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Onshore/Nearshore Services Thrive In The Age Of The Customer

Selecting The Right Partner For Your Company's Digital Transformation

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Executive Summary

In order to meet the demands of today's digitally empowered customers, enterprises must transform into thoroughly digital businesses by deploying new tools and systems to align with opportunities created by digital technologies. Digital businesses continuously exploit these technologies to both create new sources of value for customers and increase operational agility in the service of customers. This digital transformation requires organizations to take an innovative approach, pursuing greenfield web-oriented and mobile application development, building a customer engagement strategy, leveraging big data and data integration, and transforming the organization to optimize efficiencies through Agile transformation and business process management.

The need to produce innovation in business models in the face of digital disruption is driving IT investments. Yet budgets are not increasing, forcing IT organizations to do more with less. As a result, they are making increased use of external resources, including third-party project services.

Companies are turning to outside providers to improve the customer experience (42%), improve product quality (41%), accelerate time-to-market (37%), and transform business processes (36%).

Awareness of the differentiated value proposition for onshore services firms is growing among customers, who increasingly choose that option over offshore alternatives for higher-quality work in key selected domains. This is part of a broader reconsideration of the role of offshore outsourcing in the age of the customer.[1]

In January 2016, CapTech commissioned Forrester Consulting to evaluate enterprise use of onshore/nearshore and offshore third-party services for projects and solutions supporting digital transformation. To further explore this trend, Forrester developed a hypothesis that managing offshore services engagements is difficult, with staffing inexperience, poor engineering, and communications issues leading to a higher probability of project failure and high post-live costs. IT decision-makers are not armed with the information needed to give finance and procurement decision-makers a complete picture. Onshore services, grounded in an Agile design and good architecture, can increase the likelihood of project success and lower total cost.

In conducting an in-depth survey with 300 US-based IT and business directors and executives responsible for decisions related to third-party professional services providers, Forrester found that enterprises are turning to onshore or nearshore services providers for their digital transformation projects, finding them to be a better fit than offshore for these types of engagements.

KEY FINDINGS

Forrester's study yielded four key findings:

- **Third-party services providers play a key role in the age of the customer.** As companies align their strategies around improving customer experiences and interactions, they are turning to third-party providers for help. Roughly half of enterprises are turning to outside partners for help with customer engagement, application development, data and analytics, or organizational transformation projects to an equal degree or greater extent than in-house resources. This reliance on third-party services will grow over the coming year, as enterprises increase both the number of projects they pursue using external services firms as well as the number of services companies they engage with to do so.
- **Enterprises will increasingly look to partner with onshore or nearshore providers.** Seventy-five percent of enterprises use onshore or nearshore third-party services, either solely or in combination with offshore providers. Companies will be shifting their sourcing strategy to focus even more on onshore over the next 12 months, with nearly two-thirds predicting they will increase the percentage of onshore providers hired for digital transformation projects.

Sixty-three percent of US enterprises will hire a greater percentage of onshore third-party providers over the next 12 months.

- **Onshore and nearshore providers are ideal partners for digital transformation projects.** While offshore providers are suitable for certain projects, survey respondents had a clear preference for digital transformation projects. Most survey respondents identified onshore and nearshore providers as best suited to handle customer engagement, organizational transformation, application development, and data and analytics projects.

› **Offshore project quality can fall short.** Nearly two-thirds of respondents said that overall project quality is higher using onshore or nearshore firms versus a mere 1% of respondents who believe quality is higher using offshore firms. In fact, two-thirds of those using offshore services — either as their primary sourcing method or in combination with onshore — have brought previously completed work back onshore due to a poor project experience.

