

# Verigy Ltd.: A New Outsourcing Model for a New Company

*A Case Study Presented By Centroid*

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## Outsourcing: Going Against the Flow

*By re-thinking the traditional approach to outsourcing, test-systems company Verigy has found both lower costs and high quality.*

In June 2006, Verigy Ltd. was spun off from Agilent Technologies, a provider of measurement tools and solutions, and quickly completed an IPO. As a newly independent organization, Verigy needed to move off of its former parent company's IT systems and begin operating its own. And that presented both challenges and opportunities, says Todd Hauschildt, the company's CIO.

"We were in a unique situation where we were creating everything from scratch—infrastructure, application footprint, everything," says Hauschildt. "That's good because we could start new, but it was also difficult because it meant that we had to cope with a learning curve and determine the best way to operate our systems over the long run."

Based in Cupertino, California, Verigy designs, manufactures, sells and services a variety of advanced test systems and solutions used by semiconductor companies worldwide to assess their chip designs and manufacturing processes. With its roots extending through Agilent back to Hewlett Packard, the \$800 million company has a long history of innovation.

Now, as a newly launched public company, Verigy was building on that history. As a company report notes, the organization was designed to be "streamlined, more flexible and focused exclusively on semiconductor tests." With that in mind—and looking at the clean IT slate in front of him—Hauschildt decided that he wanted to break with the traditional approach to managing critical applications, and instead find a more innovative way forward. By re-thinking some of the fundamental assumptions around outsourcing—and questioning traditional models—he and Verigy found a way to cost-effectively manage the company's Oracle E-Business Suite and dozens of other applications—and at the same time achieve high performance levels in support of the business, and the more than 1,800 users who rely on those applications.

## Beyond Conventional Wisdom

Verigy had decided early on that it wanted to work with an outsourcing partner in order to control costs and support the company's focus on its core semiconductor test business. Conventional wisdom said that the company should look for a large outsourcing vendor who would shift the bulk of the applications management work to a low-cost country overseas. But Hauschildt had had a considerable amount of experience with that offshoring model—and he knew that Verigy could find a better way.

““When I talked to a lot of the traditional big outsourcers, but we weren't very happy with what they came back with,” Hauschildt says. “They tended to have the traditional outsourcing model where most of the work is handled overseas in India. The basic rates were pretty competitive, but that approach usually involves a lot of hierarchy needed to manage a lot of inexperienced individuals who are doing the actual work on the applications.” Typically, he says, that approach tends to involve a slow start as the offshore team gets up to speed, and ongoing delays as requests and issues move up down the hierarchy and those inexperienced workers struggle to solve problems. “Basically, with that model you know you are going to spend a lot of time with issues in escalation and waiting for them to be resolved,” Hauschildt says.

Verigy began talking to Centroid, a Detroit-based outsourcing and consulting firm, about a different application outsourcing model. Centroid suggested an arrangement that would use a relatively small number of people who had deep experience in technology and business, and who would work in close physical proximity to Verigy, rather than overseas. “The interesting thing was that the offshore providers were talking about using anywhere from 50 to 100 people to support us,” says Hauschildt. “The Centroid approach was more like 14 people. The difference is that their model relies on people who all have a great deal of experience in doing this kind of work.” What's more, he says, the cost in the Centroid proposal was actually lower than what Verigy was hearing from other bidders. Says Hauschildt: “We were intrigued.”

Going with this model would not be the usual approach, and Hauschildt recalls colleagues recommending taking the “safe” route with a big-name vendor and an offshore model. But he had worked with Centroid before earlier in his career, when the company had been called in to fix a range of technical problems, and at times, “clean up” after offshore outsourcers. “We knew the Centroid people are well-seasoned and have a lot of technical knowledge. So, I looked at their proposal from a financial perspective and a business-value perspective, and decided it was the right approach,” he says.

## Shortening the Time to Value

To implement its new systems, Verigy worked with a large consulting company, drawing on some assistance from Centroid experts. Time was of the essence in finishing the implementation and transitioning the systems to Centroid for ongoing management . Doing so sooner rather than later would be important to supporting the business, and to controlling the costs of implementation. As a result, Verigy explored the idea of having Centroid take on the management of the applications weeks earlier than originally planned.

“We were asked about accelerating the schedule and taking over from the consulting firm 15 days earlier,” says Jim Brull, senior partner at Centroid. “There was a lot to consider—we were going to be managing 50-plus databases and 35 different applications, with users in 13 countries. We assessed the situation, and came back and said we could do it even a month earlier than they had requested—basically, beating the original date by 45 days.”

“We ended up with a three-month transition, which was very short,” says Verigy’s Hauschildt. What’s more, he points out that this speed did not impair the effectiveness of the effort. “You read in the industry press about this kind of project taking six months before the system is stabilized. But with Centroid’s help, we have been up and running from Day One. We have been able to use the system to close our books every month since we started the company in 2006. That’s huge.”

