

BEST PRACTICE

Paul Corral, Editor,
sourcingfocus.com

Choosing the Right Sourcing Model



Total contract value has declined rapidly in recent years with average contract sizes falling below \$100 million USD since 2000. Requirements for adaptable sourcing have given rise to a variety of models other than the single source mega contracts.

A well-constructed sourcing strategy should equip an organisation with the tools and resources to make a decision over the correct sourcing model. Information Services Group, a leading technology insights, market intelligence and advisory services company, believe a comprehensive sourcing strategy should address the following fundamental questions:

- Where are we? How effective and efficient are our current capabilities?
- Where could we be? What are the incremental opportunities?
- How can we get there? What is the roadmap that will allow us to move forward?

A strategic sourcing approach ultimately connects the company's operational base to its business aspirations. It ensures that the outsourcing model chosen is not only aligned with, but can also help to drive forward the critical operational aspects of the business strategy.

2013 Forecast

With outsourcing strategies linked to increasing pressure to maximise profit margins, outsourcing service providers in 2013 will continue to build even more innovative and riskier engagement models, including business-outcome based pricing, revenue-sharing arrangements, and dedicated centres of excellence.

Strategic outsourcing in the mid-market will continue to grow in 2013 along with the surge of major strategic initiatives, in which the business technology outsourcing strategy is directly linked to measureable business outcomes. Expectations are also changing and suppliers will continue to evolve for survival and adapt to the changing market.

Judith Storr, Marketing Manager, Acora, a supplier of IT services for mid-market UK companies, comments: "Forecasts for 2013 show that the trend toward strategic outsourcing is continuing. Two indicators from our recent survey support this notion. Firstly only 15 percent of boardrooms saw IT as a 'support' function whilst 80 percent of respondents regarded IT as a strategic business imperative."

GARETH THOMAS, MANAGING CONSULTANT, HUDSON & YORKE, OFFERS SOME 'STRATEGIC SOURCING' PREDICTIONS FOR 2013

- Throughout 2013 there will be an increased focus by IT executives in taking more of a strategic role
- Cost savings will still be a key element of sourcing strategies, but flexibility will become more important
- Outsourcing contracts will continue to reduce in scale, moving away from early monolithic sourcing models and strategies to smaller flexible service models
- Integrators will become increasingly critical for joining specialised services contracts together and ensuring end-to-end delivery of service levels, with the use of risk reward models to promote integrators

The Human Factor

Any sourcing decision should begin with a consideration of the strategic needs of the organisation from which a blueprint should be developed along with a formal business case for sign off by the organisation's leadership. Key plans and governance should be developed which provide a sound foundation for both the strategy, and to ensure that it remains focused on and driven by the chosen leadership team.

Martyn Hart, NOA Chairman, said: "The establishment of a team that has the clear sponsorship of an organisation's senior management is a critical step in ensuring that whatever sourcing model is adopted – it is well considered and it will have the support necessary for it to be successfully developed and executed."

A senior leadership team should actively lead the sourcing activity. This team's role is to recommend the most appropriate sourcing strategy and if the decision is taken to adopt an outsourcing or shared services strategy, they will lead the strategy over the long term.

Once the senior leadership team has established its view on the strategic opportunities and scope, it will need to appoint key people across a range of specialisms to support its activities. These appointments may include senior specialists in strategy, finance, law, HR, IT, communications and operational areas relevant to scope.

For many organisations some of the key people appointed will be competent in their particular areas but not necessarily experienced in a sourcing context.

Sourcing Models

As the industry has matured, a larger variety of models are on offer, each offering specific benefits and challenges including cost effectiveness, flexibility and collaboration. Selecting a sourcing model depends on the organisation's existing sourcing maturity level and their willingness to improve it. The most common sourcing models can be found below along with three case studies showcasing recent innovative collaborations.

Single-source

Although small deals are becoming increasingly common, the single-source mega deal is still very much in demand due to a variety of reasons, including less administrative effort in dealing with only one supplier. A single-source procurement is also greatly beneficial to a supplier and end users should expect to share in that benefit.

Multi-sourcing

As end users continue to opt for a number of smaller, flexible and short duration deals with a number of suppliers; governance and end-to-end integration will continue to play key roles in achieving the overall business value. A culture of collaboration is also encouraged between large suppliers and SMEs rather than blame.