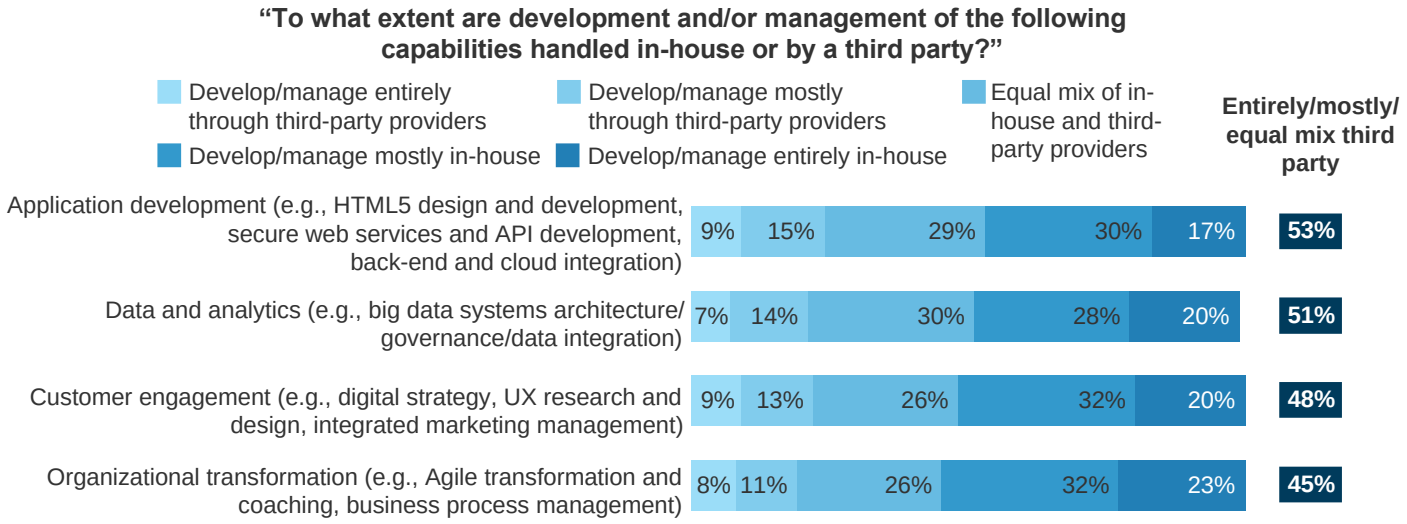
Third-Party Services Play A Critical Role In Digital Transformation

In the age of the customer, businesses must evolve or risk becoming obsolete. In recent years, digital upstarts have disrupted entire industries with new technology-driven strategies, leaving less-agile companies increasingly at a competitive disadvantage. But this reinvention is not about controlling costs, which has been the instinctual response in the past. Rather, it is about the ability to attract and retain customers and ultimately increase revenues. According to a 2015 Forrester survey, improving the customer experience is a high or critical priority for 73% of US enterprise organizations (defined as 1,000 or more employees).[2] This calls for a different approach, posing significant challenges for companies that have focused on cost savings above all else in the past.

As companies shift their focus to improving the customer experience, third-party services providers are playing a key role in providing the right level of efficiency, flexibility, quality, and innovation to help businesses meet customers' needs and expectations. In order to transform their businesses, enterprises are:

- **Tapping third-party providers for digital transformation projects.** Transforming the systems, people, and processes to enable a customer-centric business is no easy task. Our survey found that about half of enterprises are turning to outside partners for help with customer engagement (48%), application development (53%), data and analytics (51%), or organizational transformation (45%) projects to an equal or greater extent than they are turning to in-house resources (see Figure 1).
- **Filling the gaps.** Companies recognize that in order to evolve to better win, serve, and retain customers, they need to augment their internal resources with third-party services. Respondents reported turning to outside providers to improve the customer experience (42%), improve product quality (41%), accelerate time-to-market (37%), and transform business processes (36%).
- **Turning up the volume.** The coming year will see an increase in use of third-party services — both in the number of projects and the number of providers used. Seventy-five percent of survey respondents anticipate there will be an increase in the number of projects developed and/or managed by third-party providers, while 70% predict they will expand the number of partners they

FIGURE 1
In-House Versus Third Party



Base: 300 IT and business professionals at US enterprises with 1,000 or more employees responsible for decisions related to third-party services providers (percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of CapTech, February 2016

work with. The most notable uptick will be in application development, with respondents anticipating significant increases in both the number of projects (44%) and number of providers used (36%).

