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Build-Operate-Transfer Business Need Outsourcing – A Whitepaper



Executive Summary

A changing global marketplace has caused US companies to look at offshore outsourcing as a viable business solution to corporate needs. Benefits such as cost-savings, risk avoidance, and resource flexibility and expertise make outsourcing an attractive option that many companies are already leveraging in their business today.

This paper examines four key relationships that companies can establish with offshore vendors. These are:

- Tactical Outsourcing – Project based
- Offshore Development Centers (ODC) – Dedicated team of resources
- Build-Operate-Transfer (B-O-T) – Eventual ODC ownership
- Do-It-Yourself ODC – Establish company owned development center

While each of these relationships carries inherent advantages and limitations, companies who are planning within a three to five year window, could strongly benefit from an ODC or B-O-T relationship.

Based on the needs of your business, and time horizon on which planning takes place, each of the four relationships can apply. For companies looking to establish longer-term solutions or flexible pools of resources, and ODC set-up can provide a cost-effective and predictable solution.

The key difference between an ODC and a B-O-T relationship is the future transfer of ownership of the ODC operation. With B-O-T, the offshore vendor will establish the team, infrastructure, and operations, and then transfer the entire set-up back to the client company who will own, operate and integrate the ODC into their corporate culture.

B-O-T means offshore vendors will provide all of the logistical planning needed to establish a global presence; including:

- Office Space / Facilities
- Corporate registration / Legal Creation
- Hiring and Training of resources
- Communications infrastructure
- Project methodologies
- Knowledge capture planning
- Coordination between geographies

Offshore vendors can provide the local and cultural knowledge needed to establish a global subsidiary on behalf of client companies. A B-O-T relationship allows the client company to focus on their core competencies, while the offshore vendor provides all of the logistical planning needed to establish the offshore ODC. At the end of a period time, or as defined metrics are achieved, ownership and operation of the ODC is then transferred to the company. Once this transfer takes place, the company is able to streamline the operation into its own processes, and enjoy the benefits of a trained, experienced team, ready to engage.

Companies who decide to adopt the B-O-T approach should expect to benefit in the following ways:

- Short-term cost efficiencies – as the vendor bares the start-up costs
- Short-term risk avoidance – as the vendor bares initial risk
- The highest controls on quality deliverables – the client defines metrics for success
- Effective ability for knowledge transfer and capturing IP for future use

For many new companies considering offshore outsourcing of business processes, a key concern is the lack of control over intellectual property. As the marketplace continues to become more competitive, maintaining IP and protecting proprietary assets will continue to rise in importance. For these companies, selecting a B-O-T relationship over an ODC scenario will ensure IP is captured and maintained, as the “transfer” of the operation guarantees IP capture and ownership.

Outsourcing Business Needs – Why move offshore?

U.S. companies face growing competitive pressures of speed to market, staffing costs, and scalability, which lead to the consideration of offshore outsourcing of business needs. Many companies, like Microsoft, Oracle, Siebel and others have already moved core business processes to places like Eastern Europe, China and India. According to a recent Diamond Technology Partners report, over 86% of the Global IT Outsourcing study respondents will increase their use of offshore resources over the next 12 months.

As technology and other key business needs are evaluated, the option of moving development and maintenance tasks to offshore resources can be both cost-effective and strategically viable.

Business owners face new realities in the changing global marketplace:

- Resource requirements for executing business needs are continually changing and evolving, making planning a larger challenge.
- Technologies and requirements fluctuate regularly, making training and resource skill development an ongoing activity.
- Release cycles are shrinking – bringing new products quickly to market with the right set of enhancements and features is the key to business success.
- Utilizing a global pool of talent and knowledge limits risk from a single geography staffing plan.

A 2003 Gartner report shows that 75% of companies who become early adopters of technologies will fail. This fact is due largely in part to a lack of skill-sets, but also because of inherent inabilities to change budgeting patterns and risk tolerance within an enterprise. Attracting and retaining resources skilled in new technologies such as Java or .NET is both an expensive and time consuming activity.

