
Table of Contents

Overview: The Virtual Captive Solution **3**

Selecting the Best Offshoring Model for Your Business **4**

Case Study: Greenway..... **5**

Elements of Success With Virtual Captive **6**

Virtual Captive Pricing Models **8**

Summary **9**

The Virtual Captive Solution

The need for automation, improved collaboration and advanced analytics has never been more acute in healthcare than today. Providers and payers are under enormous pressure due to changing reimbursement models, declining margins and regulations. A lot of these changes have technology implications and that creates significant marketplace needs for all entities including HIT vendors.

Healthcare IT vendors across every aspect of the industry are seeing remarkable opportunities for growth, from developing mobile apps that speed data collection and customer engagement to solutions easing clinical and financial systems integration. Moving quickly in these emerging areas is imperative to success, yet vendors may lack access to high-quality skills, financing and adequate technology infrastructure to take advantage of new marketplace needs.

Over the years, offshoring and outsourcing in healthcare has served as an effective strategy to help healthcare IT providers scale cost-effectively. Now, time to market, intellectual property protection and business unit control are equally if not more important than the economics.

Progressive healthcare companies have shifted their measurement of success and outsourcing from a cost-benefit model to a cost-benefit-plus-value model. Long-term value is based upon talent, scale and knowledge base to support new product lines and build market leadership over time. Evidence points to continued growth for healthcare IT outsourcing: TechNavio predicts an 8.6 percent compound annual growth rate globally through 2019¹, while The Everest Group predicts that the market will reach \$68 billion by 2020².

This is a promising alternative for healthcare organizations seeking to develop new products and services quickly to support healthcare transformation. Virtual captives, which date back to the mid-2000s, are a cost-effective, value-building strategy designed to leverage global skills for scalability while allowing organizations to retain better control of operations and intellectual property. This model is ideal for mid-sized organizations that invest heavily in R&D and need to scale quickly to compete, yet don't have the capital to build an offshore operation from the ground up. A virtual captive enables lower operational expenses for managing a software operation without compromising quality objectives. Another significant advantage is that in a virtual captive, there is the option for transfer of ownership after an established period of time.

Needs and Benefits of Virtual Captive in Healthcare

Needs

- Eventual ownership and significant control
- Access to capital
- Rapid time to market
- Scalability
- Access to high-quality skills and healthcare IT knowledge

Benefits

- Tight alignment with organization's processes and culture
- IP protection
- Accelerated start-up time and ROI
- Reduced risk from greater operational control
- Flexibility in the level of involvement and shared responsibility with provider

The Growth of HIT Outsourcing



8.6%

Healthcare IT outsourcing is estimated to grow at an 8.6% compound annual growth rate through 2019.



\$68
BILLION

The healthcare IT market is expected to reach \$68 billion by 2020.

Selecting the Best Offshoring Model for Your Business

There are several popular options available for companies that wish to outsource healthcare IT development; understanding them more thoroughly will help determine whether a virtual captive is the best choice.

1 | A third-party service provider is one of the traditional models characterized by the typical client-vendor relationship. This model is adopted for outsourcing activities and operations that are considered to be non-core and cost-incurring. Organizations benefit from cost savings and flexible staffing options. This model has matured over the years and is typically offered as either project-based with well-defined expectations and requirements, or set up as a client-dedicated development center for longer-term engagements requiring a dedicated team and evolving requirements. One failing of the third-party service provider model is that it offers minimal control over operations and talent. Teams may come and go and processes are typically aligned with the service provider, not the client. For projects with a long-term strategic view, inherent complexity and strong linkage with business plans, the traditional outsourcing relationship is not ideal.

2 | A captive center is an offshore subsidiary of the company. Some of the primary drivers for a captive center are to secure access to resources, develop a local market, and create a long-term presence within that local market. Organizations must go through an extensive cycle of planning and due diligence to set up operations, which requires significant investment as well as domain knowledge of the local market in terms of culture, government regulations and business norms. Captive centers offer complete control of operations and IP security, yet may struggle to manage overhead, offer career development and retain key talent because of scale and brand challenges. Start-up time is also suboptimal, since the parent company will invariably take longer to set up operations and reach acceptable levels of productivity in another country. A robust facilities infrastructure including security, technology and support must be in place before hiring the core team.