Onshore/Nearshore: The Best Partner For Digital Transformation Projects

Buyers of outsourced services have long emphasized cost above virtually all other considerations in partner selection. In the not-so-distant past, global sourcing decision-makers operated under the assumption that due to cost pressures and other factors, it was a foregone conclusion that increased use of offshore services was inevitable. In the age of the customer, the mindset has shifted — companies are no longer assuming that they will move more and more work offshore. Rather, they are giving thoughtful consideration to the type of work that really belongs there. This does not mean they are abandoning use of offshore resources — far from it. But customers have begun to exhibit a strong preference for conducting key digital transformation projects closer to home.

The increasing importance of systems of engagement — coupled with the difficulty of working on Agile development in an offshore context — has given rise to a growing interest in onshore and nearshore sourcing alternatives.[3] Even offshore firms themselves have been beefing up their onshore resources to help address emerging customer needs. Our survey found that 75% of enterprises use onshore or nearshore third-party services — either solely (44%) or in combination with offshore providers (31%) — while 25% typically use offshore services.

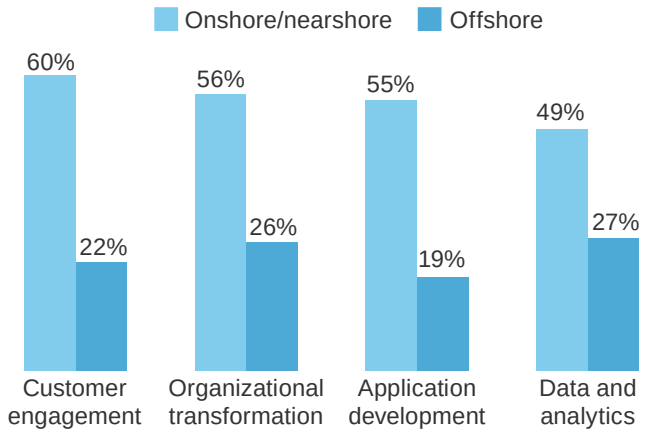
Over the coming year, companies will be shifting their sourcing strategy to focus even more on onshore, with nearly three-quarters predicting they will hire a slightly (39%) or significantly (24%) greater percentage of onshore providers. Notably, the greatest shift will be among those who typically use offshore services — 43% will be significantly increasing their use of onshore partners.

The IT and business decision-makers we surveyed had a clear sourcing preference for digital transformation projects. According to respondents, customer engagement (60%), organizational transformation (56%), application development (55%), and data and analytics (49%) projects are best suited for onshore or nearshore third-party services providers, with offshore selected by no greater than 27% of respondents (see Figure 2).

FIGURE 2

Digital Transformation Projects Are Best Suited For Onshore/Nearshore Services

"Based on your experiences, would the following projects be better suited to be completed by an onshore/nearshore third-party professional services providers or an offshore provider?"



Base: 300 IT and business professionals at US enterprises with 1,000 or more employees responsible for decisions related to third-party services providers

("no opinion/depends on the project details" and "don't know" answers not shown)

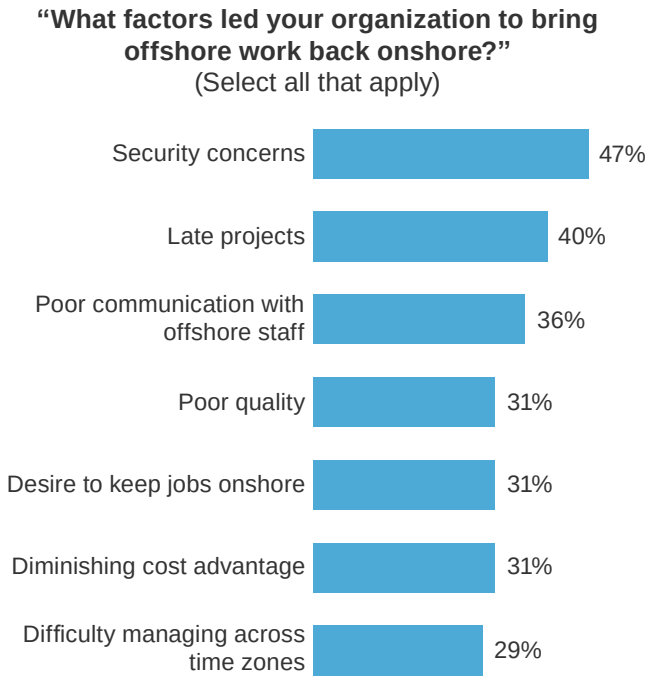
Source: A commissioned study conducted by Forrester Consulting on behalf of CapTech, February 2016

