Published on *InfoWorld* (http://www.infoworld.com)

Home > Technology Business > Outsourcing > 7 outsourcing nightmares -- and how to avoid them > 7 outsourcing nightmares -- and how to avoid them

7 outsourcing nightmares -- and how to avoid them

By Bob Violino
Created *2012-11-19 03:00AM*

Outsourcing IT functions can be a smart business move, particularly if your organization lacks specific expertise. IT infrastructure, networking, application development, help desk -- plenty of high-quality service providers are available to fulfill your IT needs.

But like other major business and technology initiatives, outsourcing comes with risks, regardless of how experienced the outsourcing provider is or how good the move looked initially.

[Also on InfoWorld: Bring peace to your IT department by avoiding IT turf wars and the nine circles of IT hell, and stay away from these 20 common IT blunders. | For more IT management wisdom, sign up for Bob Lewis' Advice Line newsletter.]

Outsourcer employee turnover, communication breakdowns, shortsighted contracts: They can all sink an arrangement, resulting in lost opportunities, downtime, or worse. In the interest of forewarned is forearmed, here are seven real-life examples of what can go wrong with an outsourcing initiative -- and how to avoid or resolve these outsourcing arrangements gone amok.

Outsourcing nightmare No 1: Outsourcing employee exodus
Several years ago, Coalition Technologies had a project for an important client that it sent to an outsourcing partner to complete. The Web design and marketing firm had worked with the outsourcing partner before, and the experience had been positive. The partner had been responsive and provided a high level of quality and communication, says Joel Gross, founder and CEO of Coalition.

"Everything seemed to be moving along fine, until the project neared its completion date," Gross says. Then the outsourcing company's CEO contacted Coalition to report that more than half of the company's staff had quit.

"They did not have the capability to complete the project," Gross says. "As a result, we had to scramble and find a way to resolve [the problem] internally on extremely short notice."

While Coalition was able to deliver the work without too much added delay, it learned a valuable lesson about the risks of outsourcing. Now, the company tries to keep all of its critical IT work in-house, relying on a dedicated, handpicked team.

When technology projects pile up, Coalition does contract outside providers to perform basic tasks, Gross says. It might sound obvious, but including every possible contingency in the contract is vital.

"Avoiding contracting nightmares is possible; you just have to lay the ground rules," he says. "In order to ensure the quality and standard of work, we have a strict and explicit contract that must be signed."

Payment schedules and consequences for late or bug-prone work are central components of those contracts. Contractors receive 25 percent of cost funded upfront, another 25 percent upon beta completion, and the remaining 50 percent when the project is complete and has been certified bug-free by Coalition project managers.

Coalition also requires that contractors submit two or three references that can provide feedback on the quality of work.

Outsourcing nightmare No. 2: Offshore app dev delays shut window of opportunity
Applet Studios recently switched to U.S.-based programmers after a nightmare experience with its latest outsourced application development project.

"We had one app live in the App Store doing well," says Chad Grills, co-founder of the company, which creates and sells Web and mobile applications. "We lined up all the promotions and advertising for the Android version, which was being built by contractors outside the country."

Grills exchanged several emails with the contractor, which assured him that development was on track and the app would be delivered within a week. At the end of the week, Grills received no deliverables and emailed the company again. The contractor responded five days later, saying that the developer had been sick.

"I was understanding and asked for an update on the app," Grills says. "They said it would be pushed back another five days. I was frustrated at this point, but pushed back our advertising just in time."

Some 10 days later, the offshore development team sent a completed application.

"I started testing the app, and to my horror, it was a cruel joke," Grills says. "The screen, features, fonts were nothing like the detailed descriptions and iOS code I had sent."

Things didn't go well from there. The app was delayed another three weeks, still full of problems.

"Our advertising opportunity came and went," Grills says. "The marketing window for action closed, other projects couldn't be pushed back, and we had to scrap the app. Worse, the contractor didn't understand why I was upset."

Applet Studios is now much more meticulous about hiring outsourcers for development work and uses U.S.-based contractors whenever possible.

"The contract we signed with our contractor protected us for a portion of the development costs," Grills says. "However, it couldn't help the fact that we had a huge marketing opportunity/venue that we missed. With the app market being as crowded as it is, a missed marketing opportunity can destroy an app's chances at success."

