

The resurgence of
a hybrid service
delivery model

Build-Operate-Transfer

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Introduction

The world of service delivery is constantly evolving. For multinational organizations, navigating through disruptive market forces and rapidly shifting needs of enterprise infrastructure can mean exploring innovative service delivery models that balance the development of in-house capabilities and leveraging of external expertise.

Traditional outsourcing is a well-recognized driver in reducing costs and increasing service levels while enabling a business to focus on its core functions. Building in-house provides the opportunity to retain control and develop service capabilities internally. However, there is a hybrid service delivery alternative—the Build-Operate-Transfer (BOT) model.

Within a BOT model, a company can enlist the help of a partner to stand up, stabilize, transform, and eventually transition back the delivery center. Leveraging a BOT approach can bring market-leading expertise to a complex service delivery solution and allow for an organization to still access and eventually acquire new service delivery capabilities. Particularly in times when preserving liquidity and building resiliency are of critical importance, the BOT approach can provide control to a company without having to sacrifice return on value or time to maturity.

Why consider a BOT?

Your organization has decided to move forward with a new or enhanced service delivery model. You have concerns over having the wherewithal to stand up a captive center on your own, but still want to retain more control than a complete outsourcing solution, or you want to enhance existing offshore operations, but do not have the capacity.

Enter the BOT model, a hybrid option that offers the ability to acquire essential business capabilities and the advantages of outsourcing without sacrificing control, time, and resources to build on your own.

Leverage scale and transformational capabilities

Local knowledge: Acquire a service delivery partner's knowledge of a foreign market to help navigate foreign government obstacles or cultural barriers.

Talent: Use the brand recognition and mature hiring engine of a vendor that commonly attracts and retains excellent talent and is a preferred employer in a region.

Transformation experience: Leverage playbooks based on years of comparable experiences to both jump-start transition plans and optimize specific processes.

Retain control of the delivery center

Sourcing strategy: Find the right middle ground on the service delivery spectrum between in-house and outsourcing that aligns with business objectives.

Control: Maintain control over operations, compliance, and security while benefiting from the innovation and intellectual property acquired with the help of a partner.

Corporate culture: Preserve the perception of in-house through personalization and branding to foster a culture that better aligns with corporate and existing talent.

Shift the risk, uncertainty, and costs

Risk: Transition the up-front obstacles of developing a captive while contractually guaranteeing transformation benefits.

Capital outlay: Lower up-front investment, amortize costs into the beginning stages of the operation, and free up capital to be used for other strategic initiatives.

Time and effort: Scale operations quicker within a contractually agreed-upon time frame to meet aggressive time-to-maturity and cost-of-transformation goals.

"After building an outsourcing footprint but striving to achieve a higher level of control over operations, we implemented a BOT model with a particular focus on installing a heavy management layer of internal employees to regain effective controls and compliance over our service delivery center while still leveraging the expertise of a delivery partner."

North American utilities company

What is a BOT?

How it works

Phase 1: Build

This phase is kicked off with an in-depth analysis of the enterprise's specific requirements, performing due diligence to understand the client's vision, sourcing goals, technical requirements, and company culture. The service provider will design the operating model, laying out a service catalogue, developing a governance structure, and determining the center's technology and workplace needs.

Leveraging a wealth of local knowledge, the provider will transform the design blueprint into an operational facility and secure the talent in the agreed-upon location; the client will typically choose a location where they have an existing presence, but can assess new locations for strategic purposes.



Critical highlights:

- 01 Set up BOT contractually
- 02 Design operating model
- 03 Build infrastructure
- 04 Stand up program management
- 05 Establish governance

Enabling levers



Entity structure and tax positioning:

How will the entity be structured within the corporate enterprise? Entity decisions are often made based on corporate tax implications and preexisting country and city tax exposure.



Location and facilities:

Is there a need or preference to be in a particular Special Economic Zone (SEZ)? Does the client have an existing building? Is there a need to lease or improve existing space? Can the client collocate in a third-party facility and move to their own facility at a later date?



Equipment and consumables:

What enabling infrastructure is needed? Workspace stations? Connectivity equipment? Phones or copiers? Building utilities?



Labor and compensation:

Is the client staffing a combination of internal and service delivery partner resources? Transitioning or transferring existing staff? Is there a need for separation or severance costs? Staffing decisions can drive recruiting or ongoing learning and development (L&D) expenses, while compensation decisions tend to drive potential labor arbitrage savings. These decisions can drive the look and feel of the end BOT product.

What is a BOT?

How it works



Phase 2: Operate

The goal of this phase is to achieve a steady state of operations, standardizing operating procedures and continuously improving and reengineering processes to meet service-level agreements and realize transformation objectives.

Leveraging years of transformation experience, a service provider can accelerate the attainment of modernized capabilities and help enable a more scalable, flexible, and digital enterprise with the ability to react nimbly in response to business and market changes.