Due to these issues, the idea of offshore outsourcing has become more attractive and viable. In addition to the cost-saving benefits that offshore outsourcing can provide, an increasingly important result is the freeing up of internal resources, allowing them to focus on more critical business initiatives. When combined, the potential cost-savings and freeing up of internal resources makes outsourcing business needs an effective option for businesses.

Using outsourcing as a business-enabler has become a leading reason why companies choose to go offshore. With internal bandwidth stretched too thin, and rapidly changing needs stifling innovation, an outsource model can help companies utilize focused resources to enable key business needs.

Before making a decision about shifting business needs offshore, companies will want to consider a number of options for how best to meet their needs. This paper will examine four key relationships companies can establish with offshore providers, and then focus on the B-O-T offering, and how this can be the most effective approach for companies needing support in key areas. Some of these key business needs are:

- Technology development/co-development – Coding, architecture, userinterface design, testing, hosting, and support.
- Quality Assurance – Performance testing, load-testing, compatibility issues, bug-fixing.
- Product Re-engineering – Platform upgrades, code-enhancement
- Product Maintenance and on-going support
- Call Center management, business process outsourcing, defined business need support.
- Manual and Documentation writing – Training guides, support documentation, user manuals

There are many ways US companies can leverage offshore resources while continuing core development or management from the home office. Adding resources and expertise alongside internal employees creates new abilities and opportunities for companies to expand and grow their business.

Four Key Offshore Relationships

While there are many forms a relationship with an offshore provider can take, we have identified four typical ways that companies engage:

Tactical Outsourcing

The use of offshore resources to support or develop business needs on a project-by-project basis. As a business need is identified, utilizing offshore resources or a team provides a high level of flexibility and focus, but does typically contain a higher cost and a knowledge transfer challenge. Some key benefits:

- As you have changing needs for resources, you are able to change your staff to match the skills and numbers you need to meet your business challenge.
- You do not have to bring specific knowledge internally or search for specific skills for each project – instead, your outsourcing partner provides those resources.
- Pricing is typically based on the scope of the project – Time and materials based, or a fixed price per project.
- If the outsourcing partner does not meet your needs, terminating them is not an issue.
- You direct the project in a more typical client/vendor relationship.

Offshore Development Center (ODC)

The key difference between an ODC arrangement and tactical outsourcing is that the resources used will be 100% dedicated to your business for the length of your contract.

With consistent and dedicated resources, this scenario provides more stability, and a reliable environment in which to meet your business needs. With a dedicated resource commitment there are also substantial cost-savings which can be achieved. Some additional benefits:

- Access to a wide-range of expertise and skill sets.
- Dedicated resources to your projects, at a flat-rate based on the level of staffing you need.
- With a commitment to a contract for a fixed number of years, you are able to add and subtract resources to suit your needs as they ebb and flow.
- Minimize hiring effort and risk through selecting a proven ODC vendor who can provide the expertise you need, without you having to incur the costs of a full-time employee (or team of employees).
- Limited management oversight and time needed to get the ODC teams up and running.
- Continuity of business processes and knowledge transfer with a consistent set of resources serving your needs.
- A virtual team of resources standing by to serve your needs as they are identified.

The ODC relationship will require some initial knowledge transfer between your company and the ODC team, and the costs to establish these relationships may be higher than tactical project-based outsourcing. However, over the length of an ODC contract (typically 3-5 years), companies can reduce their infrastructure costs by over 40%, rapidly increase speed to market abilities, and expand the capabilities of the company through dedicated ODC resources.

Build-Operate-Transfer (B-O-T)

The key difference between an ODC relationship and the B-O-T approach is the anticipated future transfer of ownership. While an ODC set-up is an outsourced relationship, a B-O-T scenario starts much like an ODC, but then changes into an “owned subsidiary” of the company. For companies who want to keep core competencies in-house, but wish to leverage the cost-savings of offshore resources, the B-O-T plan may be advantageous. In addition to many of the benefits listed for an ODC, a B-O-T also provides:

- The ability to outsource the logistical planning and set-up of an offshore office and team of employees.
- Create a corporate subsidiary with minimal effort and small up-front investment.
- Long-term outsourcing of core competencies is not the goal, as in time, the company will take over ownership of the employees, the office and the entire operation.
- Local geographical knowledge is leveraged through the outsourcing partner, saving the company time and efficiencies in establishing an offshore subsidiary.
- Once the ownership transfer is conducted, your team of resources is already trained and ready to go.
- You can control the timing and eventual transfer of the resources and infrastructure. Many outsourcing companies will tie eventual transfer to meeting goals and quality metrics.

