Near-shore Outsourcing

Ensuring success when utilising strategic nearshore options for portfolio companies

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About Crosslake

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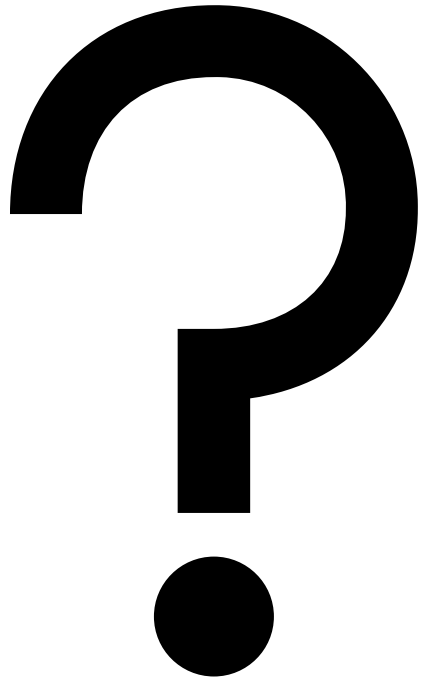
Helping companies buy, build and run better software

1. What is and Why companies outsource?
2. How to approach outsourcing. What to do and what to avoid?
3. How to make the case for outsourcing?

Is Portugal or Bulgaria a better outsourcing option



Why and When to Outsource?

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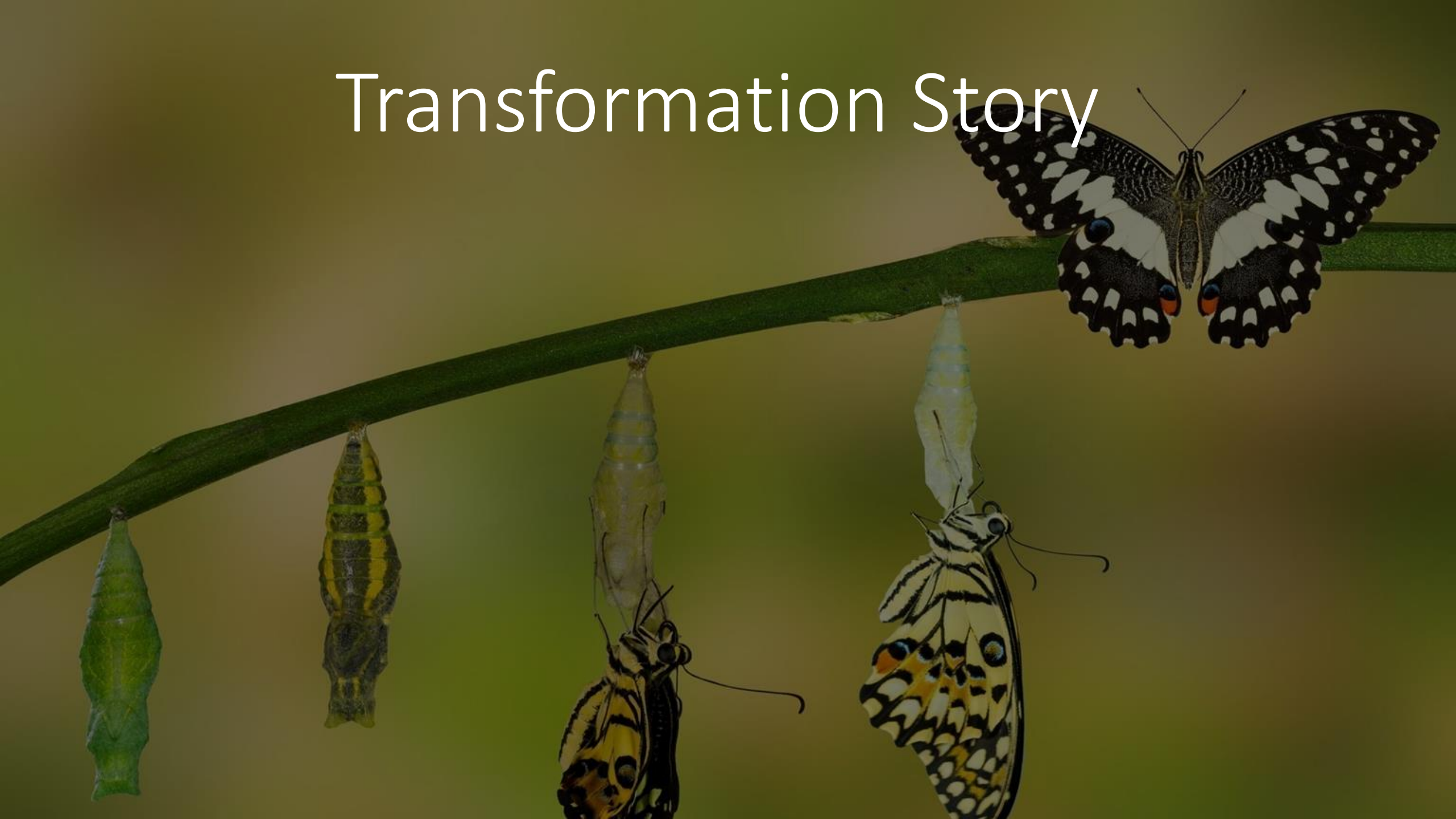
Growth Story

