

## White Paper

# The extensive outsourcing checklist

### INTRODUCTION

When it's time to find an outsourcing provider, many companies just call up the old RFP (Request for Proposal) file on the computer, change a few details, and email it to the standard list of providers. Then they pick the one which comes back with the lowest price. This is one big mistake.

Selecting vendors on the ready-made RFP is a risky method that will lead to poor performance. On the other hand, every hour spent crafting a precise, focused, well-planned questionnaire for your provider will pay off in productivity gains, cost savings, and quality improvements.

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There are certain themes, standard questions, and particular aspects of the project that will shape the questionnaire you need to put up in order to find the vendor that best suits your needs. But most of the time, if you ask standard questions, you will get “standard answers” built on the marketing philosophy of that vendor.

In order to avoid the empty phrases and get the answers that form the real image of your vendor, you can squeeze in some “tricky” questions. All of these standard and tricky questions we have listed below in what we call “The Outsourcing Checklist”.

## First, ask yourself

One of the mistakes companies make within the process of selecting a vendor is not completing the first step — the **needs assessment**. The organization and communication of the internal assessment is essential. Without a complete assessment, you can't prepare a good questionnaire for a potential vendor.

While the RFP becomes a document that is sent to potential service providers, good practice considers the RFP not just as a document by itself but an entire process. You won't get the information you need just by putting an RFP on paper. You have to manage a complex business process.

On the surface, that process involves feedback exchange with potential providers until you find the right one. Moreover, it is the result of an internal process carried out by a cross-functional team that includes representatives of all the operating areas of the company that will be impacted. It includes support and sign-off by senior management. It's the way you bring everyone together and get them all on the same page.

While laying the groundwork for a good vendor selection process takes participation, it also takes leadership.

## Prepare the structure

The companies preparing to select an outsourcing vendor face a critical first choice: they can choose a very *structured and efficient* process, or they can make it *flexible and collaborative*. Usually, specialists advise to choose an *interactive* process.

If you ask a lot of specific questions, you'll get a lot of specific answers. This could be suitable for something like outsourcing mail room operations or janitorial services, but outsourcing IT, for instance, is another matter. You need an approach that invites feedback. The best mutually developed solution wins and becomes the final bid.

## What should you ask?

There is no clear consensus about what you should and should not ask, but there is some agreement that it must be tailored to the project and that it must be thorough. You must document the **scope of the project** and include a comprehensive **statement of the work to be performed** and **how you want it performed**.

To avoid later debates, your information request also should include **service-level expectations** and **specifications on the contractual non-standard requirements** or even copies of the contract itself that sets forth how you would govern the relationship. It's best to have the evaluation criteria determined in advance, weighted by the importance of the various factors. It's also wise to share the evaluation criteria with potential service providers and let them know how they will be judged.

Certain vendor information is basic: name, address, industry, years in business, and, if they're public, their financials. After that, you will want to get to their experience on projects like yours. You should find out about their preferred architecture, development tools, methodologies, databases, etc. Also, you need a high-level explanation of the implementation phases and timetable, the checkpoints, the change of control handoff, and the life cycle expectations.

The **working relationship** is also critical. The best contract in the world is worthless if the relationship isn't working, so deal with the relationship details in advance. Ask the providers what the ideal relationship would look like from their perspective. You might want to find out just what they'd expect from you. Also to know the proffered size of the **project team** and team ramp-up stages they propose and actual names and expertise of people that will be working on it.

Also, you should settle on an escalation process for mitigating unexpected issues and problems in the project developments.

A good process of selection also anticipates **the contract**. You should preempt the contractual negotiations by requesting as many details as possible about the contractual terms.

## The "Checklist"

Although you should adapt this to the specifics of your business needs, the following points need to be thoroughly studied in the vendor selection phases. This is to find out more about the company's culture, business model, employees, management, technology, solutions, success, and security. At the bottom line, you should

find out whether this is the right solution vendor for your company's needs. Pay attention to the **red "tricky" questions** that will point out honest answers.

## BUSINESS PROFILE

Try to find out whether the vendor is a trustworthy company with a sustainable business model. It's important to know you are dealing with a company that will still be on the market to sustain your long-term business goals with outsourcing, and that it has the managerial strength to address your project.

- How long has the company been in business? Of this time, how many years in the outsourcing business?
- Describe the company's business model.
- How large is the company?
- What are the company's onshore, near shore, and offshore capabilities?
- What are the company's areas of expertise?
- Describe the company's financial condition and funding position.
- What sets your company apart from other IT onshore/offshore outsourcing companies?

## CUSTOMER BASE AND REFERENCES

References play a significant role in deciding whether the vendor has got the expertise to take your company where you want to go. These are the factual proofs that the company has the background in projects similar to yours and that it accomplished them successfully.

- Provide detailed histories of the last three outsourcing contracts for a reference (please include contact information)
- Case studies
- How long have you provided the proposed service?**
  - ! Often vendors will list services that are not fully built or are relatively new. If the proposed services/system are not fully developed or are relatively new services, they may not be completely client-tested. You should look for two years of active use in order to have some degree of comfort in reliability and usability.

