

Vendor Relationships – Managing Earned Value & Value Earned

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Introduction

Having worked in client and vendor organizations over more than a decade across industries, domains and geographies, I have been managing relationships in/with Fortune 1000 companies and Independent Software Vendors. This has given me lot of insight into the operations, how they outsource their projects, what they outsource and what they expect. Working on the vendor-side made me look into the delivery process to the satisfaction of several customers.

During these years, I have always realized the importance of Earned Value Management (EVM) to monitor and control the projects using budgeted and actual project costs as the metric. At the same time, I always wondered why the clients always focus only on EVM but not on managing the inherent value earned when working with vendors. You will outsource your routine work, you will retain and focus on your core work, you will leverage the expertise, best practices, methodologies, technical prowess, infrastructure etc of the vendor and above all, will be reducing your project cycle time.

Most of them are invaluable additions to your portfolio. You have to measure and manage the value earned in addition to the Earned Value. But this comes with a little price and a little risk that you have to have tight monitoring and control in place to see that both your earned value and value earned are per your expectations. I will share some positives about the value earned while working with vendors and I will focus on IT projects as they are good candidates for outsourcing.

Rise of Outsourcing

Outsourcing is becoming prevalent today with clients in North America and Europe looking at vendors in India, China, Russia etc to outsource their software project development and testing. With globalization, outsourcing has gone beyond borders and companies in North America and Europe have started evaluating offshore based outsourcing models. They have started leveraging the global competence and it proved the reason for China to surface as a manufacturing base and India to crop up as an IT destination.

India emerged as a big destination and has many reputed IT companies like Infosys, Wipro and TCS etc. India is ahead of others not only due to the huge pool of English speaking technical talent but also the expertise gained by working with foreign clients for a decade and a half.

Indian companies were the first to embrace the quality standards like ISO, process methodologies like CMM, CMMI, Six Sigma and the engineering talent in India could definitely gear up to the technology trends by becoming proficient in latest technologies. Indian companies are listed on many foreign stock exchanges; follow the accounting practices like GAAP, has stricter legal procedures to protect intellectual property etc. Over the last 10-15 years, Indian companies have acquired significant domain expertise working across industries and verticals for their American and European customers and this track record is something to bridge for by vendors in other countries.

During the same time, outsourcing has changed the complexion from being a cost cutting or cost saving exercise to being a strategic initiative. Big companies have been the first to catch the wave and companies like Microsoft, Motorola, IBM, Cisco, Google etc have set up their captive development centers in countries like India and China to leverage the lower costs and the local expertise. These companies have moved up the value chain and today these countries figure in a prominent role in their technical strategy. The Indian operations of IBM has filed for around 100 patents in 2005 and expecting to multiply by 100% every year.

Microsoft has its first development center outside Redmond, WA in Hyderabad, India. This signifies the fact that these big companies have stopped looking at India as a destination for cheap labor and looking out for more. Microsoft was able to attract top notch talent from top Indian universities and its India development center is a core contributor to the new products and platforms and a base to cater to the vernacular software needs and is releasing products for various Indian languages.

Similarly Google China leverages local Chinese talent as well as customizing Google products to cater to Chinese markets. Hence outsourcing is no longer about cost cutting but a cost effective way of doing strategic things. There is a lot of inherent value which you need to avail and absorb back into your organization by creating strategic partnerships with your vendors. The following sections highlight some salient points on the value the vendors can add.

Focus on your core competence

The traditional argument for outsourcing is to outsource your non-core areas and focus on your core competencies. In some cases, companies in sectors like

manufacturing or financial services can outsource their IT services and keep the in-house IT staff to the minimum to carry out the maintenance operations. For these kinds of companies, the outsourced vendors will address the required delivery and can help cut down the infrastructure costs to the minimum.

Even infrastructure management has become a candidate for outsourcing. Companies like Satyam Computer Services, Patni, and TCS etc in India have specialized in Infrastructure Management Services which provide services to clients by managing the legacy applications.

Availing the vendor expertise

Vendors have added many capabilities over the years with increased expertise in technologies, domains, standards and methodologies to deliver services worldwide through the global delivery models. Some vendors have internal Centers of Excellence which will nurture the talent and which facilitate the sharing of knowledge and best practices accumulated from the collective experience of the organization.

Many companies I have seen have good mechanisms in place to transfer this knowledge throughout the organization and reuse it in the ongoing projects. The vendor delivery methodologies imbibe these best practices into the project life cycle and add significant value to the project. Many vendors have standard methodologies like ISO, CMM, CMMI etc in place that help govern the project life cycle.

Many companies have geared up their services to assist the US based clients in complying with Regulations like Sarbanes Oxley, Basel etc. The vendors will have various resources like Architects, Business Analysts, Technical Consultants, QA Analysts, and Engineers etc under one roof to design and deliver a high quality solution.

