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BUILD-OPERATE-TRANSFER

How an alternative to the traditional sourcing model lowers the risk of transformation projects

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INTRODUCTION

Although the sourcing industry is primarily known for recommending outsourcing as a solution, there are instances in today's evolving business world in which outsourcing may not be the best answer. Whether restricted by a Board of Directors or by political boundaries that prevent the moving of jobs offshore, companies may need an alternative to outsourcing. This white paper outlines the recommended phases, implementation and pricing of the build, operate and transfer (BOT) model, in which an organization uses a service provider to design and implement a service delivery model that is later brought in house.

The BOT model gained popularity in the early-to-mid 2000s as many organizations entered the world of offshore development. The model was particularly popular with software firms and banks. In fact, many of today's largest captives owe their beginnings to a BOT. The traditional BOT model became less attractive as the sourcing model matured, service provider capabilities evolved and organizations began using multiple delivery models to achieve their sourcing goals.

Government entities, however, continue to face challenges that make the BOT an attractive alternative. Historically, such entities have turned to the BOT arrangement to minimize investment and mitigate the risk of taking on large transformation projects on their own. In today's business world, it is a solution occasionally used among public companies that are regulated by the government, such as public utility providers. For those enterprises that choose to retain responsibility for specific operations or that need to solve what appear to be overwhelming transformational issues and have no idea where to start, this alternative model, which enlists expert service delivery help for a limited time, may be a worthwhile approach.

WHAT IS A BOT?

A build, operate and transfer (BOT) transaction is a type of sourcing transaction in which an organization can choose to enlist an expert service provider to assist with designing and implementing an optimal service delivery model with the option to in-source the services after a period of time. There are other instances in which a BOT transaction may involve transferring employees from a retained organization to a newly built business function to be operated by a service provider. This paper will focus on the former use of the BOT transaction.

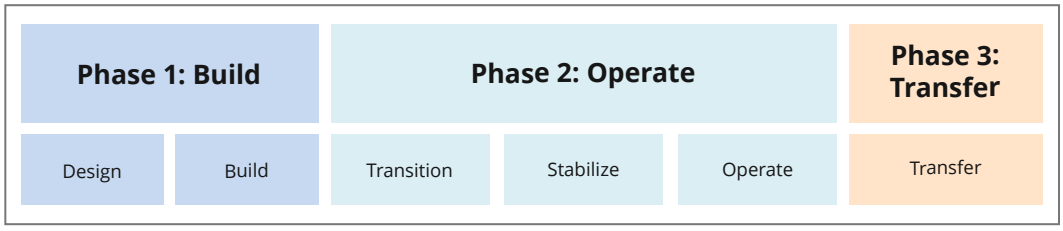
The BOT model can be an effective strategy when facing the need for a new customer contact center or a business initiative.

Historically, organizations have used the BOT model to minimize their initial investment and risk when tackling large transformational issues. In the BOT framework, an organization hires a third-party provider to take on the responsibility of designing and building the in-scope operations and then performing and maintaining those operations for a certain period of time. Once the operations have achieved a functional and efficient state, the provider transfers all related tasks back to the client until it is relieved of all responsibilities.

The BOT model can be an effective strategy when facing the need for a new customer contact center, or even for a business initiative such as building a new data center.

PHASES OF A BOT

A BOT transaction is structured in three main phases and can be much easier to tackle when each of the phases is broken into sub-phases as seen here:



Build Phase

The Build Phase is a combination of designing and building both the facility and the workforce required to develop self-sustaining operations. Because the BOT model is an in-sourcing strategy implemented with the intention of transferring all operations back to the client, the facilities will be in existing locations, unless there is a special need for them to be built in new locations.

1. Design – The provider and client work together to design the end-to-end (E2E) operating model necessary for the delivery of services.

2. Build – The selected provider is responsible for converting the design plan to an operation that is ready to take on employees and initiate services.

Operate Phase

The Operate Phase includes transitioning services, stabilizing those services and then achieving a steady state of operations.

1. Transition – Once the client and provider have worked together to design and build the service delivery environment, they then begin to transition the new services to the provider, who will work to perfect them.

2. Stabilize – The service provider implements any changes or process improvements required to meet the goals of the services. The primary deliverable for this stage is to create an operation that consistently meets the service levels as defined by the buying organization and the service provider.

3. Operate – The BOT provider should manage the day-to-day functions of the operation to achieve the agreed-upon service levels.

Transfer Phase

The Transfer Phase includes transferring all services and any procured assets back in house.

1. Transfer – The BOT provider should be responsible for the transfer of all operations and assets to the client. The primary deliverable should be the assumption of all responsibilities by the client and the complete exit of the provider.

