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## Making Joint Ventures Work in Outsourcing

Paul Lanham, ex-CTO, Jones Apparel, a Fortune 500 retailer, on how he made his organizations joint-venture outsourcing model work Balaka Baruah Aggarwal



### **Paul Lanham**

**ex-CTO, Jones Apparel, a Fortune 500 retailer**

ACTO with business sense is rare. But Paul Lanham is no regular CTO. Before he recently left Jones Apparel, the \$4.742 billion designer, marketer and wholesaler of branded apparel, footwear and accessories, he had twin titles: He was the CTO of the company, and the CEO of HCL Retail Business Solutions, a joint venture between Jones Apparel Group and HCL, a leading offshore IT-services provider.

Lanham juggled his roles effortlessly as he played the evangelist one moment and switched gear to have in depth technology discussions in the next. As CEO he played the visionary and statesman, and as CTO he studied technology and made deployment decisions to bring value to the company.

Bringing Lanham to the company in 2001 was a strategic decision. The company had done a series of acquisitions starting with Nine West in 1999 and ending with the up-market brand Barneys New York. The disparate systems were getting problematic and the existing practice of developing custom application for core functions worked well to a point, but beyond that was neither scalable nor provided a competitive edge.

At Jones, Lanham's mandate was to overhaul the existing system. He set out to consolidate its IT system across various acquisitions to facilitate strategic growth for the company. This was a challenging task that required a lot of decision-making. And decision-making he did. He decided to outsource application development and integration to a third party in order to get competitive advantage. This was a drastic decision that saw a lot of employees from the Jones' IT department being re-badged. It also saw a few redundancies.

But, worried that he may lose control in an outsourcing relationship, Lanham figured that holding stakes in the company would give him more control — a reflection of his degree of involvement and commitment to the outsourcing program.

"A lot of outsourcing relationships do not work because they [customers] lose control over the program," says Lanham. Equally, a lot of relationships run into trouble because corporations think outsourcing is a way to pass on their headache to someone else. What they do not realize is that outsourcing is a powerful strategic tool that can be used to advantage, provided you work closely with the partner like an extended arm of the organization.

### **Why Joint Venture**

Though the joint-venture model evinced a lot of interest during the early days of outsourcing, there are few surviving instances now. Capgemini Energy, the joint venture between TXU and Capgemini, is one high-profile relationship that still exists. It is rather difficult to balance the interest of the customer, learn the tricks of the trade from that partner while trying to replicate the model to make money from other customers at the same time.

The imperatives for Lanham were unique. The need to have control in the program may have been greater for Lanham given his mandate. The need for control is more

so when one considers the magnitude of the effort required to bring in transformational changes with technology that changes constantly, yet blend that transience with the long-term goals of the organization. And finally, retail being a highly specialized area, there was the need to pass on the domain knowledge in a smooth manner.

For HCL, too, a joint venture made immense sense. It allowed the company to showcase its expertise in a niche area along with an anchor partner. With a CEO as passionate as Lanham, HCL could not have asked for a better mentor. "Paul is full of ideas, and he has played an invaluable role in the joint venture. Not only does he understand technology, but he can blend that understanding very well with the business requirements of the industry," says Shankara Rajaier, VP, Apparel and Footwear Retail division at HCL.

"The joint venture worked because HCL was willing to give up control and Jones was willing to pay a price for it," says Lanham in retrospection. Jones put in the base capital for the joint venture, which was distinct from the cost of outsourcing services.