Translation Workflow – Make or Buy?

Textbook IT Sourcing Strategy for Localization Companies

frank.bergmann@project-open.com

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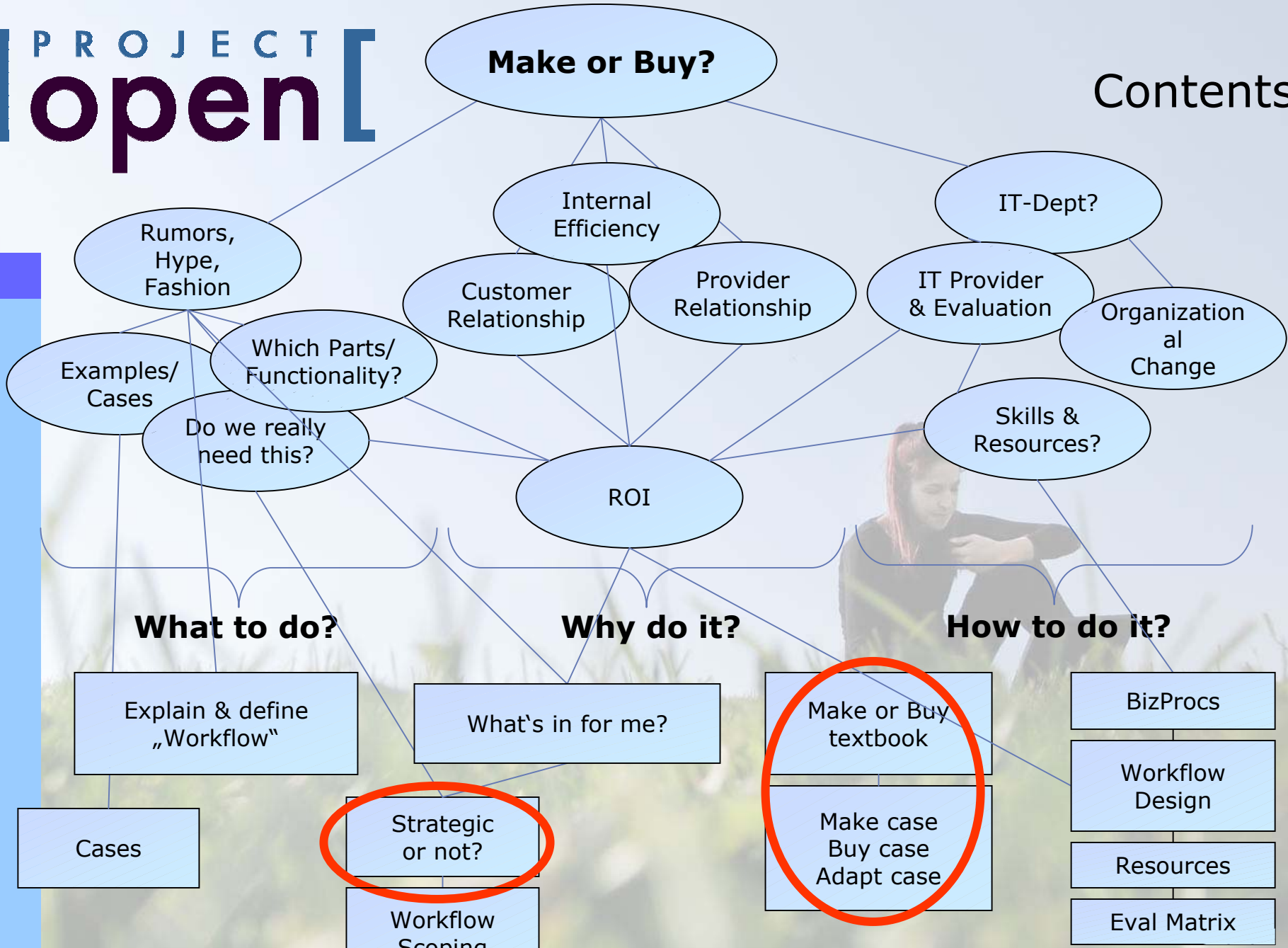

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

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"Make" vs. "Buy" Sourcing Options

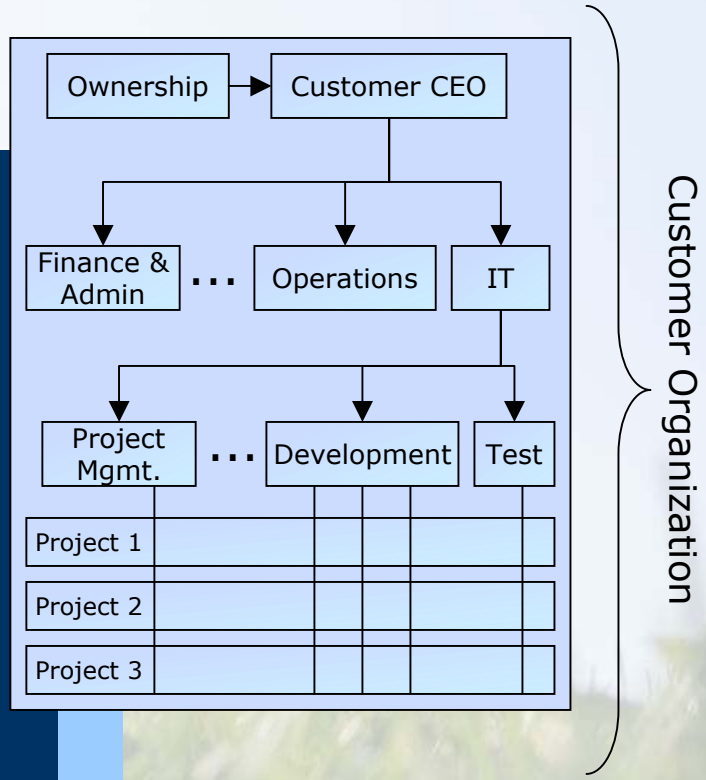
- Sourcing Options Overview
- The case for "Pure Make"
- The case for "Pure Buy"
- The case for "Adaptation"

Sourcing Options Overview

- "Pure Make" (100% in-house)
- "Make" with external consultants
- "Make" with subcontracted functions
- "Make", followed by spin-off
- "Buy" from provider and customize in-house
- "Buy" from provider, with financial investment in the provider
- "Buy" from provider, but "nurture" provider with partnership and long-term contract
- "Pure Buy" (100% external)
- ...

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

The Case for "Pure Make"



100% of the functionality is developed in-house

Advantages

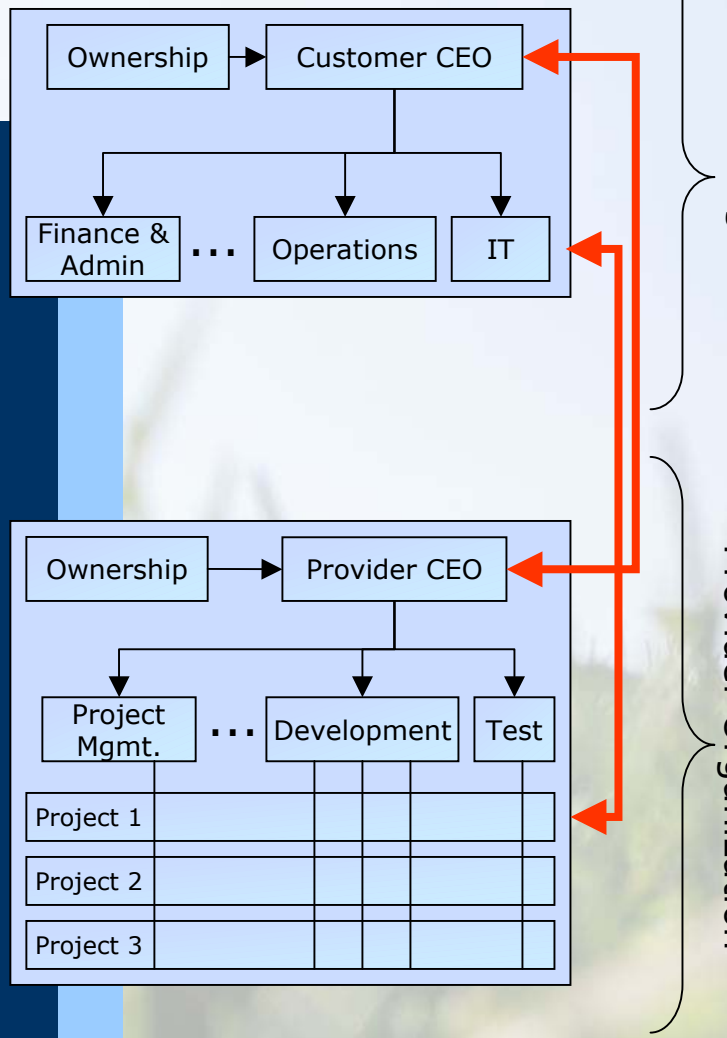
- Tailored solutions for in-house needs
- Critical knowledge is kept in-house

