Offshore Development Center

An Offshore IT Outsourcing Framework

WHITE PAPER
An Insight And Our Approach

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TATA INFOTECH

Executive Summary

Organizations worldwide have long considered **IT Outsourcing** as a corporate strategic initiative, to better focus energies on their core business activities to gain competitive advantage on a consistent basis. **Offshore Outsourcing** has become a dominant theme among the IT Outsourcing trends worldwide and India has become the leading destination for Offshoring, with the western industrial world as the chief beneficiary.

While Offshore Outsourcing can be adopted in its various manifestations, an **Offshore Development Center (ODC)** with its pool of specially trained resources, well designed infrastructure, proven and time tested processes is the most beneficial outsourcing delivery model with a compelling value proposition for businesses looking at IT Outsourcing.

This paper attempts to present an overview of Offshore Outsourcing in general and ODC in particular with its main advantages and challenges. The paper concludes after giving an introduction to TATA Infotech's framework of ODC.

Offshore Outsourcing: An IT Outsourcing Innovation

'Offshore' is a term that is typically used to describe the location of work that geographically exists across the oceans. In the context of software services it refers to a delivery model driving the business relationship between entities on either side, which leverages cost, quality, time and competencies advantages of economies across the oceans for the benefit of businesses undertaking Offshore Outsourcing.

Although External Service Providers (ESP) are used by IT organizations typically for some specific competencies that are not available in-house, the need for IT Outsourcing is driven by some important factors such as:

- Improve focus to manage core business activities
- Access world class capabilities of the service provider
- Have flexibility to redirect the existing resources
- Use efficient ways to acquire new skills
- Achieve operational flexibility and responsiveness
- Better manage technology risks
- Reduce and control operating costs
- Access new and emerging IT services/solutions
- Change fixed costs into variable costs
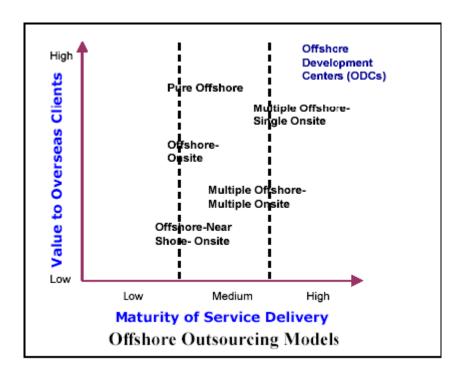- Improve overall performance

Offshore Outsourcing and ODC Setup Process

Offshore Outsourcing delivery framework could be adopted in multiple ways based on factors such as:

- Degree and depth of business relationship between the service provider and the client
- Familiarity of the client with the variants of offshore outsourcing service delivery framework
- Number of geographical work locations needed and involved (feasibility of infrastructure facilities)
- Extent of team distribution desirable / manageable
- Deployment of methodologies backed by processes and tools
- Volume of work involved

Based on the above factors offshore outsourcing can be classified in the following broad types, as shown in the picture.

Offshore Outsourcing Models

For instance, a complete or partial phase of the project life cycle can be identified for Offshoring, or a set of phases within the project could be orchestrated for execution simultaneously from an offshore work location and from the onsite (client's) work location.

Management Essentials of ODC: An Offshore Development Center (ODC) is the most significant variant of Offshore Outsourcing and has the following essential elements:

- **Strategic Oversight:** ODC involves an Outsourcing relationship for relatively longer time period and is aligned with organizational strategy and objectives
- **High Commitment:** ODC requires upfront investment in people and other resources, and therefore calls for a high level of commitment from the service provider and the client to fully leverage the investments
- **Quality and Process Framework:** Standards need to be in place for work management, output measurement, quality excellence and sustained productivity gains

ODC Characteristics: The characteristics of an ODC set up typically are as follows:

- A dedicated facility for ODC at the service provider's premises
- Mutually agreed staffing plan for the ODC based on the volume of workload targeted
- A committed and large Offshore team and a minimal Onsite team, with capabilities to ramp up staff quickly if required
- Ability to simultaneously execute multiple diverse projects in the ODC
- Offshore teams connected with required facilities of the client through high speed communication links

ODC Progression: An ODC typically progresses through the following key phases:

- **Discovery Phase**
  - o Instituting program managers
  - o Composing a winning team

- **Initiation and Planning Phase**
  - o Understanding the client environment
  - o Project sequencing

- **Commissioning Phase**
  - o Piloting/Simulation at Offshore
  - o Ongoing execution

- **Growth Phase**
  - o Periodic reviews and improvement of work practices
  - o Growth in volume and nature of work

ODC Infrastructure and Facilities: The important facilities that need to be considered for an ODC are:
- Physical Location
- Office Infrastructure

- Hardware and Software Infrastructure
- Telecommunication Links
- Security and Confidentiality

ODC Benefits

Typical benefits include:
- Savings of over US $ 20 million over 5 years for a 100 person ODC
- Savings to the tune of 40% accruing immediately for new application development work
- Significant reduction in concept-to-deployment elapsed time
- Dedicated offshore resources act as extension of client's IT organization resulting in flexible work assignment, ramp ups and ramp downs
- Productivity gains through retention of knowledge, learning of internal processes and cross training
- Higher quality of output due to proven and time tested methodologies, world class processes and tools

Challenges in ODC Outsourcing

There are some challenges involved in establishing and running a successful ODC relationship. These challenges need to be proactively and jointly addressed by the client and the Service Provider. They are:

