AGILE MULTI-SOURCING

A Critical Business Trend — Concepts and Background

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INTRODUCTION

Agile multi-sourcing, an innovative discipline that reflects the evolution and maturation of the outsourcing market, takes organizations beyond a “sourcing event” to an ongoing program that enables capability building, increased profitability and competitive advantage. Agile multi-sourcing consists of an array of flexible sourcing solutions corporations can draw on to help them improve their business performance.

Organizations that use agile multi-sourcing enjoy superior flexibility in their choice of sourcing solutions and demonstrate greater adaptability to changing business circumstances. Moreover, they extend their advantage as they compile comparisons between internal-service organizations and third-party providers — skillfully initiating competition between providers to drive the best prices and service quality.

Outsourcing has become such an integral part of many successful businesses that numerous organizations launch the practice indiscriminately and often get “lost” in the process, because the skills needed to manage external services vary from those needed to handle the same, internally provided services or — even more challenging — some combination of the two.

This is the first in a series of white papers that collectively provide a map to help companies successfully navigate the many decisions involved in agile multi-sourcing.
DEFINITION OF AGILE MULTI-SOURCING

Agile multi-sourcing is an organizational discipline that entails sustained optimization of services from both multiple external providers and internal shared services. Such an initiative requires a creative mindset and a novel framework to support processes for communicating, interacting with, and overseeing service relationships both inside and outside the enterprise. ISG’s definition alludes to the special leadership needed, the organizational structure that effectively sustains this initiative, and the processes embedded in this framework that enable the design, implementation, and delivery of services. These elements must work seamlessly to achieve the three core purposes of agile multi-sourcing:

- Deliver operational efficiency
- Increase corporate agility
- Foster quality improvements

A corporation arrives at these goals through its best practices, which it develops by iteratively refining its processes and constantly exercising its organizational competencies. It cannot view agile multi-sourcing as an event or as an isolated project that begins and ends. Companies that focus on sustainable competencies make foundational demands on the organization, and the enterprise must continually build capabilities that can position it to more effectively deliver the best services, whether owned or acquired.

Agile multi-sourcing demands a new level of maturity in the organization that enables it to scale and operate more efficiently. Its leadership team relies on a roster of outside resources — ranging from large service providers to smaller niche players — to accommodate shifts in development and delivery, adjusting and supplementing resources when needed. An organization that promotes the systematic iteration of best practices can help a multi-sourcing initiative succeed; and this success, in turn, helps the initiative propel the organization to new levels of maturity.

CHARACTERISTICS OF AGILE MULTI-SOURCING

An agile multi-sourcing framework fosters ongoing examination of broad back-office capabilities and more specialized business processes. The latter may be industry-specific or company-specific. The agile multi-sourcing initiative seeks to develop and refine the best service delivery framework as the business environment changes. That is, the framework provides a series of systems and processes that address the use of internal services and external service providers. These are solutions designed to accommodate and foster change. Additionally, enterprises that can skillfully structure and effectively manage some of these solutions are able to sustain market leverage longer into the contract term than those using more traditional sourcing solutions.

A company develops vital organizational maturity by closely linking its sourcing strategy with its overall business strategy and then installing an effective enterprise-wide governance system to actively scrutinize the strategy. Firms wishing to see their initiative succeed must therefore execute an integrated, holistic sourcing strategy. This approach encompasses all services and must customize sourcing governance to organizational and service needs. A key component of sourcing governance is the systematic evaluation of a provider’s performance by measuring and monitoring activities such as operational performance, service levels, communication and collaboration — as well as the overall relationship commitment to business integration, trust and transparency — that clearly impact business outcomes like cost, quality, and speed of execution.

The firm’s sourcing competencies reflect its governance. This is present in the managers authorized to lead, in the ongoing decision-making process to source internally or externally and in the ability to identify the best service solution. A system of governance does not develop simply by harnessing existing personnel to the task. Employees and executives who have been managing services internally in the past may be unable to assume new governance roles. Multi-source contract managers on the front lines must operate at a sophisticated level and display the proper contract management abilities. People who effectively fill these positions must have an aptitude for managing relationships. Executives who exert leadership must be able to assess multi-sourcing portfolio data and to articulate strategy in this new environment. A strong governance system reinforces the strategy and risk/reward behavior necessary to take advantage of a multi-sourcing framework.

According to the International Association for Contract and Commercial Management (IACCM) survey of large companies with more than US$1.3 billion in revenue, “89% saw the need for coordination among suppliers as a significant issue.” Although outsourcing usually begins with a single project, the indispensable need for coordination comes when there are multiple outsourcing service providers.
This points to the advancement of the respondent companies along the outsourcing maturity curve.

**The Outsourcing Maturity Curve: Assessing Organizational Readiness**

Although many of the respondent companies have done well with outsourcing projects, the skills required for acquiring and managing multiple service providers are different. Many companies, especially in the financial services industry, have established roles that underscore the criticality of the sourcing process, such as Chief Sourcing Officer or Head of Outsourcing Strategy and Governance, with a direct or dotted-line reporting relationship to the chief financial officer, the chief operating officer or — in some cases — the company chairperson.