Disadvantages

- Lack of knowledge of building and maintaining state-of-the-art IT systems.
- Difficulties of keeping the IT staff busy after the end of the implementation phase
- Difficulty of retaining good IT staff

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

The Case for "Pure Buy"



100% of "the" functionality is developed by a provider

Advantages

- "Economies of Scale": Provider can occupy resources with projects from other customers and share development and maintenance costs among customers.
- Provider may provide additional knowledge, gained from other companies in the sector
- The customer can profit from continuous development of functionality

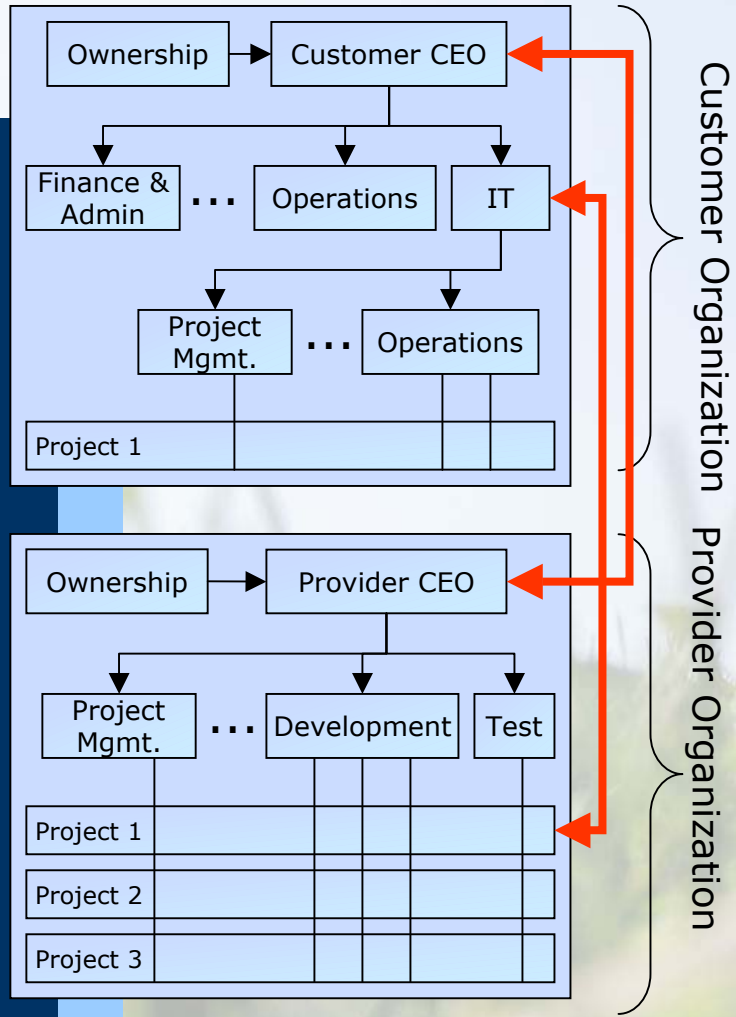
Disadvantages

- Provider interests may not fit fully with customer interests (roadmap development, functionality, …)
- The application software is more complex if it needs to fit more than one customer

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

The Case for "Adaptation"

Buy 90% of the functionality and make 10% extensions



Advantages

- Critical knowledge is kept in-house
- In-house staff is able to react rapidly to company's needs
- Bulk of non-strategic functionality is outsourced with more efficient provider
- Fits with "Strategic or Not" section (see below)

Disadvantages

- Difficulty to manage the partnership
- In-house developers need to learn the provider's software architecture

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

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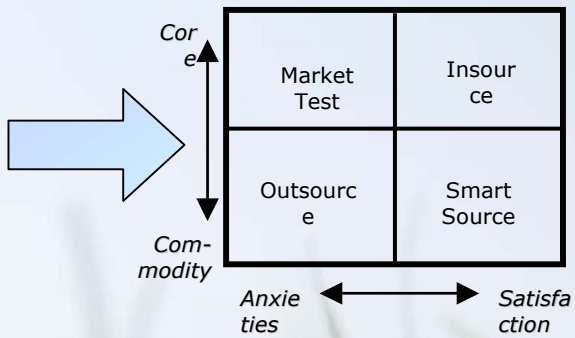
How to Decide

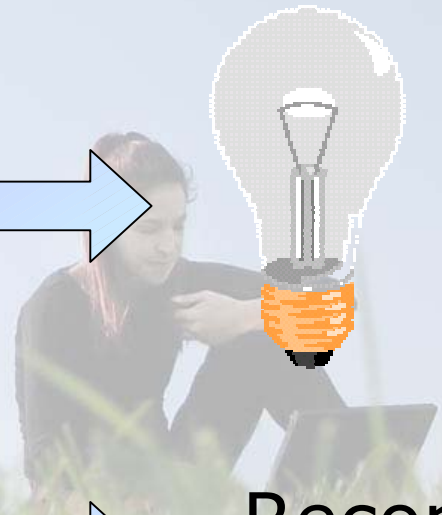
- Summary of Decision Factors
- Example of Decision Factors

Decision Process

Factors:

- Bla bla bla
- Bla bla bla
- Bla bla bla
- Bla bla bla



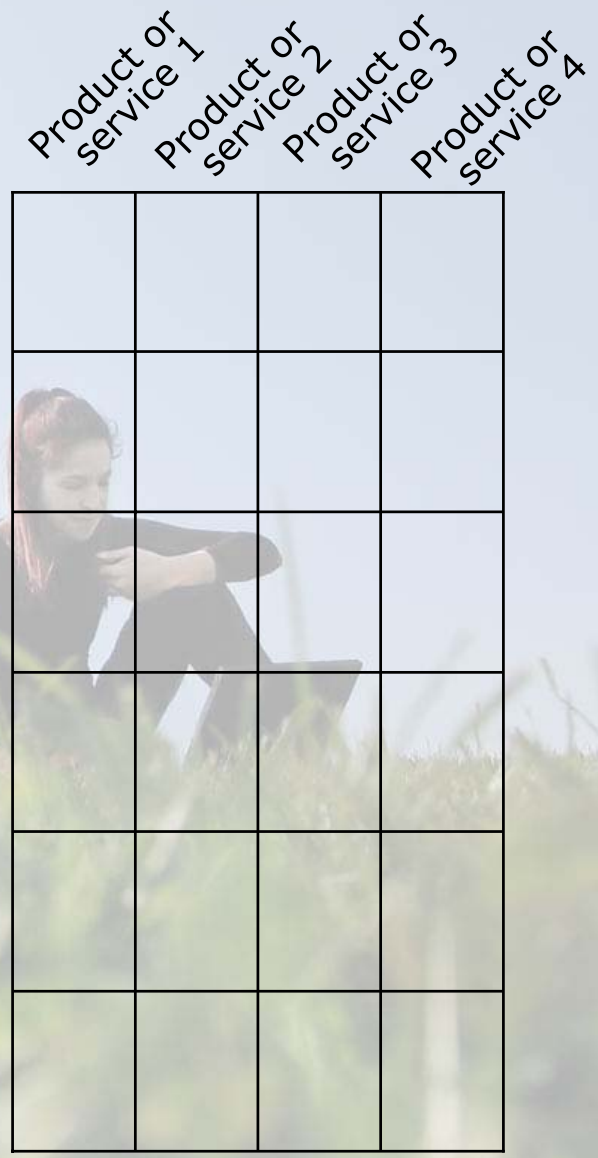


Decision Factors → Theory → Recom-mendation

Summary Decision Factors

The decisions depends on many factors:

- "Value" or "Impact":
  How much $$$ is involved in the sourcing decision
- Relative effectiveness:
  How efficient is your company in building the goods, compared with a provider?
- Ease of sourcing:
  Is it easy for you to find another provider?
- Relative sourcing position:
  Is it easier for you to find a provider than for your competition?
- Strategic or Not:
  Does the sourcing decision influence the possibility to build/lose sustainable competitive advantage?
- Integrated or Modular:
  How tightly are the sourced goods integrated with the company?