Transformation Story



Top Outsourcing Reasons

- **Cost (59%)**: Reduce expenditures. Control costs
- **Capacity (57%)**: Improve focus. Delegate time-consuming tasks
- **Time (47%)**: Free resources for new roadmap work – core business
- **Services & Quality (31%)**: Distributed customer service. Testing
- **Speed (28%)**: Faster time to market. Competitive threat
- **Talent (28%)**: Access to resources. Tap into global talent pool
- **Expansion (17%)**: Access to new markets. Local presence

Statistics Source: Deloitte's 2016 Global Outsourcing Survey

Outsourcing can have a healthy ROI advantage if done right or a negative effect if not well-thought our or executed well

Generalized Outsourcing Options for both Near-shore & Off-shore

A	Classical Outsourcing (Hotel or Airbnb)
B	In-Sourcing – (Rent)
C	Captive – (Rent With-Option-to-Buy)
D	DIY – (Build to own)

A


Easier Cost Control
Operation Costs Reduction
Cooperation with Specialists Form Narrow Area
Outsourcing Advantages
Releasing Internal Capabilities
Liberating Capital for Other Purposes
Process Optimization and Rising Efficiency

In-sourcing or Captive Teams

- **Team:** Create dedicated software teams; abstract recruiting, HR, payroll, administration and facilities; classic outsourcing.
- **Facilities:** Provide office space including access security; cater to specific needs and different team sizes.
- **Legal/HR:** Take care of finance, accounting, global payroll, compliance and cash management; can help hire, and create a subsidiary.
- **Build-Operate-Transfer (BOT):** Provide all the above and transfer the team to the client within ~2-3 years of engagement. Easy to bow out if needed.

D Own Center

- Feeling of belonging
- Exciting work environment
- Growth and learning
- One Team
- Work on Roadmap

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Outsource Options

	Classical Outsourcing Hotel or Airbnb	In-Sourcing Rent	Captive Team Rent to Buy	DIY - Own Center Build to Own
What	People for hire	People for hire/Dedicated Team	Dedicated Team → Sub	Own Team / Sub
Pros	Talent instantly available No setup required	Staff augmentation	Lower Attrition Minimized Overhead	Loyalty if setup right Longer term investment
Cons	Resource Competition Large Player Competition	Higher Attrition Some Overhead	Contract Termination Fee Management Overhead	Require Setup Investment Management Overhead Ancillary overhead
Typical for	Business Process, Customer Support, Test Automation Backlog, Temporary spikes, Expert skills, Maintenance Work	Short-term (1-2 years) Legacy Transformation	Longer-term setup Roadmap execution Core functionality	Longer-term setup Roadmap execution Core functionality
Resources Availability	1-2 months + Ramp-up Resources Available	2-3 months + Ramp-up Vendor Recruits	3-4 months + Ramp-up Vendor Recruits	6-12 months + Ramp-up You Staff or use 3rd party

At First Glance… It can be Tricky!

