Outsourcing To India:
A 15 Year Retrospective

For USC Systems/Software Engineering School Classes:
Fall: 11/16/2011

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SYSTEMS FAIL -- & Continue To Do So!
Standish Group: Chaos Study Results 2004+

CHAOS 2004
Survey Results
Resolution of Projects

Challenged 53%
Succeeded 29%
Failed 18%

CHAOS Summary 2009:
+ success = 34% (delivered on time, budget, on target)
+ challenged = 44% (late, over budget, < required F&F)
+ failed = 24% (cancelled before complete; delivered & never used)
"... numbers represent downtick in success rates from previous study, & signif > in # of failures ... low point in last 5 study periods & highest failure rates in over a decade.

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TOP PANACEAS (NOT REALLY)

1. Spaghetti-ed, Structured, Objectivized
2. CASE-d, Tooled & Retooled
3. TQMed, QAed, COCOMOed, Function Pointed
4. Rapidly Developed (RAD’d) and RAIDed
5. Mainframed, Mini-ed, Micro-ed, Client-served
6. Reviewed, walk-throught & Inspected
7. BPRed, ERPed, CXOed, PMO-ed
8. Scripted, Relationalized, Downloaded, Integrated
10. Converged, Plugged & Played, Verified, Webified
11. Outsourced, InSourced, BackSourced, Off-shored
12. Benchmarked, Metered, SLA’ed, Hosted, Oracled, SAPed
13. Xtremed, Scrummed, Agiled, Leaned-on
14. Y2K’d, Windowed-7, 6 Sigma’d, Java-ed, Googled,
15. SOXed, Secured, Disrupted (service), Hacked,
16. Smart-phoned, i-Padded, i-Podded, & i-Tuned
17. Clouded, Virtualized, Socialized, Twittered,
18. Reviewed, walk-throughed & Inspected

They tried to make me an “Android”

15 YEARS AGO I WROTE A SEMINAL OUTSOURCING ARTICLE FOR LAWYERS

www.wsrcg.com/Articles/OutSourcing.pdf
DON’T FALL INTO “WHO’S BIGGER” TRAP!
10 BIG BRANDS IN BIG TROUBLE (#1)

10 once-great, publicly-traded companies in big trouble. (@ least 1 fm below):
- Signif BK risk; maj restruct, T/O, divest, proxy battle - Signif mismgt/ops underperform
- Chronic Exec/BoD T/O or moves - Keystone different'ion prod no longer “world-class”

1. American Airlines
While United, Delta, others declared BK & emerged stronger. AA negot major union concessions & stays afloat, but not w/o mount debt/pension obligs. $17bb , S/holders nervous - parent AMR’s shares <75% ytd

2. Research In Motion
Once-invincible pioneer Bberry now 3rd in 2-co smartphone race bet iPhone & Android. RIM botched all-impt tablet phenom. Co-CEOs Lazaridis/Balsillie stay; Stock< 70%, ytd

3. Sprint
Sprint, 3yr failing T/A, reports losses of ~$9bb; stock sits near all-time low; now, CEO Hesse is “betting the company” by committing to buy > 30mm iPhones over next 4 years.

4. AOL
Media giant once all-but owned I’net; bought T/Warner $160bb, went public again 2009; fell off cliff. Revs since <<, losses >, mkt/val <50% from IPO. Strategy du jour is web video.

5. Kodak
Kodak, mid-sized organized like behemoth. In 2 yrs TA, Co bled >$1bb of red ink w revs flat-lined, debt piled up, sparking BK fears & precipitous plunge in share price to an all-time low a few months ago.


DON’T FALL INTO “WHO’S BIGGER” TRAP!
10 BIG BRANDS IN BIG TROUBLE (#2)

6. HP (Worst BoD?)
Since firing T/A CEO Mark Hurd, HP lost way. Hired Leo Apotheker, fired by SAP, to remake world’s largest tech co -> 2nd-rate sw firm, announc HPs $41bb personal sys group on chop block. Filed 2wks later; make Whitman CEO w no enterp, IT, T/A exper

7. Sony
Real mess. Ill-conceived, grandiose vision of becoming a global media empire. Former king of consumer electronics has lost $4.5bb over past 3 yrs & stock at 25-year low. They need IBM-style T/A w Gerstner clone, & det who it is?

8. Yahoo
Pioneer I’net portal adrift since BoD let CEO Semel go 2007; Jerry Yang disaster CEO, botch Mss acquis t/w/h/been S/holder coup. Bartz never got it; fired, CEO search; TO rumors

9. Radio Shack
5 yrs ago, T/A CEO Julian Day (credited w saving Kmart) - bc CEO. Electronics chain relic w 1000s tiny stores selling all sorts of odds/ends is stuck. Rev/profits go nowhere. Ill-fated rebranding as The Shack. New CEO w/o major new strategy...

10. AMD
For yrs, AMD long run r/coaster w stock up/down; 25 yrs ended same place. Now down 40% after playing distant 2nd to Intel; completely missed smartphone/tablet transitions - more poor position than ever. BoD hired new CEO in August from IBM-spinoff Lenovo

NATURAL “PUSH/PULL” POINTS

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NATURAL “PUSH/PULL” POINTS + O/S ISSUES

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Customer Requirements: ... Still Critical!

Standish Group – 1995:
“18% of all sw projects fail due to unclear objectives & incomplete reqmts & specs”

Would you think it’s more, or less, today?