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Decision Factors Example

This example uses a fictitious MLV translation agency with 20 employees, specialized on marketing material. Should they "make" their translation in-house? What should they do with the workflow?

The decisions depends on many factors:

- „Value" or „ Impact":
  How much $$$ is involved in the sourcing decision
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  How efficient is you compa
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  Does the sourcing decision influe
  build/loose sustainable competitive advantage?
- Integrated or Modular:
  How tightly are the sourced good
  company?

Office Material	Standard Translation	Marketing Translation	Workflow
Low	High	**High**	High
Very low	OK	**Good**	Bad
Easy	Easy	**Diff**	Diff
Same	Good	**Med-Bad**	Bad
Not	Not	**Stra-tegic**	Med
Med	Med	**Med**	Integ

The company creates "value", by training it's in-house staff in marketing translations. Freelance translators with these skills are very expensive.

Freelance translators with these skills are very difficult to find.

Big translation agencies may have better access to the skilled resources

Big translation agencies may have better access to the skilled resources

A new translator has to learn a lot of knowledge upon joining the company

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

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Textbook Theory

- "Classical" – Value vs. Risk
- "Skills" - Skills vs. Strategic Importance
- "IT Depts." - Strategic vs. Efficiency
- "Integration" - Modular vs. Dependent
- "Ford Motor Company" Case Suggestions
- "Resource Dependence Theory"

"Classical" – Value vs. Risk

Critical Ex: Very unique and "over specified" items Goal: Reduce or eliminate	**Strategic** Ex: Components that represent a competitive edge in marketplace Goal: Form strategic alliances, partnerships, limited global sourcing
Routine Ex. Office supplies, MRO, Administrative Goal: Reduce activity, minimize transactions, supplier managed inventory	**Leverage** Ex. Basic Production materials, packaging Goal: Maximize leverage, standardize, consolidate volumes, reduce transaction costs

Risk: High / Low

Value: Low → High

Source: I-Ping Chou, Cristal Brun, Augusto Gamarra: "Supply Chain Strategies Part II"

"Classical" – Value vs. Risk

Routine Items

- Routine items are low-value activities which contribute little to the strategic direction of the firm
- Implement streamlining in the acquisition process
- Purchasing goal: Reduce the time spent by personnel in the firm on the acquisition, delivery, stock-keeping, and payment of these items

Leverage Items

- Leverage items are high-value activities
- Focus on short-term contracts and pursue a proactive supply strategy to find new substitute products
- Purchasing Goal: Increase profit margin, use competitive purchasing practices to increase profitability

Critical Items

- Critical items are low-value activities with high exposure/risk
- Strategic items are high-value activities with high risk/exposure
- Purchasing Goal: Evaluate them for elimination

Strategic Items

- Require the highest level of purchasing competence; consider long-term contracts.
- Total cost of acquisition must be monitored and controlled
- Purchasing Goal: Maximize competitive advantage
  - Earlier time to market, Superior Product Quality, Rapid Innovations

Source: I-Ping Chou, Cristal Brun, Augusto Gamarra: "Supply Chain Strategies Part II"

"Classical" – Value vs. Risk

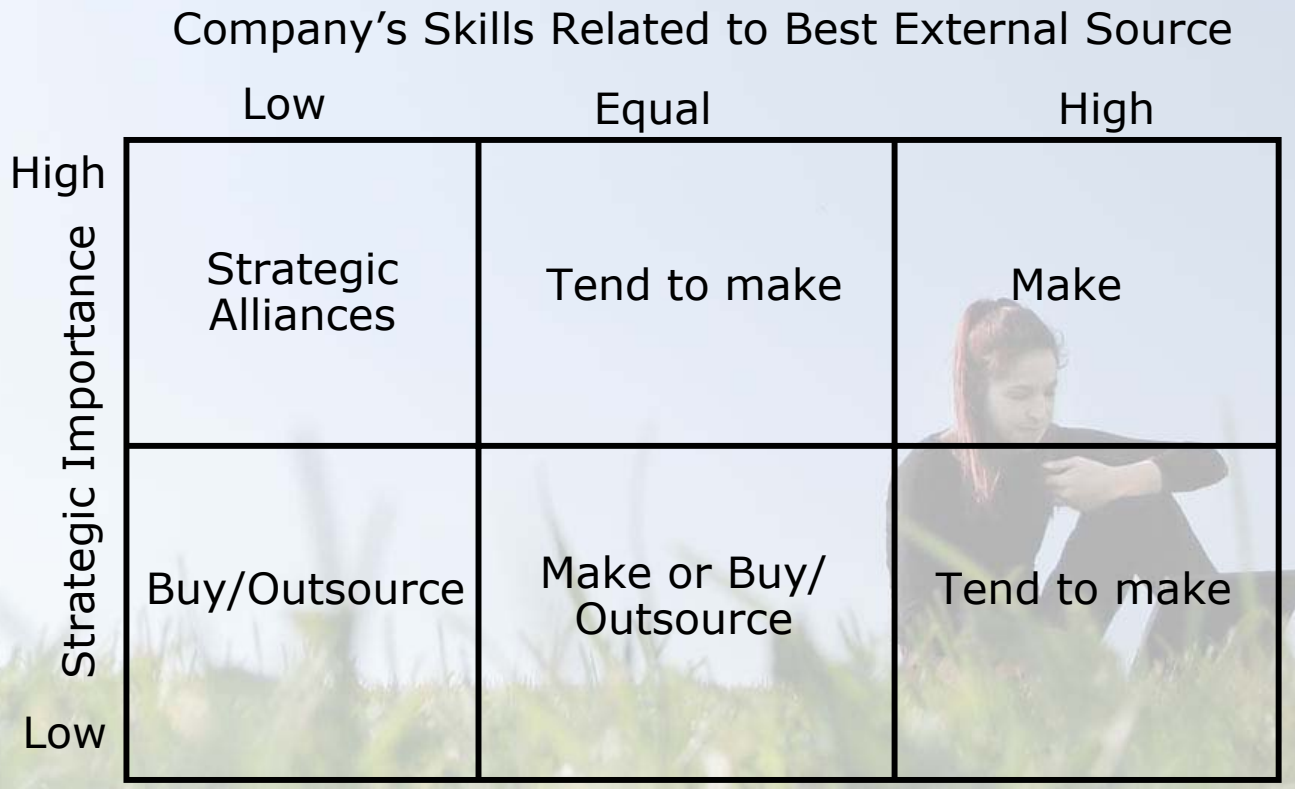
- Covers the global sourcing situation of a company
- The classic 2x2 sourcing matrix
- Being tought in all MBA sourcing classes

- Very generic
- Most major IT systems are located in the "Strategic" sector.

➔ There are few conclusions for IT sourcing concerning "Make" or "Buy", except that we have to keep digging.

