

# enterprising solutions

WITH ROBERT GROSSMAN

## Deliberating 'Build Vs. Buy'

**D**uring my career, I have had the opportunity to work for several different manufacturers in the electronic security field and built consulting relationships with others as well.

One aspect common to all of these organizations is a healthy internal debate over "build vs. buy" when it comes to new product development. This month, I'd like to review the reasons for that decision-making process and illustrate how you might benefit from a similar line of thinking in your own organization.

In the May 2005 issue of *Security Sales & Integration*, I wrote about the build vs. buy debate in the story, "Birth of a Security Product." The article discussed the rapid rate of change in the electronic security industry and how most companies have more products on their wish list than they have time or resources to develop. This can lead to a crossroads: should they postpone some of these ideas until they are able

cameras, monitors and DVRs, falls into this category.

A second category represents a true development and manufacturing partnership. In these cases, almost all of the steps required for internal product development are followed, but they are split between two companies and across geographies. The end result is a unique product, often containing jointly developed intellectual property. Products developed in this manner can often be brought to market quicker, and for lower cost, since much of the engineering work is performed in countries with cheaper labor than in the United States.

The downside can be orphaned products as relationships change and manufacturers change outside development partners. While this is not an issue with products such as cameras and monitors, where interoperability is not a factor, it can be a problem with DVRs and other IP-based products.

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to handle them internally, or look to an outside partner?

Working with an outside development partner in these cases usually takes two paths.

First, an original equipment manufacturer (OEM) relationship generally allows a company to select a product from an existing product line, make minor cosmetic changes and perhaps fine-tune a few features. The vast majority of outsourced equipment procurement, including many name-brand

These often form the building blocks of larger systems, and compatibility, both backwards and future, can be critical.

### Conduct Analysis and Take Action

Similar to product manufacturers, most, if not all, organizations suffer from a lack of resources. Integrators may be rapidly expanding, but finding enough skilled workers to meet the demands of an increased workload is a challenge that often seems like an impossible dream.



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End users are faced with limited budgets and what seems to many to be a perpetual hiring freeze, even in the best of times. Like a manufacturer, one solution is to perform the build vs. buy analysis and act accordingly.

Most manufacturers would prefer to build everything internally, and I suspect other organizations would prefer to handle things in-house as well. Determining what to outsource is often a decision of last resort. The alternative is getting it done poorly or ineffectively by people who don't really have the time and/or skills, or not getting it done at all.

### Core Mission Can Be Guiding Light

To simplify the decision-making process, it helps to identify your organization's core mission. This is your reason for being, and others should never handle it. The lessons you learn in performing your core mission become strategic intellectual property and are often critical to the success of your business.

A manufacturer specializing in DVRs, for example, would never outsource the design and development of this type of product. However, many smaller DVR manufacturers do outsource products to supplement their product lines, such as cameras, monitors and accessories.

Some facilities take this to an extreme. One large operator of shopping malls in the United States chooses to outsource its entire security operation with great success. They own the equipment, but the staffing, management

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and physical security officers are all working for a third party. This symbiotic relationship works very well; the security firm is more highly trained than most guard services and has become an expert in mall security. They can move personnel from place to place as needed, while the malls free up their management resources to focus on operating successful shopping centers.

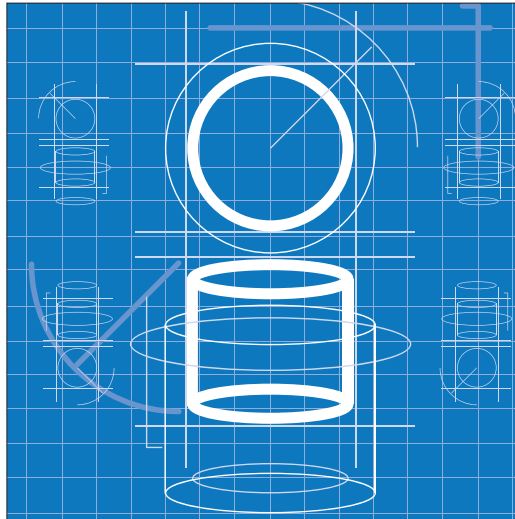
## Outsourcing Provides Flexibility

Integrators often have the opportunity to outsource work as well. Many think nothing of hiring a local subcontractor to supplement their workforce on projects that are bigger (or farther away) than they normally handle. But there are also other opportunities.

For example, our firm was hired to generate the as-built drawings and documentation for a large project. Since the company's in-house staff was in the midst of starting up another sizable job, it didn't have the resources to handle both projects at once.

In other cases, consulting and design firms are used to provide system design and documentation for smaller firms bidding on projects that have the staff and installation expertise, but might be lacking in design resources. Both of these examples show the value of relying on a third party to supplement your team without compromising quality.

More common is the outsourcing of technical services. Rather than hire technicians to service and maintain equipment, many companies choose to purchase service contracts, a form of outsourcing. This relieves them of the burden of staffing and training, while guaranteeing them a predetermined response time and fixed costs over the life of the agreement. In practice, this works with varying degrees of success. Some service providers are proactive and care for the systems as if they were their own, while others are more reactive, only fixing things when they've failed and have been reported.



**True development and manufacturing partnerships are useful for a company that may not have time or resources to develop its own products. Products resulting from these partnerships, often containing jointly developed intellectual property, can be brought to market quicker and for lower cost.**

The best way to ensure the quality of outsourced work is to hold it to the same high standards that you would if it was being performed by your own staff. If you're unhappy with the appearance, demeanor or professionalism of the third-party contractor, speak up. You always have the option of selecting another provider, and often the threat of doing that will improve services dramatically.

In a recent audit of a client's system, we found problems with more than half the cameras in a system that was supposed to be receiving monthly preventative maintenance visits. Our goal now: shake up the service provider and fix the problems with moving to a replacement provider as our client's option of last resort.

Even when things are going well there's also a hidden downside when outsourcing technical services. Over time, the third-party company will become more familiar with your systems, policies and procedures than your own in-house staff. While this may not be a problem at the beginning when they're doing things that you don't have time to handle, in time you will become more and more dependent on your outsourcing partner.

If this happens, make sure you're paying attention to their business as well. If they grow too quickly and their service suffers, they change ownership, or they go out of business, you'll need to be prepared with a "Plan B." Also, when negotiating pricing at contract renewal time, it might be best to let them know you have such a backup plan. Otherwise, the cost savings that can come with outsourcing can quickly evaporate.

## Mind the Slippery Slope

In addition to completing work that can't be handled internally, outsourcing often leads to cost savings. But this can be a slippery slope. Be careful of making these types of build vs. buy decisions strictly with an eye focused on the bottom line.

While initial cost savings may seem enticing and can help justify the decision, there are often hidden costs associated with the transition and implementation of some services to third parties that result in unforeseen consequences.

One timely example of this is Round Rock, Texas-based computer maker Dell. Its efficient use of build-to-order, slim margins and a finely tuned supply chain kept it on top of the computer market for years. The company identified these areas as core competencies and paid strict attention to them, with great success.

However, to some extent Dell began to view customer contact as a secondary function. It decided to outsource call centers and tech support to other lower-cost regions, treating these as commodity services. Customers disagreed with that strategy and began buying from competitors. To regain lost trust and win back customers, Dell has upgraded its investment in the "customer experience" by an additional \$150 million annually, according to information posted on its Web site.

The moral: by looking for improvement first and treating cost savings as a secondary benefit, it's harder to go wrong. ■