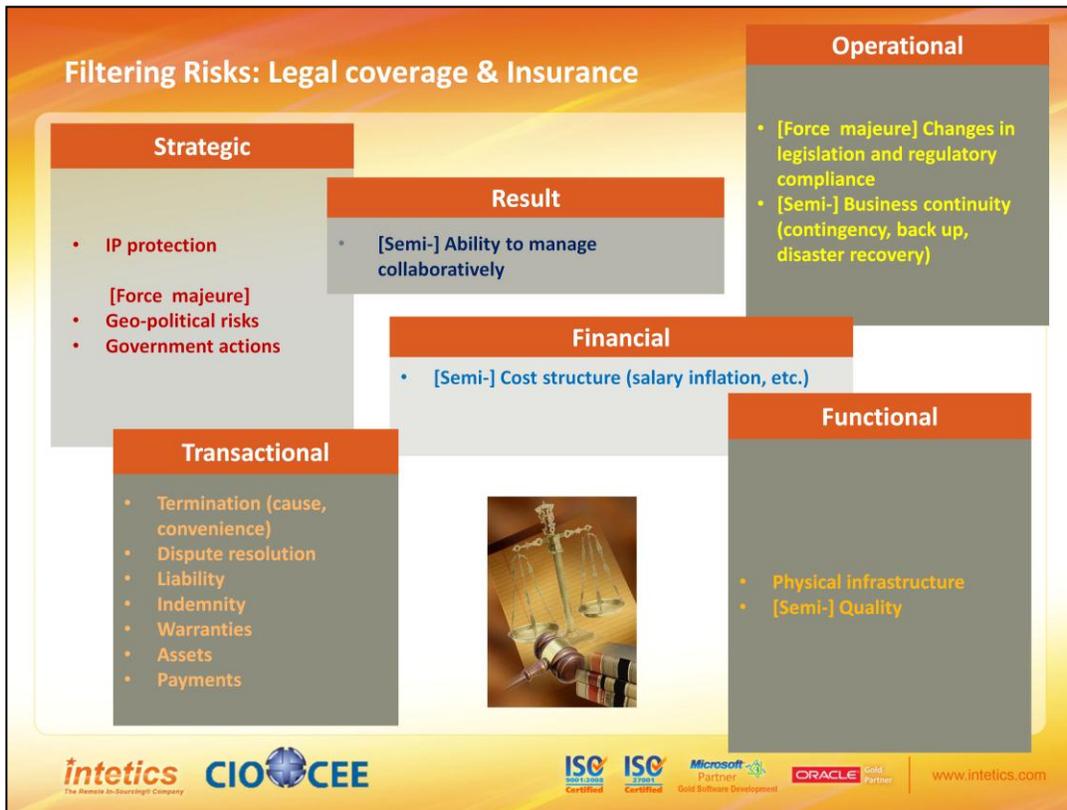
But let's look what risks are actually not outsourcing related but just general risks of buying anything. We don't need any special business models to address them. The risks outlined are filtered out by usual legal coverage and liability insurance.

It's sufficient to choose a well established provider organization and forget about these risks.

