Cover Story

A Journey Overseas

How a U.S.-based software company transformed itself by opening its first offshore design center in India.

By Russell R. Boedeker, CMA, CFM

How does an organization that operates only domestically make the transformation to an operation overseas? How do you take such a concept and move it to successful project completion? Corillian Corporation, an Internet banking software company, knows how. We used a small team of three from finance and operations to develop an offshore operation in a little more than three months with almost zero up-front out-of-pocket expenses. Here's a look at why we chose offshoring and the 10-step process we used to make sure we did it right.

Since its inception in 1997, Corillian had done all of its software development in the U.S. out of Hillsboro, Ore. Executive management was interested in opening a development operation overseas, but determining the optimal approach was unclear. For many firms, especially small ones like ours, the thought of opening an operation overseas is overwhelming. While the financials for a move overseas may look compelling, many operational questions and concerns lurk throughout your organization. Taking the wrong approach to offshoring may prove disastrous. That's why we mapped out the following 10-step approach to offshore implementation.

1. Form a core team of offshoring enthusiasts,
2. Understand the catalyst for change,
3. Survey the key stakeholders,
4. Survey best practices,
5. Address stakeholder concerns,
6. Determine the engagement model,
7. Select the country,
8. Review potential vendors,
9. Perform vendor site visits, and
10. Finalize vendor selection.

This approach worked. Our offshore project began in April 2006 when we formed the core offshoring project team, and by June we had performed all of our analysis, visited the sites, and selected our vendor. By July we had closed on initial terms of our contract, and the vendor began hiring for our new operation in Bangalore, India. Our total out-of-pocket costs for this project through initial launch were about $15,000, which was the cost of our site visit to India.

Let's take a closer look at each step.

FORM A CORE TEAM OF OFFSHORING ENTHUSIASTS

The first step is forming a core cross-functional team. While finance may convince management of the offshore operation's financial benefits, driving a successful offshore project isn't something finance can do by itself, regardless of how attractive the numbers may be. The company's executives will have many operational concerns that transcend financial benefits.

The approach that worked at Corillian was to form a partnership between finance and operations. The small core team of offshoring enthusiasts consisted of one member from finance, one from product engineering, and the third from product marketing and strategy. What were the common characteristics of the team members that led to our ultimate project success? All core team members had previous offshoring experience and knew

Delivering Employee Communication

The timing to inform your employees of your offshoring plans is challenging. Communicate too early and you won't have enough information to address questions from your employees, which could possibly breed fear and confusion. Waiting too long, however, can be just as deadly. It's doubtful that any organization can keep plans of potential offshoring secret for long. Waiting too long to make an announcement runs the risk of rumors starting and losing credibility with your employees. That's why we believe the best time to communicate your offshoring plans are just prior to vendor site visits. By then you'll have your overall objectives and approach defined and some idea of a timetable.

The development of the actual employee message will vary depending upon your objectives, but for us the message for offshoring was a positive one, as it's part of our growth story. To ensure our communication was a success, we developed a set of basic tenets that guided our message:

- Have a story based on reality and honesty.
- Be forthcoming and proactive.
- Be consistent, honest, and truthful.
- It's okay to say "we don't know yet" to some questions, but let the employees know the answers as soon as you know them.
- Be sensitive to their fears, but don't sugarcoat.
- Communication needs to be continuous and not an event, so keep people appropriately up-to-date.

that despite the risks involved we could make it work. We understood the company's strategic needs and how offshoring would play a role. We could also access the company's key players at the executive and operational levels. Finally, there was a strong enthusiasm from the team for creating an offshore operation and a willingness to do the work—even on top of our normal day job.

UNDERSTAND THE CATALYST FOR CHANGE

The second step is to understand the catalyst that will drive your company to make a move offshore. Some sort of major event is normally required to convince management to take the effort and risk to start an offshoring project. While these events will vary for each firm, we identified three basic types of catalysts.

The first and most obvious one is straight cost reduction by employing talented people at lower wages in low-cost countries. This might come out of desperation: A firm may be near failure and simply must reduce costs dramatically or go out of business. Another possibility is that competitors have already moved operations offshore, putting you at a significant cost disadvantage.

A second catalyst is market based, meaning your company may want to begin marketing products in other countries and would find it advantageous to establish a local manufacturing or design operation there. Another market event may be the need to provide 24/7 customer support or multiple time zone coverage for projects.

