

Buy vs. Build

**Why CFO's must consider 3rd party software industry advisors
when looking to enhance or replace their host systems**

An Executive White Paper

Buy vs. Build: Pros and Cons of this Critical Decision

When looking to enhance or replace a host system, there is often a tendency to overlook the value in using third party vendors to provide the products and services you need. However, this trend is changing. According to Ipsos-Reid, a research firm in Canada, an estimated 49% of all IT spending in 2005 went to outsourced services, up from 44% in 2003. Finding the ideal IT partner is undeniably a major undertaking. It takes time to find a firm that fits the unique needs of your organization and project. Often it is easier to explore existing options that reside internally. However, remaining in a comfort zone with the status quo and failing to explore other options will not bring any new perspectives to the way you do business and may actually impede growth

Deciding to look outside is the first step to balanced due diligence. However, finding a partner that understands technology is not enough. Success rides on many variables none of which is more important than knowing the firm you are going to be doing business with. The Gartner Group has identified four main criteria to be examined when faced with the build versus buy decision.

- **Differentiation:** How should available development resources best be used? For example, if an organization has 10 developers available, would those individuals be most effectively used building core system functionality that is available commercially or developing systems that bring a different result.
- **New Structures and Directions:** How will applications be deployed using new technology and opportunities? The Gartner Group notes that skill sets required within most organizations will continue to change rapidly as technology evolves. Organizations must realistically assess their ability to develop and maintain the skill levels required to keep pace with technology shifts that can bring value to the organization. At the same time, organizations have to consider the cost of re-training and redeploying technical staff while managing legacy systems and running daily IT operations. As the Gartner Group states, "...the days of just sitting down and writing code as an add-on should be phased out over the next few years and a new skill set brought in."
- **Opportunity Management:** Given all of the choices that will be available in coming years, where should an organization be spending its money and time in pursuit of strategic initiatives? Senior managers need to constantly ask how resources can best be utilized to serve the organization's constituents. According to the Gartner Group, "...the build activities within organizations should be focused on quick and inexpensive 'hits' as well as projects that just cannot be purchased at any price."
- **Market Forces:** What is the potential impact of staff instability on an in-house development project? The composition of organizations tends to change substantially over a five-year period. Your "experts" at the time of development won't be around forever.

Other Factors

In addition to these four chief criteria, it is critical that the executive leadership making the decision between building their own software system or buying one from a 3rd party vendor should also consider these additional key factors:

- **Experience** – Leveraging the knowledge and experience of a Freight Management software provider makes good business sense. Rely on the experts. A company with decades of experience developing, implementing, training and installing software solutions is always a good start.

- **Cost** – Redeveloping applications internally is expensive. Often the cost is higher than purchasing a pre-developed application. In a survey of 603 IT and business executives, Ipsos-Reid found that 54% believed that pressure to reduce costs was their leading motivation to outsource. Software providers have already done the development, so you don't have to spend time reinventing the wheel. You also know the cost of the project when buying. If you develop your own

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solution, costs will typically exceed the initial estimate. The Standish survey reported that **52.7% of projects cost 189% above original estimates**. It is extremely difficult to estimate the time and expense associated with a major development project at the outset of the project. The scope has a tendency to change and increase, while technology continually changes as well.