Salary Estimates (not loaded)	Canada	Chile	Czech Republic	Ireland		Portugal	Swe		Bulgaria	Romania	Ukraine	Spain	India
Architect	$113,899.75	$74,878.65	$ 93,836.45	$100,571.00		$68,713.00	$	$160,248.00	$67,209.56	$ 66,319.00	$104,505.51	$ 64,571.60	$49,829.00
Data Scientist	$ 77,434.98	$68,365.56	$ 85,674.38	$ 77,974.00		$68,435.60		$131,000.00	$67,607.37	$112,499.46	$105,124.07	$ 52,460.49	$24,719.75
Sr Engineer	$ 93,840.00	$57,727.28	$ 62,710.00	$ 81,950.00	$	$49,521.00		$150,513.00	$42,857.90	$ 52,851.00	$ 61,825.00	$ 65,585.44	$21,353.69
Jr Engineer	$ 48,144.60	$35,529.60	$ 44,525.00	$ 34,810.00	$ 4	5,566.0		7.00 $ 77,932.00	$35,135.57	$ 58,466.00	$ 45,780.00	$ 54,633.01	$ 5,808.84
Test Lead	$ 79,989.47	$59,030.38	$ 73,975.71	$ 57,834.80	$ 79,	090		453.34 $111,316.00	$39,850.18	$ 66,311.16	$ 27,785.00	$104,121.59	$20,845.70
Test Professional	$ 64,400.84	$38,677.93	$ 48,470.43	$ 46,950.00	$ 52,40			2,027.95 $ 88,348.00	$32,885.00	$ 47,667.00	$ 27,404.00	$ 42,646.54	$ 9,739.26
Automation Test Engineer	$ 68,546.16	$39,392.44	$ 34,305.00	$ 53,709.00	$ 33,330.			93,728.00 $ 99,486.00	$42,687.37	$ 93,957.00	$ 61,981.00	$ 62,473.18	$21,168.97
Scrum Master/Product Owner	$ 74,008.65	$71,034.78	$ 89,019.40	$ 85,681.67	$ 96,244.92			169,015.90 $126,572.00	$70,246.99	$116,891.82	$109,228.48	$ 69,754.75	$35,440.67
DevOps, System Admin	$ 69,200.81	$48,153.57	$ 60,345.12	$ 69,043.00	$ 65,243.2			54,538.89 $109,564.00	$47,619.54	$ 79,239.47	$ 74,044.59	$ 51,127.23	$16,473.15
Blended Rate	$ 76,607.25	$54,754.47	$ 65,873.50	$ 67,613.72	$ 70,949			1,579.57 $117,219.89	$49,566.61	$ 77,133.55	$ 68,630.85	$ 63,041.54	$22,819.89
Blended Hourly	$ 36.83	$ 26.32	$ 31.67	$ 32.51	$			53.64 $ 56.36	$ 23.83	$ 37.08	$ 33.00	$ 30.31	$ 10.97

Blended Outsourced rate are typically sli higher than S s

	nded High	Blended Low
C	31.25	$ 26.52
Bu	31.33	$ 27.23
Rom	33.22	$ 30.15
Portug	34.01	$ 29.50
Ireland	.75	$ 32.51
Ukraine	43	$ 33.38
Spain		$ 35.00
Poland	$	$ 37.69

* Pricing estimate ncludes facilities, taxes)

Instead…Do the Analysis First!

