

## **BUILD, OPERATE, TRANSFER**

### **THE NEW MANTRA IN OUTSOURCING**

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#### **OVERVIEW**

The dynamics of today's political, economical and technological environment have driven practically all the organizations to focus their energy and resources on their core business and outsource the additional functions to partner organization with complimentary strengths. As we all know, the need of the hour is to adapt IT to gain and retain cutting edge over ever-growing competitive environment.

Indian organizations have the unique "**India Advantage**" of right skills, better communication ability, different time zone and most cost-effective execution model. The outsourcing services are offered through various delivery models, onsite consulting, offsite execution and now the new and emerging model is **Build - Operate and Transfer (BOT)** model.

The BOT model has been very successful in the infrastructure and construction industry. The vendor for example builds a highway or bridge, will operate it for a period of time and later hand over to a government agency. Here, it is important to note that this model rests on specialists (read domain firms) who bring in best knowledge and skill-sets for setting up this project. The model works on outsourcing the early stages of projects execution to the specialists and once the project starts running smoothly it is taken over and run by someone else like government in this case.

#### **Defining BOT**

BOT means that the client has a right to own the facility, while the third-party vendor builds the facility, hires the employees, gets the operation running for a certain period of time (usually a period of 3-5 years) and hand over the operations to the client after the said period. During the contract period, the vendor and the client work closely with a senior client representative monitoring the operations. At the time of the transition, the vendor is suitably compensated.

Thus the BOT model gives an opportunity and liberty to customers (offshore) to get Offshore Center (OC) build and operated as per their specific needs and also set up the processes in various stages to suit their business needs. The staged process helps the client to evaluate the risks involved and also helps them to check the feasibility before investing in full-fledged manner. This model offers the right to customer to acquire the operations of such center at the end of contract period, if they desire so.

**Some of the typical outsourcing models are:**

1. Operate
2. Build and Handover
3. Build and Operate &
4. Build – Operate and Transfer

Apart from the opportunity of transfer of operation/project to the customer after a period of time, the major difference in **Build & Operate and Build vs. Operate & Transfer model**, is the building of that operations based on customer specifications. The infrastructure set up, the process followed, corporate philosophy, training the resources are customized as per the customers need. Hence, at the time of transfer the integration of that unit to the parent company becomes smooth.

**Applicable to :**

This model has gained significance in the BPO industry. India has established itself as an ideal destination for offshoring. Globally companies are looking at India and wish to be present here as early as possible. This holds true for many companies who have considered outsourcing for the first time let alone offshoring. Therefore, it is not easy to step into an unknown land on one's own without the aid of a partner. For companies such as these, finding a partner who would hand-hold the company in the early days, BOT is the ideal model

In the KPO industry, this model is commonly used for various processes and activities like IT, R&D, Engineering design, Business Administrative, etc. The potential industries for this model are Biotech, IT, Service Industry, Manufacturing and so on. In India progressive PSU's are a strong potential to adopt this model in the near future. More and more organisations right from corporate to SME are actively considering this model because of the key advantages of this model like lower cost of investments, staged ownership approach, and proof of concept.

***The BOT Model would typically be used for:***

1. An organization wishes to commence business in a country where it does not have its base. The organization would look at getting a local company to reduce risk its venture into the new country.
2. An organization doesn't have the expertise in that process, and wants to pool in specialized and dedicated resources to execute it. Here the organization will tie up with a mature player who already has expertise and knowledge for it.

**The important factors** to be addressed in a BOT model are –

- Who has the controlling stake when the project starts; what would be the composition of the board;
- Which of the partners will have what kind of powers on the board appointments;
- Any milestones that would need to be tracked to ensure that the project is in line.

**Key points involved in executing a BOT model:**

1. An organisation does a feasibility of approach - setup the said project on its own or work on a BOT model. If opted for BOT model, then,
2. Service providers are shortlisted and a dialogue is initiated with them.
3. The parameters are shared with the service providers and their intent is ascertained - whether or not they would be keen to proceed with such an arrangement. It is very important to find a matured service provider as he has the right domain knowledge and expertise that helps to get the optimal returns from the investment.
4. The initial agreement is signed which spells out the nature of contribution that each of the participants will bring to the table. It also spells out the time duration for the transfer of project/rights. This is referred to as the `put' or `call' options i.e., whether one of the participants to the venture would **put** their shares to be taken up by the other or will they **call** for the shares of the other partner.

**Key advantages that this models offers:**

As per Gartner analysis, CIOs, IT leaders and business leaders in aggressive industries should incorporate such models where offshore vendors become an integral part of their industry value chain. They must begin building relationships with offshore IT services companies that deliver value-added business process services supplementing their development, production and the delivery of final products and services.

- Opportunity to capture market share rapidly or address a crying need in a short period of time
- Advantage of not getting distracted while setting up a new venture
- Being able to continue to focus on the organization's core competency
- Opportunity of accessing best in class skill-sets
- Conservation of capital expenditure
- Cost effective outsourcing during the initial period of build out and operating
- Reduced operating risk and knowledge retention when related to sensitive processes, and
- Ability to launch a complete end-to-end solution in short duration.

Thus to summarise, the BOT model helps large corporations to jump-start their operations in crunched-cycle time. They also enjoy all the benefits of an established company, including the brand equity of the service provider and also leveraging all the best practices and learned lessons of the successful company during the most critical part of a company — the formative years, and building upon it thereafter.

Increasingly clients based in US and UK are demanding BOT model and is now being seen as a preferred model in the BPO space. With many companies adapting this model, BOT would be the next big wave in outsourcing to watch out for in the coming years.