

Risk Reduction through (Semi)Captive Outsourcing

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Agenda

- Background Information
- Outsourcing/Offshoring Problems
- Captive vs. Traditional Offshoring
- Experiences with Semi-Captive Offshoring
- Conclusion

pi-consult gmbh

- Founded 1999 in Karlsruhe
- 135 employees worldwide
- **Subsidiaries** in Germany and BG, BY, RU, ...
- www.pi-consult.de



Business Areas

- IT Solutions, specialized in optimizing company communications
- Consulting and implementation of solutions for marketing process optimization (**product** "BrandMaker", www.brandmaker.com), e-mail response management, translation management, CMS and others
- Individual software development **projects** (mostly OEM business)
- Customers: Arbeiter-Samariter-Bund Deutschland, Boeringer Ingelheim, Commerzbank, DekaBank, EnBW, Gruner+Jahr, Opel, ...

Common Outsourcing Problems

- „The usual stuff“
 - More overhead
 - Less direct control
 - Many unknowns
 - ...
- Most critical issue: Communication
 - Making the developer understand the problem
 - Ensuring project progress and quality
 - Worsened by offshoring (time zones, language, culture)

Comparison

Aspect	Traditional	Captive
Entrepreneur Risk / Commitment	Low-Medium	High
Initial Investment	Medium	High
Operational Costs	Comparable	Comparable*
Resource Flexibility	High	Low
Consistency, Availability	Low	High
Control over Assets and Finances	Low	High
Influence on Development Methods and Infrastructure	Low-Medium	High
Team Structure, Company Culture, TRUST	Fragmented	Closer
Common Sense, Understanding, Domain Knowledge	Depends on duration	High
Efficiency (feasibility of short projects)	Low	High

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Example: pi-consult subsidiaries (semi-captive) - A

- Mostly via personal contacts of German founders (trust and experience), common enterprises with local founders
- Now in BG, BY, RU[,RO]
- Initially cost as main reason, but focus widened
- Some problems and solutions:
 - Mindset from former communism (hierarchies, low initiative, no passion)
→ Company culture, education
 - Side effects of economic explosion (cable wars, armed guard, rooms, dictatorships)
→ Much better now than 5 years ago
 - Local resource competition
→ e.g. pi-Academy in BG for university graduates

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Example: pi-consult subsidiaries (semi-captive) - B

- Local companies are partially independent, own budget
- Encouraging local entrepreneur spirit
 - Sell services not only to mother company
 - Own business fields
(e.g. outsourcing provider, Java phone games, ...)
- Benefits
 - Not just a “slave outpost”
 - Higher self-respect and motivation
 - Own profit and growth
- Much control nevertheless
 - Can order e.g. zero profit projects for extra competitiveness
 - The subsidiary’s other outsourcing customers pay different rates
 - Full control over development methods and infrastructure

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Example: pi-consult subsidiaries (semi-captive) - C

- Growth benefits the mother company too
 - Introducing German labor standards
(paid vacation, German life insurances, yearly rises...)
→ attractive for employees
 - Similar organization forms in subsidiary companies
(F4 structure, company culture)
 - Visits to and from subsidiaries to widen common base
(minimize cultural risks)
- **More stable company construct**
- **Better than „just captive“, but needs more effort**

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Conclusion

- Long-term relationship has benefits and reduces risks for both sides
 - Mutual growth
 - More stability
- Captive Offshoring offers options that traditional setups can not
 - Even small projects are efficient
 - More control over all aspects
 - Would YOU want to outsource the development of your key product to strangers?

➔ **Attractive alternative for longer term projects / repeated outsourcing business**

Discussion