Source: I-Ping Chou, Cristal Brun, Augusto Gamarra: "Supply Chain Strategies Part II"

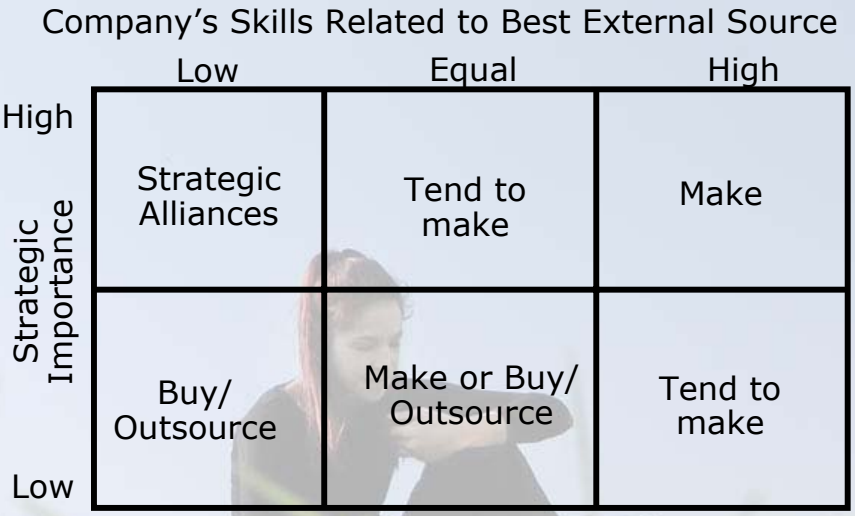
"Skills" - Skills vs. Strategic Importance



Source: T. Rands: A framework for managing software make or buy. EJoIS, 1993, pp. 273-282.

"Skills" - Skills vs. Strategic Importance

- Generic matrix, not only for IT outsourcing decisions
- The 2x2 is used for large corporations. It's not clear how it relates to SME's



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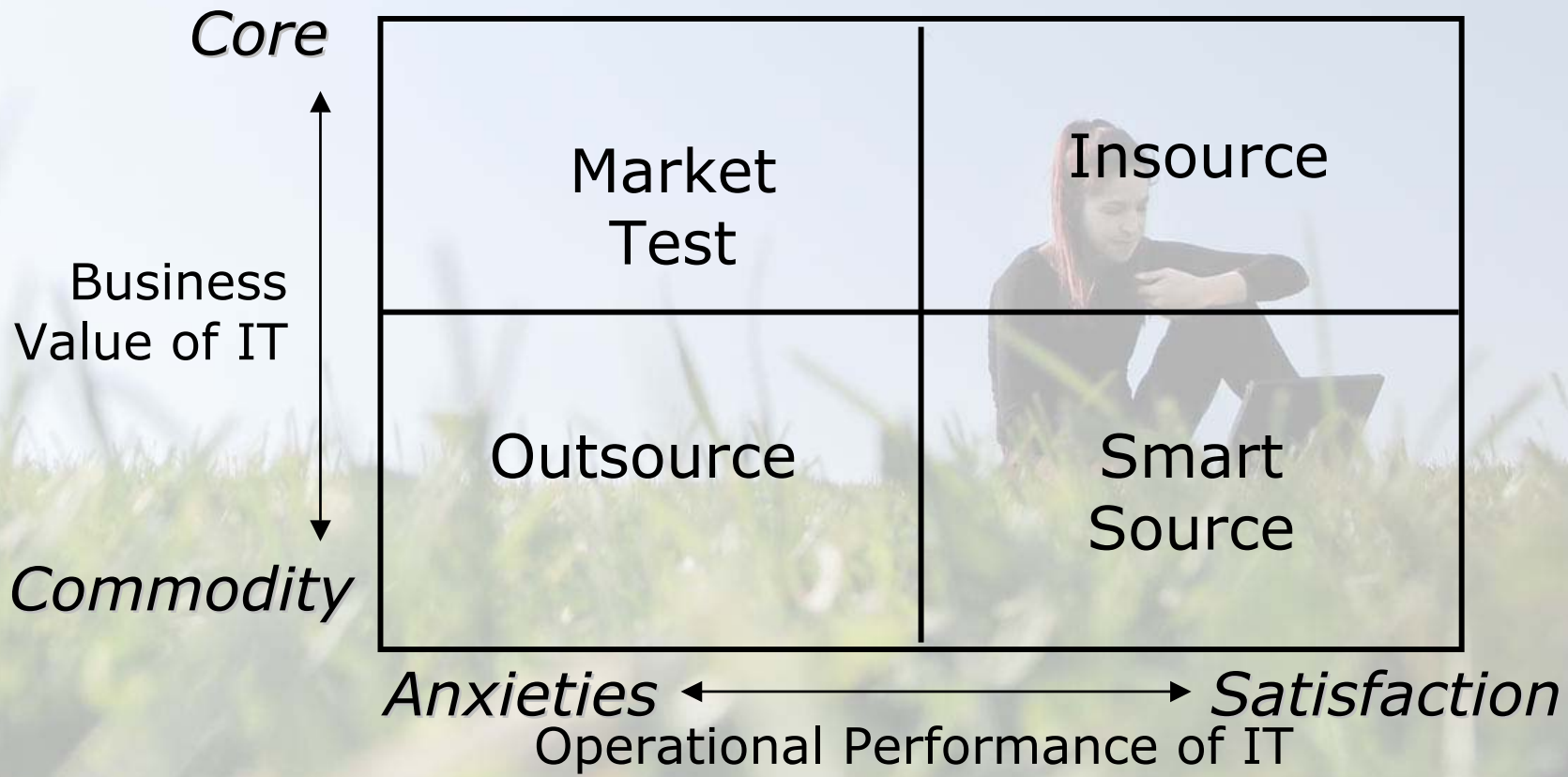
"IT Depts." - Strategic vs. Efficiency



Source: Adam Murray: Costing, Outsourcing and Contracts

"IT Depts." - Strategic vs. Efficiency

When to Outsource

- reduce head count
- service a "commodity"
- can’t afford time, $ for new tech
- can’t keep good staff
- don’t have good staff
- small project

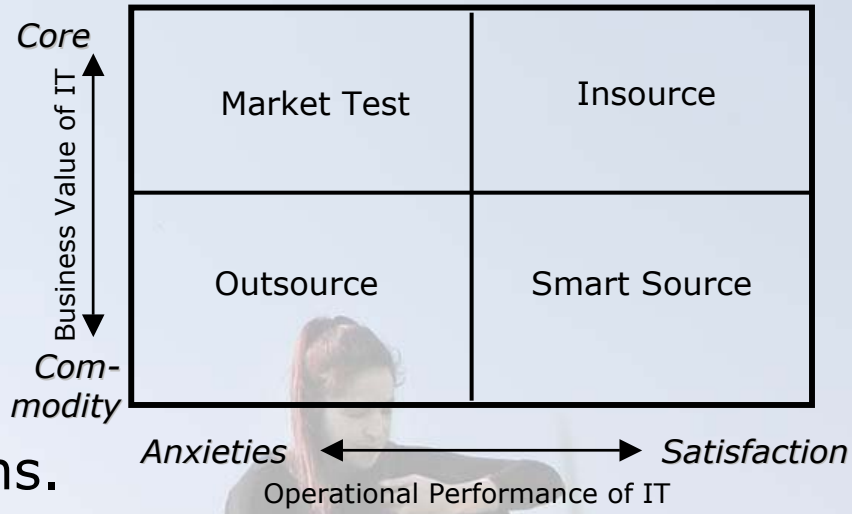
When to Insource

- function is mission critical
- is a core competency
- cannot identify any cost savings
- not clear that vendor is any better
- vendor cannot be "controlled"

Source: Adam Murray, Costing, Outsourcing and Contracts

"IT Depts." - Strategic vs. Efficiency

- Focuses on the experience that an in-house IT department doesn't fully satisfy expectations.
- The 2x2 is being used in generic IT outsourcing decisions in large corporations.



- The "Operational Performance of IT" measure depends on the track record of the IT department in a given area. This may be difficult to measure in the case of complex software development

Source: Adam Murray, Costing, Outsourcing and Contracts

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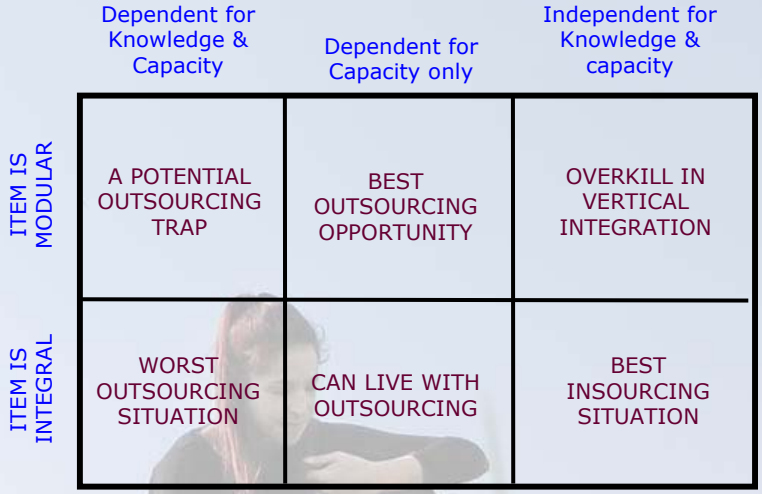
"Integration" - Modular vs. Dependent

	Dependent for Knowledge & Capacity	Dependent for Capacity only	Independent for Knowledge & capacity
ITEM IS MODULAR	A POTENTIAL OUTSOURCING TRAP	BEST OUTSOURCING OPPORTUNITY	OVERKILL IN VERTICAL INTEGRATION
ITEM IS INTEGRAL	WORST OUTSOURCING SITUATION	CAN LIVE WITH OUTSOURCING	BEST INSOURCING SITUATION

Source: Fine & Whitney, "Is the Make/Buy Decision Process a Core Competence?"