Building a foundation for agility and transformation will enable continuous improvement, promote a tech-savvy workforce, and provide a more autonomous, augmented, and insights-driven experience.

Critical highlights:

- 01 Standardize operating processes
- 02 Manage knowledge transfer
- 03 Deliver continuous improvement
- 04 Modernize function and capabilities
- 05 Ensure effective controls and compliance

Transformation opportunities

 Intelligent automation of transactional processes

 Enhanced productivity through process innovation and analytics

 Augmented utilization of shared services via process consolidation

 Better decision support through cognitive insights

What is a BOT?

How it works

Phase 3: Transfer

At this point in the engagement, the fully operational and stabilized center is ready to be legally transferred. Whether the center will be transferred back to the client's organization in its entirety (including 100% of the operation, IP, employees, knowledge base, and assets) or in part will have been ideally determined earlier by the service provider and client.

The client will assume all responsibilities in conjunction with the complete exit of the service provider. Determining the full scope of the transfer may present a challenge, and steps should be taken early in the BOT process to streamline the effort and avoid decision bottlenecks. The success of the BOT model is largely determined by the success of the transition; ensuring the service provider has a proven track record will be critical.



Critical highlights:

- 01 Operationalize scope of transfer
- 02 Establish monetization at fair market value, if applicable
- 03 Facilitate transfer of people, process, infrastructure, and IP
- 04 Transition support services

“Our company was looking to accelerate the time required to develop and scale up an outsourced delivery center in a new geographic location at a time that up-front costs would be difficult for executive management to prioritize. However, our goal was to eventually own the asset and the accompanying service delivery capabilities that came with it.”

Large national retailer

What is a BOT?

How it works

Commercial elements

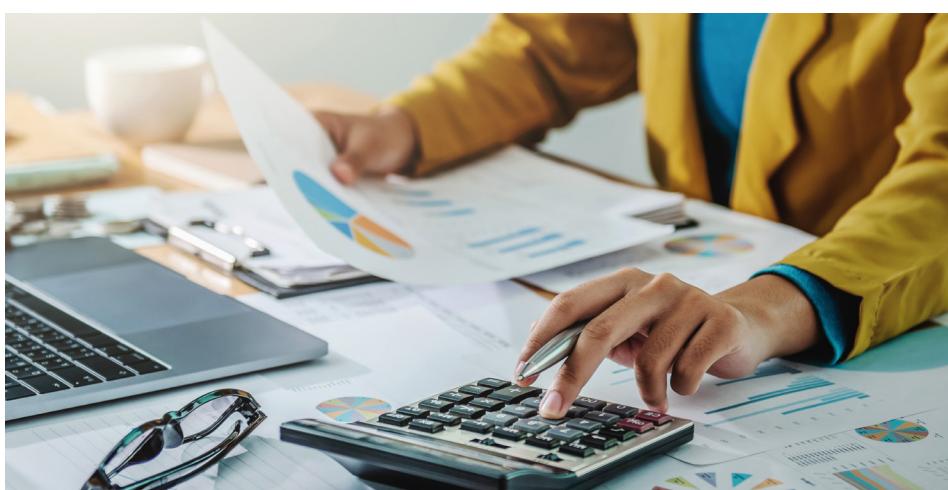
Until the transfer of assets or staff, BOTs can look like a traditional fixed or time-and-materials project agreement financially, depending on a client's business objectives and existing outsourcing presence. However, awareness of and leadership perspective on the following commercial elements can be helpful before entering negotiations:

Individual phase pricing: Ideally, each phase of the BOT is separately priced, the intent being that the client can agree to a fixed or time-and-materials-based price for the initial phase, then agree to remaining phases after an initial operating model is laid out.

Outcome-based pricing: Aligning financial responsibility with the achievement of milestones is an approach to mitigate risk for the client. The transfer of operations to the client, for example, can be a complicated process and, often, the phase that determines the success of a BOT.

Cost accounting and timing: One of the benefits of the BOT model is a potential up-front capital reduction or cost structure involving amortization of capital investment. Assuming the service provider owns physical assets, licensing agreements, or other real property used for service delivery, the pricing structure can reflect these advantages.

Key provisions: Building in key provisions and optionality into the contract can help keep doors open for the client and incentivize the delivery partner to continuously improve. Including contract "offramps" after milestones (for example, a stop mid-transfer provision), can help protect against unforeseen enterprise or external circumstances. Provisions around the protection of IP throughout the duration of the BOT can be a significant benefit and should be negotiated up front.