Special attention should be paid to transferring any assets procured by the service provider during the Build Phase. Assets to be considered include facilities and/or equipment, as well as IT hardware and software. The appraisal of the assets and the effort required to transfer them to the client can be a potential bottleneck to the Transfer Phase and should be discussed early on in the BOT process.

The Transfer Phase is the pivotal phase of the whole process.

While the BOT presents a strong foundation for a unique sourcing transaction, the Transfer Phase is the pivotal phase of the whole process. The sourcing industry is crowded with third-party providers that have experience in delivering tailored solutions and services, but few have experience transferring services back to the client. Selecting a provider with the capabilities and experience of transferring operations back to a client is crucial to the success of a BOT transaction.

IMPLEMENTING AND STAFFING A BOT

Implementing

Prior to performing the BOT, an organization must determine which expert providers are willing and able to complete this kind of transaction. The pool of potential providers should include any current providers with whom the organization has had a positive experience and a strong relationship, as well as other knowledgeable and qualified providers that have

experience providing the in-scope services. Probing the market for capable providers is most commonly performed via a Request for Information (RFI) or a Request for Solution (RFS).

Criteria for evaluating which providers to advance during the RFI/RFS stage should include:

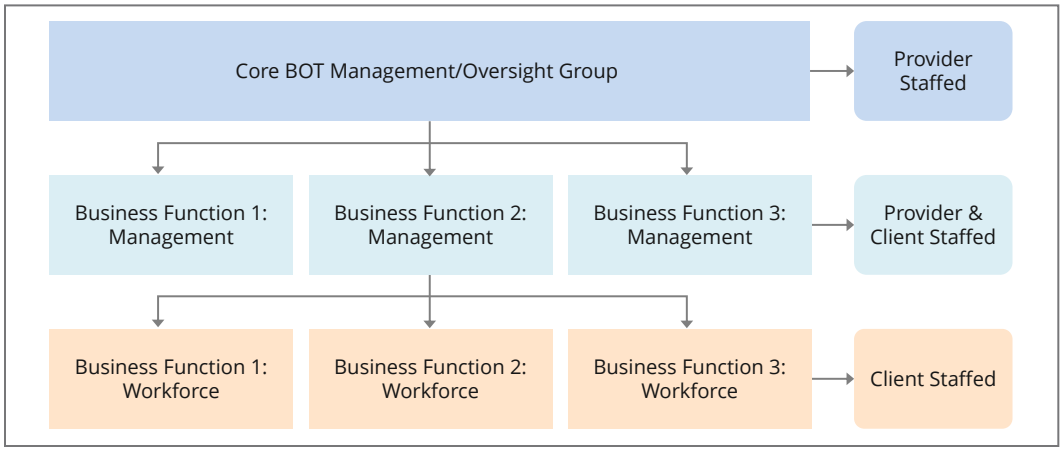
1. A proven track record for completing transition efforts.
2. Experience with sourcing the specific work in scope.
3. Experience specific to the industry.
4. A clear understanding of the client's requirements.
5. A clear and robust continuous innovation program.

Once the organization conducts the RFI/RFS and selects the top candidates, it can initiate a Request for Proposal (RFP) to address more specific requirements. To a large extent, the provider selection process during the RFP stage is similar to the process of selecting a traditional outsourcing provider, with the exception of the attention paid to each provider's ability to deliver and complete the final Transfer Phase of the BOT. Ideally, the selected provider will have had experience with insourcing transactions or transferring previously provided services back to a client.

A BOT needs to be staffed with a blend of client employees and provider employees.