I have seen some of my clients requesting to help them assess their internal processes and to help them in improving them. Even otherwise, the vendors will follow several best practices like coding standards, documentation standards, peer reviews, Fagan inspections etc that ensure high quality delivery and documentation. Such practices will implicitly creep into your organization even if unasked for. Having good documentation will add to the knowledge transfer and can help for future reference.

The 'Follow the Sun' theory

A classic pitch for outsourcing is the Follow the Sun theory where the project work is done across time zones facilitating 24/7 project execution. Modularized software development can happen across time zone wherein work begins at offshore once the US day time ends and vice-

versa. This helps cutting down the project time and decrease the time to market your product. Some companies do not attach much importance to QA of their development work. Such work can be sent to offshore to get the QA approval in a cost-effective way.

The work products developed during the business day can be tested by offshore teams during your night time to have the results back by next day morning. The development teams can fix the defects reported by the vendor's testing team. This not only helps expediting the project life cycle but also get a third party validation for the work products.

Thus QA can be made a mainstream activity by leveraging an outsourced vendor's testing skills cost-effectively. You can get testing done for lesser dollars without compromising on the quality of the work products. You can even work on an as needed basis.

Reduced HR Management

Keeping the IT staff to the minimum will also help reduce or root out the HR costs like salaries, training, retention, paid leaves, retrenchment costs, employee benefits etc. Some technological companies may have varying resource requirements throughout the years based on product cycles. Maintaining full staff strength may not be productive in such companies. Outsourced vendors have strong models in place for quick resource ramp up and ramp down that will help cater to fluctuating resource requirements.

They can even quickly swap the resources in the team with right resources without reducing the team size. Also the vendors will ensure that the employees are trained in the latest technologies to cater to the changing technological trends. A big challenge for any client company is the knowledge retention. The loss can be significant if the employees quit the organization.

If a vendor relationship is in place where there is proper knowledge transition and archiving of project information, this loss can be minimized as the vendor will handle resource replacement.

Continuous operations

Having a vendor will help minimize the risk during disasters and emergencies. Work can be continued and can be transferred to the vendor till recovery happens. Vendors have Business Continuity Planning (BCP) procedures in place to avert disruption to work at the vendor end in the event of disasters. Secondly, as described in the above sections, the vendors will have ready expertise for Just-in-Time (JIT) ramp up of resources when there is spike in project requirements.

This will free up the clients from the HR cycle and from the risk of not finding suitable resources for the requirement. This will also help to easily scale down the team size as and when required.

Execute where feasible, yet cost-effective

In some cases, the clients will be against outsourcing due to the high complexity of the work or because of the high intellectual property involved in the work. In such cases, vendors have tailored their delivery mechanisms with matured global delivery models. The requirements elicitation for complex projects happen onsite and the project execution will happen at offshore facility.

Such projects will be governed by solid project management practices including milestones, review and feedback, communication management, well-defined roles and responsibilities and risk management practices. When the requirements involve high intellectual property, the client can develop the product onsite and/or can transfer the non-core work to offshore.

This will make the project cost effective and at the same time guarantees success and safety the client desires. The global delivery capabilities added more flexibility that the work will be carried out based on what can be better accomplished at a location.

Strategic Partnerships

As the partnership deepens between the vendors and the clients, business function partnership comes into play where the relationship and mutual expertise is leveraged for strategic business functions and long-term competitive advantage. The vendors will be able to understand the requirements of the clients better and deliver accordingly.

In some cases, the vendors will become implementation partners for the client's products in their native markets. Many American companies are leveraging the Indian vendors not only for their software needs but also for the implementation of their products in the domestic markets. In some cases like Microsoft or SAP, these companies develop new products and technologies through their local captives in India but will engage Indian firms like Satyam Computer Services as implementation partners of their products.

Satyam, for example, works as an implementation partner for SAP products in India and world-wide. So also Microsoft leverages Infosys and Satyam as the implementation partner of its products and services.

Conclusion

Hence there are many ways outsourcing can add intangible but significant benefits to the clients. No doubt that it requires additional caution as work will be executed far away but having proper project management practices in place will bring in necessary monitoring, control and visibility into the project. The clients have to realize that outsourcing does not free them completely but needs equal commitment from their side.

The clients should assign full time resources to work with the vendors in terms of requirements elicitation, review, feedback, evaluation of deliverables, knowledge transfer etc. The clients should also prepare their in-house employees about the benefits of outsourcing and should prepare the organization to realize the real benefits. They should provide the incentive to cut costs and innovate in services.

Once the partnership solidifies, the client's time requirements can diminish as the vendors will be in a better position to understand the client requirements more actively as they become conversant with the customer products and operations.

About the Author

Suresh Malladi, PMP works as a Client Services Manager with a major software firm headquartered in Philadelphia. Suresh manages the pre-sales and post-sales process for many Fortune 1000 companies and Independent Software Vendors in the USA by providing technical consulting, project execution methodologies, and coordinating the project execution with teams across the globe.

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