Why is there a gap? According to survey respondents, offshore providers are falling short:

- **Offshore project quality isn't always up to snuff.** When asked to rate the quality of onshore/nearshore projects against offshore projects, 63% of respondents indicated that projects handled by onshore/nearshore third-party partners were of better quality than offshore. Just one-third felt there was no difference, and a mere 1% felt that onshore/nearshore projects were of lower quality than offshore projects.
- **Companies are moving offshore work back onshore due to poor project experience.** Given the perception that onshore/nearshore services providers provide better quality, it's not surprising that 65% of those using offshore services — either primarily or in combination with onshore services — have shifted work previously completed offshore to an onshore provider. Nearly half cited security concerns as the main reason, but late projects, poor communication, poor quality, and diminishing cost advantage also factored into the decision to bring offshore work back onshore (see Figure 3).

FIGURE 3

Reasons For Bringing Offshore Work Back Onshore



Base: 108 IT and business professionals at US enterprises with 1,000 or more employees using primarily offshore or a mix of offshore and onshore third-party partners that have shifted work completed by an offshore third-party provider to an onshore provider

Source: A commissioned study conducted by Forrester Consulting on behalf of CapTech, February 2016

Project Pitfalls Have Far-Reaching Implications

Enterprises engage third-party services providers with the expectation — or at the minimum, the hope — that projects will run smoothly and on time and the final deliverable will be of high quality. When projects hit a bump in the road, however, it can have a significant impact not only on your internal organization but on your customers as well.

PROJECT DELAYS

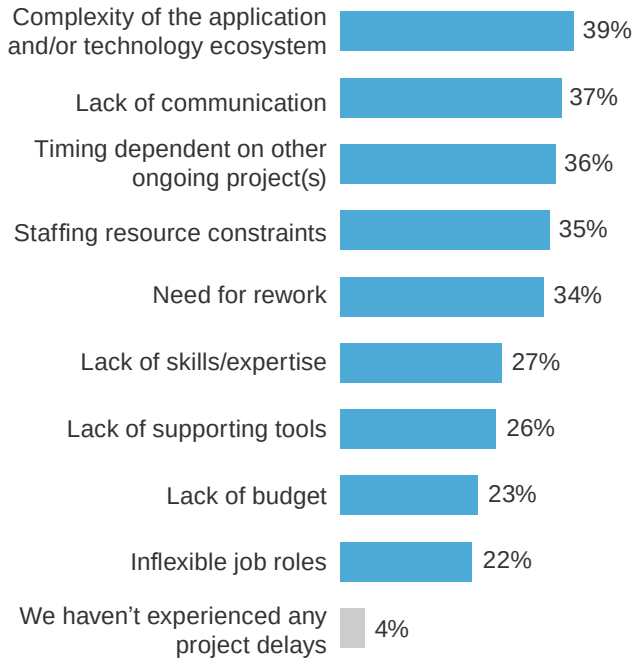
It is not uncommon for third-party projects to have delays — in fact, just 4% of respondents said they *hadn't* experienced delays on their projects. That said, companies should not accept that project delays are standard operating procedure when working with a third-party provider. A provider's inability to navigate complex technologies and deficiencies in staffing and project management can extend timelines (see Figure 4).