- **Time to Solution** – Time is also an area to consider. If your IT department has someone available for the project, do they know enough about the business to build a system efficiently? Will there be loss of manpower while this project is underway? Are there other people available within your organization to handle other priorities? Fifty-two percent of the respondents to the Ipsos-Reid survey felt that the need to increase the speed and agility of their deployments was their second biggest reason for going outside the company to find a solution. A software provider that has installed and implemented their solution many times understands the process and is better prepared to handle any issues that may arise during the implementation and training process.
- **Business Focus** – You are in the business of transportation; not transportation software. Allow your partner to spend the time and resources on developing the technology, products, and support. Spend your time and energy on managing your business
- **Industry Knowledge** – Many 3rd party vendors have industry experience and employ people who are skilled in process engineering. This however, is not enough to guarantee success. Serious consideration should be given only to firms who are skilled in industry-vertical practice areas and who have knowledge of the trucking industry. Engaging the services of a 3rd party vendor who does not have experience and knowledge in LTL for example, may be sufficient to adapt the process to the IT solution, but not the other way around.
- **Reputation** – A software partner with a portfolio containing dozens of successful deployments around the globe will produce great insight into the needs of the market. This leverage puts both your company and your partner in a unique position to continually develop new products, features, and functionality in addition to anticipating your needs. There's a good chance that they'll know what you need before you do.
- **Flexible Pricing** – Every IT provider has their own pricing model. When choosing a vendor, look for flexibility in choosing different pricing models for different projects. Written estimates complete with payment schedules and implementation guidelines will provide the required

framework for the project.

- **Project Analysis** – When writing a project analysis, organizations can expect the greatest return by identifying desired results from a system, rather than specifying features and functions in great detail. Very detailed specifications early in the planning process can actually limit the value to be derived, rather than enabling true progress. However allowances should be considered for changes in the scope of the implementation. Necessary customization should be detailed in advance of any signed agreement.

Building or buying; the decision must be based many variables: some as unique as your business itself.

- **Institutional Risk** – Partnering with a firm that provides low cost solutions that involve minimal development and faster deployment reduces your institutional risk. Cost overruns, delays, or inefficient applications will not be issues. Success will be more evident with a quality-tested, market-proven, and industry leading product. Statistics show that the risk of failure in large-scale development projects is high, as is the likelihood of cost overruns and time delays. There are many factors that can contribute to such failures and only careful planning and excellent management can minimize the risk.
- **Failure** – While different organizations have reached different conclusions about the causes of failure; there is a general sense that a project will largely be doomed from the outset if there exists vague or conflicting objectives, politics, poor planning, poor design specifications, little user involvement or lack of executive support. The Standish Group reported in 1999 that in spite of improvements associated with project management and newer resources over the years, only moderate changes had occurred in the rate of success.
- **Documentation** – When considering the issues, decision-makers must assess the ability to develop in-house, or pay for, technical and end-user documentation. Technical documentation is particularly critical when the system is to be maintained by internal staff, because it must be assumed that the "experts" on the system at the time of development won't be around forever. Without this critical documentation, it may become impossible to adequately maintain a complex, custom-developed system.
- **Ongoing Support** – The ability to provide ongoing technical support is a consideration that cannot be ignored. Obviously, the project doesn't end on the date the system goes "live," whether the system was custom built or purchased off the shelf. End-users will require assistance throughout the life cycle of the application. Decision-makers must determine if they can develop and maintain the resources to provide this type of support. In general, such support is not provided by firms doing custom development work, but is almost always offered by firms that offer packaged software solutions. Make sure this is addressed when dealing with your 3rd party vendor.
- **Enhancements** – Related to support is the issue of on-going enhancements to the application. Policies and procedures change; laws change; technologies change. The organization must decide if it can operate for 7-10 years with a system that is essentially stagnant or if it will be able to regularly allocate resources to enhance the system, either with in-house staff or a vendor. Third party software providers should be expected to provide enhancements to all clients

Buying versus developing issues

subscribing to a maintenance/support program.

Conclusion

While there is no single answer to the “build versus buy” dilemma, by clearly identifying needs, expectations and resources early in the process, it is possible to make a decision that minimizes risk and leads to the best possible result for the organization. While each situation merits evaluation, the Gartner Group notes that the buy scenario is currently the dominant trend – a trend that is growing for all the right reasons.

To further discuss the “Buy vs. Build” question or for information about a total freight management solution for your transportation company’s needs, contact Ken Weinberg, vice president, CLI at 914-332-0300 or kweinberg@carrierlogistics.com.