## MANAGEMENT

You must find out how the vendor is going to manage your project. Make sure you get all the attention you need by being provided with enough team members that have the proper managing experience for addressing your project effectively.

- Describe the composition of a dedicated team. What is the role of each member?
- What are the escalation procedures?
- To what level will senior management participate in planning, development, and other aspects of this account?
- What experience does the management team have?

- Please provide a description and background of your implementation team. Will the implementation team also act as the ongoing service team?

**!** You need a team of experts. Experience is important. You want people who have administered plans of similar size and complexity for at least five years. Be certain the team members are experienced benefit administrators. Industry experience is not sufficient. They also must have experience in process managing, and outsourcing contracts managing. Also, you don't want to strategize and work with one team, and have it then transitioned to another. Be sure your implementation team is also your ongoing service team.

## PEOPLE

More than managerial experience, the people you'll be working with need to have the proper expertise for the area of your project.

- What education requirements do you have for your employees and what training programs are established?
- How does your company keep up to date with the latest industry knowledge and standards?
- What employee retention initiatives do you have in place?
- Can you scale up quickly? How?
- Do you use subcontractors for any work performed for the client?

## PROCESS

Make sure the vendor has well determined working procedures. Also, find out if its process approach suits your operations and that you will find it easy to collaborate and communicate during the process.

- What relevant certification for the project has the company achieved: CMM, ISO, etc.?
- Do you have a defined project management methodology? What are your reporting guidelines for deliverables and performance?
- What experience do you have in our industry space?
- Discuss how your company manages its knowledge transfer and communication to and from our company? How does the company ensure it is building the expected solution?

## SECURITY

We cannot stress enough how important the security measures are for your business. This should be a critical decision component in the process of selecting the vendor. Find out whether this is a vendor who ensures your IP with the security and confidentiality of the data you require and all legal and technical measures are in place.

- What security measurements do you have in place to protect our company's intellectual property in respect to information and data?
- Do you outsource any services?  
**!** Oftentimes an outsourcing provider will act as an aggregator of other outsourced service providers. In other words, they may outsource part of the solution to another vendor to reduce costs. If this is the case, you may have concerns with data integrity and accountability.
- When was your last technological upgrade and what was upgraded?

! If the vendor performed a recent material change to the system, it may not have been fully client tested.

## IP OWNERSHIP

You must make sure that the vendor warrants that the intellectual property and work deliverables produced for your project is original and doesn't infringe any third party's patents

- Ownership for code, process, hardware, licenses, etc.
- Intellectual Property

## PRICE

You should clearly discuss the financial terms of your outsourcing project. Make sure you don't pay more or less than what you get and that all the payment schedule and taxes are covered. Get a flexible pricing procedure to better accommodate your needs. However, do not let price govern your outsourcing relationship.

- Describe the pricing model applied to the project.
- Discuss the cost of the agreement, exception costs based on performance metrics, price stability, and any hidden costs
- Time accounting
- Milestone management
- Pricing models proposed
- Payment schedule
- Taxes

## CONTRACT

Many vendors will submit you a draft contract after all the details are discussed. Still, it's important to find out as much as possible about the legal points and terms, especially if this is an offshore outsourcing project.

- Discuss the major legal points of the contract.
- What are the contract term, expiration, and renewal options?

## PROJECT QUALITY

Make sure the quality of the results is guaranteed. The vendor should have standard industry certificates to prove the caliber of its services.

- What industry standards are used by the company to ensure quality and customer satisfaction in the field?
- What are the standard quality deliverables during the project lifecycle?
- Elaborate on the reviews, testing, and satisfaction measurements used by the company.

## TECHNOLOGY

If you get an extensive list of the technologies the vendor uses you will be able to find out even more about the expertise, security measures, quality of execution, and performance. Also you can get a glimpse of the compatibility between their tools and yours.

- Describe software domain, applications, and infrastructure expertise of the company. For example: database, networking, driver development, deployment technologies, Web, etc.
- Describe the availability of the company software environment such as your databases, application servers, etc.
- Does the company maintain partnership or support levels with industry leaders in software? For example, Microsoft, Oracle, IBM, Novell, etc. List these companies.
- What are some large scale software projects the company has developed in the past – in terms of lines of code?
- What tools are used by the company in its software life cycle to author the code, gather and report on code and quality metrics, defect tracking, and change management?

## Conclusions

There is still an uncertain answer as to how much detail a good RFP should require. Many people seem to think that **more is better**. They're afraid to leave out anything. But this makes it harder for the providers to respond and harder for you to wade through the responses to get the information that is useful.

Other people think that **less is better**. The more specific they have to be, the more providers will get discouraged and quit. The RFP should provide a measure of self-selection. Let companies take themselves out of the running if they don't think they can do the job or present a winning bid.

A successful selection should narrow the potential providers down to a very short list, ideally just two to three providers. It's always to your advantage to keep the competitive mindset in the selection process as long as possible.

As always stated, outsourcing benefits can provide companies the ability to better focus on the more important core business. But only careful evaluation of outsourcing vendors can ensure that outsourcing provides true organizational value.