- **Relationship Management:** It is important for the client to view the ODC as a part of their organization even though it is offshore. The Service Provider as well as the client needs to have positions tasked with managing the relationship and making a success of the ODC for the client's benefit.
- **Operational Excellence:** Capability and experience of the ODC service provider's management is important to create and to maximize the economies of scale, and to deliver high quality of work on time and within budget. This will help to meet the client's goals of cost savings and work delivery.
- **Financial Stability of the Service Provider:** A service provider's sustained delivery capability is critically dependent on the ability to sustain and scale the operations. Financial track record and stability are, therefore, critical ingredients for the ongoing success of the ODC.
- **Cultural Alignment:** The ODC needs to have an environment and culture as close to that of the clients', to bridge the cross culture gap and the social interaction challenges inevitably thrown up during a long term engagement.
- **Communication Processes:** The ODC processes employed by the service provider need to focus on communication to achieve delivery excellence and to maximize productivity gains, while mitigating the project management risks.

Tata Infotech's ODC Framework

ODC Setup Process

Tata Infotech adopts the following phases as part of its process for setting up ODCs in India for its international clients. The activities under each phase are summarized below.

Discovery Phase

During this phase, both the client and Tata Infotech depute program managers who are primarily responsible for the success and growth of the ODC. This phase includes the following activities:

- Selecting the Program Managers from Tata Infotech and the client
- High level study of the client's existing IT environment
- Arriving at the objectives of the ODC
- Proposing a plan document for the ODC growth
- Selecting a core team for initiation phase
- Creating a financial model for the ODC including expected savings
- Determining the physical location of the ODC
- Detailing an infrastructure plan

Initiation and Planning Phase

The core team, which has been identified, studies the client's IT environment and existing applications. This study results in an implementation plan for ODC work sequencing, which is used to transfer work to the ODC. The Core team then identifies the pilot work with which the ODC is to be initiated jointly with the client.

This team also studies client methodologies, processes and tools, and evolves a process map to integrate Client processes and practices with those to be used by the ODC. The team produces a **Statement of Work (SOW)** based on the nature of the work involved for the identified pilot project(s). A detailed work plan is agreed upon by the program managers of Tata Infotech and client after which the ODC commissioning begins. In this phase the operating practices will be established.

Commissioning Phase

This phase involves preparing the ODC work team, staffing the pilot and other project/work assignments undertaken at ODC and commencing the work based on SOW and work plan. The ODC work team will adopt customized processes agreed during the Initiation phase for work delivery.

Growth Phase

>In this phase, the work volume off shored is grown to maximize the ODC benefits to the client. Tata Infotech and the client conduct joint operating reviews periodically to continually improve processes and productivity. Strategic reviews are conducted to explore ways to maximize ODC value to the client and to grow the ODC benefits by exploring expansion in various work areas possible.

>This phase essentially involves leveraging the continued learning of the ODC to the client's maximal benefit, to become a true extension of the clients' IT organization on a sustainable basis.

Locations and Infrastructure

Tata Infotech's state-of-the-art development centers at multiple locations across India have the capabilities and resources for planned expansion based on the scale of clients' needs. These development centers are adequately inter-connected, and are also well connected to the client locations typically using high-speed dedicated communication lines.

Hardware and Software

Tata Infotech consultants are provided with a desktop workstation environment. Access to special hardware/software applications required in the operation of the ODC is worked out in mutual consultation with the client. Several of Tata Infotech's development centers are created in specialized free trade zones to facilitate easy movement of the required hardware and software.

Communication Link

Tata Infotech's development centers are inter-connected with multiple redundant links amongst themselves and to international locations. ODCs are connected to client locations using the needed bandwidth on dedicated lines. Additional bandwidth is commissionable at relatively short notices. Network security is customizable as per client needs. Facilities for voice, data communication, videoconferencing, Internet and ISDN are available at ODCs.

Quality Management

Tata Infotech focuses on quality as part of its corporate mission and values. Over the years Tata Infotech has successfully delivered quality software solutions and services

to its clientele worldwide, using ISO 9001 and SEI CMM certified processes. The strategic emphasis on quality has resulted in substantial productivity gains and enabled Tata Infotech to deliver better value to its clients.

Security and Confidentiality

Tata Infotech has policies in place for security and confidentiality of client's applications, data and business practices. Tata Infotech addresses the security aspect of the ODC for the client in the following areas:

- Physical Security
- Network Security
- Protection of Intellectual Property

Physical Security

Access and entry to the ODC is limited to authorized personnel. Tata Infotech development centers are provided with security guards and electronic identification systems, to bar the entry of unauthorized personnel.

Network Security

Network security is achieved through multiple means including:
- Isolating the LAN segment
- Implementing firewalls
- Encryption
- Use of specialized security hardware/software

Tata Infotech and the client jointly evolve the network access guidelines and security mechanisms.

Protection of Intellectual Property

Tata Infotech has written down, and promulgated policies for intellectual property protection. IP Protection is governed by the following agreements in Tata Infotech: 1) Customer contract, 2) Employment contract, 3) Tata Code of Conduct 4) Specialized contract (as needed). All Tata Infotech employees adhere to the IP protection guidelines as enunciated by the above contracts.

About Tata Infotech

Tata Infotech Limited is an IT services company based out of India with offices in several parts of the world. Tata Infotech provides full spectrum of IT services from application development, packaged solutions implementation, application management including support and reengineering across key industry verticals of Banking, Financial services and Insurance, Manufacturing, Retail, Government, Telecommunications, Transportation, Education and Information Technology.

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