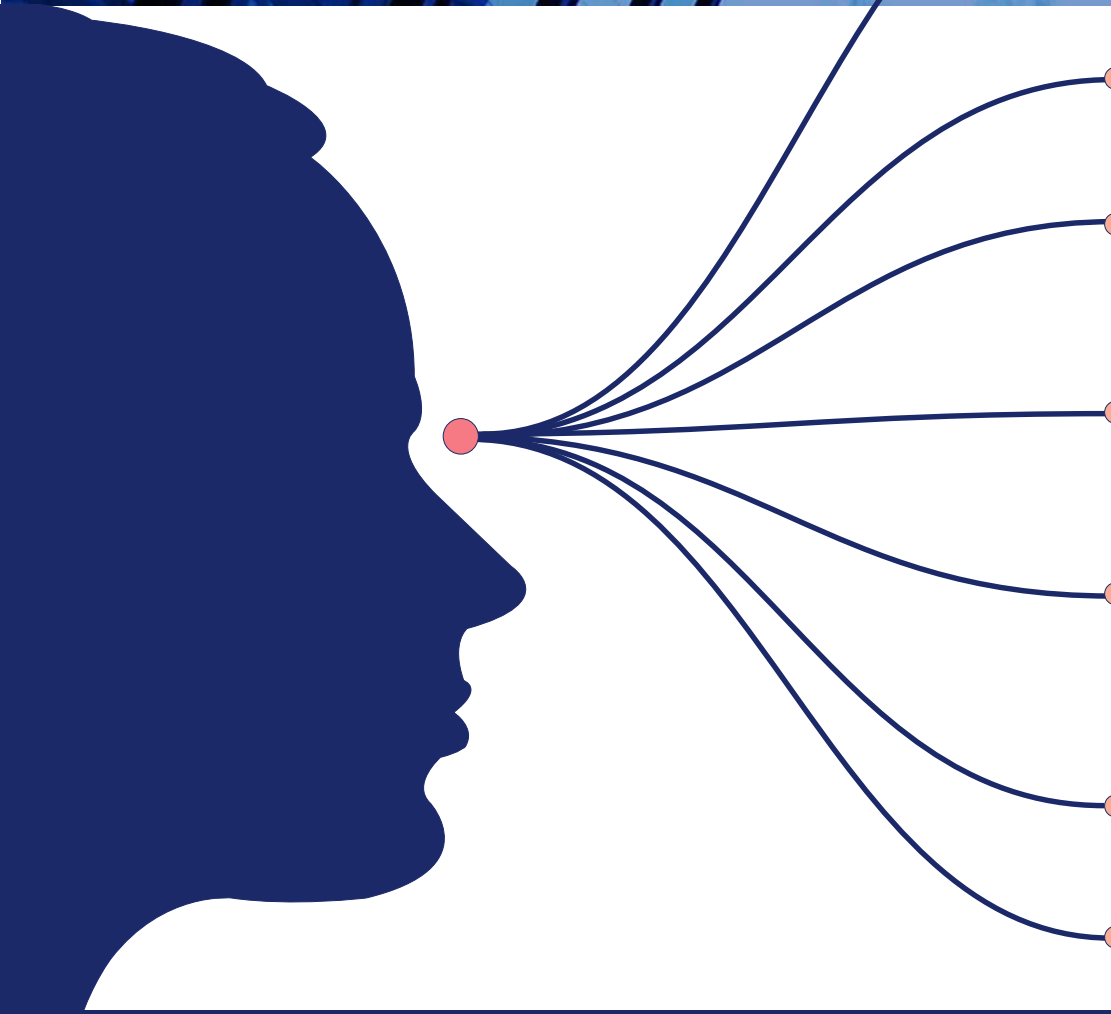
Step #0

Understand the Vision (i.e. The WHY)

Clarity on the short- and long-term goal
Will help you save costs ultimately

What to consider?

Maximizing opportunities
Optimizing cost
Mitigating risk



Vision and Goals

Clarity concerning company goals and objectives
Short- and long-term goals
Short-term financial justification
Staff Communication (may feel disposable/threatened
Open communication with stakeholders

Company Readiness

What can be outsourced and what should not
Engineering practices that must be upgraded
Collaboration techniques implemented
Understand prioritized criteria

Location Options

Language capabilities, Culture
Travel proximity and Time zone
Regulatory compliance
Data security and intellectual property
Attention to personal issues (for location choices)

Vendor/Partner Options

Pilot project for vendor selection
Partner ecosystem
Properly vendor agreement (fees, currency, confidentiality)

Site Readiness

Location, office setup, dedicated space
Governance model, IT Infrastructure setup
Hiring plan and redundancy planning for attrition
Local culture considerations
Shift to an outcome-based business model (innovation)

Local Leadership

Senior leadership support and involvement
Employees #1, Local leader, Product Owner

Training

Cross-training at HQ and Remote office
Travel plan setup
Distributed Development Training

Strategy

- Assess company outsource readiness, Architecture, Organization, Process, and Tools
- Outsource Strategy & Locations
- **Outcome**: Understand current state, resource needs; identify suitable high-level options

Planning

- Finalize location, Vendors
- Site Readiness / Setup
- Develop Governance Model
- **Outcome**: Identify best option/location

Execution

- Local Leadership
- IT Infra, Process and Tools
- New hire onboarding
- Scaled Agile. Requirement process
- **Outcome**: Stand-up new site/team, hiring, Org model, infrastructure, collaboration model and training

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Distributed Development Practices

Keys to successful execution:

- Scalable governance
- Optimal locations
- Team and product alignment
- Organization structure, roles & responsibility
- Requirement hand off structure
- Cross team communication
- Buy In from Key Stakeholders