Gain Share

In today's difficult economic climate, end users are under growing pressure to find new ways to cut supplier costs without adversely affecting business performance. A gain share model is fast becoming the solution for many who are seeking cost-effective ways of purchasing new products or services.

Mutual

The Government's recent 'Rights to Provide' scheme allows entrepreneurial front-line staff to take over and run services as a mutual, co-op or joint venture by partnering with the private and third sector. Whilst no one can downplay the fundamental role capital plays to fund any service – it is these kinds of collaborative strategies that can make a key difference to organisations and the role of outsourcing in delivering services in the Big Society.

Joint Venture

Since outsourcing resembles a partnership or joint venture, many outsourcing contracts have been structured as joint ventures. The rationale for outsourcing joint ventures in these times of austerity is often financial, however partner expertise often results in an increase in innovation, technology and process improvements.

Social Impact Bonds

Social Impact Bonds are growing popularity and provide an innovative way of attracting new investment around outcome-based contracts that benefit individuals and communities. Private investment is used to pay for interventions, which are delivered by

service providers with a proven track record. Financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, then investors do not recover their investment.

Offshore

With more markets beginning to embrace offshoring, multinationals are looking to consolidate vendors and geographic sites into two or three multi-lingual hubs in order to gain economies of scale, gain greater consistency and improve vendor management.

Service Integration

As companies continue to turn to multi-vendor models, there is a growing need to further mesh services together whilst maintaining the discipline that allows for a "plug and play" approach. The introduction of cloud offerings has also added to the demand for flexibility. Service integration is the key to transforming the component service from being disjointed and focused into being business relevant, enabling and seamless.

Shared Service

The advantages of shared services are clear. Different ways of delivering services, which have arisen purely as a matter of chance, can be harmonised, helping remove the problem of the "postcode lottery". Best practice can be shared for the benefit of all. Those who only use a service occasionally can call upon a central resource when needed. Plus, staff can be freed up to concentrate on what adds most value. Sharing services does not necessarily mean that fewer staff are required overall – simply that these staff can be freed up to do other things, of greater benefit to the public.

Robotic Automation

The implementation of a 'virtual workforce' can significantly shape the nature of back office service delivery. Robotic automation can have the effect of dramatically reducing costs as opposed to alternative service delivery approaches. Transformation can be delivered rapidly, with the potential to robotise back office services within a period weeks or days compared to other less rapid and agile systems.

Best Practice Case Studies

As the UK continues to battle its way out of recession, end users are increasingly gaining a competitive edge through the use of innovative sourcing models delivering a range of benefits. The following case studies provide good examples of partnerships doing just that.

Greater London Authority and Thames Reach and St Mungo's Social Impact Bonds

The government announced two new social impact bonds last November worth a total of up to £8m to combat homelessness in London and support adolescents at risk of being taken into care in Essex.

The London project, commissioned by the Greater London Authority and funded by the Department for Communities and Local Government, will work with 831 rough sleepers over a three-year period.

The homelessness charities Thames Reach and St Mungo's will deliver the service. They will be paid for meeting various goals, including reducing the number of people sleeping rough, moving certain numbers of people into settled accommodation and reducing the number of visits to A&E by homeless people. The bond will be worth up to £5m.

Essex County Council – Action for Children

The Essex project, funded by Essex County Council, will work with about 100 young people aged 11 to 16 who are at risk of being taken into care. The programme will be carried out by Action for Children.

Success will be measured by the reduction in days spent in care by the adolescents, improved school outcomes, wellbeing and reduced reoffending. The project has raised £3.1m from investors including Bridges Ventures and Big Society Capital.

Peter Martin, leader of Essex County Council, said that he was keen to support the social impact bond model and that he had a list of up to 15 other projects that he would be keen to fund in the same way.

In both cases, the projects will initially be funded by social investors, with government paying only for success in achieving the outcomes they have set. Both projects will be managed by Social Finance, the organisation that originally created the concept of the social impact bond.

Rolls-Royce and Capgemini Service Integration

Rolls-Royce awarded a pioneering three year IT contract to Capgemini earlier this year as it introduced a service integrator role replacing its existing single-partnership with a multi-vendor strategy.

The new contract saw Capgemini working as the service integrator for Rolls Royce – ensuring that the specialised IT outsourcing services, provided by a number of vendors, will operate effectively together to deliver the best possible support to operations in 50 countries worldwide.