It’s the Same in Virtually Every Claim/Litigation … Worldwide!

“He Said … She Said”

1. System doesn’t work
2. We can’t use it
3. System failed in field
4. Fundamental flaws
5. They should have told us
6. System is full of bugs
7. Limited functionality
8. Developer failed @ SIPM
9. Poor advice
10. Unqualified personnel
11. Wrong devel process
12. We/they in Over Heads

1. Customer changed strategy
2. Client people not trained
3. Client did not do BPR
4. Only “two more months”
5. They wouldn’t listen
6. Bad data/conversion/l’faces
7. Customer kept change scope
8. Customer failed @ SIPM
9. Poor cust decision-making
10. Wrong client people
11. Poor client support
12. We/they in Over Heads

Oftentimes, BOTH sides are right & contribute to failure – but at different %s
It’s the Same in Virtually Every O/S Claim/Lawsuit … Worldwide!

“He Said … She Said”

1. System doesn't work
2. Can’t use; Help desk stinks
3. System failed in field
4. “See You in Court!”
5. You should have told us
6. System is full of bugs
7. Limited functionality
8. OSer failed as IT conscious
9. Poor advice
10. Unqualified personnel & TO
11. “Wrong” SDLC/rev process
12. We’re NOT saving...

Oftentimes, BOTH sides are right & contribute to failure – but at different %

OUTSOURCING REPORT CARD

- Potential savings 20-30% (after retention to manage any O/S profit)
- O/S satis. fell 86% in 2001 to 50% in 2002 w. Boards in W Europe (Gartner ’03)
- "59% of all outsourcing contracts fail" (Compass 7/05)
- 80% of that are failures in Governance (Gartner 4/2003)
  + Fail to address relationship (can add up to 15% of the cost)
  + Cultural differences
  + Contract management (Gartner says <33% have plans to manage relationship)
- “Badly handled relat’ships cost Europe biz EUR6 bil/yr in waste” (Gartner 11/03)
- Problems:
  + Must be "built to change" and not "built to last"
    + Choosing wrong option (what to O/S? hardware, data center, maint., software, etc.);
      - Choosing the wrong vendor (other agendas subvert choosing right vendor);
      - Negotiating a bad contract; Single vs. multiple outsourcers
    + “We’ll agree to agree later on” when signing contracts
    + Not keeping enuf/right staff in-house to QA K onsite/@ outsourcer (5-10% of deal)
    + O/S concerns re privacy: med/tax/cred; lack bkg checks, stds/certs, regts/law; IT Act of 2000 weak/amending for mobile devices; incl. HIPPA, Gramm-Leach-Bliley
- O/S not a panacea – maybe worse than nothing
THE LIFE-CYCLE OF LIFE

- All **relationships** have beginning & an end!
- All **projects** have a beginning & an end!
- All **marriages** have a beginning & an end!
- All **products** have a beginning and an end!
- All **O/S Agreements** have beginning & end...

AND

parties must plan for that in advance!

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THE CIRCLE OF A MAN’S LIFE

1. At the age of 3, Success means: Not pooping in your pants.
2. At the age of 12, Success means: Having friends.
3. At the age of 18, Success means: Having a driver’s licence.
4. At the age of 20, Success means: Having sex.
5. At the age of 35, Success means: Having money.
6. At the age of 50, Success means: Having money.
7. At the age of 60, Success means: Having sex.
8. At the age of 70, Success means: Having a driver’s licence.
9. At the age of 75, Success means: Having friends.
10. At the age of 80, Success means: Not pooping in your pants.

WHAT IS SUCCESS? (OVER LIFETIME)
WHY O/S TO INDIA??
THE PROMISE: TO GET COMPETITIVE EDGE!

1. Cost-effective services
   + Outsourcing to India can help you save > 50% of your operating costs!
   + Has large, educated, trained, technically skilled manpower which grows every year.
   + Unlike the west, w rare tech talent, India’s large pool means it won’t compromise QA.
   + Outsourcing to India helps you save op costs, while > productivity, QA, efficiency.

2. High-quality services
   + I’s O/S cos use latest in sw, technology & infra- to provide global cust
   + India has proved technically superior compared to other O/S countries
   + India has largest English-speaking audience after the U.S.

3. Time Zone Advantages
   (to provide cust w 24x7x365 support /helpdesk services)

4. India’s stable government
   + > 60 years of stable democracy; Build IT sector top gov’t priority by suppt high-tech IT
     parks, MITs; IT Ministry quickly approves impl IT projs/streamlines REG processes.
   + Govt released bill termed “IT Act 2000”
   + India rated the most excellent investment potential in coming years.
   + India’s fast growing economy attracts cos to O/S there

5. The Indian Advantage
   + Cost-effective services, w access to profess/skilled O/S solutions w fast t/a.
   + By O/S here, you can concentrate on core biz activs & save time, effort, manpower, infrastr
   + > 20 India sw cos achieved prestigious SEI-CMM level; also has > #ISO-9000 sw orgs

6. Global organizations’ most preferred choice
   + U.S.: >80% rank India as 1st choice to O/S sw & IT services – an O/S superpower
   + # of orgs O/S to India increasing thru years; reason enough to O/S to India.

