Product Development Sourcing Strategy

This document outlines a global technology sourcing strategy tailored to supporting the requirements for developing and supporting customer-facing revenue-generating platforms and applications within the enterprise. “Client” refers to the client enterprise, that is, your company. *We have included additional explanations and guidance as appropriate.*

Principal Goals

This section outlines the primary drivers of our strategy and specific supporting actions.

- **Efficiency** – *Cost effectiveness and cost control*

- Leverage suppliers with a global delivery model to provide services at the lowest unit cost
- Access to technology skill-set to develop and maintain platforms and applications
- Establish a flexible resource pool across a variety of relevant technology stacks and cloud communities and solutions

- **Enhancement** – *Processes to improve quality*

- Provide businesses with quality software development operations that leverage supplier organizational expertise and leading edge software development practices
- Leverage supplier expertise to improve product development processes with use of latest tools, techniques, and solutions frameworks currently in use

- **Transformation** – *Processes to expand features and shorten time to market*

- Leverage supplier knowledge and investments in domains relevant to customer-facing capabilities and products
- Leverage supplier experience with cutting edge tools and technologies
- Enable global focus and rapidly changing business models

Approach

This section documents actions to be taken in support of achieving our sourcing goals. [Tailor to organization.]

- Keep key areas of demand management and interaction with the business, business analysis, and product architecture in-house. Leverage supplier domain and technology expertise where available to augment the in-house functions and to provide flexible and scalable operations. *It is vital that the client actively manage conflicting and overlapping demands for supplier resources and work outputs to maximize value versus cost, and that the client leverage supplier expertise and experience to make the best, most informed, decisions possible.*

- Where significant Intellectual Property involved, explore use of in-house development both on shore as well as in offshore locations. It is not necessary to build client development centers off-shore to gain cost advantages. The client can establish supplier relationships which included dedicated staff and space within a supplier’s off-shore center. *Staffing continuity promotes development of relationships and a deeper understanding of client requirements. Commitment to a guaranteed baseline of billable work encourages supplier investment in the relationship.*

Without an "extra" level of client-supplier connection, even the best-written specification can fail to lead to a successful implementation outcome.

- Develop and retain key supplier relationship, contract and performance management functions to insure the client obtains projected value from supplier relationships. *It is vital that the client establish a strong supplier governance function engaged in the full end-to-end supplier lifecycle. This is over and above project and program management and cannot be delegated to suppliers.*
- Establish relationships with at least two "Preferred" suppliers with global delivery capabilities which can staff key onsite functions as well as migrate identified work to lower cost offshore locations while ensuring quality and delivery responsiveness are maintained. These suppliers must have the required depth in technologies of choice for the client as well as relevant knowledge in the client's business domain(s). *Our personal experience is that monolithic single-supplier relationships degrade over time. Spreading the majority of work among a short list of suppliers insures sufficient work for each to maintain client focus and substantive (not boilerplate) and competitive proposals when work is bid out. This also allows the client to leverage supplier strengths to their advantage. Every large supplier, certainly, has the capacity to deliver any kind of work—but each also has their individual areas of strengths and weaknesses.*
- Supplement the preferred suppliers with other "Core" or "Niche" suppliers that help address any specialized areas. The primary goal is to keep the set of suppliers limited and manageable to insure meaningful (to the supplier) levels of spend with each. Bring in "Core" or "Niche" suppliers only when they possess a unique skill set or provide a service not covered by the preferred suppliers. *One indicator of a strong sourcing function is having established a stable of pre-qualified suppliers who can be quickly engaged when specialty skills or the ability to greatly accelerate time to market are required.*
- Competitively bid out new work to the preferred suppliers (and any core or niche suppliers as relevant), and then establish long term relationships for individual product or application areas where a sustained relationship can be established with the selected supplier for ongoing development and maintenance. *Just as serious, if not more so, than supplier proliferation across the enterprise is supplier fragmentation within a particular business or product area. When suppliers jockey for position at close quarters, work and the client suffer. To the degree possible, align and consolidate suppliers by business line.*
- Develop Key Performance Indicators (KPIs) or a Service Level Agreement (SLA) consisting of relevant Service Level Objectives (SLOs) that will define delivery success for the supplier. Cover the key areas of timeliness, software quality and productivity. *Suppliers will, by nature, advocate for measurements which will be "Green" unless a catastrophic issue is encountered. Quantitative measures of engagement progress or solution performance are only an initial step. Our experience is that a strong (qualitative) customer satisfaction measurement program, common across and approved with all suppliers, offers the best measurement of supplier performance.*
- Leverage preferred supplier relationships to encourage investment in documentation, knowledge transition of services and continuous improvement. *Staff turnover at offshore providers can be as high as 30-40%. It is imperative that suppliers establish knowledge continuity in each area of client service and support. Long-term and business-aligned relationships promote*