"Integration" - Modular vs. Dependent

- Focuses on "modularity" of the product or service
- Captures the "dependency" of other systems in the product's company.



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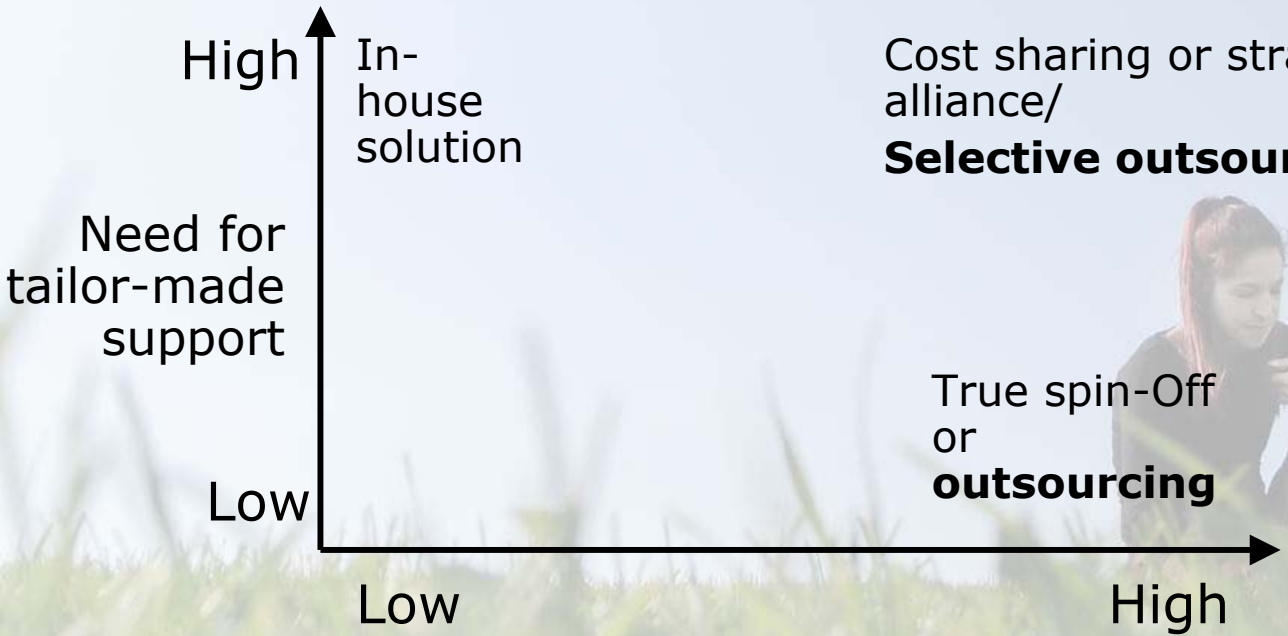
ITEM IS INTEGRAL	WORST OUTSOURCING SITUATION	CAN LIVE WITH OUTSOURCING	BEST INSOURCING SITUATION

➔ May apply more to the decison of how to source part of a product than to the IT "make or buy" decision. Also, the author further elaborates on the concept of "clockspeed" in the corresponding market which doesn't apply to IT sourcing decisions.

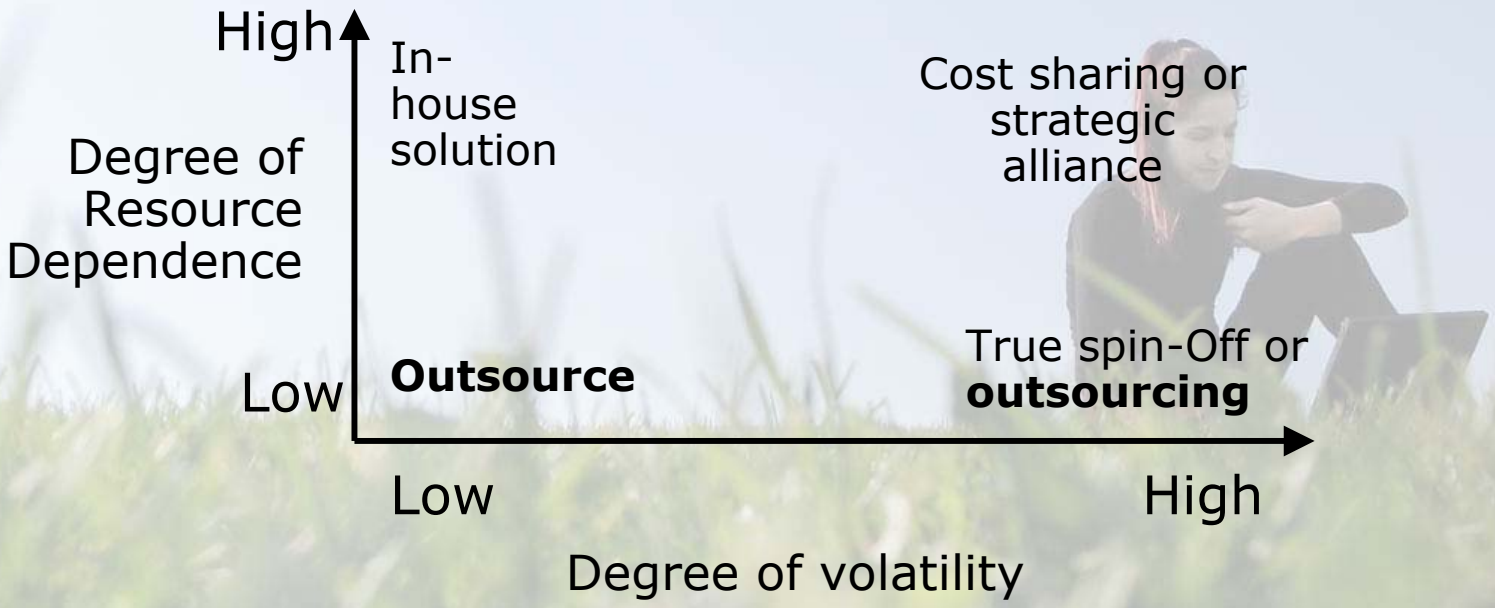
Source: Fine & Whitney, "Is the Make/Buy Decision Process a Core Competence?"