But a project delay can affect more than a date on a calendar. If your third-party partner does not adhere to project timelines, it can hurt your bottom line, competitive advantage, and customer relationships:

- **Financial impact.** When considering the cost implications of project delays, the picture is more complex than just those expenses directly tied to the project budget. While 44% of IT and business decision-makers cited additional costs, they also pointed to lost revenues or profits (38%), higher overall total cost of ownership (TCO) (28%), and lower average purchase volume (21%) as fallouts from project delays.
- **Competitive impact.** If your third-party partner misses key delivery dates, it can put you a step behind your competitors. Two-fifths of respondents experienced a delay in time-to-market, and 26% missed the optimal window for associated promotions and marketing efforts when projects slipped past original delivery dates. Adding insult to injury, some companies suffered a loss of market share (25%) and customers to direct competitors (23%) as a result of project delays.

FIGURE 4
Partner Deficiencies Cause Project Delays

"Based on your experience, what are the most common causes for project delays in third-party projects?"
(Select all that apply)



Base: 300 IT and business professionals at US enterprises with 1,000 or more employees responsible for decisions related to third-party services providers

Source: A commissioned study conducted by Forrester Consulting on behalf of CapTech, February 2016

- **Customer impact.** The impact of project delays trickles down to the customer as well. Whether the deliverable for a digital transformation project is directly customer-facing or is improving an internal customer-related process, if a project delay affects the way your company interacts with your customers or vice versa, it can negatively affect customer satisfaction and customer experience (cited by 34% and 31% of respondents, respectively).

PROJECT REWORK

As noted in Figure 4, 34% of survey respondents attributed project delays to the need for rework. Rework is not always the fault of the third-party provider — if there is a client-specified change in requirements midway through a project, it can necessitate re-architecting deliverables. Often, however, the need for rework is the result of insufficient performance or subpar quality. Forty-nine percent of the IT and business decision-makers surveyed said their projects needed rework due to inadequate system performance, 43% had projects where the deliverable features did not fit the design, and 34% reported that the defect density was too high.

As with project delays, rework has cost and competitive implications — including additional costs, loss of revenue or profit, and delay in time-to-market. But rework can also have a significant impact on internal and external resources and the success of the project as a whole (see Figure 5):

FIGURE 5
The Impact Of Rework

"When a third-party project needs rework, what impact does it have on your organization and/or its customers?"
(Select all that apply)

Base: 282 IT and business employees responsible for decisions related to third-party professional services providers at US enterprises and have required rework on third-party projects

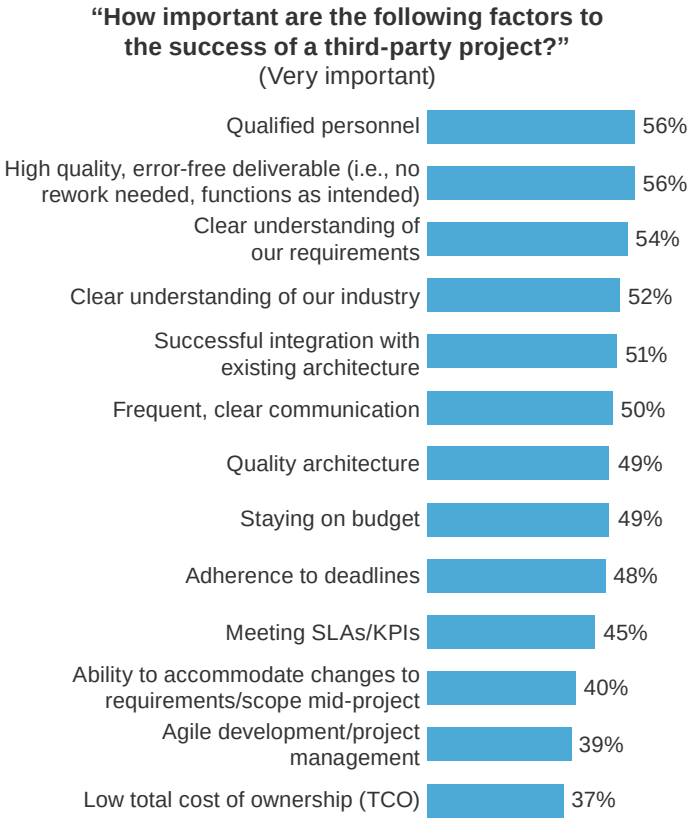
Source: A commissioned study conducted by Forrester Consulting on behalf of CapTech, February 2016