Some companies may face challenges in promoting the idea of taking business processes offshore and out of the corporate office. The B-O-T model is designed to allow companies to initially leverage outsourcing vendors to establish an offshore team and environment, and in time, assume full control and ownership over the set-up. This scenario allows companies to leverage the value of outsourcing partners, while at the same time have a plan to keep the knowledge and the business operations in house as part of the company.

Offshore providers have local knowledge and relationships that most companies do not have internally. Through using the offshore partner relationships, companies do not have to learn the local intricacies of doing business, hiring, or finding office space.

Instead, the company focuses on their core business, while the offshore partner company oversees the development of the offshore operation, and only transfers ownership back to the company, when the company is ready for it.

Do-It-Yourself ODC

Today there are many companies who establish ODCs on behalf of client companies, however, should a company wish to start a proprietary ODC, that option can be completed. In order to set up an ODC from scratch, a company faces a number of challenges, and may not realize the scaled investment return for many years. While ownership is gained from the beginning, there are many steps to take before an ODC can open for business:

- You must establish an office, including property, infrastructure, telecommunications, and security. Fundamental items like water, trash collection and power must be addressed.
- Purchase and maintain all development equipment, computers, software, and services.
- Find highly skilled staff to work in the offshore ODC.
- Develop a hiring plan and determining where resources will come from, how they will be trained and how new skill sets will be developed.
- Provide maintenance and support to the office infrastructure as well as to company project needs.
- Understand local customs, languages, and cultural nuances for newly hired employees, as well as for internal resources that will interface with the ODC team.

The key benefit to a Do-It-Yourself ODC is the ownership of the office and the resources. Cohesion between the ODC and the corporate office may be easier under a single company ownership, however the costs and the local knowledge involved to establish the ODC, may outweigh the cohesive benefit and the immediate ownership need.

Strategic comparison of each of the four strategies – when is each appropriate?

We have evaluated the four key strategies in how companies can engage with offshore resources. Each approach carries inherent benefits and risks, and to determine which is the correct approach for your company requires a realistic look at your specific business needs.

The first factor to consider is your time horizon. How much time do you have to prepare for the business need you wish to address? Based on the answer to that question, the outsourcing approach may be clear:

- Less than 3 years – Tactical Outsourcing
- More than 3 years – ODC or B-O-T
- Strategic Need – Do-It-Yourself ODC or B-O-T

Time becomes the leading factor in determining approach due to how each relationship is established, and the level of company knowledge that needs to be transferred. For immediate project-based needs, a tactical outsourcing engagement may solve the need, but for longer-term more strategic efforts, the other offerings may be more appropriate.



Below are a list of critical business factors and which of the four outsourcing strategies may best apply to that specific need:



Scalability – You need the ability to quickly add resources or expertise based on projects. A vendor must have an existing offshore infrastructure, access to a talent pool, and a training program in order to meet large needs for resources.

Software Quality – You require critical attention to detail, and need results based on quality metrics. Vendors will often tie performance fees to metrics being achieved. Documentation skills, strong methodology, and a variety of expertise will be required.

Productivity – Timing is tight, resources must deliver, and results must be shown. Vendors can provide productivity metrics to meet your needs, and through the available relationships, the client can maintain control over the workforce delivery goals.

Short-Term Cost Savings – Minimizing short-term capital expenditure is a high priority in delivering the solution you need. Vendors can provide ODC or B-O-T solutions that enable costs to be spread out over a multi-year agreement.

Short-Term Risk Avoidance – The margin for error is small and the need must be addressed in a predictable manner. Through ODC or B-O-T relationships, vendors can provide a greater level of knowledge transfer and the client maintains a larger level of control over the resources to manage any risks of the effort.

Knowledge Retention – It is a key factor that the knowledge gained during a project or effort is retained within the company for future use. Vendors will provide documentation, however tactical projects invariably have knowledge loss as resources change.