The new contract is seen as key to the success of a new IT strategy for Rolls-Royce in which a single main supplier is being replaced by a number of specialised outsourcing vendors enhancing quality, flexibility and responsiveness. Simon Ricketts, Chief Information Officer at Rolls-Royce, said: "It is vital that our world-class products, services and people are supported by equally world-class IT and that is what our new strategy is designed to achieve. Capgemini, as service integrator, will be at the centre of this strategy and we look forward to working in close collaboration with them in the years ahead."

In addition to its role as service integrator, Capgemini will also be responsible under the new contract for supporting a number of key business applications at Rolls-Royce, including the majority of the company's Enterprise Resource Planning (ERP) and supply chain software systems.

The Co-operative Financial Services and Blue Prism Robotic Automation

The employment of a 'virtual workforce' or virtual robotic FTE can have a significant impact on back office service delivery, including considerable cost reduction in comparison to current approaches. The speed of transformation in robotic automation can also be significant, with the ability to robotise back office functions within days or weeks compared to lengthy transitional phases of other sourcing strategies.

Due to the above benefits, The Co-operative Financial Services committed to an automation project using operational agility software from Blue Prism. Before the completion of the project, a nine-strong team in the bank would have the daily responsibility of manually reviewing around 2,500 or so high risk accounts. The team would then make a decision to either return or process the payments depending on the account profile of each customer.

Joanne Masters, Business Systems Manager, The Co-operative Financial Services, said: "The Bank is committed to proactively supporting customers and the business case for this project was to redeploy staff from manual roles into customer facing account management roles, alleviate the daily time pressure of having to complete all processing by a 3pm deadline and manage all customer accounts with the same degree of accuracy and consistency."

The Blue Prism software enabled non-technical users to integrate and orchestrate systems and processes non-invasively and without change to the bank's core systems. Subsequently the automation of the entire 'review' procedure means that the bank now has a 'virtual team' of 20 people completing the workload by 11am each day instead of a team of employees working to meet a 3pm daily processing deadline.

The Co-operative Financial Services has seen a number of benefits due to its strategic decision to employ a 'virtual workforce' and automate the excess queue procedure:

- Employees previously engaged in manual processing have been released to work on proactive customer account management
- Decisions are made in a consistent manner. The rules-based Blue Prism process ensures that the excess queue procedure is followed in exactly the same way every time, ensuring that the bank is able to meet its FSA obligations
- The process has helped to substantially speed up the queue process, especially on high volume days
- Increase inbound customer service call levels

Joanne concludes: "The excess queue procedure is now managed entirely by Blue Prism, requires little human intervention and the project is well on its way to achieving all of our objectives."

PICKING THE RIGHT MODEL: ISG TOP TEN TIPS

Many executives fall into the trap of thinking of sourcing initiatives as merely tactical or technical projects rather than long-term, significant strategic programmes that fundamentally change the profile of the organisation. The below tips from ISG should reinforce the strategic value of sourcing relationships as the foundation for on-going success, and ultimately aid an organisation choose the right model:

1. Avoid a piecemeal approach: leverage sourcing as an integral component of your overall business strategy
2. Be strategic: ensure that your service delivery model is not only aligned with, but will also drive forward, the enterprise's ambitions
3. Take a holistic, enterprise-wide approach: this will maximise economies of scale, avoid duplication and ensure continuity of standards
4. Sourcing is not synonymous with outsourcing: review your present operating model and create a roadmap for future requirements that considers all of your options both internal and external, while balancing value, risk and speed
5. Sourcing is an on-going process, not an isolated decision: by deploying flexible services from wherever they are best provided, you can quickly and effectively respond to changing market conditions
6. View service providers as partners: by keeping service providers informed of business goals and constraints as they evolve, and by structuring the relationship so that it is beneficial to both sides, your partners can innovate and transform in order to provide long-term value
7. Ensure buy-in: executive sponsorship, centralised management and company-wide support are vital for success
8. Identify the changes necessary to move to the new model: communicate a compelling vision of the future that conveys the competitive advantage for the company and the opportunities for employees
9. Service management and governance: develop a corporate service management and governance function with the skills and systems needed to drive effective sourcing strategy, execution and management
10. Seek independent advice: develop an informed perspective on your current operating costs and performance vis-à-vis the market and the future potential of your target operating model