Outsourcing nightmare No. 3: Offshore communications breakdown
Predominantly a Web-based business, California Contractor Bonds has outsourced its IT overseas for the past few years, primarily to India.

"In the beginning we had several huge problems in designing and maintaining our website that were primarily based on communication problems," says Jeremy Schaedler, president of the company, an online provider of license bonds for contractors in California. "There seemed to be a constant flow of discrepancies between what we were asking to be done and what was accomplished."

What Schaedler learned is that for design, the best form of communication is written instructions combined with diagrams whenever possible.

"Too much is lost in verbal communication," he says. "Outsourcing IT overseas is a great way to get quality programming talent at a fraction of the domestic cost, but getting a quality product depends on establishing a clear method of communication."

Providing written instructions solved the problems, and California Contractor Bonds now has few if any communication problems, Schaedler says: "In the last two years I have only spoken to my current programmer in India by phone two or three times, yet we correspond by [written] message two or three times a week on average regarding IT."

Outsourcing nightmare No. 4: Poor quality, no recourse for refund
Money Crashers Personal Finance is another company that has struggled with offshore Web development work.

A few years ago the company, which provides online educational services in areas such as credit and debt, real estate, and insurance, decided to outsource a Web development project. Intent on keeping costs down, Money Crashers decided to go with an IT service provider overseas, says Andrew Schrage, founder and co-owner.

From what Money Crashers could tell, the provider was highly qualified. "But after we paid for the job in advance, we ended up receiving results that were nowhere near our expectations," Schrage says. "To make matters worse, the [outsourcing provider] simply refused to get back to us regarding what we felt was shoddy work. After quite a few hassles, we finally gave up and couldn't retrieve the amount we paid upfront."

What Money Crashers learned is that it's not always best to have cost as the No. 1 determining factor, as the company ended up paying far more in the end.

"I'm not saying I'd never consider outsourcing a project again, but I would definitely take a different approach," Schrage says.

First, he would never again pay for any job before it's completed. Next, he would require past referrals from reputable people who've hired the service provider in the past. Third, he'd ensure the people performing the work have a clear understanding of his business.

"And finally, I would provide a specific, detailed plan of the job and discuss it at length beforehand, while also explaining the full payment would not be made until I approved the work as being up to par," Schrage says.

Outsourcing nightmare No. 5: Unexpected overhead of outsourced management
Joe Infante, a onetime IT project contractor for a specialty chemical manufacturer, offers an outsourcing lesson in one-size-fits-none.

With nearly 30 sites around the United States, most of which operated with a high level of autonomy, the chemical company was well aware that outsourcing its IT support services would be difficult. Because of the magnitude of the challenge, the company brought in one of the largest global IT outsourcers, says Infante, who is now president of IT services provider Dynamic Strategies.

Once the five-year outsourcing engagement was in place, gaps that weren't identified in the discovery phase as well as minor projects outside the normal service-level agreements were constantly cropping up unexpectedly, Infante says. The outsourcing provider had difficulty addressing these issues due to its one-size-fits-all approach.

"A decision was made to continue to supplement with independent contractors to address these smaller, one-off projects and to fill service gaps," says Infante, who declined to identify the chemical company. "The arrangement quickly became difficult to manage and the outsourcer was removed."

One of the main causes for the failed outsourcing engagement, which resulted in both lost time and increased costs, were underestimating the effort needed to manage the outsourcing relationship, Infante says.

"Where the client thought it would take one or two individuals to manage the interface with the vendor, it actually took many more of the company's resources," he says.

In addition, the client's interpretation of what it was buying -- based on what it was told by the outsourcing vendor's sales team -- wasn't interpreted the same way by the vendor's implementation and service teams.

How could these kinds of problems be avoided? "Know thyself," Infante says.

"The hardest thing for many businesses to do is properly assess their real needs and, more importantly, their current position regarding the state of IT. Properly defining these two components will ultimately determine what can/should be outsourced and which company best matches their needs."

Outsourcing nightmare No. 6: Metrics without enough granularity to be meaningful
Todd Taylor tells tale of an outsourcing arrangement gone awry due to differing needs among business divisions.