The third and final catalyst is the inability to find sufficient talent at a reasonable price to allow for future growth. The cost for expansion may be too high, or you simply may be unable to find the desired talent domestically.

At Corillian, our catalyst was the desire to grow the business. We had many great product ideas, but developing all these in the U.S. would be cost prohibitive, which our CEO Alex Hart describes as having a high-class problem because we have more great ideas than we can afford to work on. For us, the objective was to use offshoring to grow the company at an affordable cost.

It's important to understand the underlying catalyst for your business. Without such a key business-changing event, obtaining the commitment from your organization to move to offshoring will be far more difficult.

SURVEY THE KEY STAKEHOLDERS

It's tempting to move directly to an offshoring strategy too quickly. After all, the core team (if you picked them correctly) is very enthusiastic and ready to make it happen, but you may find there are hidden issues and resistance within your organization. Stakeholders may not be in favor of moving offshore. They may have hidden reservations, fears, or even misconceptions, and unless you can understand and address their concerns, the project may not succeed.

To overcome this problem, we elicited feedback early. The core team identified the key stakeholders in the company who would be directly or indirectly impacted by an offshoring decision. We then developed an open-ended questionnaire that we used when we met with each stakeholder. We didn't discuss our views or potential plans with the stakeholder ahead of time: The key was to use this list of questions to generate a discussion so we could hear the stakeholder's thoughts and concerns. See Table 1 for an example of our survey questions.

We accomplished two objectives by taking this approach very early on. First, we sent a message to each stakeholder that we valued their input and concerns and would address them before we moved forward. The second was being able to develop our key company objectives for the project by analyzing common thoughts we heard across the organization. After we met with all the key stakeholders, we analyzed their responses and grouped them together. Here's a synopsis of their concerns.

Table 1: Stakeholder Survey Questions

- How do you feel about offshoring? What are your concerns? What do you perceive as potential benefits?
- When is a good time to think about implementing an offshore project, and when is a bad time to implement one?
- What are the attributes of an ideal function to move offshore?
- What are the biggest risk factors you perceive for offshoring?
- What importance do you place on the following factors regarding the location for offshoring: culture, time zones, labor cost, skill base, technical infrastructure, political stability?

- What will be the impact on U.S.-based workers' morale? How would our U.S.-based employees react?
- How can we protect our intellectual property (IP) if we have an operation in another country?
- Will inefficiencies in operating across different countries eliminate any potential savings?
- Can we achieve economies of scale? Are we able to ramp up the volume overseas to have an efficient operation?
- What's the right kind of work to send overseas? Are we able to identify the projects or parts of them that we can do in a distributed development environment?
- Do our current business processes allow for remote operation?
- How do we deal with turnover of offshore employees, finding qualified people, expertise, culture/language, etc.?
- Are we able to get the right communication and logistical items working between the two sites?

We also identified a common area of misunderstanding because there was confusion between outsourcing and offshoring. To clarify, we identified outsourcing as moving or initiating an effort with another company using contractors, which may be done in another country but may also be done domestically. The key difference is that it's another company. We contrasted this with offshoring, which involves initiating or starting an effort within your company in another country. The key difference is that it's *your* company. We realized from the stakeholder feedback that a major area of concern involved outsourcing using contractors rather than offshoring using our own employees.

The final area of concern, which was often unspoken, was "How do we do it?" Starting an operation offshore was something most people had never done before, and the task of even starting seemed overwhelming. We were fortunate in that the core team did have experience with successful offshoring in other companies, but even past experience wasn't sufficient to address our stakeholders' concerns. We realized the only way to move the project forward was to survey peer companies to find best practices in implementing an offshoring operation.

SURVEY BEST PRACTICES

Over the course of several weeks we interviewed executives from 14 companies in the software industry who had completed, or who were in the midst of completing, a successful offshoring operation, mostly in India. These firms ranged from large to small and regional to national in scope. From these interviews we gathered an understanding of what worked well, what didn't, and the implementation process they used. We also obtained information on expected start-up costs, cost savings, and techniques to identify the types of projects and order of project migration that worked well.

While we can't reveal the names of the firms due to confidentially concerns, we can share our key findings.