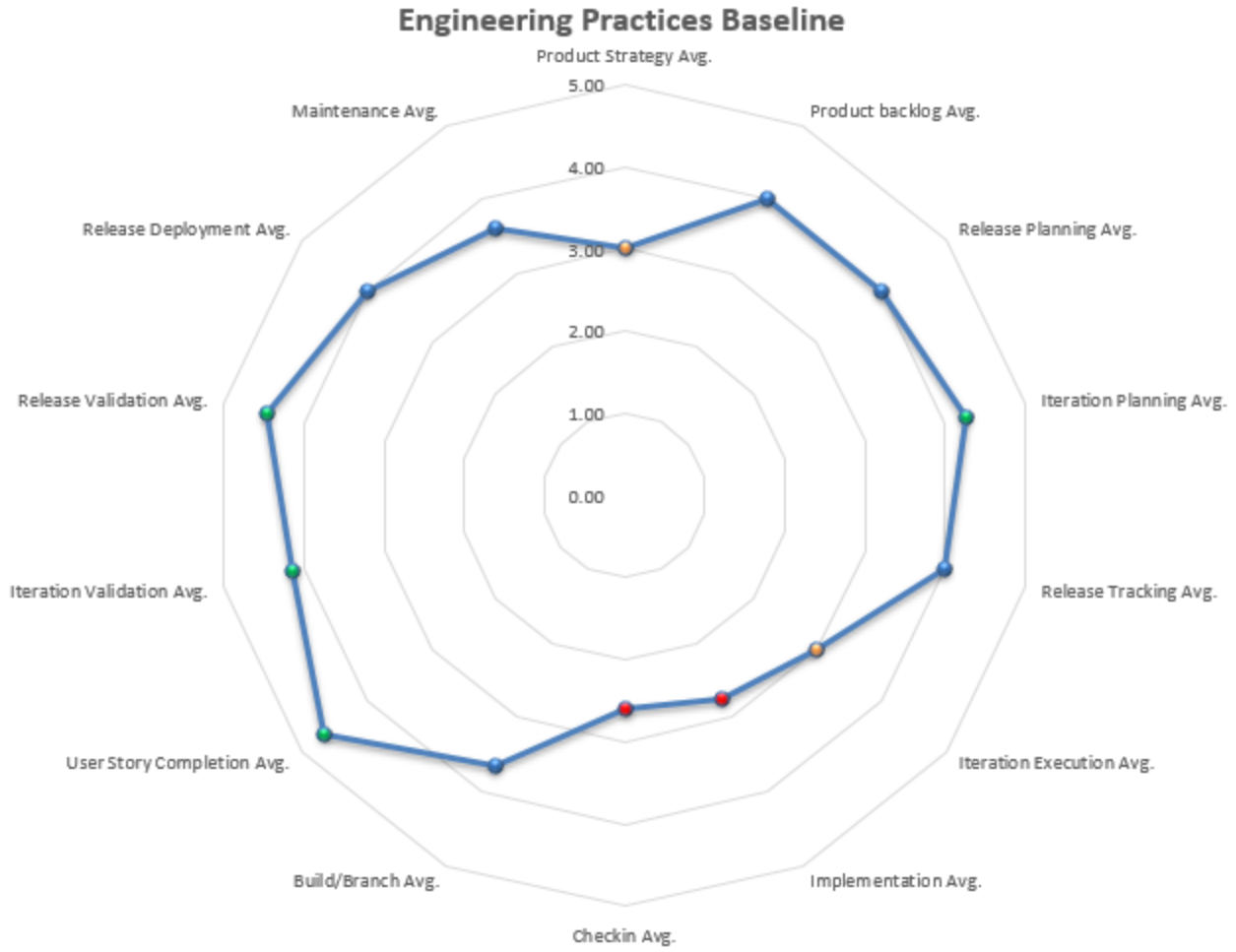
REFERENCES

7 Warning Signs Of Troubled Distributed Development

Successful Distributed Development - What You Need To Know

Outsourcing Checklist

Example: Diagnostics to Understand Readiness



Example: Criteria to Consider

Financial		Regulatory/ Legal/ Political		Cultural		Operational	
Criteria	Priority	Criteria	Priority	Criteria	Priority	Criteria	Priority
Cost (~50 - 30%) Lower than US	High	High Political Stability	High	Large Talent Pool	High	Scalable Operation	High
Stable Currency	High	No Revenue Sharing	High	Low Attrition	High	Full Stack Development	High
Streamlined Financial Reporting	Medium	No Ownership sharing with Govt.	High	Values - Respect, Unselfish, Sharing, Collaborative, Learning, Questioning	High	High Quality, Fast Hiring/ Onboarding	High
Tax Handling - Business vs Income vs Payroll	Medium	Anti-Bribery Conformance	High	Key Attributes - Hungry, Humble, Smart, Self-Starters, Persistent, Problem-Solvers	High	Experience with distributed teams	High
Facilities Cost	Low	High IP Protection	High	Proximity to Restaurants, Coffee-Shops	High	Time Zone Overlap with MT	High
Streamlined Integration w Payroll Software	Low	No Conflict of Interest for Legal Representatives	High	Travel Friendly	High	Proximity to University (College Talent)	Medium
Streamlined Integration w Accounting Software (e.g. QuickBooks)	Low	Experience with Regulatory Requirements (e.g. FINRA, ISO 27000, SSAE, SOC 1/2)	Medium	Work/Life Balance	Medium	Opportunity to Hire & grow Interns	Medium
		Insurance Requirements	Medium			Domain Experience	Low
		Easy to Incorporate	Medium				
		Data within Borders	Low				

