# Managing Multiple Outsourcing Relationships

## Best Practices for Keeping it Simple

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## Introduction

As companies purchasing outsourcing services increasingly adopt Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO), they become more mature in their understanding of outsourcing and focus on optimizing their sourcing efforts. In addition to ensuring that their existing suppliers perform successfully, two other optimization levers are becoming important:

- Adopting an "enterprise" governance model
- Developing a supplier portfolio strategy

Companies choosing to utilize outsourcing on a broad basis have an increased need to implement enterprise governance and supplier portfolio strategies. As the extent of outsourced scope increases, the complexity of managing the outsourcing efforts and their impact upon each other also increases.

Benefits of limiting the complexity across outsourcing efforts include:

- Higher-performing and more sustainable outsourcing solutions
- Reduced confusion and wasted time
- Better mitigation of risk

To achieve these benefits, it is essential to carefully govern the overall outsourcing landscape and strategically shape the portfolio of suppliers. Neither is a quick fix, but they are the path to sustainable success.

Note: This research is based upon analysis of over 500 BPO outsourcing contracts, interviews with buyers whom have aggressively adopted outsourcing, and learnings from helping companies develop and implement governance and sourcing strategies. Although each company's situation has its own unique characteristics, the enterprise governance and supplier portfolio strategy concepts described on the following pages are broadly applicable.

## An Increasingly Complex World

Managing an outsourced relationship is not easy. Much has been written about the importance of cultivating a successful relationship between the company receiving the services and the outsourcing supplier. But this paper is not another attempt to capture the best practices for managing an outsourced relationship. It is about the complexities that emerge as a company utilizes outsourcing for a large number of activities across multiple suppliers.

The increased adoption of ITO and BPO creates more outsourcing relationships and, as a result, most large companies now have multiple outsourcing initiatives. Some companies have even adopted outsourcing as the preferred model for non-core functions. In addition to the proliferation of outsourcing relationships, the management of outsourcing is becoming further complicated by three other factors:

- **Offshoring.** The offshoring tide challenges fundamental assumptions and injects new benefits and complexities into outsourcing. Additionally, some large enterprises utilize both offshore outsourcing and their own offshore operations, creating a varied and fluid landscape of sourcing models spanning the globe.

- **Higher expectations.** As the systems (think ERP) and processes (think supply chain) of companies move towards greater sophistication and integration, expectations naturally increase. Companies increasingly find it unacceptable to not accurately know their employee headcount by country, financial performance disaggregated in multiple dimensions, or the real-time status of their global supply chain. In short, companies expect greater integration across geographies, businesses, and functions. Although achieving this integration simplifies visibility of information, outsourcing scope decisions become more complicated because boundaries of systems and processes are more dynamic.

- **Initiatives still to come.** Beyond the complexities of what has already been outsourced, most companies expect that they will outsource even more in the future. Outsourcing is moving from a point solution for a few situations to a common business practice. As a result, how outsourcing strategies and relationships are defined today should anticipate what scope may be outsourced in the future.



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Companies can proactively offset the increasing complexity of their outsourcing efforts by optimizing both individual outsourcing deals and the overall outsourcing landscape. The levers for optimizing the overall outsourcing landscape are:

- **Enterprise governance.** In addition to governing specific outsourcing relationships, companies should adopt some form of enterprise governance that stretches across multiple outsourcing relationships. Such governance models are difficult to implement and sustain, but they are a critical mechanism for improving the overall success of outsourcing efforts. Although enterprise governance refers to the entire organization, the concept can also be applied to large, pre-existing organization structures as well (e.g., business units, shared services organizations, and complex IT environments).

- **Supplier portfolio strategy.** Competency to deliver the required services is clearly a requirement for selecting a supplier. Beyond ensuring competency, senior executives with outsourcing experience recognize that their organizations can only cultivate strong relationships with a select number of outsourcing suppliers and therefore seek to avoid engaging with a large number of suppliers. Controlling the number of suppliers provides an opportunity to simplify management efforts, reduce hidden costs, and shape the portfolio of suppliers to provide future options. Additionally, it helps sharpen the organization's focus and investment in cultivating a few, deep and impactful relationships.

Neither lever is easy to implement and most companies will struggle to optimize them. However, they are the foundational elements that are required to successfully achieve the anticipated return on investment from utilizing outsourcing as a strategy across an enterprise.



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## Enterprise Governance

The need for "deal-level" governance of outsourcing relationships is a well-documented best practice – most outsourcing contracts even include a detailed definition of the joint governance model used to coordinate the relationship between the company receiving the services and its outsourcing supplier. But the increasing use of outsourcing is spurring companies to adopt an additional type of governance.