- Start your operation with a vendor partner. Initially your operation won't be large enough to justify having its own dedicated support staff.
- Picking the right vendor partner is critical. Select the vendor first, and then pick the city based upon where the vendor is located.
- There's a ramp-up time to productivity, which is from three to six months. Expect productivity at the remote location to achieve 80% of a domestic operation after ramp-up, and plan your offshore staffing accordingly.
- Economic impact is initially negative for six to 12 months but well worth it in the medium to long term.
- A minimum of 15 people is required for economic impact.
- You can't get and retain good people with low-level projects long term. You must plan soon after site ramp-up to have interesting project work for your offshore team to work on.
- The best projects to start with overseas are program development and professional services. Customer support, technical support, training, and other administrative corporate functions can follow after your offshore operation.
- Putting U.S. team members onsite for meaningful periods early on for training and ramp-up accelerates the benefits.

So we could compare notes, we had at least two members of the core team conduct each interview, which lasted about 30 minutes. We were fortunate to find executives in each firm who were responsible for implementing their offshore project and understood what worked and what didn't. It's likely you'll also be able to find companies in your industry with offshoring experience you can speak with.

ADDRESS STAKEHOLDER CONCERNS

Once we completed our industry surveys, we took our findings and developed a project plan to address the concerns of our stakeholders. We realized that the number one concern was our ability to execute on such a large project and the risk it might impose on the business. The successful companies we had talked with had all used established vendors to help start their operation. By working with a vendor we would greatly reduce our risk and knew that would be the cornerstone of our offshoring project. The next area of concern was around the impact to our existing employees. From our interviews we now had firsthand success stories of companies who grew their business, both internationally and domestically, by using offshoring that we could point to. We took their examples of how to integrate the new offshore workforce with our domestic team and showed how it would work for our company.

The stakeholders' final concern was whether we would achieve any real savings after considering the inefficiencies from working in remote locations. We found the most successful approach was to use tightly integrated teams rather than our first thought of carving off completely separate and independent projects. Put simply, we should make our offshore team an extension of our current domestic operation. With this approach our peer companies increased productivity, experienced more complete knowledge transfer, and reduced turnover by providing interesting and challenging work for the offshore team. From our survey we also documented very consistent cost savings of 3:1, meaning each firm had three people working offshore for the cost of every one person in the U.S., even after accounting for some remote inefficiency.

When we reviewed these plans with executive management, they felt comfortable that we not only had a workable model but that we had clearly done our homework and knew how to make offshoring a success for our company. Based upon this review the project was approved to continue.

DETERMINE THE ENGAGEMENT MODEL

The next step is to determine what type of engagement model to use for offshoring. In talking with the peer companies, we identified three approaches to start an offshore operation.

The first is Greenfield, or building your own center from scratch. This involved buying or leasing some real estate, setting up a legal entity, hiring staff, and starting the work. We realized that, to do a Greenfield project, it would require us to have staff (preferably native to the country) to go overseas and set up the business operation. This method also required a fairly material up-front investment, which didn't fit our overall goal of growth at an affordable price.

Another start-up option is the more traditional outsourcing approach. This option entails hiring a vendor firm and sending over project work. While there are many such outsourcing firms, especially in India, this didn't fit the concern of our stakeholders of having an operation staffed with Corillian employees. Additionally, the complex nature of our products requires we build up domain knowledge, which would be difficult in an outsourcing relationship using the typical rotating project teams. While an outsourcing model normally doesn't involve any up-front costs, it simply wouldn't work for us.

We discovered a fairly new engagement model called Build-Operate-Transfer (BOT). This model is a hybrid where you start your operation within a vendor's facility that would incubate your operation and provide all the normal support functions, such as HR, finance, payroll, and facilities. The vendor would typically provide shared space or build out dedicated space for you and would hire employees to your specification who would work solely on your projects. After your operation is up and running, generally from 18 months to two years, you transfer the operation and the employees into your own separate facility. A BOT would provide a dedicated workforce who would become Corillian employees in the near future with no up-front investment. We realized that, based on our objectives, a BOT was the perfect fit.

