

# The New Dynamics of Build Vs Buy

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## Introduction

In an era marked by consolidation and emergence of new non-traditional competitors, insurance companies are clearly under immense pressure to differentiate. Successful players in the insurance segment are boosting their competitiveness by aggressively using information technology for introducing new products and services and reducing the operational cost of doing business. However, the dilemma that enterprises face today is whether they should Build or Buy systems. While both approaches have their own merits and challenges, the scale has slightly tilted towards the 'Build approach' in recent times. This is due to highly productive new development methodologies and mature project management techniques. This paper tries to describe the merits of following a Build approach against the traditional industry trend favoring 'Buy'.

## The Reality Behind the Hype

Build Vs Buy has always been a classic debate and the current competitive landscape has forced many insurers to be influenced by the 'Buy' approach. Hype around new technologies such as SOA, BPM, predictive and proactive analytics, workflow, records management, rules collaboration add pressure on CIOs to consider tools and technologies without fully understanding the business impact. While there is a lot of promise, the potential is never fully utilized.

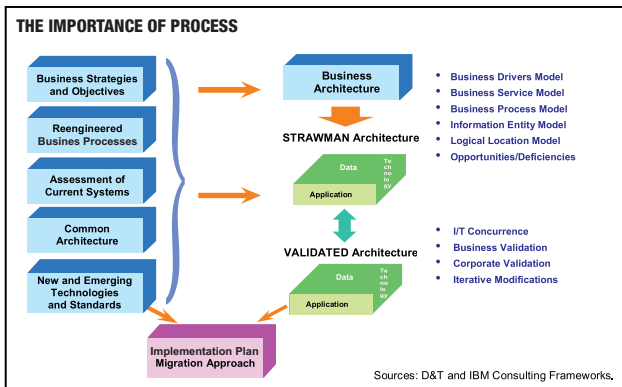
This tendency to be swayed away by the hype has created 'shelfware' in many organizations wherein the tools bought are hardly being utilized to their full potential. For example, we came across an organization that had purchased analytical business intelligence tools to aid its decision making process. While the tools were the best in the business, the organization still did not gain. The real problems, as we discovered, were that the data model was faulty and the data content was invalid, inconsistent, and incomplete.

There is an important lesson for all organizations here. If you try to modernize just one application without thinking about how it fits in with the other pieces of your enterprise architecture, the cost reductions and improvements in efficiencies are just not going to happen. This is one key reason why most emerging tools or technologies fail to live up to their hype.

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## The Right Path

Business strategy drives business process; business process drives applications and data; applications and data drive infrastructure. Any change in this order can lead to inefficiencies. Most failures of enterprise systems occur because organizations have bought infrastructure and technology first, and then tried to apply it to the business. Looking for packages without knowing the business problems is also a disaster right from the time you have bought the product. The simple reality is that it is not tools, which give organizations the competitive edge, but the development process. This has been proven by immensely successful organizations like GE which has been leading the market by improving its business and technology processes on a continuous basis.



### REASONS WHY ENTERPRISE SYSTEMS FAIL

1. **Buying infrastructure and technology first, and then try to apply it to the business**
2. **Looking for packages without knowing the business problems to be addressed.**

The right path lies in building a solution for addressing a business need as opposed to force fitting packaged software application to the processes of your organization. Organizations who adopt the latter path often complain of changing their unique business processes to be able to derive value from the enterprise application. Whether buying or building or both, the following steps are recommended for building a flexible and scalable enterprise service architecture:

- Define principles
- Align business and IT
- Define a reference enterprise architecture guide
- Adhere to principles and reference architecture(s)
- Engineer processes "outwardly"
- Consider options to reduce "total cost of ownership"
- Select tools that enforce adherence
- Select tools with "frameworks"

Only when an architectural model is built, should an organization consider selecting tools. It is important to realize that in many

cases, differentiation in the way a company operates rather than speed is the key to success.

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## Advantages of Build

**Company expertise captured:** Building a solution helps in capturing the subject matter expertise of domain experts and defining it in the form of rules or processes. Custom built applications can help insurers to be more competitive and specialized in their approach.

**Accurate policy decisions:** Custom built systems can provide accurate policy decisions and factor in exceptions more flexibly. Additionally, as users provide their feedback, the existing business processes can be modified quickly.

**Faster go to market:** Custom built applications can also help insurers provide new products and services to their policyholders in a shorter timeframe.

## Decomposing Legacy Systems into SOA

Existing legacy systems contain automated business processes and business rules developed over several generations. This knowledge must be captured because the time or subject matter expertise required to build technology from the ground up may be scarce. Consequently, existing legacy systems should be redesigned, re-architected and decomposed for the adoption of Web services. Exposing core application functions as services allows for easier integration and loose-coupling between applications. As SOA uses the Enterprise Service Bus, it allows substitution of one application or service without any impact. Organizations that build custom applications on SOA will have the foundation to support new insurance products and the ability to tailor their systems to change the way they do business.

### THE WAY TO WEB SERVICES

1. **Develop a reusable integration methodology that ties in seamlessly with both internal and external systems.**
2. **Adopt an enterprise business architecture framework – from processes to data. This can ensure a common standard and fewer integration hassles across the value chain.**

## The Right Resources

While custom built applications give organizations flexibility and differentiation, it is important for organizations to have a forward

looking IT group that constantly monitors new developments. The ability of the application to scale up according to the needs of the organization is crucial. Organizations should also have the resources to support and maintain the application. The challenge of "just-in-time" resources can be effectively managed by outsourcing or offshoring application development and maintenance needs to a mature service provider. Offshoring is one of the key reasons why custom-built applications today appear far more attractive than packaged applications.

**BUILD OR BUY: 3 THINGS TO KEEP IN MIND**

- 1. Identify the key expectations from the enterprise system. Are you willing to change your business process to suit the system?**
- 2. The best tools available cannot make up for the lack of thought to business problems, processes or strategy.**
- 3. Choose the option that best leverages your unique processes and differentiators**

## Conclusion

There is no silver bullet for success. Whether you Buy or Build depends on the capability, appetite and attention span of the organization. A successful Buy or Build strategy is a result of adherence to process. Adopting a Build approach can be far more advantageous to organizations as it allows them to build a foundation for the services they want to deliver in the future. Organizations have to decide whether they want to change their business to suit IT or use IT to make them more competitive. Accordingly, they can explore the approach that best fits with their business goals.

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