

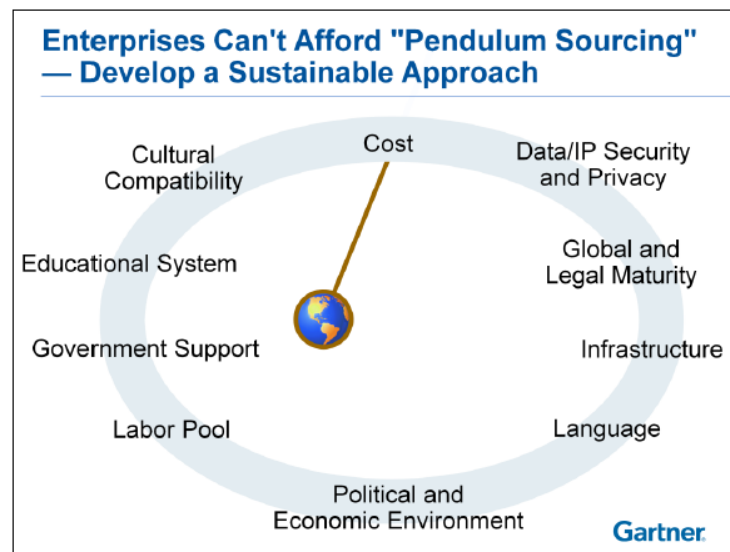
OUTSOURCING ROI MODEL



Outsourcing ROI Model

Introduction

As we look across the landscape of outsourcing we realize that we are into the third cycle of this business practice. In the 90's this model consisted of mainly "onsite" consultants with specific technical & functional skills working at the customer's location alongside full time company resources. As we approached the late 90's & entered the 21st century, the looming Y2k followed by economic challenges lead to companies looking farther afield for technical & functional resources driven by cost and enabled by the "earth becoming flat" in the words of Tom Friedman . We then witnessed the "herd mentality" as companies drove thousands of such resources from developing economies, mainly India, and the associated trivialization of expertise, location & contextual understanding



As we have entered the second decade of the 21st century there is a realization that "one size does not fit all". IT professionals have to balance their delivery & support resources based on business & technical considerations & their applications portfolios as they seek to manage price, quality & risk. Consider that companies seek to continue to invest & leverage all manner of technologies in order to grow revenue, increase profitability, drive differentiation & support business innovation in uncertain economic times.

Companies with complex outsourcing needs are realizing that in order to support diverse technologies a combination of delivery models can be required, and that not all delivery models are a good fit for certain technologies and requirements. Global delivery models contain opportunity (principally around scale and cost) however there is also associated risk. Traditional on site models are suffering from the demand & supply issues driving up rates & turnover. Clients are becoming more demanding with their services partners pressing for greater creativity & innovation. For example in an interview with CIO's Stephanie Overby earlier this year, Andrew Wasser (CMU) stated that "We see continued frustration from clients that these people are really good order takers, but they are not problem solvers", when asked what the biggest complaint he heard from outsourcing customers was.

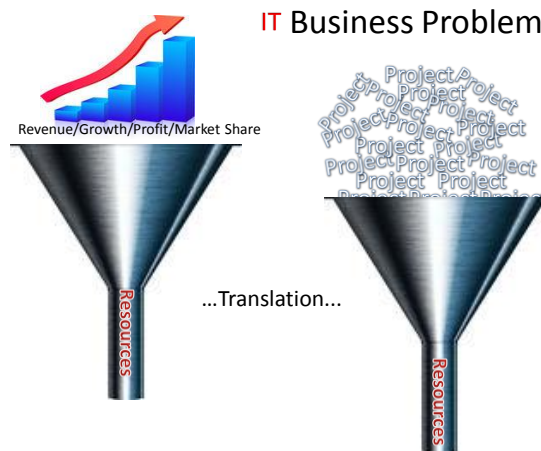


Eagle Creek’s ROI Model is designed & built to help customers realize the economic potential presented by hybrid, and onshore (yet offsite) resource models – in part to answer the question posed by Fersht noted above. Most companies have limited expertise (versus experience) managing a technical resource pool located at a project center. As a result, these same companies rarely maximize the potential financial benefits. To this, Eagle Creek is committed to elevating the proficiency of our client’s staff in the use of project centers, and therefore to help them achieve the fiscal promise of this model.