From http://www.outsourcing2india.com/

Indian O/S Alleged Benefits & Services

Benefits
- High-quality & cost-effective services
- High-end technology and best-of-breed infrastructure
- Skilled, talented and experienced professionals
- Wide range of experience in providing outsourcing solutions
- Wide range of services
- Save on time, effort and infrastructure by outsourcing
- Maximize revenue and minimize expenses
- Quick turnaround time
- Latest software and technologies

Services
- Call Center
- Data Entry
- Engineering
- Financial
- Creative
- Web Analytics
- Healthcare
- Photo Editing Services
- Software Devel; SW Testing
- Legal
- IT Hosting; Disaster Backup
- More

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15 YEARS OF O/S TO INDIA

- 2008 – BPO ~$ 6.9 bb
- 2008 – ITO ~$ 30.0 bb
- 1996-2010 ~ 50% failed (i.e., not met party expectations!)
- 2011 – Gartner predicts < 50% failure

Biggest Issues are:
- Required Interdependence
- Partners (adversarial mindset)
- Different cultures, languages, communication styles
- Time zone differences
- Lack of transparency
- Aligning strategy/biz needs
- Pricing models that favor one party or the other
- Unspecified escalation process
- Scope ambiguity (scope creep vs. ‘nickel & dime’ syndrome
- Difficult user/knowledge transfer
- Law & Enforcement anomalies
- War & Infrastructure threats

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SOME O/S FACTS/BIZ CONSIDS (1)

- India scored 184:188 countries (re law/contract enforcement (World Bank Report 2011)
- 59% of all O/S Ks fail (Compass ’05; Forrester ’07);
  50% 2008; <50% 2011(??) (Gartner)
- SOX/Regs adherence; No subcontracting to China
- Think w/cost 70-80% less but typically save 10-20% at most – if successful. (most save 0% 1st year); IP loss reduces $$
- “YES!” – want to please you, so say "OK" 90%+ of time
- Time Zone diff (can work 2ce as much); 22 official langs
- Poor Infrastructure; too many political parties
- Turnover is High – oftentimes by “Group/Floor”
- Security/privacy laws; cyber crime; terrorism
- Must have both orgs' staff on all sites; Build trust

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SOME O/S FACTS/BIZ CONSIDS (2)

- Define Success over 7-10 yrs (iterative, incremental, interactive; stagnation; initiative; incentives)
- O/S in international market w/o global ops experience
- Must consider many perspectives in selection process
- Use SMART developed, documented service/product specs reviewed (approved?) by all effected parties
- Must perform proper business, technical and financial due diligence on O/S candidates
- Must know O/S Provider’s resource/capacity limits
- Must resolve open issues before moving to Contract
- Need a full communications plan in effect (e.g., escalate, regularly scheduled meetings)

WORLD BANK REPORTS: WHERE INDIA STANDS?

- Ease of Doing Business: 134 of 183
- Contract & Legal Protection/Enforcement: 184 of 188
- Corruption Perceptions: Scores in lowest 1/3 of 180 countries

Source: World Bank - Ease of Doing Business Index
HIDDEN OUTSOURCING COSTS

- Select vendor; negotiate service agreement
- Transition costs (New IT/telco infra; Training/travel reqmts)
- India Labor Costs (2007 ->1:3; by 2015 equal to US)
- Governance ($$ to manage/monitor/ mitigate outputs; insurance)
- Currency fluctuations (Hedge w caps/collars in K; US dollar devaluation)
- Hw/sw/nw refresh (e.g. 2 yrs; desktops/laptops/MS Office/OS, every piece)
- Retained org (transfer 50% of a job) redesign org/job functs; redeploy/sever.
- Internal transition ($$ to do things new way; Change Mgt; Interfaces w O/Ser)
- Retirement costs (pay into retirement plans/pensions post termination)
- Planned headcount reduction (keeping employees to help transition)
- Poor change communications (very complex/burden; done poorly may lose staff early; or keep union staff too long. Must keep critic’l staff for knowledge/transf)
- Shadow orgs (Kept staff do things old way. CM; explain why new services impt)
- Staff augment (long transition, & staff leaves early, must backfill (> hire/train $$)

 © 2011 paraphrased from David Brown, a client executive with EquaTerra, an O/S Consultancy Firm

HIDDEN COSTS OF O/S TO INDIA (#1)

<table>
<thead>
<tr>
<th>#</th>
<th>HIDDEN $$</th>
<th>PROBLEM</th>
<th>POSSIBLE IMPACTS</th>
<th>POSS. CONTRACT SOLUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Currency</td>
<td>Last year bill of $1mm /mo c/b $1.4mm today.</td>
<td>C/b very costly $$</td>
<td>Caps &amp; Collars in K; Share $ flux up to spec $ amt; renegotiate</td>
</tr>
<tr>
<td>2</td>
<td>Hardware/software refresh</td>
<td>Need multiple 2 yr refreshes over 5-7 years</td>
<td>$500 - $2,000 per employee</td>
<td>Put typical refreshes &gt; 1 yr into K; Ask O/Ser to include refresh sched for every hw/sw piece.</td>
</tr>
<tr>
<td>3</td>
<td>Retained organization</td>
<td>Transfer 50% of some staffs’ jobs to SP, but still pay them for full function.</td>
<td>A retailer had work of 1,100 employees in scope, but it held onto 50% of work for 200; BIZ Case overstated $24mm</td>
<td>Post transition, redesign org, redefine job functs, redeploy, sever.</td>
</tr>
<tr>
<td>4</td>
<td>Lack of governance</td>
<td>Companies typically underestimate people, process tech needed to manage O/S contract output</td>
<td>SP invoice errors alone can erode monthly savings by 2-10%; Global retail co assessed governance perf on O/S co; found 5% avg invoice overcharge: $40K/mo</td>
<td>O/S a process doesn’t mean you’ve outsourced need to manage K. Invest in governance teams and tools to mitigate risk &amp; achieve the deal’s intended value.</td>
</tr>
<tr>
<td>5</td>
<td>Internal transition</td>
<td>Companies typically overlook effort needed to do things in new way.</td>
<td>In one O/S deal for finance/acctg, incl. new e-system for A/P, buyer failed to budget client side &amp; face dev/</td>
<td>Anticipate these costs—incl: time, external resources, apps to interface w O/Ser; Include these $$ in your estimates.</td>
</tr>
</tbody>
</table>