"Ford Motor Company" Case Suggestions



Source: Ford Motor Company Case: Supply Chain Strategy

"Resource Dependence Theory"



Source: Strategic Choice Framework for the IT Professional Resource

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Summary

- "Classical" – Value vs. Risk
- "Skills" - Skills vs. Strategic Importance

"Classical" – Value vs. Risk

Critical Ex: Very unique and "over specified" items Goal: Reduce or eliminate	**Strategic** Ex: Components that represent a competitive edge in marketplace Goal: Form strategic alliances, partnerships, limited global sourcing
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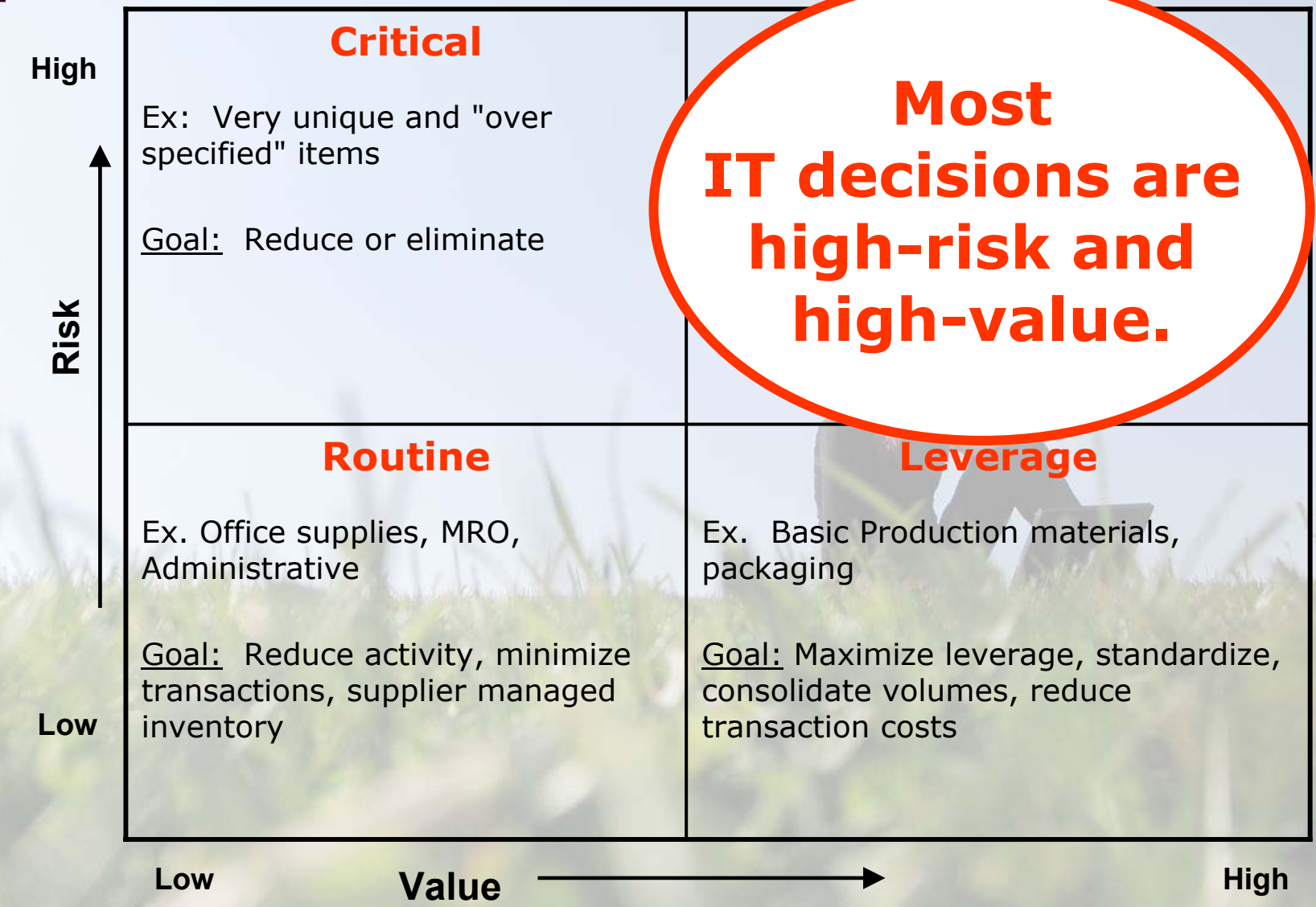
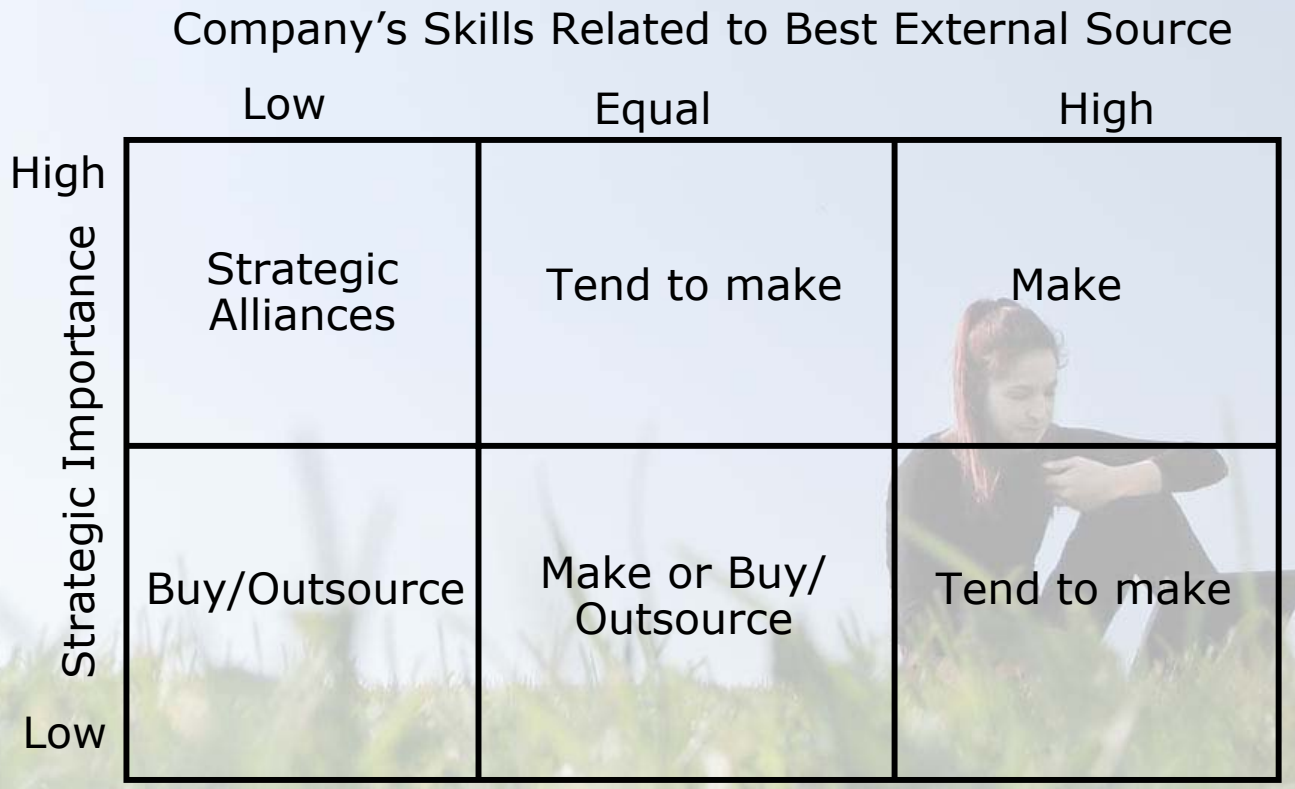
"Classical" – Value vs. Risk



Most IT decisions are high-risk and high-value.

Source: I-Ping Chou, Cristal Brun, Augusto Gamarra: "Supply Chain Strategies Part II"