“In part, it is a “control issue” for some Indian providers, says Fersht. In addition, hiring American workers is a more expensive proposition. “What U.S. enterprises should be telling Indian vendors is, “We want you to train us to manage you,”” says Fersht. “But that’s deemed too expensive and too time consuming [by the provider].”

*Hfs Research founder
Phil Fersht – CIO
Magazine Sep 24
2012.—*

The ROI Process:



Assumptions

Eagle Creek makes basic assumptions prior to formulating and during the ROI model. These include that the client is comfortable with outsourcing in principle, and that a company’s outsourcing requirements will continually evolve. We also assume that companies will continue to invest in their existing technologies and, allowing for broader economics, will continue to invest in newer technologies which present compulsion in some form to the business. Companies have reached a level of understanding on which types of resource delivery models fit in certain areas of their business.....and which do not.

Cost of Resources

Eagle Creek drafts a multiyear cost calculation based on client specifics and client objectives. Current and projected resource costs are based on:

- Discovery (and validation) around client specifics within their own outsourcing models, and outsourcing strategies
- Combined with our own experience of the services industry
- And historical and contemporary cycles that impact the market for technical resources.



Eagle Creek can then present projections for varieties of these models, the purpose being to establish a base line to estimate the effectiveness of the Eagle Creek Technology Center model relative to the client’s existing staffing model, and/or previously perceived options.

	Year 0	Year 1	Year 2	Year 3	Year 4
Projected Average Salary	\$ 90,000	\$ 108,000	\$ 120,960	\$ 127,008	\$ 133,358
Projected Salary Increase (%)		20%	12%	5%	5%
Benefits + Overhead (%)	25%	25%	27%	30%	35%
Benefits + Overhead (\$)	\$ 22,500	\$ 27,000	\$ 32,659	\$ 38,102	\$ 46,675
Recruitment Fees (%)	13%	13%	13%	13%	13%
Recruitment Fees (\$)	\$ 11,700	\$ 14,040	\$ 15,725	\$ 16,511	\$ 17,337
Recruitment Fees Amortization (Yr)	2.5	2.0	3.0	3.0	3.0
Recruitment Fees / Employee / Yr (\$)	\$ 4,680	\$ 7,020	\$ 5,242	\$ 5,504	\$ 5,779
Employee Gross Cost (\$)	\$ 117,180	\$ 142,020	\$ 158,861	\$ 170,614	\$ 185,813
Workable Hours	2,000	2,000	2,000	2,000	2,000
Projected Employee Cost Per Hour	\$ 58.59	\$ 71.01	\$ 79.43	\$ 85.31	\$ 92.91
Year-Over-Year Cost Increase (%)		21%	12%	7%	9%

Having gathered client specific information, and combined this with industry data, Eagle Creek can then produce weighted average cost across all technical resources across all pertinent delivery models.

	Year 0	Year 1	Year 2	Year 3	Year 4
Projected Increase In Resource Base (%)		20%	20%	20%	20%
Total Projected Resource Base	300	360	432	518	622
Employees (%)	70%	60%	60%	55%	55%
Contractors (%)	30%	40%	40%	45%	45%
Projected Employee Hourly Cost (\$)	\$ 58.59	\$ 71.01	\$ 79.43	\$ 85.31	\$ 92.91
Projected Contractor Hourly Cost (\$)	\$ 110.00	\$ 126.50	\$ 139.15	\$ 150.28	\$ 157.80
Weighted Average Hourly Resource Cost (\$)	\$ 74.01	\$ 93.21	\$ 103.32	\$ 114.55	\$ 122.11
Weighted Average Resource Cost Increase (%)		26%	11%	11%	7%



Eagle Creek's Technology Center Model

Managed Solutions & Constraints

- Increase number of technical resources
- Increase velocity of development
- Increase overall quality
- BUT do it with a lower overall cost structure

Since 2009 every customer has adopted this

Eagle Creek's Technology Center model is based on certain customer assumptions.

- Customers will exert continued downward pressure on price or cost.
- Customers will consistently require the project center to engage in additional responsibilities once success has been achieved.
- Customers do not want to change project centers as they have incurred a sunk cost.
- Customers want to preserve their knowledge base within the project center to further reduce its cost through increased efficiencies and effectiveness.

Each center has its own price point because of experience, skill-sets, and geographical location. Eagle Creek's goal is to always provide the most cost effective rate that will achieve sustainable success.

- **Technical Resource Allocation**

These projections are allocated for all the customer resources (employees, contractors – onsite, contractors – offsite, existing project center resources – probably offshore, and projects centers – onshore).