SELECT THE COUNTRY

Selecting the country is an important task for any offshoring project. While we learned we should pick the vendor who is right for us and then choose the city the vendor is located in, you do need a starting country. From our stakeholder surveys we obtained key country attributes. The following were the most important characteristics we considered when choosing a target country for offshoring:

- Strong English skills,
- Large pool of proper technical skills,
- Adequate cost gap to U.S.,
- Favorable employment laws,
- Government support for rule of law,
- IP protection,
- Safe neighborhoods,
- Government stability and lower terrorism risk, and
- Communication infrastructure.

Next we reviewed material on country attractiveness. Searching the Internet, we found many country studies that gave numerical scoring based on specific attributes. We weighted each of our critical factors, assigning IP protection the highest as that was our major area of concern (see Figure 1).

To select the final country candidate, we created a weighted overall country score based on our key attributes for a series of potential countries (see Figure 2). The results showed India held the clear advantage.

REVIEW POTENTIAL CANDIDATES

Since we identified a BOT as our engagement model, we now needed to find the right vendor. Our approach involved an initial screening of potential vendors who had BOT capabilities. We tapped our professional network by calling other companies to find out which vendor they had used, and we also searched the Web and made cold phone calls.

When we found a potential vendor, we first screened their website and corporate literature to see if they advertised supporting a BOT-type engagement model. Beware: We found many firms that claim to offer a BOT but are really closet outsourcers. While they may imply they support a build-operate-transfer model, these firms want to keep you locked into an outsourcing mode—and the nice steady stream of revenue it provides—and have no real intention to transfer you to your own operation.

How can you tell if a vendor is truly a BOT? Ask for the names of clients they have transferred or are in the process of transferring to their own facility—and by all means get a reference to call! Another check is to ask for their normal contract terms. From our research we found that firms who have successfully transferred from a BOT vendor to their own facility averaged about 18 months. Vendors who have a minimum of three years before they'll let you transfer should be a red flag. From our research we have found it takes an outsourcer about two years to fully learn your business, and they can use that knowledge to their advantage to keep you locked into using their service. A true BOT vendor should offer you one- and two-year transfer options up front as part of their standard terms.

Figure 1: Critical Factor Weighting

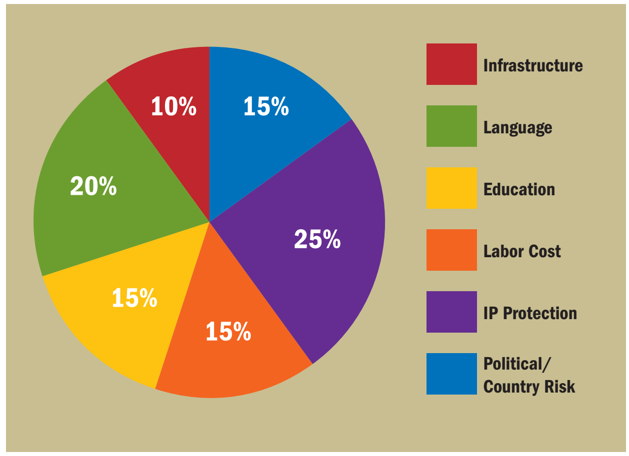
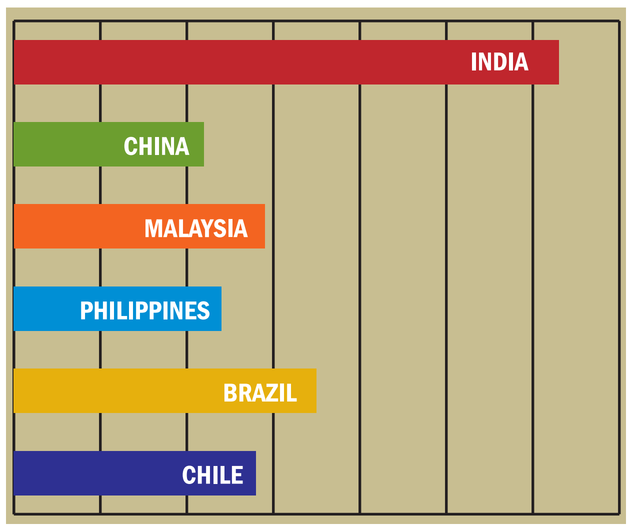


Figure 2: Weighted Country Score



PERFORM VENDOR SITE VISITS

We found a handful of very capable firms from our initial screening. While we had met with each vendor at our headquarters in Hillsboro, Ore., the importance of visiting potential vendors onsite in their country can't be understated. Our findings from these site visits were quite surprising to us. Some vendors we had initially thought would be the best fit for us turned out not to be quite the right match after we saw their operation and talked to their local staff. Other vendors who we had thought might not work turned out to have the perfect fit for us. The difference between what you may find from them visiting you in the U.S. vs. you visiting them in their country may be worlds apart!