Example: Analysis of Characteristics by Location

Area	Criteria	Priority	Brazil (Rio-De-Janerio)	Bulgaria (Sophia)	Canada (Calgary)	Chile (Santiago)	Czech Republic (Prague)	Estonia (Tallinn)	Hungary (Budapest)	Latvia (Riga)	Lithuania (Vilnius)	Malta (Valletta)	Northern Ireland (Belfast)	Poland (Warsaw)	Portugal (Lisbon)	Romania (Kluj-Napoca)	Slovakia (Bratislava)	Spain (Barcelona)	Ukraine (Kiev)
Financial	Cost (~50 - 30%) Lower than US	↑	●	●	◔	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Regulatory/Legal/Political	High Political Stability	↑	◔	◑	●	◑	●	◑	◑	◑	◑	●	◑	●	●	◔	●	◑	◔
Regulatory/Legal/Political	Anti-Bribery Conformance	↑	◔	◔	●	◑	◑	●	◔	◑	◑	◑	●	◑	◑	◔	◑	◑	◔
Regulatory/Legal/Political	High IP Protection	↑	◑	◑	●	●	●	●	◑	●	●	●	●	●	●	◑	●	●	◔
Cultural	Large Talent Pool	↑	◔	◑	◔	◔	◑	◔	◑	◔	◔	◔	◔	●	◑	◑	◔	●	●
Cultural	Proximity to Restaurants, Coffee-Shops	↑	◔	◑	●	◑	◑	◑	◑	◑	●	●	●	◑	●	●	●	◑	◑
Cultural	Travel Friendly	↑	◑	◔	●	◑	◑	◔	◑	◔	◔	◑	◑	◑	◑	◑	◔	◑	◑
Operational	Time Zone Overlap with MT	↑	●	◔	●	●	◔	◔	◔	◔	◔	◔	◑	◔	◑	◔	◔	◔	◔
Operational	Opportunity to Hire & Grow Interns	→	●	◑	◑	●	●	◔	◑	◑	◔	◔	◑	●	●	◑	◑	◑	◑
Cumulative Comparative Score			102	78	174	138	138	110	84	96	110	134	144	156	162	96	132	126	90

Low Value	◔	1
Medium Value	◑	3
High Value	●	9

Low Priority	↓	1
Medium Priority	→	2
High Priority	↑	3

Cumulative Comparative Score (CCS)

CCS is calculated by **adding** the **product** of the **Priority** and **Value** of all criteria in a column to get the cumulative score for the country. Higher scores are better.

Red CCS scores are **Bottom 6** countries. Green CCS scores are **Top 6** countries.