- **Resource impact.** When a project isn't delivered up to spec, organizations need to come up with a Plan B. When Plan B involves pulling internal staff off of other projects in order to fix the work (as cited by 37% of respondents), overall productivity can suffer. Forty percent of those surveyed reported a loss of productivity as a result of rework. For others, Plan B may involve bringing in another third-party partner to do the rework (27%). This approach means essentially starting from scratch — finding budget, establishing project timelines, defining requirements, and setting SLAs.
- **Impact on project success.** If there is no Plan B, or if deficiencies aren't detected, organizations can find themselves heading down a path to project failure. Twenty-nine percent of those surveyed did not catch errors in time and deployed defective projects; 26% saw their project completely collapse.

THE TCO IMPACT

TCO is one of many metrics organizations use to measure the success of third-party projects, but few are focusing on TCO as they should: Too many companies limit their view of TCO to the tangibles — initial cost, adherence to budget, the impact on revenues and profits. A holistic view of TCO also takes intangible factors into account, like time-to-market, productivity, customer satisfaction, flexibility, and risk. These factors are increasingly significant when the primary measures of success shift to increased revenues and better customer experience, as opposed to cutting costs. Choosing the right third-party partner for your digital transformation projects can help you not only avoid project pitfalls but also improve your overall TCO.

FIGURE 6
Ensure Key Competencies Are In Place



Base: 300 IT and business employees responsible for decisions related to third-party professional services providers at US enterprises

Source: A commissioned study conducted by Forrester Consulting on behalf of CapTech, February 2016

Setting The Stage For A Successful Third-Party Engagement

The type of third-party provider you choose can improve your prospects for success, but how you engage with that provider can literally make or break your digital transformation project. In order to set your project up for success, you need to validate key capabilities in potential partners and manage directly to those capabilities (see Figure 6). When you are evaluating a third-party supplier, here are some things to keep mind:

- **Expertise.** Do not assume that just because a third-party provider offers a particular service that it has the expertise that maps to your specific needs — no two projects are alike. A good partner should not only have qualified personnel with the skills needed to execute your digital transformation project, but it also needs to have experience in your industry and an awareness of how that may affect the design and execution of the project. Further, project success is contingent upon your provider having a clear understanding of requirements upfront — without it, you run the risk of encountering project delays because rework is needed to fix errors.

- **Technical capabilities.** One of the primary goals of any project is to get a high-quality, error-free deliverable. Ensure that a prospective partner has a track record for high-quality architecture as well as QA checks in place throughout the project. Going hand in hand with high-quality architecture is making sure the final deliverable will integrate with your infrastructure. If the final product doesn't work with your current environment, you could find yourself back at square one. Make sure potential partners are able to outline how the deliverable will integrate with your existing systems and identify any potential integration issues upfront.

- **Project management.** Smooth project delivery hinges greatly on day-to-day interactions with your provider. Lack of communication can lead to a host of issues, including the issues with the deliverable and project delays. Have suppliers build regular calls or emails into the project plan to ensure you are kept up to date on the progress of the project and can address any issues that may arise in a timely manner. Regular communications can also aid in managing timelines and keeping your project on track. When issues do arise and you need to make changes to requirements or the project scope, it's important that your partner has the capabilities in place to quickly adapt. Suppliers that use an Agile development methodology are continuously evaluating every aspect of a project — including requirements and design — throughout development. Iterative work cycles, or sprints, give teams the opportunity to make adjustments over the life of the project. This approach can not only speed time-to-market but also result in a lower total cost.

As organizations transform their businesses to better win, serve, and retain customers, they are increasingly turning to third-party services providers to augment their internal resources. While offshore services are appropriate for certain engagements, onshore and nearshore services providers are the optimal partners for digital transformation projects. Better project quality — with the benefit of proximity — has spurred a growing interest in onshore and nearshore services. With 73% of IT and business decision-makers surveyed predicting they'll hire a greater percentage of onshore partners over the next 12 months, these services providers are poised to play an even greater role in ushering companies through the age of the customer.