## **Saving Money, Serving the Business**

After two years, Verigy's application outsourcing arrangement continues to meet the company's needs on a number of fronts. Service levels have been consistently met or exceeded, and availability for critical systems has been in the 99.99% range. "We've had only minor downtime—the kind that most CIOs with similar systems would find remarkable," says Hauschildt. "That's important, because at the end of the day the business people just expect IT to work, to be always there so they can do their jobs. And the reality is that it has been." In addition, the arrangement has proven to be a very cost-effective way to achieve that kind of high performance, with Centroid's approach being more than 10% cheaper than the traditional offshoring-based models.

Beyond such tangible benefits, Hauschildt also cites the value of working in an outsourcing relationship that doesn't have layers of management. That means that Verigy has easy access to the right skilled people and decision makers at its outsourcing partner, which translates into good communication and better responsiveness. "Based on my experience, I think that if we had gone with one of the big-name outsourcers and the traditional model, it would have been difficult to get their attention. If I had an issue, it would probably be six months before we could start to get what we wanted." With Centroid experts on-site, on the other hand, the company can typically get a rapid response to any requests. Hauschildt points out that there is value in getting in system enhancements in place quickly, so that the business can begin using them to as soon as possible to serve customers and compete.

Over time, the outsourcing relationship has been strengthened, as Verigy has tapped into Centroid's expertise for help beyond application management. For example, says Hauschildt, "in the early stages, we had them do a fair amount of the process work to supplement our business folks." Centroid also completed a large data warehouse project for the company—in just six months—and generally handles application-related enhancements and projects. Relying on Centroid for delivering improvements as well as ongoing management simplifies these implementations, and essentially streamlines the process of keeping applications in step with business needs. "We're always working together to figure out how to do things better than we do them today, and the strong relationship we have with Centroid makes this continuing evolution easier," says Hauschildt.

Looking back on the last few years, Hauschildt says that the company's innovative approach to application outsourcing has clearly worked well. "It's basically been a great experience, and a very cost-effective way to manage our applications," he says. "I think it's safe to say that this turned out to be the right choice for us."

## Simple Concepts, Powerful Results

Today, many organizations see outsourcing as a vital part of their business—and Centroid has created an approach that widens their options for working with external partners. Centroid’s outsourcing model is based on two simple concepts: One, when it comes to managing technology, a skilled, experienced person can do as much as several inexperienced people—often, with better results. And two, it’s important to stay close to the customer and understand their business.

Centroid’s approach sets it apart from today’s typical outsourcing models. These rely on relatively large numbers of low-cost, inexperienced people working offshore, coupled with several layers of management between them and the client. What’s more, as those workers gain experience, they often move on to better opportunities, resulting in a constant need to bring new hires up to speed.

Centroid, on the other hand, relies largely on onshore staff when working with US companies, with only limited use of offshore workers for very targeted portions of projects—a mix supported through the company’s offices in Detroit and Dallas. “About 95% of our work is handled by onshore staff, near the client, which makes it easier to stay in touch with their needs,” says Jim Brull. And those people know what they are doing, with the company’s consultants having an average of 12 years of business and technology experience. “We focus on experienced talent, so we’re able to provide onshore quality services to our clients at the same cost—or usually, less cost—than offshore providers, because we don’t need as many people,” says Brull. “In fact, we are generally seeing savings of 10% to 20% over other outsourcers with our model. So this model provides all the benefits of outsourcing, without the pitfalls of offshoring.”

At the same time, Centroid views outsourcing as more than a cost-saving tactic. The company looks not only at IT, but also at the technology’s impact on the client’s employees, customers and overall business. Rather than simply continuing existing practices, Centroid can typically bring a fresh perspective combined with deep skills to clients’ operations, and help them innovate, streamline and improve IT and business processes to reduce the cost of IT while increasing its effectiveness.

Brull explains that his company also helps clients use outsourcing as an enabler of greater flexibility and quality in IT, which translates to higher levels of agility and performance in the business. With the company’s innovative outsourcing model, it can respond quickly to requests and improvement opportunities—and do so effectively. “We emphasize moving fast, but doing things well,” says Brull. “Whether it’s gathering business requirements, doing the technical design and build, or bringing on enhancements, we focus on getting it right the first time.” And as Centroid’s experience has shown, this approach can be key to meeting the relentless IT mandate to do more with less.

## **About Centroid:**

### **Who We Are**

Centroid is a global provider of consulting and outsourcing services. Providing deep business and technology expertise. Centroid delivers fully integrated Oracle, Peoplesoft, and SAP solutions.

From strategic planning to application deployment and support, we are committed to helping clients realize measurable business value and achieve sustainable ROI.

### **Consulting**

From the back office to the front desk, from Customer Relationship Management (CRM) to Enterprise Resource Planning (ERP), Centroid provides a full life-cycle implementation service.

With a balanced view of strategy, process, people, and technology, Centroid provides practical business and technology solutions.

### **Outsourcing**

Companies have turned to outsourcing with Centroid to help reduce overall IT expenditure while increasing service level offerings.

With a seasoned support staff spanning multiple industries and technology disciplines, Centroid is able to provide effective and efficient 24x7 global application support.

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