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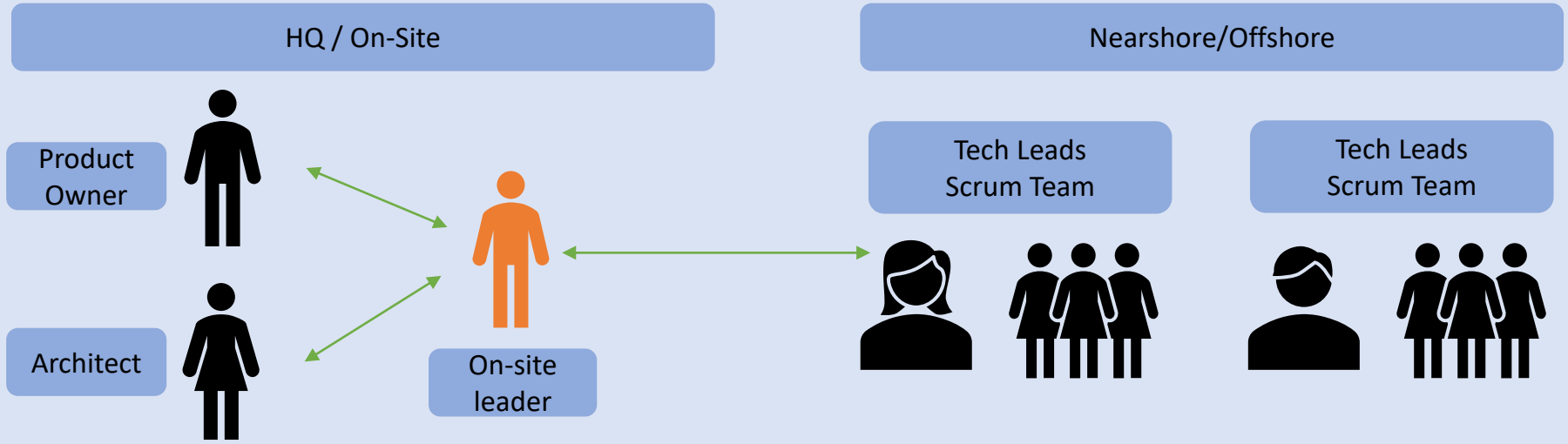
Example: Team Structure for Collaboration

Recommended Team Model for Outsourcing

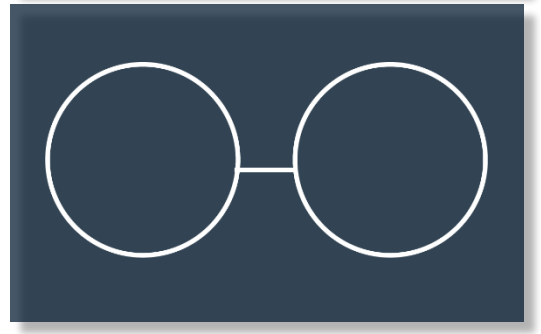


Example: Distributed Team Models

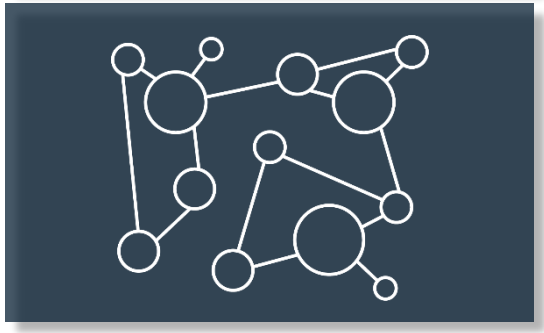
- Hub and Spoke
  - Strategic vs tactical division of work eases communication
  - Reduced cross-site dependencies and component ownership simplify collaboration
  - Middle management in spoke carry vision forward
  - Challenge: Limited career opportunities could impact employee tenure
- Peer-to-Peer
  - Shared business ownership helps strategic product breadth, market penetration
  - Balanced input and decision making across nodes increases inclusivity
  - Challenge: Peer leaders may compete and mis-align on strategy/product planning
- Constellation
  - Appropriate for scaling organizations for growth and innovation
  - Not recommended for small organizations (e.g. < 5000 employees)
  - Challenge: Requires strategic org design and investment for maximum benefit

Hub and Spoke

Peer-to-Peer



Constellation



Making the case for Outsourcing

Working with CEOs to make the case

- Upfront research on company specifics and outsource ecosystem
- Enlist the help of an expert behind the scenes for data, examples and case studies
- Make the case for a trial run to step into it
  - Application development for small non-core project
  - Application maintenance for legacy
  - Data center operations, Database administration
  - Help desk, Disaster recovery
  - IT security, Network operations, Desktop support
  - Web hosting and operations
- Prepare for toughest questions (e.g. how it increases revenue, saves money, data security)
- Base it on a value-driven approach with the Core Value Creation Levers
  - Higher Customer Value
  - Faster Time to Revenue
  - Enhance Productivity
  - Reduce Cost of Delivery
  - Increase Product Quality