Companies that have adopted outsourcing in multiple areas often implement broader governance models that complement the existing, deal-level governance structures. Although companies are motivated to implement an "enterprise" governance model for many reasons (**Exhibit 1**), the catalyzing factors for investing in such models typically include:

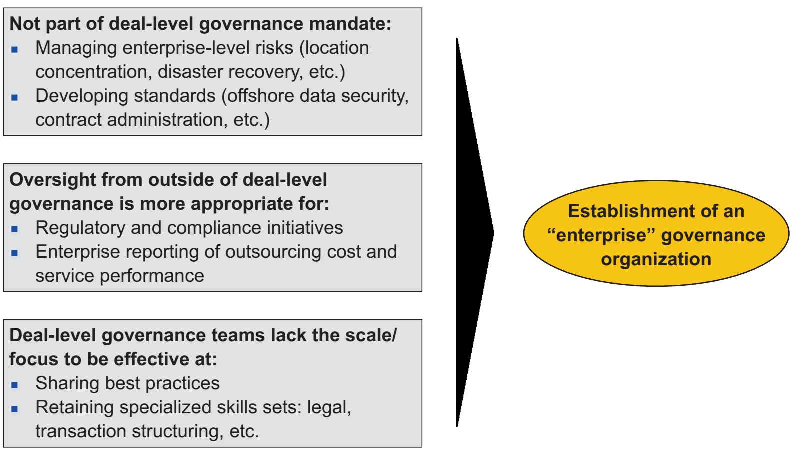
- **Compliance.** When a company operates under strenuous security and regulatory requirements, compliance efforts involving outsourcing are best championed and managed by a single group on behalf of the entire company.

- **Optimization.** If previous outsourcing efforts were uncoordinated and generated significant complexity (i.e., fragmentation of scope, standards, and decision-making), some companies find there is significant value in better optimizing the outsourcing efforts. This is best coordinated by an impartial group trying to facilitate/determine the best outcome for the enterprise as opposed to each individual governance group championing their cause.

- **Guidance.** If senior management makes a strategic decision to implement new outsourcing solutions in multiple areas over a sustained period of time, a single group can help guide the direction of the efforts and ensure learnings are captured and implemented in future efforts.

**EXHIBIT 1**

Motivations for establishing "enterprise" governance



The models for organizing enterprise governance range from formalizing collaboration across traditional organizational groups (e.g., legal, procurement) to creating a specific organization charged with managing multiple outsourcing relationships. However, the most common model lies between these extremes and creates a dedicated organization, but without official control of outsourcing relationships. As such, these groups operate primarily through influence and select responsibilities. Such groups are commonly referred to as an outsourcing "Center of Excellence" (COE) or Program Management Office (PMO).

The two most pronounced challenges relating to COEs are:

- Justifying the group with a business case (many of the benefits are soft benefits focused on the medium- to long-term or shared with other groups)
- Ensuring the group develops enough credibility to successfully influence outsourcing efforts without having official control

COEs generally provide support across a wide range of areas, which further strains their ability to develop the necessary credibility. Most COEs have the following responsibilities:

- Assist or lead new outsourcing efforts (solution design, negotiations, transitions, etc.)
- Collect, maintain, and share best practices and tools (e.g., supplier management, change management, stakeholder management, employee policies and communications)
- Counsel deal-level outsourcing teams on how to improve supplier performance
- Coordinate compliance and regulatory activities

**EXHIBIT 2**

"Helper"and "Shaper"versions of the Center of Excellence (COE) model

**"Helper"**

- Most companies opt for a "helper" COE model in which the COE does not have official rights to:
  - Decide what to outsource
  - Select the supplier
  - Decide the end-of-contract strategy (e.g., renew, re-scope, transfer to another supplier)
- The "helper" model can be influential, but the COE is not a decision-making body nor does it officially participate in decisions. Rather, it is an influencer and can **advocate** for the enterprise and **highlight trade-offs**

**"Shaper"**

- COEs do not typically have formal responsibility for deciding what to outsource or selecting the preferred supplier, but in the "shaper" version they may have **veto rights.** Reasons for this include:
  - Ensuring alignment of business and outsourcing strategies
  - Managing the enterprise risk profile and ability to digest change
  - Advocating for linking activities across the enterprise that would be more productively pursued in an integrated manner
  - Optimizing the number and type of suppliers providing services

Although the differences between the "helper" and "shaper" versions are subtle (Exhibit 2), there are significant implications. The "helper" version is essentially institutional memory and thereby helps the organization effectively and efficiently navigate complicated processes (e.g., contracting, knowledge transfer, renegotiations, audits). By contrast, the "shaper" version takes a strategic posture with its own perspective on what objectives should be pursued to capture value from the portfolio of sourcing efforts – not just how to successfully navigate complex processes.