3 | A virtual captive falls between a third-party service provider and captive center. It allows a client to rely on an offshore vendor to custom-build a support team while maintaining significant operational control and having the option to transfer it into their complete control, gaining talent, technology infrastructure and other key resources. The offshore vendor takes on the responsibility of setting up operations, which includes administration, infrastructure and staffing. The vendor then manages the operation end-to-end for the client for a predefined period of time. At the end of the period, the ownership is transferred to the client. The virtual captive accelerates time-to-market by eliminating the need for the company to undertake the time-consuming and capital intensive exercise of launching an offshore subsidiary. Since the virtual captive service provider has expertise and the necessary relationships for such launches, they can get the new operation up and running much faster. Companies also benefit from operational alignment, instilling guidance and control around hiring and key processes. Finally, the virtual captive model lends itself to fostering innovation and institutionalizing IP, even if the transfer option remains unexercised. This is a good selling point when talking to investors for potential buyout or generating investments.

Case Study: One of Georgia's Leading Healthcare IT Companies

One of Georgia's leading providers of EHR and healthcare IT solutions was launched in 1977, making it one of the oldest companies developing software for the healthcare industry. In 2009, the company found itself in a position of new opportunity with a customer base of providers and payers seeking to quickly modernize applications in light of regulation, quality of care goals and economic incentives.

The company's core EHR product, however, was lacking critical features necessary to compete, including an electronic prescription module, an integration engine, and a rules engine. Given the saturated healthcare IT marketplace, the company decided it needed the help of an outsourcing provider to update its product in an accelerated timeframe.

The decision to partner with a virtual captive offshoring partner for this company ultimately was based on a few key benefits: gaining immediate access to high-quality talent, the ability to launch a significant development project with minimal impact on margins and capital outlay, and the critical need to align existing onshore development operations with the new offshore team. This company was also attracted to the virtual captive structure, which protects intellectual property and ownership rights. That level of control would engender trust between the parties, and establish a promising platform for future growth.

The first engagement began with two development projects, in which the offshore virtual captive worked in parallel with the current home office team. To get started, this company created a cross-functional team to gather requirements, create development timelines, and institute processes and methodologies. Deliverables within the first two years included the completion of the e-prescription module, an allergies module, the interface engine, a patient portal and enhancements to a claims module. In the years following, the virtual captive has delivered end-to-end product development, QA services, integration management, and consulting services across various company product lines.

Benefits of the Virtual Captive

Using the virtual captive model, this company achieved its original objectives along with other development projects. A few of the benefits achieved through the virtual captive provider include:

-  Automated test cases to reduce QA cycle time by 70 percent
-  Experimentation with new strategies, including the "High Potential, Low Cost" initiative, which enables this company to execute idea-to-action quickly and at low cost, resulting in the implementation of a complex QA process in less than 6 months
-  Significantly faster time-to-market for new features and module development—an invaluable competitive advantage
-  Reliable access to highly skilled resources at the moment of need: The virtual captive provider delivered extreme flexibility in resource management to scale up and down with projects
-  Continued operations during the company's acquisition of another vendor: The virtual captive was able to manage development at its normal pace, eliminating any negative impact on the company's customer base and overall productivity



Elements of Success With Virtual Captive

When you've made the decision to implement a virtual captive, the set-up requires far more involvement than with a traditional outsourcing partner. In outsourcing, the CIO or VP of Engineering is expected to define the requirements, but after that, the accountability falls fully on the shoulders of the provider. This is not the case in a virtual captive, where there are shared risks and shared accountability for outcomes.

1. Key parties during set-up: Members of a company's senior management team should be involved in the planning and ongoing oversight of the new organization. This group may include a member of the executive team and representatives from legal, finance and compliance, who oversee the overall strategy, cost management, contracts and operating procedures. From engineering, typically the head of development and head of quality assurance are responsible for defining the product roadmap, conveying market positioning and deciding upon key features as the project evolves. The IT department contributes one or two individuals who oversee security and infrastructure decisions and finally, from HR, a senior manager helps with establishing standards and procedures for hiring and training.

2. Communications: Once roles are defined, the customer organization should engage in in-depth planning sessions with the virtual captive provider. These sessions cover processes, rules and expectations. It's not uncommon for senior leadership from the customer organization to visit the new offshore office twice annually, with quarterly visits from mid-level management. It's important to communicate to the rest of the client organization that the virtual captive is an extension of operations in a global location—it's not a typical "project" outsourcing. Since transfer of ownership is a typical outcome of virtual captive, viewing and treating the new operation as an owned asset from the start is to the customer's advantage. Therefore, when ownership transfer occurs, the process will be seamless and with minimal disruptions to productivity and product delivery.