It is usually assumed that Employee Headcount has limited opportunities for growth (based on cost & availability). Projected Contractor Head Count, being the most expensive technical resources, is usually targeted first for re-deployment. Furthermore it is assumed that there will always be some role for contract resources.

- **Eagle Creek Technology Center Pricing**

Allocation of resources to project centers based on requirements of competencies, seniority, availability, and specialization. Technology Center resources will adopt more senior responsibilities over time.



• **Projected Technology Center Savings**

Project Center Model - 2	Year 0	Year 1	Year 2	Year 3	Year 4
Projected Employee Head Count	210	216	238	207	187
Projected Contractor Head Count	90	54	43	26	31
Resources Allocated to Project Center		90	151	285	404
Total Resources	300	360	432	518	622
Projected Employee Hourly Cost (\$)	\$ 58.59	\$ 71.01	\$ 79.43	\$ 85.31	\$ 92.91
Projected Contractor Hourly Cost (\$)	\$ 110.00	\$ 126.50	\$ 139.15	\$ 150.28	\$ 157.80
Projected Project Center Hourly Cost (\$)	\$ -	\$ 58.00	\$ 57.00	\$ 56.46	\$ 56.21
Projected Weighted Average Hourly Cost (\$)	\$ 74.01	\$ 76.08	\$ 77.55	\$ 72.69	\$ 72.30
InComm Weighted Average Hourly Cost (\$)	\$ 74.01	\$ 94.59	\$ 104.19	\$ 111.78	\$ 119.06
Weighted Average Hourly Savings (\$)	\$ -	\$ 18.51	\$ 26.63	\$ 39.09	\$ 46.76
Project Center to InComm Weighted Average (\$)	\$ -	\$ 36.59	\$ 47.19	\$ 55.32	\$ 62.85
Savings to Weighted Average (%)		39%	45%	49%	53%
Total Projected Annual Savings (\$)	\$ -	\$ 13,330,000	\$ 23,012,273	\$ 40,527,850	\$ 58,183,117

Projections are based over a multi- year pre-agreed period

• **Projected Technology Center Staffing Model**

This is then proposed based on all the previous assumptions, validated data points, skills, competencies and availabilities.

Risk Management & Conclusion

Contemporary thinking reflects the view that it is not so much whether outsourcing strategies include the use of Technology Centers (foreign or U.S. based), but how the use of them will change. Their use has become a necessary (& mandatory) component. U.S. based project centers deliver inherent, unique benefits that become even more powerful as I.T. continues to integrate into the business:

- Lower cost resources when compared to onsite resources.
- In-country knowledge of business practices.
- Flexible and scalable resourcing to meet the changing demands of the business

Companies have to build an outsourcing strategy with an eye on sustainability which in part is driven by the continued availability of talent. Despite politically correct claims to the contrary, the U.S. remains decisively in the lead position for this:

“Companies have to re-assess current global delivery choices – develop a strong understanding of the optimal location for globally sourced activities – and don’t forget this includes lower cost onshore and near shore alternatives.”

Gartner Sep 9th 2012



“The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking.”

— Albert Einstein

Talent Availability Will Transcend "Cost of Labor" Considerations

Academic Ranking of World Universities in Engineering/Technology and Computer Sciences	
Universities in the Top 100	Countries
47	USA
7	UK
5	China, Japan
4	Canada, Hong Kong, Taiwan
3	Australia, South Korea
2	Belgium, India, Israel, Netherlands, Singapore, Sweden, Switzerland
1	Denmark, France, Germany, Italy

Source — ARWU.org

Gartner

Maximizing this financial (and management development) opportunity requires commitment and investment from both sides. Eagle Creek’s ROI model and associated management process is our demonstration of our understanding of how companies can achieve this, and our willingness to take a proactive role in achievement of our client’s objective.

About Eagle Creek Software Services

Eagle Creek Software Services provides consulting and technical expertise to the Enterprise. The firm focuses on CRM, Information Management (BI) and Applications Development, helping clients increase quality and efficiencies while managing price and risk in software development, deployment, & support.



With over 300 consultants, Eagle Creek Software Services is the largest U.S. based onshore software services company. Eagle Creek is uniquely positioned by combining on site expertise with U.S.-based Technology Centers. The onshore delivery model allows Eagle Creek to achieve consistency, scalability and sustainability in the provisioning of technical and consulting capabilities.

For more information on Eagle Creek visit, <http://www.eaglecrk.com/>