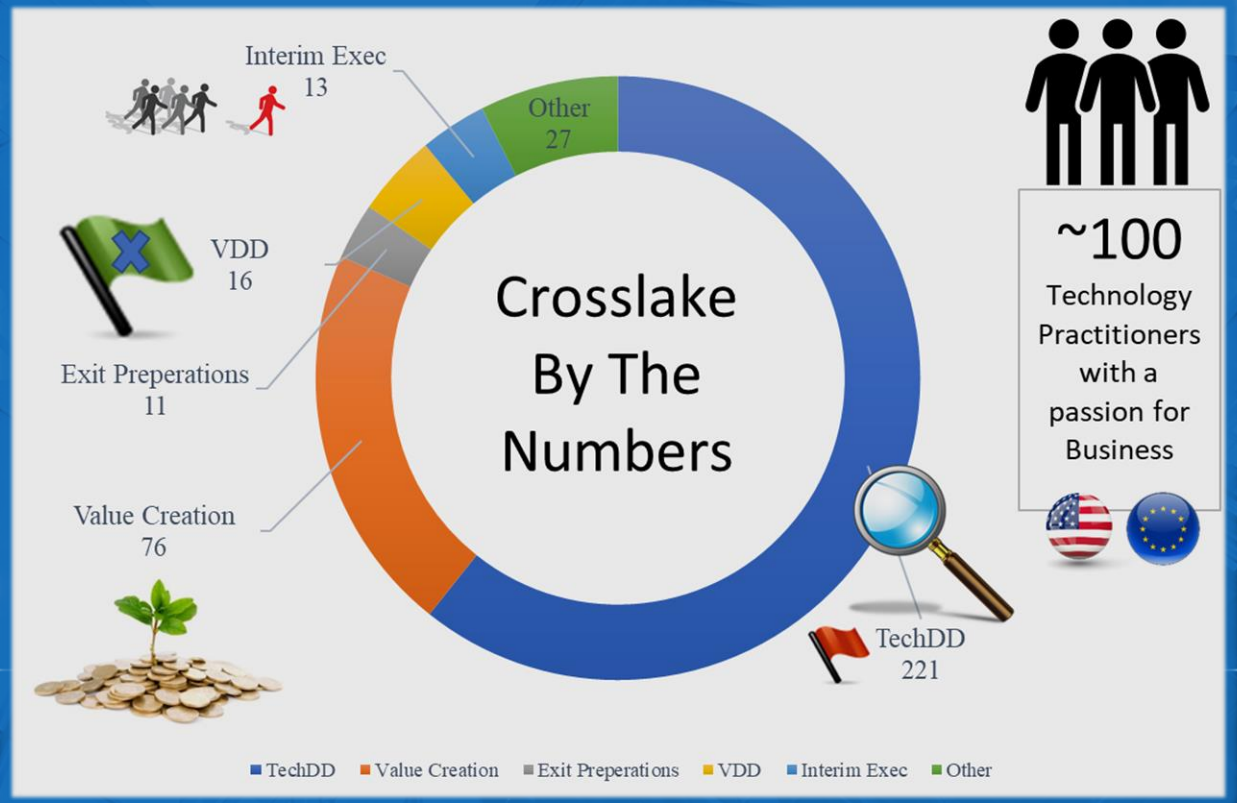
Summary Take-aways

- Determine from the outset whether the objectives are tactical or strategic
- Cost should not be the only or primary driver
- Ramping up a successful nearshore centre takes time and management commitment; plan accordingly
- Location *and* provider choice are critical to success

Thank You

Key Capabilities

- Technical Due Diligence
- Value Creation Programs
  - Leadership
  - Strategy
  - Architecture
  - Organization
  - Agile Development
  - Quality Engineering
  - Dev, IT and Cloud Ops
- Exit Preparation
- Vendor Due Diligence (Sell Side)



Industries (partial)

- Financial Services
- Telecom/ Media
- Healthcare
- Education
- Transportation
- Entertainment
- Data Services

Companies

- On-Premise to SaaS Products
- Technology Enabled Services
- Mature to growth companies

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