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### HIDDEN COSTS OF O/S TO INDIA (#2)

<table>
<thead>
<tr>
<th>#</th>
<th>HIDDEN $S</th>
<th>PROBLEM</th>
<th>POSSIBLE IMPACTS</th>
<th>POSS. CONTRACT SOLUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Retirement Costs</td>
<td>Many Cos continue to pay into retirement &amp; pension plans even after staff terminated – &amp; never realize the error.</td>
<td>Overpayment cost hundreds of 1000s of $$/yr in lost savings.</td>
<td>After O/S transaction, review list of Staff that would be displaced. Work w HR dept to update database. Seems pretty simple, but this is common oversight that can add big cost.</td>
</tr>
<tr>
<td>7</td>
<td>Planned headcount reduction</td>
<td>Most Cos plan to reduce headcount by O/S, but usually keep some staff to help in transition – $$$ not planned.</td>
<td>To min risk, one comp kept ~20% of staff for 6 mos post Go-Live date. Added $1.5mm in cost. Overambitious headcount estimates can cut planned saving 10-20%.</td>
<td>Don’t overstate savings. Anticipate a “ramp down” of Staff after Service Provider (SP) takes over services. This helps ensure smoother transition &amp; more realistic Business Case.</td>
</tr>
<tr>
<td>8</td>
<td>Poor “Change” Communications</td>
<td>O/S Change Mgmt and Communication is extremely complex/ burdensome. Done poorly, some Staff may leave b4 transition. If fail to give emp notice, some Staff/union workers may stay. In this case, you can’t reduce headcount in time &amp; pay Staff &amp; Service Provider for same work.</td>
<td>Devast full comm strategy if nec. Start comm wall in advance of transition. One Co O/Sed dev/maint for strategic app but retained ~45 crit staff for knowledge w “Hi-touch” comm plan—frequent, mixed, strategic, visual. Co kept them all. Resource loss would have cost Co ~$1mm for hire, backfill, knowledge transfer.</td>
<td>Devel full comm strategy if nec. Start comm wall in advance of transition. One Co O/Sed dev/maint for strategic app but retained ~45 crit staff for knowledge w “Hi-touch” comm plan—frequent, mixed, strategic, visual. Co kept them all. Resource loss would have cost Co ~$1mm for hire, backfill, knowledge transfer.</td>
</tr>
<tr>
<td>9</td>
<td>Shadow Organizations (SO)</td>
<td>Employees in retained org continue doing things old way—almost always exist in O/S relationship.</td>
<td>Even global retailer’s SP doing ops testing/rtpt, SO contin’d doing it. Savings $3mm in 1st 2yrs. Left unchekd, SO redundancies c/ reduce O/S value by 10-15%.</td>
<td>Solution: As part of change mgmt, educate orgs on importance of using new services. If some departments or executives don’t trust the service provider, then the governance team should find out why—and fix it.</td>
</tr>
<tr>
<td>10</td>
<td>Staff Augmentation</td>
<td>Transition 6-12 mo but Staff leave before must backfill, &gt; hiring and training costs.</td>
<td>Transport co, failed to keep ~20 Es long ens for trans test/process-map SO it paid SP extra 6500K to do work; a premium of ~20% &gt; lost staff salary.</td>
<td>Solution: Most Staff willing to stay if monetary payout at end of road. Hold on to employees by tying their severance to the end date, or give them a retention bonus.</td>
</tr>
</tbody>
</table>

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### MORE POSSIBLE COSTS

- Cost of Quality
- Cost of not meeting SMART SLAs

- **Costs of Missed Goals**
  - $, Schedule, Requirements, QA?
  - Some MTBF? # of “Critical” defects?
  - First to Market?
  - Lowest Total Cost of Ownership?
  - Get next round of financing?
  - Meet Business Case, ROI, growth w less staffing?
  - Better customer service? Shorter delivery cycle? > productivity?

- Cost of Dispute Resolution or Lawsuit
- Cost of Termination & Transfer of Services

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## LOVE, MARRIAGE, TRUST, PARTNERSHIP

### Of Marriage Contracts in USA: How many Fail?

~50%

### Of O/S Contracts to India: How many Fail?

48.9%

Would you believe that both relationships fail for the same reasons?