Long-Term Intellectual Property Capture – It is critical that the IP created through project work and team process is captured and owned by the company. B-O-T or do it yourself strategies allow companies to maintain the IP and leverage it for future needs.

Long-Term Cost Savings – A key goal is minimizing costs over a longer period of time. Vendors can provide ODC and B-O-T operations at lower costs than tactical responses to needs.

Long-Term Risk Avoidance – You need to be cautious about long term ownership of offshore resources due to market pressures, competitive environment, and macroeconomic issues. Vendors providing tactical options or ODC structures can manage these risks on your behalf.

The Strategic Value of a B-O-T

Tactical outsourcing provides immediate resources for critical business needs. While this relationship is often necessary, strategic planning may also dictate establishing a longer-term team of resources to manage corporate efforts.

B-O-T and ODC relationships are very similar, and in both scenarios, a key relationship is formed between the client company and the offshore vendor. In both approaches, a dedicated delivery center is established on behalf of the client, with resources assigned solely to the client company for use on their strategic needs.

In both offerings, the offshore vendor dedicates highly skilled workers, customized office space, computer equipment, servers, software, and whatever else is needed by the client for their offshore team. Based on company needs, the facility will be a portion of an existing ODC, or a new office may be established. The vendor assumes all of the cost and business responsibility for the resources, the infrastructure, and any local registrations that may be needed.

An operational ODC is a virtual team of resources dedicated to your projects, managed by a local vendor. The teams can typically be established in a short period of time, and the financial commitment is known as a longer-term contract applies to a dedicated ODC. Vendors utilize their resources to staff the client projects, allowing the company flexibility to manage skill sets as needed.

In a B-O-T relationship, the client has the opportunity to assume ownership of the ODC, creating a global subsidiary of the parent company. While the service-provider takes the risk of establishing operations, identifying a talent pool, and navigating geographical customs, the client gains the business solution needed, the financial benefits of ownership, and a global office for operations.

The transfer of operations in the B-O-T model is often times tied to performance metrics or achieving levels of efficiency in meeting company goals. Through the transfer of the operations, an even greater level of integration can occur with company processes, and the full benefits of an offshore ODC can be realized. As internal operations are already in place and functioning, the company has a team of trained employees ready to engage.

The B-O-T model makes sense for companies who want to maintain the internal processes of their core competencies, but also can benefit from establishing an offshore presence to deliver specific services to the company. With an owned offshore subsidiary, companies claim a larger global presence and expand their reach as an organization, while building a single corporate umbrella over the operation.

Geographical Considerations

There are pockets of offshore providers developing in many corners of the world. While India has a mature offshore marketplace, many of the resources and talent pools have been tapped and utilized. In China, a growing market for offshore services is developing, but many governmental restrictions and lack of copyright or IP controls limits the effectiveness of the

region. Eastern Europe is also developing as a knowledge center, with Ukraine offering a new, friendly environment for US companies to enter the marketplace. Many regions and countries will continue to develop offshore programs – the key for the client is to ensure the vendor can utilize the resources and benefits that each region provides, passing on the value to the client.

As the “transfer” step in B-O-T takes place, the company will have a presence in the country they choose to utilize. Evaluating each option, including things like airport access, University proximity, existing talent pools, government regulations, and local customs, may help guide the geographic decision.

Why B-O-T is a Valuable Business Option

Companies typically have specific goals and plans for evaluating offshore development services. With intense business pressures driving the marketplace, companies face larger challenges than ever to meet deadlines, deliver valuable products, and control development timelines. These pressures have led companies to evaluate offshore options and integrate outsourcing as a part of their business strategy. For many companies with predictable requirements and a defined product cycle, B-O-T can be the best option for offshore success. B-O-T delivers the highest level of flexibility, and over a three to five year period, this strategy delivers the best results in cost-savings and increased productivity.

First-time offshore users will be concerned about protecting intellectual property and security, while experienced offshore clients will focus more on vendor capabilities and program management skills. Both of these concerns can be directly addressed through a B-O-T relationship. As a company utilizes offshore resources to assist with core competency efforts, the B-O-T nature ensures that in time, these competencies will be brought back in-house, and owned by the company. A B-O-T can provide the best solution for both IP management and security, as well as following existing company best practices.