Taylor, an attorney at Moore & Van Allen, who focuses on outsourcing and other technology issues and is familiar with the case, says the arrangement involved a large, multinational corporation and a large, highly regarded technology services company.

The multinational had multiple business units that provide services for consumers and businesses, Taylor says. It outsourced portions of its network operations and infrastructure to the technology services company to support multiple divisions, each of which had different needs.

The client spent time with the service provider coming up with service-level arrangements. But the service-level metrics were typically configured on a clientwide basis.

"In other words, in determining whether a service-level metric was met -- or not met -- performance was judged for the client on an enterprisewide basis rather than on a division or line-of-business basis or a specific service element basis," Taylor says.

In many cases, certain business units or functions weren't receiving acceptable services, and this potentially hindered the ability of those units to meet their customers' needs on a timely basis.

"The client had little contractual ability to demand correction of the problems, as the service provider was generally meeting the service-level metrics when such metrics were measured on an enterprise-wide basis," Taylor says. "Even when service levels were not being contractually met, the penalties often were not meaningful enough to incentivize the service provider to change behavior."

One lesson learned, in ensuring effective service levels for all, was to engage the appropriate business and technical people in all business divisions relevant to the outsourcing agreement, and to do so from the outset, Taylor says.

Companies should also define specific service levels at a micro level. "Representatives of the client receiving the services from the service provider [should] work closely with the service provider's representatives to define specific service levels that are relevant for each business division," and that address each service the client and its individual business units would receive, Taylor says.

In addition, penalties and incentives should be meaningful. "The penalties should incentivize the service provider to meet its obligations," Taylor says. Another way to address this issue is to provide bonuses or financial incentives for performance in excess of service-level metrics, he says.

Outsourcing nightmare No. 7: Downtime and disorganization
When public relations firm DPR Group hired an IT services provider in 2008, it experienced system latency, slow customer service, and problem tickets submitted daily.

"This constant break-fix model resulted in increased downtime and [decreases] in productivity that hurt our business," says Dan Demaree, president and CEO. "When we submitted a trouble ticket, it would sometimes take days to hear from the technicians, resulting in lost productivity, downtime, and unnecessary time spent on IT maintenance."

The service provider claimed to have a systematic approach, but the lack of a naming convention for DPR's computers and the fact that many of the people working on its systems were not familiar with them belied that assertion.

"We would have to start from scratch each time we experienced an issue," Demaree says. "Beyond the technical challenges, documents were irretrievably lost, creating significant rework, and our ability to service and respond to our clients was being interrupted."

DPR was spending too much time and money on an IT outsourcing model that was unreliable and even detrimental to the well-being of the business, he says. To avoid these issues, the firm moved to the cloud in mid-2011, enlisting cloud services provider Cetrom to handle its IT.

"Since we've moved to the cloud, we've had increased productivity, flexibility, and accessibility, and no downtime," Demaree says. "Our advice would be to do your research before looking into outsourcing your IT. Look at their track record, security, accessibility, and budgeting. Our current cloud provider has a history of zero downtime."

Related articles at InfoWorld.com:

- 5 steps to kicking your IT outsourcing habit
- 20 IT gotchas: How to avoid these common big blunders
- The 9 most endangered species in IT
- IT inferno: The nine circles of IT hell
- 10 hard truths IT must learn to accept
- 12 effective habits of indispensible IT pros
- IT turf wars: The most common feuds in tech
- Dirty IT jobs: Grime and punishment
- True tech confessions: Sinners and winners
- 7 IT superheroes -- and their fatal flaws
- A-Teams of IT: How to build your crack strike force
- IT personality types: 8 profiles in geekdom
- IT's worst addictions (and how to cure them)
- IT admins gone wild: 5 rogues to watch out for
- Jackass IT: Stunts, idiocy, and hero hacks
- Stupid user tricks 6: IT idiocy loves company

This story, "7 outsourcing nightmares — and how to avoid them," was originally published at InfoWorld.com. Follow the latest developments in IT careers at InfoWorld.com. For the latest business technology news, follow InfoWorld.com on Twitter.

IT Jobs IT Management IT Strategy Outsourcing Information Technology Careers

Source URL (retrieved on *2012-11-27 08:53AM*): http://www.infoworld.com/t/outsourcing/7-outsourcing-nightmares-and-how-avoid-them-206974