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### TOP 10 REASONS WHY MARRIAGES FAIL

<table>
<thead>
<tr>
<th>#</th>
<th>REASON</th>
<th>EXPLANATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Poor due diligence</td>
<td>• Don’t know what you want/need&lt;br&gt;• Didn’t evaluate match&lt;br&gt;• Didn’t check references</td>
</tr>
<tr>
<td>9</td>
<td>Not “vesting” in partner’s needs</td>
<td>• NOT a “Zero Sum Game”&lt;br&gt;• Both can improve; both can win&lt;br&gt;• NOT a “Zero Sum Game”</td>
</tr>
<tr>
<td>8</td>
<td>Missing little things &amp; sweating</td>
<td>• Take trash out, pick up kids from school.&lt;br&gt;• Frustrations over little things add up.&lt;br&gt;• But: if stress over unimportant things...</td>
</tr>
<tr>
<td></td>
<td>small stuff</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Not consulting partner about</td>
<td>• Have a strategy, plan, share budget&lt;br&gt;• # checking accts? House? College? Retire? Trips?</td>
</tr>
<tr>
<td></td>
<td>purchases</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Let yourself go – Don’t keep</td>
<td>• Understand &amp; keep your commitments&lt;br&gt;• If you can’t, change them mutually/together</td>
</tr>
<tr>
<td></td>
<td>promises</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Playing the victim - defensiveness.</td>
<td>• Your part? Never your fault? Forced you?&lt;br&gt;• If feel like victim, it won’t last much longer</td>
</tr>
<tr>
<td>4</td>
<td>Not fighting fair</td>
<td>• Entitled to legit feelings in disagree, BUT&lt;br&gt;• Stay task oriented – not accusatory&lt;br&gt;• Allow partner retreat w dignity.</td>
</tr>
<tr>
<td>3</td>
<td>Too much time apart – Phone Sex!</td>
<td>• It’s cheating AND&lt;br&gt;• It doesn’t get the job done!</td>
</tr>
<tr>
<td>2</td>
<td>Spilling secrets</td>
<td>• Some things be shared; others NOT&lt;br&gt;• Tell “things” outside erodes marriage &amp; trust!</td>
</tr>
<tr>
<td>1</td>
<td>No sex</td>
<td>• Both give/take to get for mutual benefit/trust&lt;br&gt;• W/o intimacy, marriage/relationship in trouble&lt;br&gt;• Rekindle flame, or probably go to divorce court.</td>
</tr>
</tbody>
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### TOP 10 REASONS WHY O/S RELATIONSHIPS FAIL

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<td>• NOT a “Zero Sum Game”</td>
<td>• Provide incentives for improvements</td>
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<td></td>
<td></td>
<td>• Both can improve; both can win</td>
<td>• Tie payments to “Results NOT Resources”</td>
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<td></td>
<td></td>
<td>• As IT costs less, pass on allows more flex</td>
<td></td>
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<tr>
<td>8</td>
<td>Miss little things+ sweat small stuff</td>
<td>• Take trash out, pick up kids from school.</td>
<td>• Return phone calls promptly w answers</td>
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<td></td>
<td>• Frustrations over little things add up.</td>
<td>• Provide incentives for improvements</td>
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<td></td>
<td></td>
<td>• But: if stress over unimportant things...</td>
<td>• Align IT w business strategy</td>
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<tr>
<td></td>
<td></td>
<td>• NOT a “Zero Sum Game”</td>
<td>• Regular input/updates fr key stakeholders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Provide incentives for improvements</td>
<td>• Prioritize; defer; accept less, incr. resources</td>
</tr>
<tr>
<td>7</td>
<td>Not consulting partner re purch</td>
<td>• Have a strategy, plan, share budget</td>
<td>• Outsourcer investments; Meeting SLAs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• # check’g accts? House? College? Retire?</td>
<td>• Co. system &amp; deliverables sign-offs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• NOT a “Zero Sum Game”</td>
<td>• Co., required Change Management</td>
</tr>
<tr>
<td>6</td>
<td>Let yourself go – Don’t keep proms</td>
<td>• Understand &amp; keep your commitments</td>
<td>• Admit your mistakes &amp; contribs to problem</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• If you can’t, chge them mutually/together</td>
<td>• Focus on solution together</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Outsourcer investments; Meeting SLAs</td>
<td>• Consider a SWAT (Sys Work Adjudica Team)</td>
</tr>
<tr>
<td>5</td>
<td>Playing the victim - defensiveness.</td>
<td>• Your part? Not your fault? Forced you?</td>
<td>• Relationship created in Contracting process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• If feel like victim, it won’t last much longer</td>
<td>• Estab roles, attendes, escalation process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Align IT w business strategy</td>
<td>• Consider mediation</td>
</tr>
<tr>
<td>4</td>
<td>Not fighting fair</td>
<td>• Entitled to legit feelings in disagree, BUT</td>
<td>• Both must be in trenches! Physically!</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Stay task oriented – not accusatory</td>
<td>• It doesn’t work!</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Admit your mistakes &amp; contribs to problem</td>
<td>• It doesn’t work!</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Relationship created in Contracting process</td>
<td>• Both must be in trenches! Physically!</td>
</tr>
<tr>
<td>3</td>
<td>Too much time apart – Phone Sex</td>
<td>• It’s cheating AND</td>
<td>• Get in bed with each other for the win-win.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• It doesn’t get the job done!</td>
<td>• Be: beta tester; Reference; Industry source</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• It doesn’t work!</td>
<td>• Be on O/Ss R&amp;D planning/prioritize team</td>
</tr>
<tr>
<td>2</td>
<td>Spilling secrets</td>
<td>• Some things be shared; others NOT</td>
<td>• Outsourcing sub-contracted to China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tell “things” o-side erodes trust!</td>
<td>• Privacy &amp; Security not enforced/punished</td>
</tr>
<tr>
<td>1</td>
<td>No sex</td>
<td>• Both give/take for mutual benefit/trust</td>
<td>• Rekindle flame, else go to divorce court.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• W/o intimacy, marriage/relatin trouble</td>
<td>• Get in bed with each other for the win-win.</td>
</tr>
</tbody>
</table>