Filtering Risks: Provider's Certification & Maturity
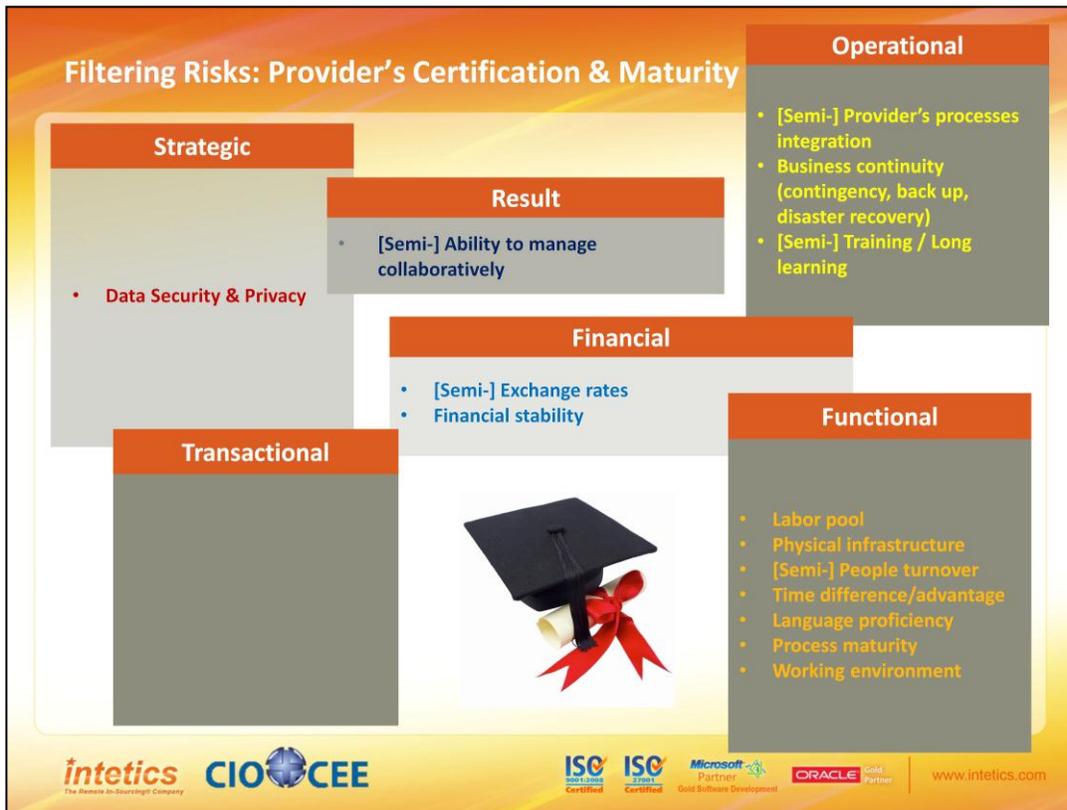
Further, there are other risks that are not outsourcing related but depend on maturity of your vendor. If you work with a company possessing necessary industry certifications, then usually these risks are addressed as well.
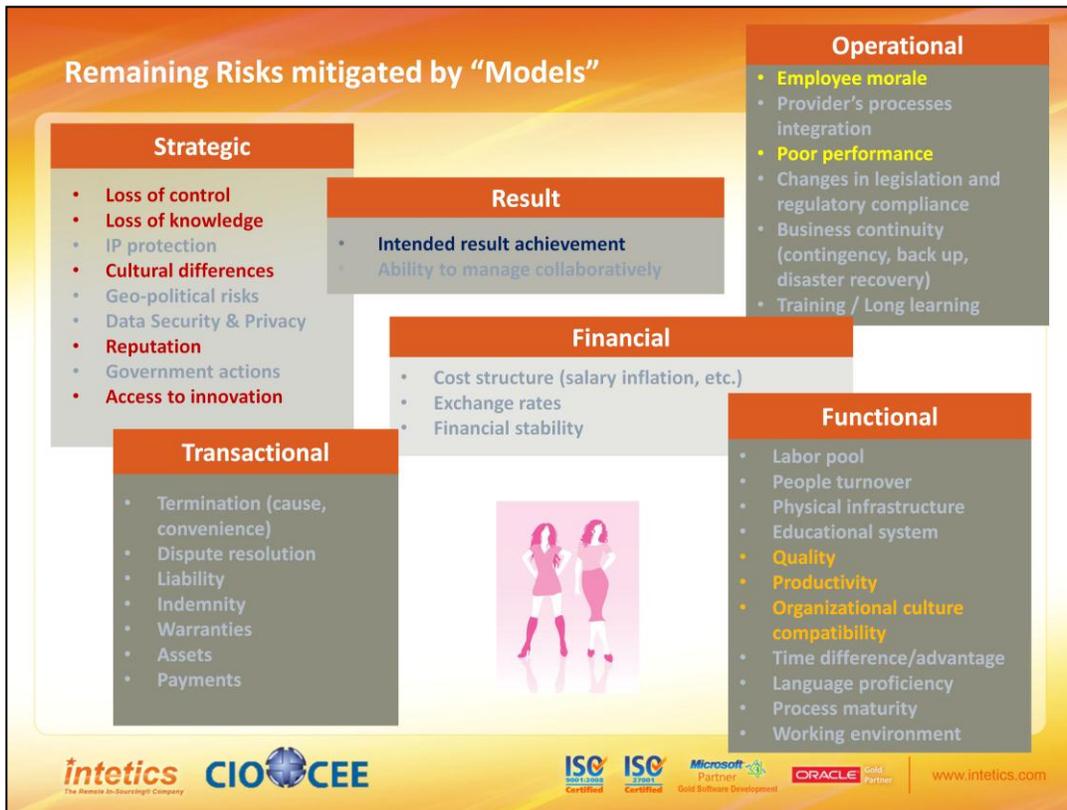
So, we already have filtered most of the risks, with a few remaining that actually had to be mitigated by Models.