Staffing

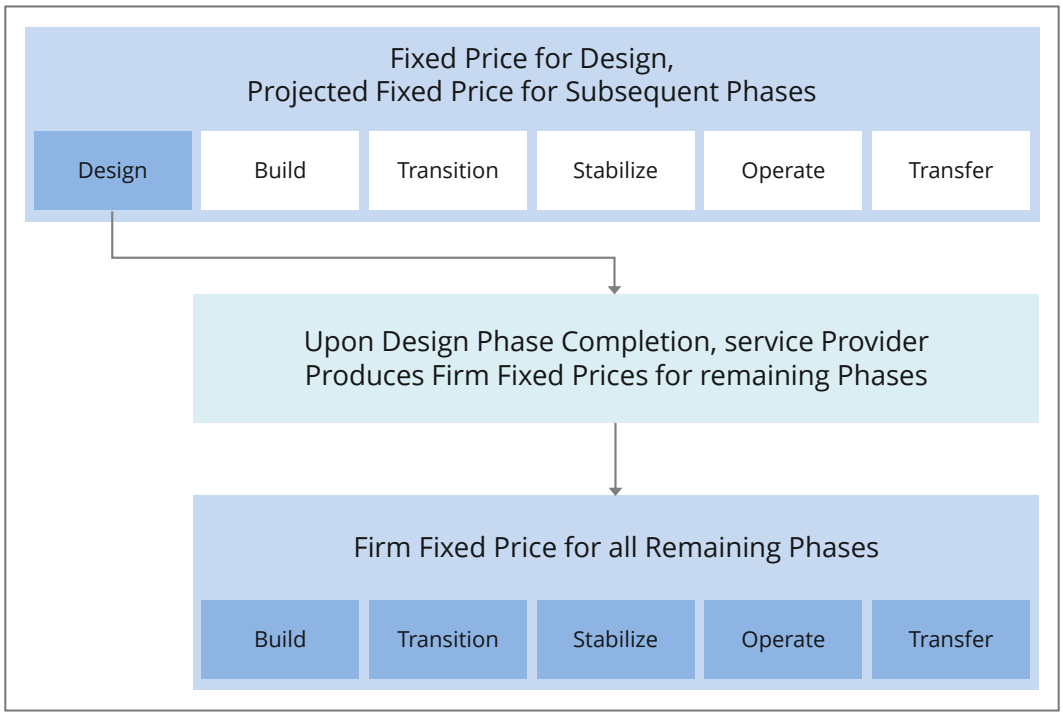
A BOT needs to be staffed with a blend of client employees and provider employees. The provider should implement a management oversight layer responsible for meeting deliverables and milestones for each phase. The intermediate management layer should consist of a blend of provider and client employees, allowing the client to have easier access to the provider's knowledge base and expertise. Client employees will make up the core workforce. The layers of staffing are illustrated here:



To ease the Transfer Phase, the client might consider structuring the contract in a way that allows it to "absorb" any middle managers assigned by the provider. One key risk this presents is that the provider may be hesitant to staff the BOT with high-performing managers or to provide highly valued individuals due to the increased risk of the client electing to retain them.

BOT PRICING

An optimal pricing strategy for a BOT is to price each phase separately. The intent should be to have the provider set a firm fixed price for the initial Design Phase and fixed price projections for each of the subsequent phases. Upon completion of the Design Phase, the client can ask for and expect firm fixed prices for each subsequent phase. This pricing structure can be seen in the flow chart depicted here:



Pricing by phase allows alignment of financial risk with provider responsibility and also mitigates the cost risk for the client. Additionally, it presents the opportunity to introduce a "payment by milestone" strategy. Milestones should specifically relate to each phase and should be agreed to before commencement of each phase. For example, a typical milestone for the Transition Phase is the creation and implementation of a governance framework, which should include detailed lists of desired committees and performance reports. A milestone for the Transfer Phase would be the assumption of all responsibilities by the client and the exit of the BOT provider.

The client organization should define "not-to-exceed" pricing parameters up front as an insurance policy to protect against unfavorable pricing that is significantly higher than the provider's previously projected fixed price.

The contract should also contain language that provides the client with "exit ramps" after the successful completion of each phase should the client wish to discontinue services with the provider. Contract language that provides the client with the option to extend the length of the Operate Phase—should that phase take longer than expected—is also recommended.

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It's important to establish governance committees that fully understand their duties.

BOT GOVERNANCE

With any sourcing transaction, establishing governance committees and processes at the outset will alleviate potential headaches and roadblocks. The same is true for a BOT. From the beginning, it's important to establish governance committees that fully understand their duties, with clearly defined purposes, objectives, responsibilities, outputs and reports. A separate committee for each phase of the BOT, in addition to a committee for the express purpose of BOT oversight, will increase the chances of success. As with all governance committees, each committee should have key members from both the client side and provider side.

Placing an emphasis on the design and delivery of Governance Services will lighten the level of detail required to transfer services back to the client. Deploying a Governance Committee focused on BOT oversight that routinely communicates with key management personnel will enable the client to stay informed of any unique aspects of the services, making the future Transfer Phase much easier.

CONCLUSION

Because the BOT arrangement is unique, enlisting an advisor to help oversee the RFI/RFS process will assist the client with vetting and selecting a pool of potential providers. Furthermore, the support of an advisor allows a client to continue focusing on current operations while the advisor works to design, create and implement the RFP process. Enlisting an advisor can be especially helpful when it comes to reviewing RFP responses and guiding the client to select the provider that is most capable of providing the in-scope services and successfully completing the transfer of services back to the client. Enlisting an advisor for the sole purpose of overseeing the provider selection process means the client can leverage a dedicated and impartial third party to dive deeply into the various provider proposals on the client's behalf.

For companies that want to retain responsibility for specific operations and are either concerned with or prohibited from outsourcing, the BOT can be a compelling approach. Though completing the Transfer Phase has been an Achilles heel of the BOT transaction, companies that pay special attention to provider selection and closely maintain the ongoing provider relationship are likely to find the BOT to be an ideal solution to what may otherwise appear to be an unmanageable service challenge.

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