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### O/S PROCESS CHECKLIST*

1. **Should you O/S? What parts?**
2. **Evaluating Vendor Proposals**
3. **Preparing the RFP**
4. **Who owns Intellectual Property?**
5. **Vendors USA or abroad?**
6. **Privacy & Security**
7. **Employment Issues**
8. **Transition/Terminat’n**
9. **Scope of Services**
10. **SLAs & Subs**

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* With insight from “Scott on Outsourcing Law & Practice” Aspen Publishers, 2011
SUMMARY O/S RULES TO THINK ABOUT

Rule 1: Impactions NOT transactions.

Rule 2: What NOT How; When, if NOT Now?

Rule 3: Use a few, targeted, clear, SMART outcomes

Rule 4: Incent best trade-offs, NOT best pay-offs

Rule 5: Governance Insight, NOT just Oversight

By Kate Vitasek

Hips Don’t Lie BUT...
Per Prof. Albert Mehrabian

Words Tell only 7% of the story

Listener gets 38% of meaning from “tone”

55%, the most meaning, is conveyed by body language

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WHO’S ON FIRST?

- What language are you/they speaking?
- Did you interpret the “cultural signals?”
- What did you understand?
- What did other party say?
- Do you have an agreement?
- What is it?

COMMUNICATION FAILURE

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What Can Possibly Be Misunderstood?!

... Everything!

- People are different
- People have different:
  - Objectives, perspective
  - Cultural bias, exp/educ/expertise
  - Styles of understanding/communicating
  - Abilities, talents, logic, creativity
  - Understanding of priorities
  - Fears: spoken and unspoken
  - Understanding of what is subjective v objective
  - Implied, understood, unspoken (needs, rqmts, sizzle)

So, what won’t be misunderstood?

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This model will change and be updated over time
O/S AGREEMENT CONSIDs (1)

- Change process: biz, staff, tech, ind. stds, laws, regs, efficiency gains. Limit O/S abil to charge for such changes
- Train both Cust + O/S mgt/opns on O/S K
- Procs to request new service, changes, projs
- Right to use 3rd pty O/S to in-/re-source
- Control of arch, tech, and org change stds
- O/S obligs to keep pace/refresh w tech advances
- SLAs: how they work, credits, change over time
- Renewal periods; automatic renewal
- Customer data: security, backup, Cust rights to it any time
- Confidentiality Obligs (w std carveouts; trans natl rules)
- Train’g; Documentation; Help desk (for int/external custs)

O/S AGREEMENT CONSIDs (2)

- Staff rqmts: on/off Cust site; O/S right to change; Cust right to approve personnel
- Employee transition plan; O/S to offer jobs to Cust staff; staff level mix; confidentiality; non-comp; Staff claims
- Financial terms; present & over time
- Incentivizing the “Win-Win”
- Mgmt of projects & other services (standards enforced)
- Ownership of custom development & work product
- Term, termination assistance services/rights
- Retention for transitioned/long term key Employees
- Diff for single silo O/S than big bang trans
- Keep staff knowledgeable: apps, biz, tech, OS procs
O/S AGREEMENT CONSIDs (3)
- Secure appropriate supplier talent
- Limit subcontractor/3rd party use (China); IP ownership
- Limit unnecessary charges (data, re-perform)
- Baseline O/S resources for ongoing support/ projects to allow Customer to reprioritize/reassign projects & services
- Contract sh/require O/S to track (at min): asset type/location, ID, serial/model #s; in service date; sw/hw vers/upgrades; if own, lease, license & fin responsible party; Apps tied to server; Changes
- Sharing of Computer Resources
- Disaster Recovery: Contingency plans
- Audit issues and plans
- Most favored nations/customer; Anti-kickback law

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O/S AGREEMENT CONSIDs (4)
- Coop Obligations: betw OS/Contractor/3rd parties; staff; facilities, equip, sw, doc, biz procs; access; additional O/Ss;
- K $$ reduction, commitments, proc improv; stds implementation
- SLA improvements (esp if SLAs met but service unsatisfactory)
- Termination: Termination assistance:
  + Doc plan; staff; all equip, sw, material, data
  + 3rd party Ks/tools to provide services; training materials
  + 3rd party in equip, sw, data, same
  + Right to employ OS staff
  + Right to purchase equip/assign leases
- Attorney’s role does not end when deal signed!
- Liabilities; Insurance; X-hiring; Taxes
- Dispute res: arbitration; forum; governing law

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REQUIREMENTS - GENERAL

- BIG SYSTEM ↔ little system (System Integrator?)
- Who/What are you now? Want to be in Future?
- What are your long term strategy/goals/obj.?
- How will you be organized? Resources? Managed?
- What decisions must you make? Info to suppt decis?
- What is system NOT providing? Need Now? In Future?
- When do you need it?
- Where are you now? (Acquirers; Vendors; Depts; IT)
- What resources do you have? Now/future?
- Willingness to accept/trade: $, Sch, F&F, QA, Risk, SH