Necessity to Address these risks drive innovation in outsourcing for the last decade.

In a little while we'll see HOW, but now let's take a look at various…

… sourcing models that exists on the market.

First of all, generally there are 5 possible ways to acquire expertise: Staff Augmentation, Out-tasking, Project-based services, managed services and Build-Operate-Transfer.

Then, there are many sourcing models. Please note that every model is not something fixed, black and white, they all actually are mixed, every model can have elements of any others and have different financial models embedded to them.

Nonetheless, you can see the historical sequence of sourcing models (and again, they all are still on the market).

So, 5 possibilities to acquire expertise are realized in various sourcing models.

Staff augmentation can be internal and external.

Out-tasking is usually a short-term engagement of a 3rd party for specific skills.

Then usual project based services…

Managed services…

And Build Operate Transfer.

Now let's recall what sourcing risks had to be mitigated by sourcing Models

Risk mitigation by sourcing models
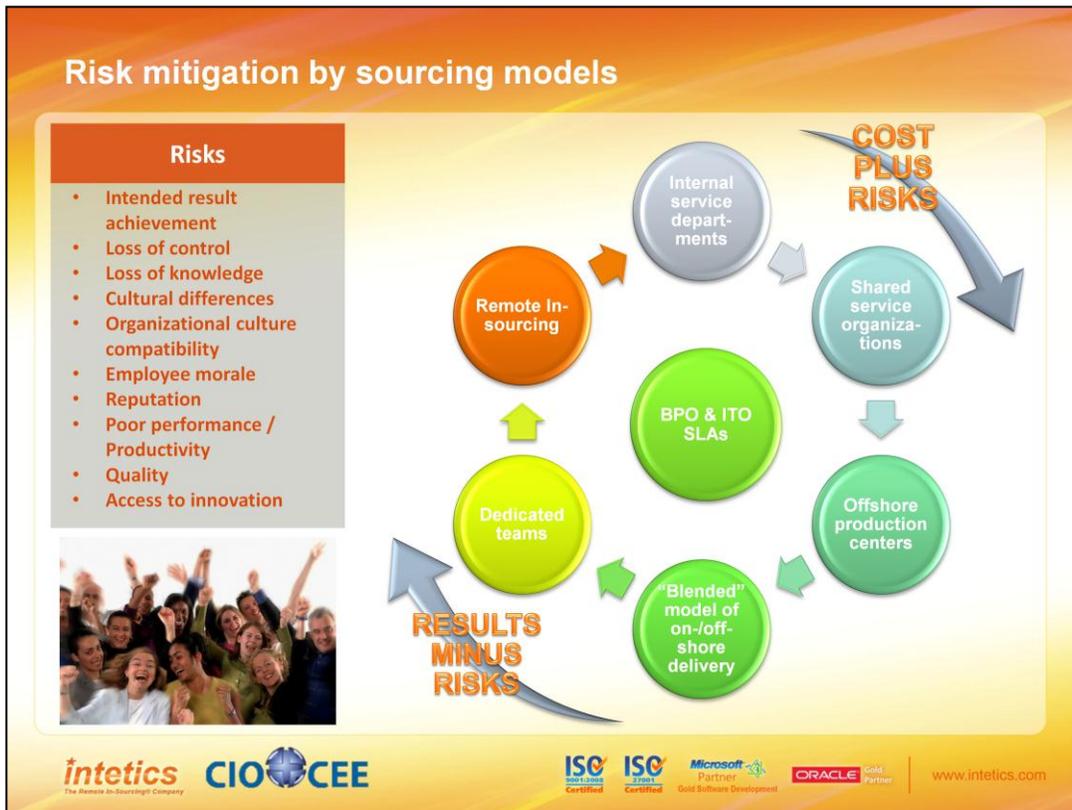
Here they are again. To address those risks, sourcing models went from a pure In-Sourcing to Shared Services to Offshore production centers to Dedicated Teams and to Remote In-Sourcing. Each model provided a better cost effectiveness while more and more closely going back to the starting point of full In-sourcing, to completely mitigate the risks.