When driven by management with the proper mindset, and working throughout the correct organizational framework and its embedded processes, an agile multi-sourcing program can improve a company’s operations in many ways:

- **Adjust its service delivery capability to changes in the marketplace:** When companies execute contracts, they make educated guesses about the future, but circumstances will always change in unanticipated ways. Savvy corporations design flexibility into their contracting strategy to better adjust to these changes when they do occur.

- **Apply many of the same disciplines to internal and external services:** Corporations should have a multivendor sourcing strategy directly tied to the business strategy that drives their internal operations and use the principles derived from this strategy to make consistent decisions.

- **Refine its focus on areas providing competitive advantage:** Similar to any form of sourcing, agile multi-sourcing assists corporations in divesting certain activities, focusing on their core businesses and implementing this strategy more fully.

- **Enter desirable markets quickly:** Through agile multi-sourcing, corporations can draw from a greater range of options to increase their delivery capabilities and back-office support in other geographies.

- **Fine-tune its relationship portfolio in response to provider capabilities and demonstrated performance:** The corporation is positioned to get the best-in-class service provider for the particular process that it wants to
outsource. Further, it can expect to get the best service at competitive costs because competition among service providers will continue.

- **Take better advantage of emerging capabilities**: The ability to manage a portfolio of relationships provides diversification and enables buyers to manage the risk of less proven solutions.

**EVOLUTION OF AGILE MULTI-SOURCING**

Agile multi-sourcing is becoming increasingly prevalent because of the increased maturity in both service providers and corporations using sourcing and an overall trend toward increased use of global service delivery (also known as “offshoring”). As the idea of multi-sourcing expands, mature companies are displaying a much more disciplined approach to making sourcing decisions and managing service provider value by adopting a consistent approach to deciding what is internally sourced versus what is outsourced.

Mega deals with contract value exceeding US$1 billion are essentially “broken up” among multiple service providers. So the significant contract value is still there, but it is less frequently concentrated under a single provider. This practice requires management depth and rigorous governance for a company to successfully support the complex coordination needed to interact with many providers rather than one.

The following graphs indicate the increasing degree of global service delivery content in TPI-advised outsourced contracts since 2003. ISG believes that the observed data actually understates the real trend, because many global service delivery transactions begin as small pilot projects below the measured threshold of US$25 million total contract value (TCV) and expand into larger relationships over time following a “penetrate and radiate” pattern.

Additionally, many companies have recognized that the true economic benefit of bundling everything with one service provider is often questionable. Although the larger combined scope is generally of great interest to the provider sales teams, the reality is that it is difficult for any provider to offer the best and most efficient service across multiple functional areas. Companies choose agile multi-sourcing essentially because no single service provider can deliver all the services required by a large organization.

While the notion of “one throat to choke” still provides benefits, these are often offset by higher costs and less efficiency than promised, as well as by an overall loss of agility in such relationships. Moreover, many clients have gained the maturity and expertise in governance that allows them to manage more complex portfolios of agreements, including managing some of the interdependencies among the portfolio of service providers.
As noted in the following charts, observed mega deals have decreased from a peak in 2004 in both size and prevalence.

**CONCLUSION: AGILE MULTI-SOURCING ROADMAP**

ISG sees agile multi-sourcing as an increasingly critical trend in business — a development that merits a series of white papers to explore adequately. This paper is the first in that series, and serves as a roadmap — introducing a definition and characteristics of this trend, describing its background and evolution, and summarizing a cluster of relevant topics that will be explored in greater depth in subsequent white papers. Future white paper topics include:

- **Objectives of a multi-sourcing architecture**: Companies multi-source to gain access to best-of-breed capabilities, to retain competitive leverage and to increase their ability to adapt to change. A multi-sourcing architecture provides companies with the capability to manage the complexities of this framework.

- **Multi-sourcing and organizational agility**: Organizational agility is more important than ever in today’s hyper-competitive markets. Multi-sourcing increases the ability of companies to adapt to change and to more quickly pursue new strategies.

- **Positioning companies to take better advantage of emerging capabilities**: The marketplace consistently introduces new and more effective capabilities. However, rigid organizational and contractual structures and restrictive sourcing capabilities often limit a company’s ability to take advantage of them. Agile multi-sourcing helps companies overcome these limitations.

- **Provider and seller view of multi-sourcing**: Implicit in agile multi-sourcing is the fact that the average TCV is diminishing because of shorter terms and more narrowly defined scope. This trend has changed the marketplace as service providers adapt to this new strategy.

- **Multi-sourcing and the persistent assessment of core and non-core services**: Agile multi-sourcing requires the competence to continually evaluate services and implement changes. This competency must become embedded in the organization rather than just in an individual. To succeed, an assessment and governance framework must be integrated into the enterprise and its culture.

- **Leadership demands of a successful multi-sourcing strategy**: Successful multi-sourcing requires a different level of involvement from executive and functional leadership than do other forms of sourcing.

- **Risk concentration in multi-sourcing**: Agile multi-sourcing reduces risk concentration in a single service provider but requires an increased concentration in the portfolio management of risk across the enterprise.

ISG is well positioned to help companies understand these crucial aspects of agile multi-sourcing and how to manage them as the companies strive to successfully build multi-sourcing capabilities.
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