3. Risk sharing: There is no standard formula for determining which party is responsible for which piece of the operation. The level of control assigned to the customer depends entirely on the organization's goals and preferences. At a minimum, however, the customer should control the product roadmap and program management. There are few cases in which the customer organization doesn't have a better handle on its industry and customer needs and requirements. Human resources is the next pivotal decision; most companies will want some level of involvement in hiring and training. Occasionally, the client will request maximum control—having key decision-making responsibility in every level of operations including management, performance reviews and discrete infrastructure decisions. It's important to carefully consider the benefits of exerting maximum control over the virtual captive organization. Most companies will fall somewhere in the middle between minimal and maximum control:

- The more control exercised by the customer, the more time, resources and responsibility the client organization must give and undertake.
- A company with highly defined processes and knowledge in product engineering and operations is looking for the primary benefit of scale from the virtual captive—more control is beneficial.
- Another organization may have a well-defined roadmap and a strong product management function but lacks key technical skills and experience for the project. In that case, the company would give up more control around day-to-day operations and technical decisions to the provider.
- Regardless of the structure, the company and its virtual captive partner should be on the same page from day one concerning roles and responsibilities.



4. Human resources: People are the success or failure of any virtual captive, which is why companies often rely upon the expertise of the virtual captive in navigating the local hiring market. Often, a company will participate in some interviewing, particularly for the core group of product managers and engineering leads. When possible, it can be optimal to reallocate a senior-level member of the home-office engineering team to the new offshore operation. Regardless of the level of involvement in HR decisions, it's critical to instill the same career path opportunities and incentives at the virtual captive as are in place of the customer organization.

It's also imperative to ensure engagement from the corporate office with the virtual captive staff, particularly in the area of onboarding the new offshore team to corporate processes and providing ongoing support. A common occurrence, particularly in large companies, is a miscommunication between senior management and middle management. The latter group may believe that the virtual captive is just like any other outsourcing arrangement, not realizing the need for alignment and collaboration. Ensure a shared understanding of operational practices and goals from the beginning, otherwise, you may end up with issues around compliance, product quality and attrition.

Virtual Captive Pricing Models

Cost also is an important consideration when deciding which offshoring model is best for your business. There is a range of options for pricing the services in the virtual captive model, and choosing the best model often depends upon several factors including head count, need for niche skills, duration and complexity of the operation and cost of the physical infrastructure. The three most common models are:

Cost Plus	In this model, the payroll cost is multiplied by a negotiated fee factor to arrive at the overall billing rate. The model affords flexibility for organizations to select highly skilled individuals to fill roles in niche areas such as architecture, user experience and delivery management. This model is also ideal when an organization needs more control over hiring, onboarding and subsequent management of teams. The fee factor includes all overhead such as infrastructure, seat and license cost, and HR and quality process costs.
Time and Material (T&M)	The T&M pricing model with a Not-to-Exceed clause is calculated based on total project effort reported by allocated resources and pre-negotiated hourly rates. This model lends itself well to situations where needed skill sets are commonly available and work is predictable and not typically involving complex R&D environments.
Hybrid	These models combine the best of the above two scenarios. The company can identify a core team and a niche skills team, applying the T&M model to the former and the Cost Plus model to the latter group. The main advantage of the hybrid approach is that organizations can define roles and skills that they would like to develop as the future leadership of the engagement. Organizations could also use a hybrid model to develop teams of niche skill sets at a lower cost than what it would incur to build them stateside.

Summary

The virtual captive offshore model has a distinct advantage of leveraging an established and dedicated team in a true customer-supplier arrangement where significant risk and operational responsibility is shared with the supplier. Clients also benefit from rapid scale and lower start-up expenses as compared to starting a new venture. The client has a unique opportunity to build a team that mirrors their own organizational structure and processes, at approximately the same cost it would take to engage in a pure third-party service provider engagement, yet with a much higher degree of control. This allows for seamless integration should the transfer option be exercised at a point in time wherein a performing stable and productive team has been set up.

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About emids

emids is the premier provider of healthcare IT services and industry-leading solutions. Because we are grounded in deep technology expertise and an exclusive healthcare focus, our clients experience true partnership with us as together we navigate the challenges of a rapidly changing healthcare industry.

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