The circle in the center with SLAs illustrates the fact that Service level Agreements are usually contractual fixation of provider's responsibilities and deliverables made in a measured way. We'll discuss this in a minute.

REMOTE IN-SOURCING COMPARISON

Major Area of Differentiation	Attribute	Your Employee	Intetics Remote In-Sourcing*	Dedicated Offshore from India and Low Cost Countries
Higher Net Delivered Value	Hourly Rate	Highest Hourly Cost	40%-60% less	60% to 70% less
	Infrastructure Cost	Added Cost	Imbedded in rate	Imbedded in rate
	Severance Risk / Constraints	Severance / Tax Effects	None	Cancellation Clause/Penalty
	Turnover/learning curve	5-7%	7%	Up to 20%
	Work Hours	Salary	Like a Salaried EE	"Billable Hours; Change Mgt Mania"
	Productivity	You Get Full Benefit	You Get Full Benefit	Firm Keeps the Margin
	Quality	Inspect Sample	Inspect Sample	Verify High Percentage
Unparalleled Alignment and Control	Speed to Scale Up	Slow to Add, expensive	All Levels Scale	Junior Levels Scale
	Speed / Ability to Scale Down	Limited / Costly	All Levels Scale	Cancellation Clause/Penalty
	Change Management	Impacts Schedule not Budget	Impacts Schedule not Budget	Change Mgt Drives Extra Billable Hours
	Resource Transparency	It's Your Team	It's Your Team	Lack transparency
	Nature of relationship	It's Your Team	It's Your Team	Firm EE's Assigned to Project
	Time Zone / Adjacency	Local	7 hours Different	13+ Hours Different
	Hired Directly for you on joint criteria	Your Co's Criteria	Joint Optimal	Hire to broadest need for firm
	Trained	Your Program	Integrated Training	Firm-Focused
	Evaluate / Promoted / Career Interest	Company-Focused	Just Like Your Eyes	Very "firm focused"
	Alignment with company objectives	Company-Focused	Company-Focused	Grow the Firm
Innovation Focused on Your Objectives	Innovation on Approach and Tools	Innovation-Focused	Proven Innovators	Firm Owns Methods
	Innovation on Content	You Own Methods	Full Acces to Methods/Tools	Task Focused
	All IP	Your IP	Your IP	Contractual; Firm Keeps Method/Tool Inventions

intetics · The Remote In-Sourcing® Company · CIO CEE · ISO 9001:2008 Certified · ISO 27001 Certified · Microsoft Partner Gold Software Development · ORACLE Gold Partner · www.intetics.com

Now please have a closer look to Remote In-sourcing. The essence of the model is to build direct extension of client's organization by and at a 3rd party provider.

The model has all the benefits of in-sourcing, including all the risks addressed at level that at least is as good as in your internal organization and usually even better as now you have provider's expertise and management to help you with further building of the most efficient organization.

As you can see, there are many other advantages of the model.

Overall, Remote In-Sourcing delivers much better cost effectiveness while eliminating practically all the risks of an outsourcing engagement. (Actually, practically there is no outsourcing in this case. There is "remote in-sourcing" ☺)

To help further understand the model, here are the main factors that distinguish it from others.