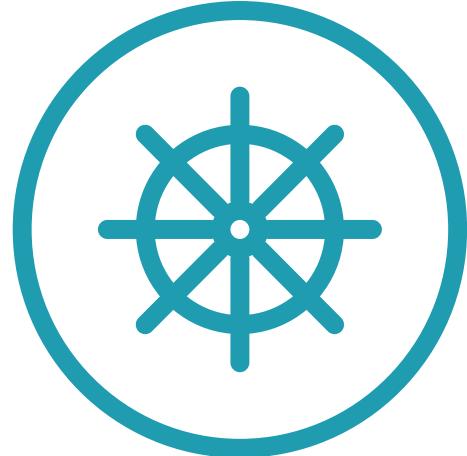


Case study highlights

A large national retailer engaged Deloitte to develop an offshore technology and business services center to attract and hire retail technology talent in an economically compelling geographic location.

Standing up this offshore captive addressed fundamental talent, service delivery, and business objectives, including reduced dependence on third-party suppliers, cost savings to expand the aggregate size of the workforce, and repositioned senior technology resources into higher-value roles.

Deloitte worked with the client to design, incubate, and operate the captive center, compressing the time-to-value period and rapidly scaling capabilities while minimizing the client's capital investment.



Benefits delivered:

- **Expanded IT workforce** headcount, critical capabilities, and core business roles
- Insourced functions and staff to **mitigate risks of intellectual capital attrition**
- Achieved cost of operations **savings of more than \$200 million** over a five-year period
- Implemented a **self-funding mechanism** to pay for core technology modernization

"Building flexibility into the BOT contract allowed us to maintain the option to transfer back back-office functions or continue outsourcing with the delivery partner. We ultimately decided to transfer back all back-office functions, with the exception of some Finance functions for strategic reasons."

North American utilities company

What makes a BOT successful?

The measure of a successful BOT model partnership involves change leadership, operational efficiency, and accountability.

Change leadership:

- Ensure adoption of a new operating structure and client executive engagement
- Create a flexible model to address changing market conditions

Operational efficiency:

- Deliver recurring annual savings
- Transform business processes through intelligent automation and standardization
- Emphasize business continuity throughout the journey



Partnership accountability:

- Align on explicit accountability for each phase throughout the vendor management, appropriate service levels, and incentives
- Ensure contractual arrangements directly support business objectives
- Implement robust service management metrics
- Create a definitive timeline, while maintaining a level of flexibility, to complete phases appropriately

Why now?



Given a greater need for business resiliency, service delivery flexibility, and capital preservation, the hybrid BOT model has resurfaced as an effective third option.

The client perspective

Looking beyond outsourcing but needing the flexibility to **grow at a higher velocity than what's organically possible**, clients are increasingly turning to BOT models today. The BOT approach can compress time to maturity, and therefore time to value, while still reducing dependence on third parties.

Companies that may not have both the capabilities to stand up and transform a delivery center and the capacity to prioritize over competing programs can leverage the BOT model. The ability to respond promptly to market demands or contractions is advantageous in today's environment. The BOT model **enables flexibility to quickly scale up or down, or even more easily pivot toward other priority initiatives.**

The vendor perspective

One of the crucial requirements for a BOT is **finding the right service delivery partner**, and until recently, vendors often shied away from the model. In the early and mid-2000s, a majority of vendors were in the beginning stages of achieving the brand and scale that they enjoy today. Unless for strategic purposes, entering a new industry, or gaining functional capabilities in an attractive space, providers have been selective in entering BOT relationships.

However, service providers today have **seen revenue growth cannibalized by recent innovation around robotics, automation, and cognitive technology.** To help offset a decline in top-line revenue, today's service providers have been increasingly willing to explore a hybrid model that clients view as more strategic.

This renewed intersection of client interest and vendor willingness to invest into a BOT approach can help foster the resurgence of this hybrid service delivery model.

"We chose to implement a BOT to transform the Lease Accounting function within our Finance organization. Using a BOT enabled the organization to free up capacity for other competing priorities and leverage capabilities of a specialized expert in standing up and transforming delivery centers."

Food and agriculture producer

Where to start?

When first embarking on the BOT journey, clients should focus on answering the following guiding questions:

Financial considerations:

- What are my financial objectives and must-haves (e.g., special-purpose vehicle, up-front cost avoidance, etc.)?
- What outcomes are essential to the BOT's success, and how can I align the financial agreement to those outcomes?

Vendor selection and management:

- Is my partner incentivized to help me achieve my intended BOT process outcomes?
- Does my partner have a track record for success, particularly in the transfer phase of BOT models or other areas of strategic importance?

Leadership alignment:

- Have I achieved buy-in and planned engagement at the highest of executive levels?
- How do I build a sustained change management plan to ensure accountability and adoption?

The journey toward successfully implementing a BOT model requires careful consideration of the right service delivery partner and leadership alignment to a vision, strategy, and set of priorities. Establishing a long-term partnership can help a company grow alongside a partner to deliver on the intended benefits and outcomes a BOT is capable of furnishing.



"Particularly during times where market conditions can ebb and flow, the BOT model should be evaluated for its many strategic benefits, particularly around the lowering of risk associated with the many obstacles around developing a successful captive...especially if you can contractually guarantee the benefits."

Global business process management company

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