Established offshore service providers will employ existing methodologies and processes to each project. While each effort will require a level of customization to meet specific needs, typically projects are governed by matching client needs to best practices. These activities may include:

- Project tracking tools
- Process management frameworks
- Corporate quality needs (Standards, ISO -9001, HIPPA, etc.)
- Risk management
- Configuration and infrastructure management
- Software change and requirements management
- Performance based metrics
- Communication between the parties

While these issues are addressed within the relationship documents, most offshore vendors will understand the key business goals that must be met:

- Adherence to schedules and timelines
- Knowledge transfer and IP capture
- Productivity metrics and expectations

Whether using defined certifications like ISO-9001 or CMM standards, or proprietary methodologies, understanding vendor processes and project development tactics will be a key point in a successful relationship.

Effective program managers are critical to successful outsourcing efforts. These managers will be responsible for planning, monitoring, executing and evaluating your projects as they are developed. In order to avoid unnecessary costs or project delays, selecting a service provider with credible experience and established resources will ensure more reliable results.

B-O-T Benefits

Speed to Market

Companies can benefit from B-O-T relationships with the ability to bring products and enhancements to market faster, and manage business needs on a 24/7 cycle. With a team of resources in a different time zone, development and support can be conducted around the clock, shortening project deliveries and expanding company capabilities. With the additional benefit of utilizing flex resources and skill sets, companies get access to the knowledge they need in a fast, reliable scenario.

Increased Efficiency

While tactical outsourcing projects often require continual review and changing of requirements and budget, a B-O-T provides a more efficient and flexible process. Financial commitments are streamlined and predictable, allowing changes to requirements or project scope to be accommodated without vendor negotiations or haggling. As an ODC becomes a success for company efforts and the transfer of the operation takes place, the company has a trained and efficient organization ready to meet their needs.

Intellectual Property Retention

Many offshore vendors have invested in structured programs and methodologies to protect and enhance IP capture. B-O-T offers companies a new level of confidence in retaining IP and building on experience. As the “O” for Operate phase is in place and functioning, the employees, the physical structure, the processes and all proprietary information transfers to the company, and the B-O-T is now an owned subsidiary of the company – ensuring IP retention and control.

Quality Assurance

Adherence to business processes and methodologies allows offshore providers to evaluate and measure quality of deliverables. Many outsourcing firms have developed their own unique methodologies with built-in quality assurance standards. Whether based upon industry metrics like SEI CMM or ISO -9001 standards, or company defined goals, a B-O-T can ensure quality goals are achieved.

Project Management

An initial service-level-agreement (SLA) will be established between the company and its offshore vendor. This agreement will ensure the company has the control metrics they need and the oversight of projects as defined. B-O-T operations built within, or following existing infrastructures, inherit mature management tactics and employees who are already trained in success project management techniques.

Conclusions

Companies who are evaluating resource and capacity planning for a three to five year window can benefit from the implementation of an ODC or B-O-T relationship. While tactical outsourcing efforts address immediate needs, ODC and B-O-T strategies provide a long-term solution to managing project needs and on-going program execution. With a strong vendor relationship, companies can gain an experienced, trained, team of resources ready to meet their needs.

As the global marketplace continues to evolve and become more competitive, companies will continue to evaluate offshore options as a business strategy. Expanding IP capabilities and managing shrinking release cycles can be addressed through ODC and B-O-T relationships. The ownership and future integration of the offshore resources with company processes will lead many companies to select the B-O-T option over an ODC set-up.

ODC does have some advantages for companies who have changing long-term needs, or when economic factors dictate corporate investment. Some companies will benefit from remaining in a flexible ODC environment. B-O-T agreements typically will allow the migration of an ODC to B-O-T to be driven by the client, based on performance and business need. In some cases, an “opt-out” clause may be included to allow companies to keep ODC operations without the eventual transfer of assets. While each company must examine their own needs, offshore vendors can provide high levels of customization to provide the resources and relationship that will work best for the client.

Contact Us

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