We'll see how this is realized on SLA level in a minute
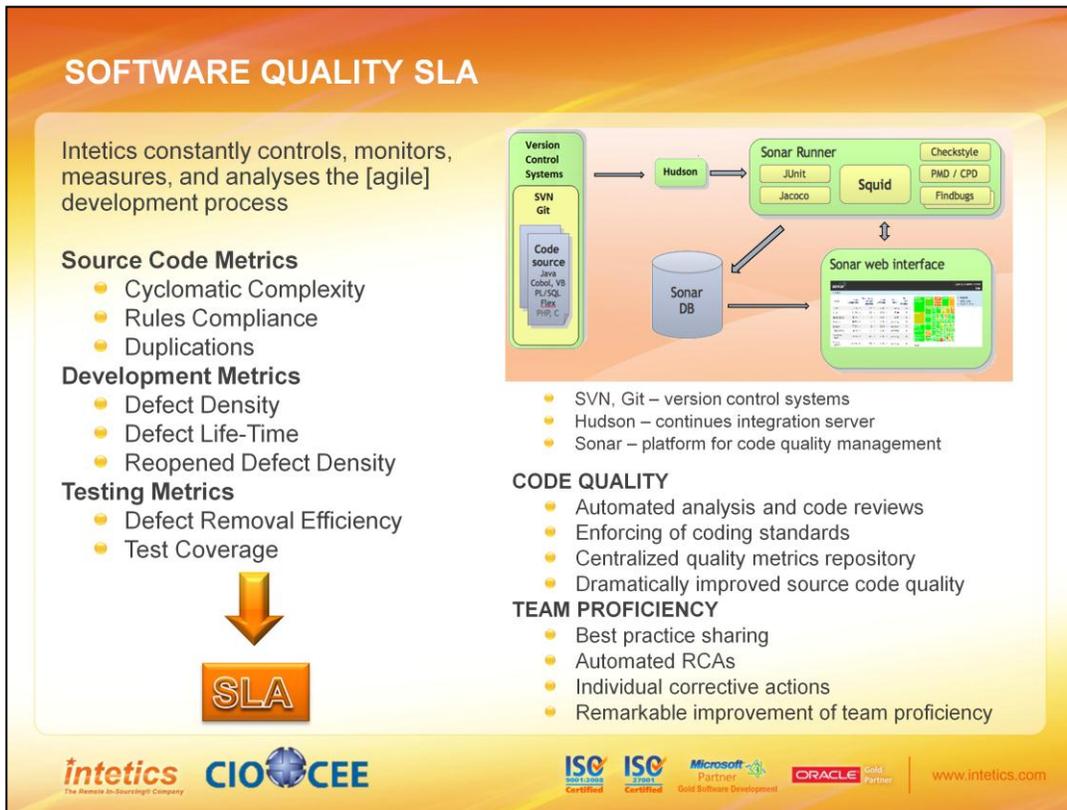
Finally, let's talk about SLAs, or how engagement of a 3rd party organization can help to increase efficiency of your company. We all know that having defined metrics and agreed service levels tremendously helps to govern relationships between clients and providers. For the last decade, SLAs became common in business process outsourcing deals and in IT infrastructure management deals. The industry has developed well defined frameworks for various metrics to be used in BPO and ITO and what services levels could be achieved.

But this was not done for Application Development, for Custom Software Development, where there are no quality and productivity metrics defined.

And here is an illustration how a mature service provider can help to solve the problem.

Here we can see our Quality Management Platform developed for automated code metrics collection and analysis, with aim to control software development process. We use industry standard tools like: version control system; continuous Integration server, and software for code analysis. These tools when properly integrated and configured allow to collect and analyze certain source code metrics. Then these metrics can be guaranteed contractually, achieving the goal of having SLA even for application development.

But that is not all, there is another positive effect: because the system allows project managers to do what we call "individual corrective actions", just demonstrating to team members best practices of software development practically in real-time, we receive improvements in team proficiency, in quality of people, what is probably even more important than any metrics. Your team becomes better and better every day.

The main take away form my presentation is that there is a way, Remote In-Sourcing, that allow to address majority, if not all, outsourcing risks and utilize all the benefits of outsourcing.