Key Recommendations

With the benefit of broader experience and sophistication, customers are now distinguishing the value propositions of offshore and onshore services alternatives and employing them for different purposes. While both retain significant value in the eye of customers, they are beginning to view the onshore alternative as inherently better suited to the needs of digital transformation projects, including customer-facing systems and solutions that involve organizational transformation. Forrester's in-depth survey of business and IT executives yielded the following recommendations:

- **Consider local resources as mandatory for digital transformation projects.** The likelihood of achieving innovation in any services engagement is inherently difficult to predict. As a result, customers should maintain a portfolio of alternatives drawn from a variety of supplier types. But for digital transformation, onshore/nearshore capability is a must — whether from purely onshore/nearshore firms or global firms with onshore/nearshore capability — to counter communication and quality issues associated with geographic distance.
- **Look beyond initial cost when considering overall project TCO.** Many customers have pursued offshore-centric strategies uncritically, using a lower billing rate as their primary criteria for selection. But this is not always the surest approach to success. Customers should also weigh technical reputation, ability to integrate with existing applications, speed of implementation, and vertical industry expertise. Quality of the deliverable is an important element of TCO, lest the need for rework increases costs or results in unnecessary delays.
- **Make the link between key project success factors and good outcomes explicit in project planning.** It should come as no surprise that key success factors, such as availability of key personnel and a clear understanding of requirements, lead to good project outcomes. Factors including complexity, lack of communication, and synchronization with other projects can also be constraints and limit project success. Make the need to achieve these objectives explicit in project governance and partner selection.
- **Consider offshore capabilities in context.** Offshore-centric firms still have their place, especially as providers of application support activities and infrastructure management. Their revenues are still growing, and they are playing a growing role in digital services. While no wholesale repatriation is yet evident, customers of offshore firms have insourced key roles previously outsourced in recognition of how critical those roles can be in ensuring project success. Consider offshore capabilities taking this balanced approach.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 300 US-based IT and business directors and executives responsible for decisions related to third-party professional services providers to evaluate the use of onshore/nearshore and offshore third-party services providers for digital transformation projects. Questions provided to the participants asked about their experiences and preferences in using third-party providers for customer engagement, application development, data and analytics, and organizational transformation projects. Respondents were offered a small incentive as a thank you for time spent on the survey. The study was fielded in February 2016.

Appendix B: Supplemental Material

RELATED FORRESTER RESEARCH

"Brief: Sourcing Behavior Secures Operational Excellence In The Age Of The Customer," Forrester Research, Inc., October 14, 2015

"US Tech Market Outlook For 2015 And 2016: The BT Agenda Powers Steady Expansion," Forrester Research, Inc., June 29, 2015

"Navigating Domestic Sourcing Alternatives — A New Requirement In A Digital Age," Forrester Research, Inc., June 3, 2014