"Skills" - Skills vs. Strategic Importance



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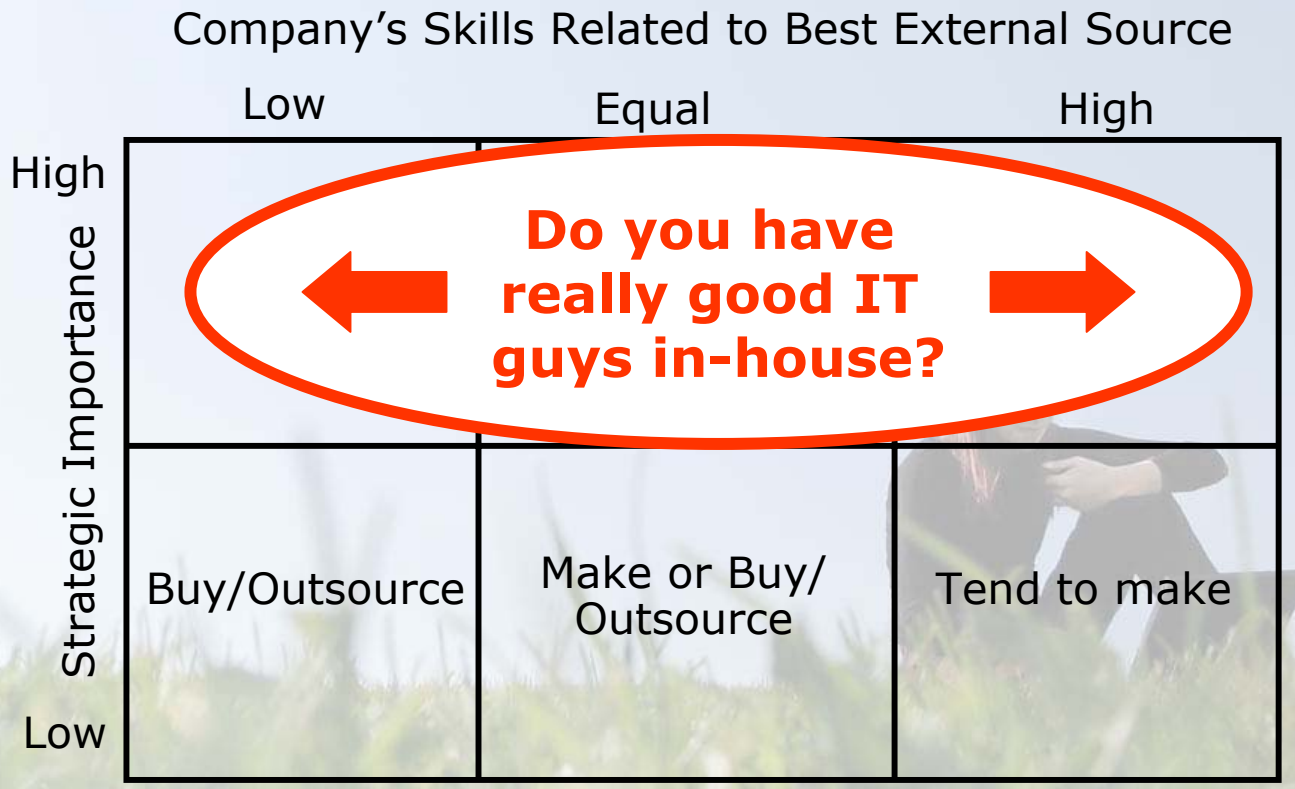

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Summary: Two Relevant Factors

- Strategic or Not?
- How good is your IT team?
  (Compare with the best external source)

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Strategic or Not?

- What is "Strategic"
- IT is not "Strategic"
- Translation Workflow Benefits
- Translation Workflow Extensions
- How to Differentiate?
- Sample ERP Architecture
- Strategic Modules

What is "Strategic"

A **strategy** is a long term plan of action designed to achieve a particular goal [...].

Wikipedia

- Goal:
  - ➔Sustainable competitive advantage
  - ➔Sustainable superior margins
- Examples that are known to work:
  - Size: Be the biggest
  - Price: Be the cheapest
  - Specialization: Be the best in a very specific field

IT is not "Strategic"

Michael Porter claims IT doesn't provide companies with a competitive advantage:

- To gain competitive advantage using IS and IT usually needs an element of surprise; the system needs to be out in the market place before competitors make a start in copying the idea
- Sustaining that competitive advantage requires either:
  - Converting the technical advantage into brand advantage
  - Sustaining the technical lead by continuous product and service development

Source: "Strategy and the Internet", Michael Porter, Harvard Business Review March 2001

Translation Workflow Benefits

	Strategic for you?
Improved general efficiency by 20%	no
Demonstrate sophistication to customers	no
Improve quality (process standardization)	no
Take more informed project staffing decisions	no

➔ Generic Translation Workflow is not "strategic" (according to Porter)...

➔ You may need it anyway to match or exceed your competitor's "operational efficiency".

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

How do you compete?

Sales/ Channel	▪ Brand ▪ Salesforce ("presence") ▪ Proximity
Specialization/ Niche	▪ Specialization on field, industry sector, value chain position,... ▪ Linguistic Resources ▪ Upward Integration ▪ High Quality
Price	▪ Price ▪ Size / economies of scale
Service	▪ Capability to execute /Company Size ▪ Execution Speed ▪ Customer Service ▪ One-Stop shop
...(?)	▪ ...

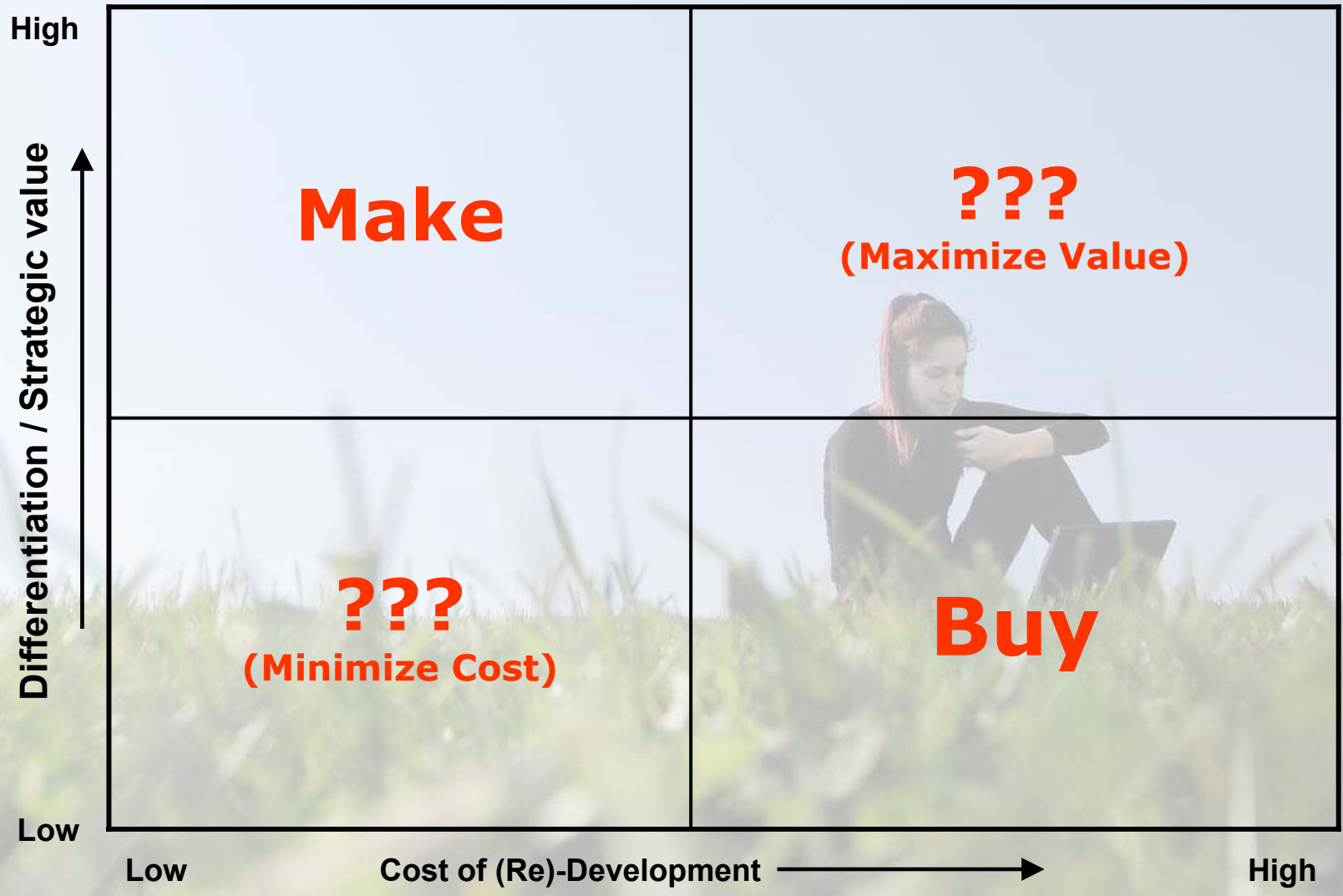
Translation Workflow Extensions

	Strategic for you?
Support for specialized processes?	maybe
Managing knowledge in order to allow for synergies in very big company	maybe
Special way to manage quality	maybe
Attract better freelancers	maybe
Manage existing knowledge	maybe
. . .	. . .

➔ You may have to extend your IT application using proprietary functionality in order to gain a sustained competitive advantage.