lower turnover when coupled with career advancement opportunities for supplier staff while continuing to support the same client account. Recognition and reward for supplier staff suggestions for client improvements are another means to promote staffing stability.

- Direct supplier investment in new technology areas relevant to the client product landscape. *Another way to promote closer partnerships is for sourcing to facilitate cooperative supplier-client business plans forecasting future development and support demand including new areas of opportunity.*

Prequalified and Currently Engaged Suppliers

Preferred Suppliers

[Complete this section indicating preferred suppliers, indicating areas of engagement within the enterprise, particular strengths, and any other pertinent guidance. Inventory products supported.]

Core Suppliers

[Complete per the above]

Niche Suppliers

[Complete per the above]

Internal Services

[Inventory internal groups engaged in customer-facing development and support, and products in-scope.]

Service Locations

[Staffing locations for suppliers and internal services.]

Key Performance Indicators {KPIs)

Some of these, such as defects and defect rates, are quantitative, while others, such as project and program management skills, are qualitative and best measured through a formal customer satisfaction process.

- Production defects including re-injected defects
- Cost of service delivery and adherence to budgets
- Timeliness of delivery
- Technical competence and skill levels of associates
- Communication skills of associates
- Project and program management skills
- Product or application performance
- Productivity
- Domain knowledge of associates
- Innovation
- Resource management, ramp up and down of resources (both onsite and offshore) as dictated by project needs
- Retention of key resources for the account

Primary Risks

Sourcing needs to work with suppliers to address these risks in particular. *We do not include risks here which would be specified and mitigated contractually, for example, supplier business continuity and disaster recovery, or solution supplier code escrow.*

1) **Critical resource attrition** – Attrition of key staff who have intimate knowledge of client products or applications can significantly impact delivery. As mitigation, the client should identify critical supplier associates and penalize the supplier for *unplanned* attrition of these resources on the account. This should suitably incent the supplier to manage these resources to ensure their stability on the account, to institute knowledge management, and to insure a succession plan for key staff.

2) **Loss of client knowledge and supplier lock in** – In areas where the supplier is executing all or a significant part of the work it is likely that the client will lose the detailed technical understanding of the working of the application. This leads to a situation which transfers undue control to the supplier and inhibits the ability to move away from a supplier if their performance drops. Mitigation includes ensuring that application or solution documentation is detailed and up to date at all times, or that the client has a Business Analyst and Architect or other senior technical resource engaged in the project. Either of these steps will ensure the client has the necessary knowledge base in place should there be a need to switch suppliers. *We further recommend that Master Services Agreements with suppliers mandate their support regarding knowledge transition in the event of their replacement as the incumbent supplier.*

3) **Increasing unit cost of services** – Particularly where staff-by-the-hour is involved, clients can typically expect 3-5% per year increases tied to cost of living adjustments. In the case of services, it is important that productivity measures be established which facilitate the client's and supplier's working together to maintain stable unit cost. Unless otherwise specified, a client can also expect a 3-5% increase per year in annual solutions subscription cost. *We further suggest contractual terms with major suppliers which specify year-on-year cost structure improvement. Lastly, the client needs to insure that they are not contractually liable for currency rate fluctuations or uncapped cost-of-living increases, particularly as currencies tend to be more volatile and inflation higher in developing countries.*

4) **Intellectual property exposure** – Where significant Intellectual Property knowledge needs to be shared regarding an application or product whose development is being considered for outsourcing, the client should consider the right blend of in-sourcing and off-shoring to ensure leveraging attractive off-shore cost structures without exposing client IP to any great extent. The client should prioritize consideration of offshore locations that are better known to protect IP versus those where leakage is an issue. *We recommend contractual clauses include protection of client IP, penalties for breach or loss, and annual non-disclosure attestations by all supplier staff obligating them to both their employer (supplier) and client.*

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