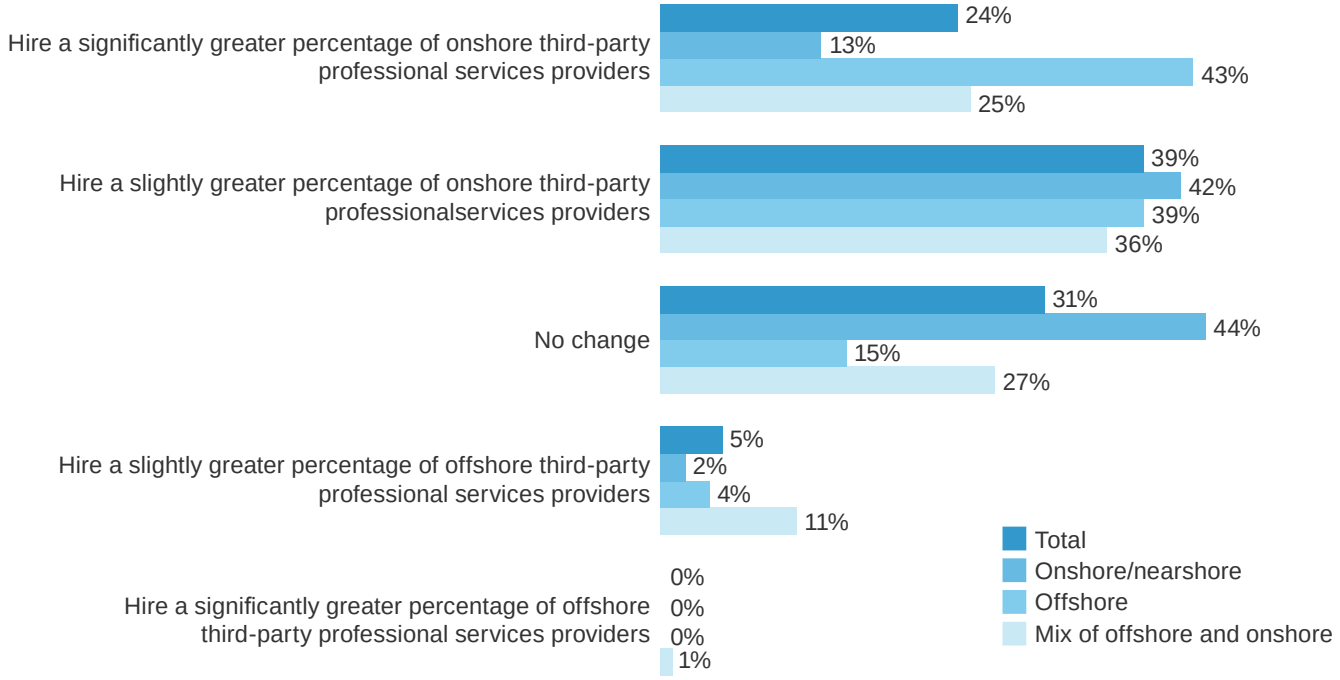
"Consider Domestic Sourcing Alternatives For Systems Of Engagement," Forrester Research, Inc., May 16, 2014

"Defining The Online Marketing Suite," Forrester Research, Inc., October 17, 2007

Appendix C: Additional Data And Exhibits

FIGURE 7
Use Of Onshore Services Is Poised To Grow

"Compared with your current strategy, how do you anticipate your mix of onshore and offshore third-party professional services providers to change in the next 12 months, if at all?"
(By sourcing strategy)



Base: 300 IT and business professionals at US enterprises with 1,000 or more employees responsible for decisions related to third-party services providers (percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of CapTech, February 2016

TABLE 1
Check Your Provider For Key Competencies

	Success Factors	Questions To Ask
Expertise	Qualified personnel	Does the supplier have access to sufficient staff resources with the skills required?
	Clear understanding of requirements	Does the supplier have the ability to determine requirements using effective time-boxing techniques?
	Clear understanding of our industry	How much experience does the supplier have in my industry?
Technical capabilities	High-quality,error-free deliverable	What approach does the supplier take in ensuring high-quality, error-free deliverables?
	Successful integration with existing architecture	How does the supplier ensure that deliverables are well integrated with existing systems?
	Quality architecture	Does the supplier have a track record for providing high-quality architecture?
Project management	Frequent, clear communication	Will the supplier build regular check-ins into the project plan?
	Adherence to deadlines	What leverage do I have if the supplier fails to meet its deadlines?
	Meets SLAs/KPIs	How well does the supplier perform in meeting service-level targets and KPIs?
	Agile development/project management	What are the supplier's credentials in Agile development and DevOps?
	Ability to accommodate changes to requirements/scope mid-project	What mechanisms exist for change management?

Source: A commissioned study conducted by Forrester Consulting on behalf of CapTech, February 2016

Appendix D: Endnotes

[1] In 2011, Forrester first made the claim that the world has entered the age of the customer. Before then, companies succeeded with manufacturing strength, distribution prowess, or information mastery, but the relentless focus on customers is the hallmark of a new era. The age of the customer is a 20-year business cycle in which the most successful enterprises will reinvent themselves to systematically understand and serve increasingly powerful customers.

[2] Source: Business Technographics Global Priorities And Journey Survey, 2015, Forrester Research, Inc.

[3] Systems of engagement empower customers, partners, and employees with context-rich apps and smart products to help them decide and act immediately in their moments of need.