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

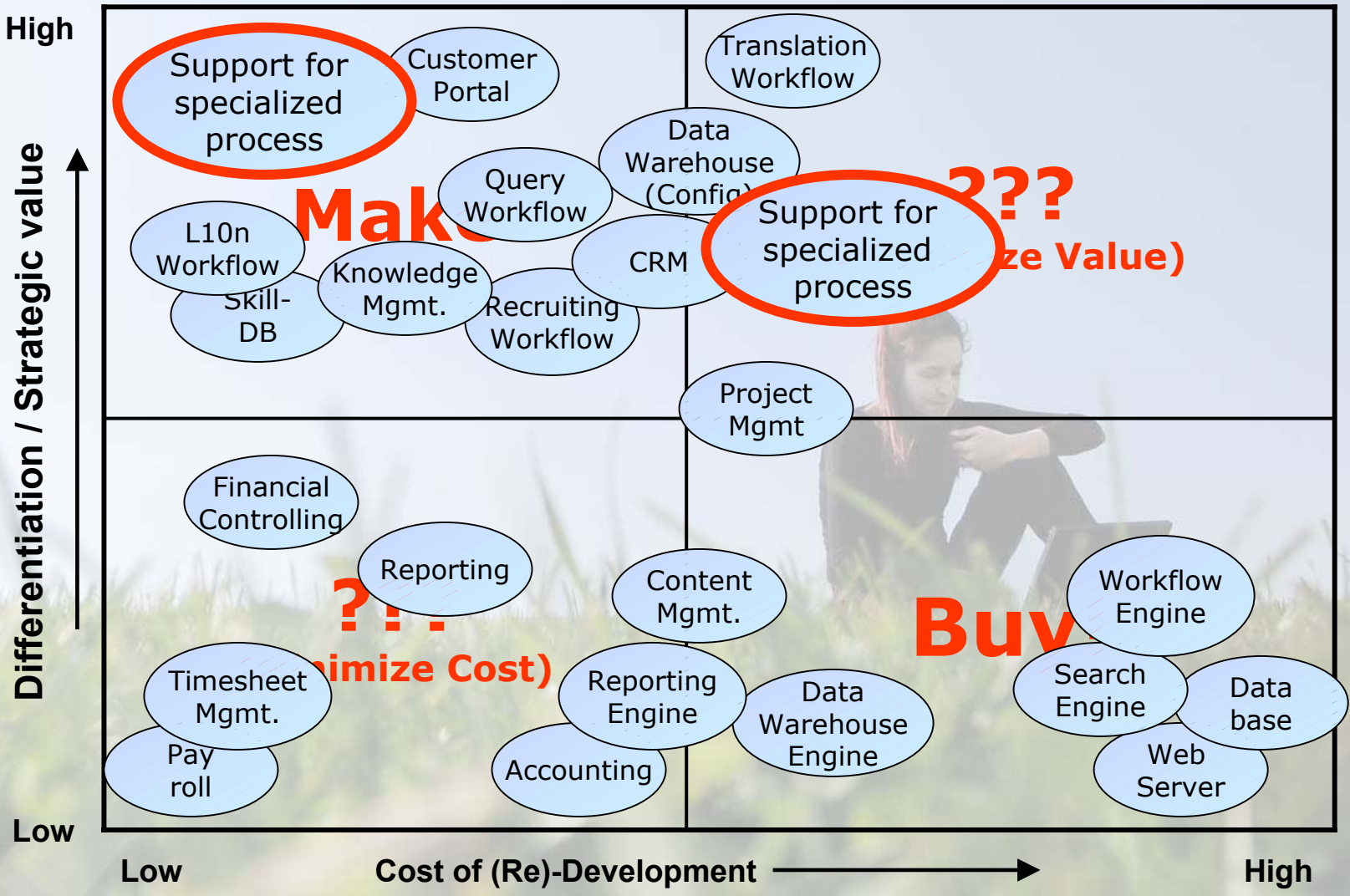
How to Differentiate?



Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

How to Differentiate?

Sample Modules from]project-open[



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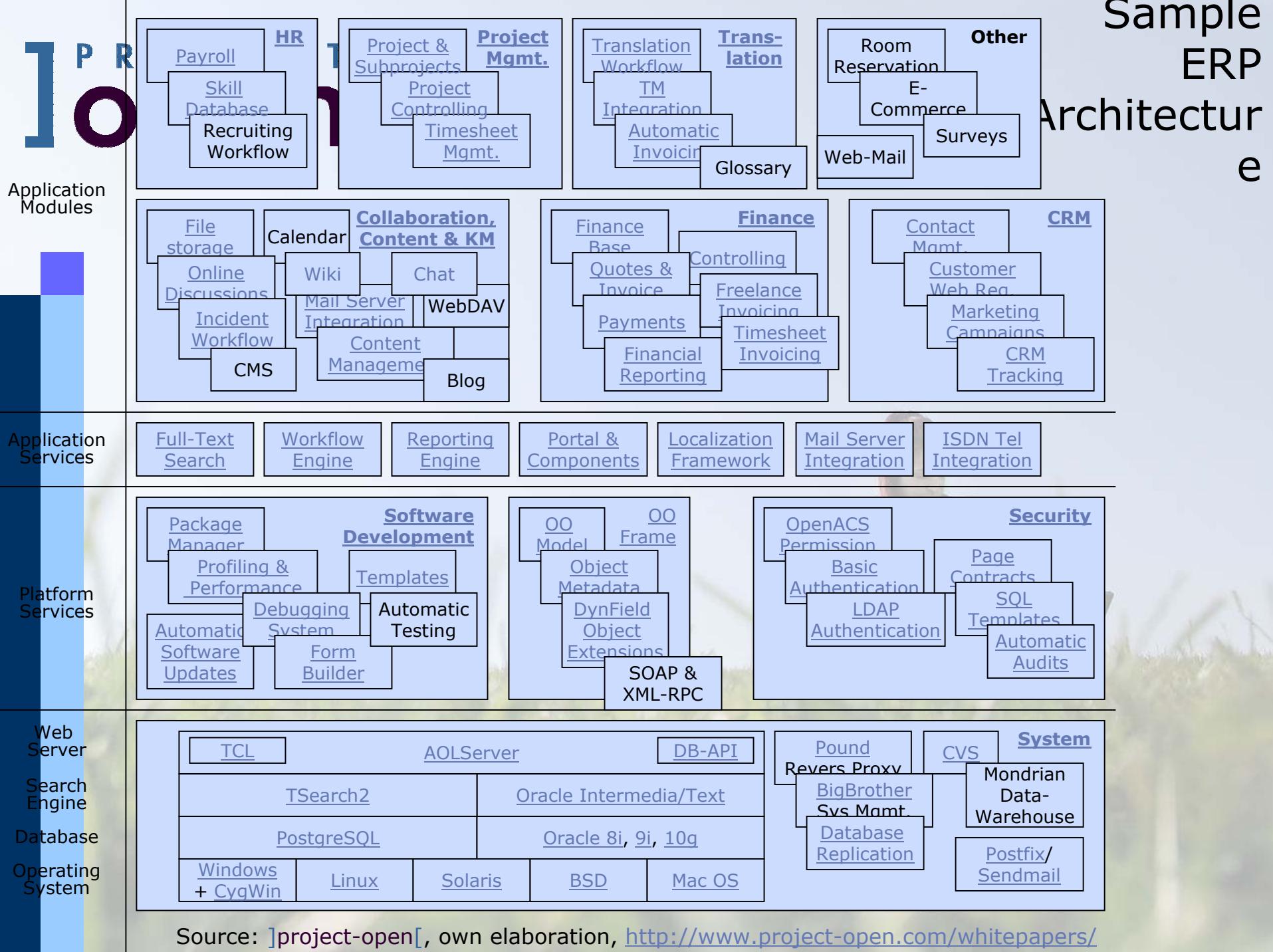
Sample ERP Architecture



Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

Application Modules

Application Services

Platform Services

Web Server

Search Engine

Database

Operating System

Possibly(!) Strategic

Strategic Modules

Nothing but Headaches

Source:]project-open[, own elaboration, http://www.project-open.com/whitepapers/

Frank Bergmann

frank.bergmann@project-open.com

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