“What We THOUGHT vs What Contract SAYS”

<table>
<thead>
<tr>
<th>#</th>
<th>Category</th>
<th>What was Understood:</th>
<th>What “World-Class” Contract Says:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Suitable</td>
<td>System description</td>
<td>Bounds scope; Uber-theme</td>
</tr>
<tr>
<td>2</td>
<td>What works?</td>
<td>Functional requirements</td>
<td>per ALL demos, designs, tests, doc specs</td>
</tr>
<tr>
<td>3</td>
<td>How well?</td>
<td>Performance reqmts</td>
<td>Scal- Port- Avail- Maint- Use- SMART</td>
</tr>
<tr>
<td>5</td>
<td>How We Do it?</td>
<td>Conduct of project</td>
<td>WBS, estim, staff, delivs, PM, SDLC, bugs</td>
</tr>
<tr>
<td>6</td>
<td>Just for ME</td>
<td>Custom programming services</td>
<td>Config, SDLC, PM, est, test, l’face, maint</td>
</tr>
<tr>
<td>7</td>
<td>U prove 1st</td>
<td>Sys integ/interface/Test/Convert</td>
<td>Results NOT Resources; Def Success</td>
</tr>
<tr>
<td>11</td>
<td>$ = Mouth?</td>
<td>Proposals, workproduct, promises</td>
<td>“Parole evidence” rule; 4 corners only</td>
</tr>
<tr>
<td>12</td>
<td>Go-Live</td>
<td>ALL Systems Go!</td>
<td>What’s acceptable? Checklist? Vote?</td>
</tr>
<tr>
<td>13</td>
<td>Other</td>
<td>Costs/Pymts; ADR; TERMINate; Renew; Title; X-hire; Site prep; Install hw, sw, nw, BPR; confid:3 protect; Liab limits &amp; exclusions</td>
<td>There’s more to THE Sys than A sys (SOS):</td>
</tr>
</tbody>
</table>

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Risks Known BEFORE Project Starts!

- **People/Resource Risks**
  - Turnover, culture, x-comm.
  - Top Mgt Commit; Proj Champ
  - Partner; Ref. Checks/Ref’s Refs

- **Requirements Risks**
  - Poor Project Charter
  - Defined, Baselined, Implied
  - Stability, Complexity
  - Incomplete, Misunderstood, Gallop
  - Interfaces, Data Conversion

- **Project & Tech Mgmt Risks**
  - Client, Deps, Users, IT, Vend, O/S consults, attys, custs, analyst, mkt “expectations”
  - Unclear Leadership – SIPM

- **Process Risks**
  - Project under- or mis-estimated
  - SEI-CMMI level; ETC &EVM Stds
  - Sched, $$, estimates, change control
  - Not enough time for testing
  - Shortcuts to SDLC on the fly

- **Technology**
  - HW, SW, Net, D/B, Internet, Mobile
  - Security; Privacy
  - C – Correctness
  - I – Integrity
  - A – Available
  - Tool avail? mature? train? use?

If you know beforehand... Plan, Contract for, Mitigate, Monitor, Manage Them!

10 m

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The IT Contracts Model for Successful Contracts (Top Level)
FINAL THOUGHTS

1. “World-Class is in eye of beholder (or Finder’s of Fact)
2. Requirements Rule!!! And there is no way around it!
3. Contracts allocate risk: Get it in writing ➔ Up front
4. Both sides Lose in Litigation: See it from both sides
5. If you want to end w Success, start w Success
6. Be Flexible: ➔ everything not = in import or linear
7. Perform OUTSTANDING Reference Checks
8. O/S brings added challenges that must be managed
9. RTMs: Every old is new again!
10. No Panaceas: Consider SWAT, Mediation, ADR
11. Software, systems, arch, security, process engineers need input into agreements/can be useful experts
AFTER YEARS OF EXPERIENCE:
THE GOLDEN ANSWER!

d(y)^h : f(y)^p + \int(l) + \int(c) = P^2 R

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Warren S. Reid: Background

- 16 years as IT consultant → Partner in Large IT Firms
- Designed/implemented/contracted myriad systems
- 1986, founded: WSR Consulting Group, LLC
- Projects have included:
  - Helping launch FEO for Pres. Carter in 75 days
  - Over saw acceptance of CA's Lotto in 100 days
  - Helped resolve MESDAQ: day 1 failure.
- Extensive industry experience including:
  - Retail industry, grocery, fast food
  - POS systems of all kinds; E-business and e-commerce
  - Health care, hospital and HIPAA systems
  - Robotics and smart buildings, and more
- MS & MBA: Wharton Grad School Finance
- Developed seminal "IT Success Models"
  - Guest Lecturer at USC's grad school programs
  - Lecturer in law school programs in IT Contracting
  - Many peer-reviewed articles/MCLE video for Attorney
  - "IT Litigation and Bad Contracts that Foster Failure" (3.5 hrs MCLE credit)
- Testifying expert/expert witness in matters re:
  - The root causes of system failure
  - ERP project/real development; implementation; estimating; scheduling; sourcing; project mgmt
  - Systems Development Life Cycle (SDLC) issues
  - Definition of "World-Class" IT
  - Systems/software testing & acceptance
  - IT contract intention, meaning & interpretation
  - SW QA evaluation & fitness/feasibility purpose
  - Software requirements elicitation & control
  - Valuing IT assets, systems and companies