Companies that have implemented COEs offer the following learnings:

- Start early – do it before reaching a critical volume of outsourcing efforts. Finding the right leaders and positioning them to succeed across the organization requires time.
- Ensure that a strong, visible executive sponsor with cross-organizational credibility champions the COE.
- Since COEs can influence dozens of outsourcing deals, use segmentation to determine an appropriate level of involvement; the segmentation is likely to be based upon potential risk to the enterprise and not the size of the deal.
- Some COEs become a go-to source for advice on non-outsourcing issues. Outsourcing sets the benchmark for complexity on many topics (supplier evaluations, security, audit, project management, etc.), which in turn is valuable to other corporate efforts to use as a starting point. COEs may also serve as a source of pre-trained talent for complex cross-organization initiatives (e.g., mergers, divestitures, systems transformation) and deal-level governance teams.

Just as many companies learned the hard lesson that deal-level governance is important, many are now seeing the importance of enterprise governance.

## Supplier Portfolio Strategy

As a company outsources increasing amounts of scope, the entanglements of utilizing increasing numbers of suppliers become more pronounced. Additionally, no one supplier can provide all the services a company may choose to outsource across the enterprise (back office, information technology, knowledge processes, engineering, customer support, marketing, etc.).

This leaves companies with a need to utilize multiple suppliers in a thoughtful manner that avoids unnecessary proliferation of suppliers. The primary reasons for avoiding unnecessary proliferation include:

- **Protecting relationship investments.** Developing a strong relationship with the outsourcing supplier is one of the most difficult challenges in making outsourcing successful. When a strong relationship is established, companies quickly realize the benefits of leveraging and extending a pre-existing relationship versus introducing a new supplier into their organization.

- **Avoiding hidden costs.** Increasing the volume of services delivered by a supplier can help avoid hidden costs. Although many are tempted to believe that growing the volume of work with an existing supplier creates increasing price discounts, this is not as pronounced as many would like to believe. Much of the financial benefit of aggregating the volume of work with fewer suppliers lies within the cost structure of the company purchasing the services. In addition to requiring fewer governance resources, increasing the volume of work with existing suppliers limits the proliferation of meetings, minimizes the cost of negotiating and maintaining legal agreements, leverages pre-existing infrastructure investments (bandwidth of dedicated network links, security audits, etc.), and simplifies management processes.

As companies manage their portfolio of suppliers providing services (or anticipated to provide services), they should consider three factors when assessing portfolio scenarios (illustrated in **Exhibit 3**):

- Minimizing number of relationships – the extent to which the supplier portfolio maintains a smaller number of suppliers
- Degree of redundancy – the degree to which a supplier selected for one area of outsourced scope can also provide support in another outsourced area should the need arise
- Flexibility for future needs – the ability and interest of a supplier in offering additional services in the future by expanding into new areas or customizing its offerings to the needs of the company



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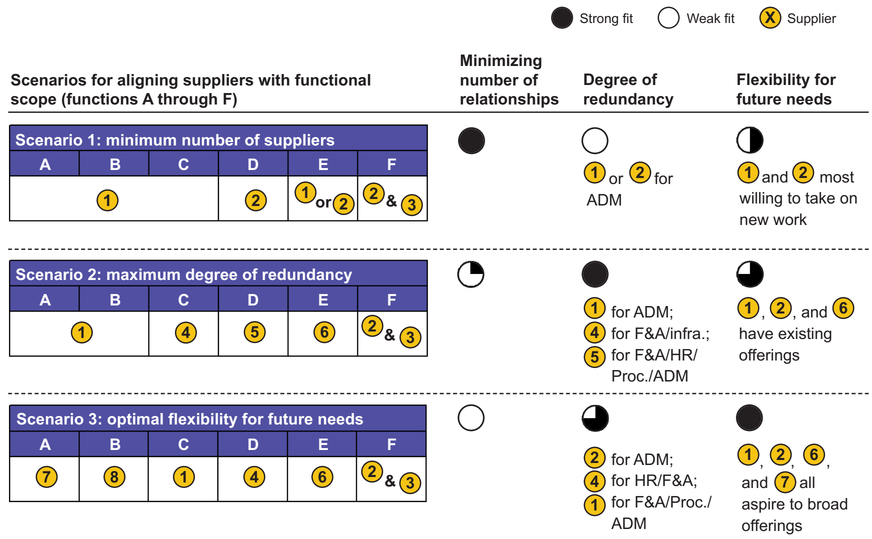
## EXHIBIT 3

Example of supplier portfolio strategy analysis




When applying these factors to real-world scenarios, it becomes clear that first moves really matter and options provide valuable flexibility to adapt to changes.

- **First moves really matter.** The initial supplier and scope have a surprising degree of impact on future decisions. If the initial outsourced scope is large and/or closely tied to future outsourced scope, the initial supplier and associated scope act as either a constraint or benefit.