How should you plan your site visits? We scheduled one week, including travel time, to visit our vendor candidates in India. You should plan on at least half a day with each vendor. Besides a facility tour, your site visit should include meeting with senior management and the support management such as HR and IT. You should also ask to speak with some of the program managers and rank-and-file employees working on other companies' projects. Since you'll depend on the vendor to help hire your initial staff, you'll want to find out what type of employees the vendor hires. Be sure to ask employees what made them want to work for this vendor and what project methodology they use.

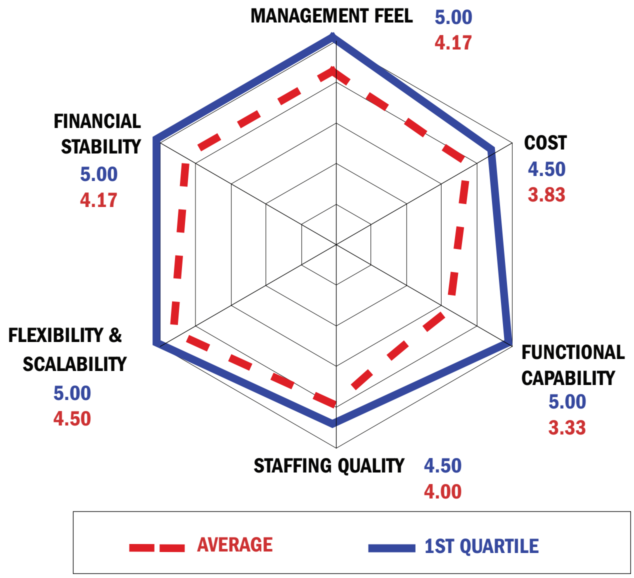
FINALIZE VENDOR SELECTION

We analyzed each vendor using a six-point analysis of key parameters we developed from our key stakeholder interviews. You'll notice that only one of them is regarding cost. We ranked each attribute on a scale of one to five, with five being the highest and three representing acceptable levels of competency. The parameters were as follows:

1. **Management style:** What was our feeling of trust and comfort? Do we believe we can work with this vendor?
2. **Cost:** We developed a model scenario of staffing and transfer to compare all the different vendor quotes on an equal basis.
3. **Functional capability and experience:** What is the vendor's technical ability to help us ramp up in our projects? Do they have the processes and methodology we need? Do they have successful reference accounts that had similar needs to ours?
4. **Staffing quality:** What is our assessment of the skills and ability of staff in existing teams? Will this vendor be able to hire the talent in sufficient quantities we need?
5. **Flexibility and scalability:** Does the vendor have sufficient scale to react to changes in our business model?
6. **Financial stability and reputation:** Does the vendor have sufficient capitalization and financial resources? Does the vendor have a good reputation in the business community?

The results of our analysis appear in a radar chart in Figure 3. While all of the vendors we looked at were well qualified and would have met our basic needs, our finalist scored higher in a few key requirement areas such as management feel and functional capability. Using this analysis allowed us to not only see a clear winner but also permitted us to easily show why we chose the vendor we did when we reviewed the results with executive management.

Figure 3: Vendor Assessment Radar Chart



AN OPPORTUNITY FOR ALL COMPANIES

Our results prove you don't need a large staff or several months of research and analysis. We have shown the finance function can be a valuable strategic partner with the operations team in making offshoring a reality. If you see the potential catalysts for offshoring in your organization, remember that any firm, regardless of size, should be able to start up their own offshore operation by using our 10-step method. ■

The author would like to thank his fellow team members and partners Mark Klein and Brian Kissel.

The views expressed in this article are that of the author and do not necessarily reflect the views of the Corillian Corporation. Russell R. Boedeker, CMA, CFM, is the manager of financial reporting and analysis for Corillian Corporation in Hillsboro, Ore. He has held various positions in finance for both Intel and IBM. You can reach him at (503) 629-4556 or rrboedeker@comcast.net.