International Expert Witness in IT matters:

- U.S. Dept of Justice & Pres. William Clinton
- Her Royal Majesty, the Queen of England;
- Fortune 500 retailers; Robotics
- Compuserve; Fortune 500 retailers; Robotics
- Manufacturing; Distribution companies; POS cases;
- ERP software developers and systems integrators
- ERP software developers and systems integrators
- International ticketing companies

QUESTIONS/COMMENTS

WSR CONSULTING GROUP, LLC
Management, Technology, e-Business & Litigation Consulting

Warren S. Reid, Managing Director
PH: 818/986-8832
E-mail: wsreid@wsrg.com; Website: www.wsr.com

For More Written Materials, Articles & Full Size Versions of the Success Models, please visit:
The WSRcg Learning Center for IT Excellence http://wsr.com/learn_introducingmodels.php

For large size views of the "IT Success Models" go to:
http://www.wsr.com/PDFs/model_requirements.pdf
http://www.wsr.com/PDFs/model_RFP.pdf

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11/22/2011
APPENDIX I: Alternate Business Valuation Techniques (in Outsourcer selection process)

Captiz Earn’gs/Disct Based
Disct Cash Flow; Weight Avg. CoC; CAPM/APT

Asset Based
book; adj. bk val; replace; liquidate; recreate; acctg.

Traditional Methods/
Approach

Comparison
Based
closely held; public

6 SIDES TO VALUING TECH COMPANIES

1. Management/Critical Staff
2. Markets/Marketing
3. Technology/Products/Services
4. Finances
5. Legal
6. Intellectual Capital
6.5 Social; Mobile; Video

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I. MANAGEMENT/Critical Staff

- Board of Directors
- Long term Strategy
- Execs/Staff/PMs/Leads
- Turnover w/i Co; on Contracts
- Corporate Culture
- QA Attitude
- Opps for advancement/training/mentoring
- Focus on the “appropriate” targeted industries,
- History of innovation/ pioneering

II. Markets/Marketing

- A. What Markets/Industries/Custs Served?
- B. Characteristics of the Market?
  - Changing, aging, growing
    - Healthcare; entertainment; bookstores; telecom; 3D
  - Specialized
  - Economic cycle
  - Web marketing; Social Marketing
  - Distribution Network
- C. Plans for the Market?
  - International?
  - New Markets (boomers; immigrants)
  - Affinity Groups
- D. Special Questions/Thoughts
III. TECHNOLOGY/PRODUCTS/SERVICES

× A. Technology
+ Current great products/service delivery
+ O/S’s roadmap (next great products)?
+ Quality & Depth (products/services)
+ Sustainability (SDLC; ITIL; Prod Mgt)
+ Localization
+ Internal Use

× B. Web 2.0 (Next Tech)

× C. Outsourcing
+ 1. Their "Record": success, failure, recovery, loss, lawsuits
+ 2. The "Freakonomics"

US AVERAGE DEFECT/FP DELIVERED
CAPERS JONES: APPLIED SW MEASUREMENT, 2ND EDITION

<table>
<thead>
<tr>
<th>FPs</th>
<th>End</th>
<th>MIS</th>
<th>O/S</th>
<th>Com</th>
<th>Sys</th>
<th>Mil</th>
<th>Avg.</th>
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<td>23K</td>
<td>16K</td>
<td>14K</td>
<td>17K</td>
<td>24K</td>
</tr>
</tbody>
</table>
IV. FINANCES

- Assets, Liabs, Capital
- Profitability, ROI
- Cash & Cash Flow
- Internal Controls & SOX
- M&A

Customer “Churn”
Contract Estimate/Profitability
Reference Checks
User Groups

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V. LEGAL

- A. Intellectual Property
  - Patents, Copyrights, Trade Secrets, Trade Dress, and More
  - What do you have? Protecting it
  - Enforcing security & privacy

- B. Litigation Situation
  - Plaintiff or defendant
  - Pending vs. settled
  - Results
  - New Rules, New Protections
  - Patent Prostitutes
  - Google acquisitions (Motorola mobile)

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VI. INTELLECTUAL CAPITAL??

A1. Human Capital
- E'ee value provided thru applic of skills, know-how, expertise; creativity / innovat'n.
- Org's combined human capability to solve biz probs; people inherent/goes w them

A2. Structural Capital
- Supportive infra, processes, Org's DBs org; enables HC to function. SC includes:
  - traditional items — buildings, hw, sw, procs, IP
  - PLUS org's image, culture, org, info sys, proprietary DBs. (classified into org, process & innovation capital).

A3. Relational Capital
- Identifiable items incl trademarks, licenses, franchises, AND less definable, incl.
  - cust interactions/relationships. RC sep fm HC & SC bc of import to org’s worth,

B. Valuing Intellectual Capital
- Maintaining market position
- Ability to Adapt and Change
- Other "abilities"

C. Other Considerations
- Methodologies & Std (SDLCs, PMI, IEEE)
- No MBS (Management by Slogan); No MBBS (Management by Best Seller)

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KIVIAT QUIZ 1: WHO IS THIS?

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KIVIAT QUIZ 2: WHO IS THIS?

KIVIAT QUIZ 3: WHO IS THIS?