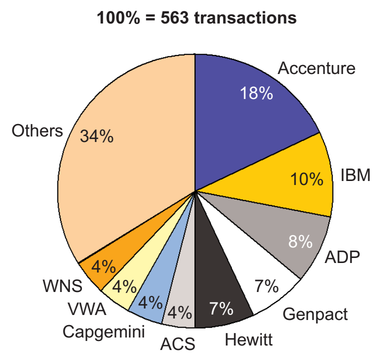
  For example, finance and accounting (F&A) is closely tied to many processes (e.g., order management, supply chain, customer support) and therefore touches many IT systems with varying degrees of integration. This makes suppliers providing F&A outsourcing services good candidates to provide IT application services for related financial systems; and vice versa, suppliers providing services relating to F&A systems are natural candidates to assist in providing related F&A outsourcing services (assuming they have the appropriate capabilities). As a result, it is helpful to anticipate if and how a supplier might provide future, related services.

## EXHIBIT 4

Market shares in multi-process GAO

Source: Everest Research Institute

**Market share of GAO suppliers[1]**
**July 2007**




**Comments**

- Accenture and IBM account for almost one-third of the multi-process GAO market
  - Both are leaders in the HRO, FAO, and PO markets
  - Both also have extensive IT capabilities to complement their BPO offerings
- ADP, Hewitt, and VWA have focused offerings for a single function (HR or F&A)
- Genpact, ACS, Capgemini, and WNS have offers in multiple functions or industry-oriented offerings, but not broad offerings across GAO

1 Based on analysis of 38 suppliers across HRO, FAO, and PO deals, across a sample of 563 transactions till July 2007
Note: GAO refers to the HRO, FAO, and Procurement Outsourcing markets; multi-process refers to scopes including multiple activities within a function (e.g., AP, AR, and general accounting in FAO)



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- **Flexibility through options.** Suppliers with broad offerings and capabilities provide significant option value for adjusting the supplier portfolio in the future. In effect, these "anchor" suppliers provide options for how a company wishes to evolve its outsourcing strategies. Within the multi-process Human Resources, Finance & Accounting, and Procurement outsourcing markets – or the General & Administrative Outsourcing (GAO) market, Accenture and IBM have distinguished themselves as suppliers capable of assisting organizations across major BPO functions (see **Exhibit 4**) and also information technology. Other suppliers are beginning to follow their lead but have less experience and scale across the broad outsourcing landscape.

  Suppliers with offerings in multiple functions offer the obvious benefit of being able to extend an existing relationship into additional functions. They also offer the benefit of being able to translate capabilities associated with one function to other functions. For example, much of the cost-reduction potential in HR comes from improved procurement disciplines for training, recruiting, and benefits. An HR services supplier that also has a robust procurement capability provides the unique opportunity of leveraging those capabilities into HR while also creating the option to potentially expand to offer more procurement services. Similar examples exist for accounts receivable expanding to the Order-to-Cash process, accounts payable expanding to the Procure-to-Pay process, and other areas that can be viewed as holistic functionality rather than discreet activities.

Supplier selection is a sensitive topic in any organization and receives tremendous debate. As companies continue to expand their outsourcing efforts, they must ensure that the debate increasingly contemplates the impact upon the overall supplier landscape – not just the immediate scope and objectives being considered. To accomplish this, a perspective on the preferred supplier portfolio is critical.



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## Conclusion

Companies adopting outsourcing as a significant part of their sourcing strategy face increasing complexity from managing multiple outsourcing efforts and multiple suppliers. To cope with this growing complexity, longer-term success will depend upon four factors.

- **Choosing and implementing an enterprise outsourcing governance model.** As a buyer outsources additional scope, the value of an enterprise outsourcing governance model increases. In addition to fostering organizational learning, a proactive enterprise-level model can help assess the implications of potential new scope and suppliers, thereby reducing risk while improving results. An enterprise governance organization is not easy to implement (particularly attracting the right talent) and can take several years to become effective.

- **Selecting initial suppliers carefully – particularly in F&A and other industry-oriented processes.** The initial supplier plays a key role. If the supplier has a broad suite of capabilities and the initial effort is successful, the relationship can expand into other areas as appropriate. On the other hand, if the initial supplier has a single capability (or interest in only a singular function), the investment in developing a successful relationship will have limited leverage for other potential outsourcing efforts.

- **Utilizing the award of new scope carefully.** Each successive award of new scope further shapes the landscape – although not permanent, it is challenging to change. Both the scope awarded and the supplier(s) selected are important decisions. In addition to setting the stage for how future scope awards might be determined, new scope sends strong messages regarding current and future roles in the supplier landscape.

- **Investing in understanding the objectives of suppliers serving an organization.** An investment of time in better understanding a supplier's plans and preferences can help shape future strategies and foster a more collaborative relationship. Sharing feedback on an account plan can help a supplier understand its own strengths and weaknesses and ideally lead to aligning the supplier against areas for which it can best add value.

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