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The Multisourcing Imperative

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Cross-provider partnering and clearly defining the roles and responsibilities of the customer and provider are key to successful multisourcing

In the business world, putting all your eggs in one basket — yours or someone else's — provides a false sense of security. Even worse, putting your eggs in multiple baskets presents its own set of complications that few managers are prepared to handle. This also holds true with outsourcing where the lure of working with competing service providers is becoming an imperative.

"We chose multisourcing for several reasons including consistent global services, quality, cost reduction, talent availability and creating an agile organization," says Bruce Jacobs, CIO, ABN Amro Services, North America. "But fundamentally no single service provider can deliver all the services required by a large organization. Our use of a single service provider confirmed that. The problem, of course, was with our expectations, not with the provider."

"Insurance companies manage risk, and are extremely conservative and risk averse," says a senior official at an East Coast-based insurance company. "Multisourcing is a natural strategy for insurance companies to adopt. It takes care of business continuity and redundancy needs."

Additionally, multisourcing enables customers to build comparison points between internal-service organizations and third-party providers. Another driving reason is to initiate competition between providers to drive the best prices and service quality. "Needs for different skills, varying technology and geography-specific issues to name a few also drive customers to multisourcing," says Koti R.L. Narasimham, EVP and Country Manager, L&T Infotech, North America.

Some deals are split on the basis of technology expertise. For instance, ABN Amro divided IT applications work into maintenance and new development between five providers that include IBM, Accenture, Infosys, TCS and Patni. IBM also handles the infrastructure piece, while networking was awarded to a different set of providers. In IT applications, support and enhancement forms roughly 40% of the work including tasks such as break and fix, support and minor enhancements of existing applications. This work is divided between TCS and Infosys. New development which constitutes 60% of the IT applications work is open to competitive bidding among the five service providers.

There is no single best way to manage multisourcing of business and technology services. And though it's too soon to judge how well the ABN Amro initiative will turn out, if successfully managed, the engagement could influence other financial-services companies to take a similarly bold approach.

Multisourcing Evolution

As with any industry, customers and providers are at different levels in the multisourcing maturity curve. It's possible that the ABN Amro deal closely followed by sourcing professionals will provide new benchmarks, but it's still too early to tell. "Our financial parameters are on

track," says Jacobs. "We still have to reach the agility stage as all the transitions are not yet complete," he adds.

ABN Amro's multisourcing deal announced in September last year is valued at \$2.24 billion over five years. "From 2007 on, we expect we'll save more than 258 million euros [approximately \$322 million] per annum," says Tom de Swaan, CFO, ABN Amro.

However, traditional multisourcing models suffer from the problem of plenty. A leading global bank has a captive center, but also works with a large list of providers. The sourcing initiative is not centralized, with business and regional units selecting providers. Consequently, the same provider can charge different rates for the same service to different units of the bank. Also new contracts have to go through a long Request For Proposal (RFP) process.

A pharmacy retailer and oil major follow a more mature strategy. They have lead providers to handle all service needs, which in turn tap a list of preferred providers in case of resource shortfalls. This route, while more organized, is expensive as the lead provider charges a management fee. There is also very little partnering between competing providers.

"Multisourcing is the disciplined provisioning and blending of business and IT services from the optimal set of internal and external providers in the pursuit of business goals," explains Allie Young, VP, Research, IT Services and Outsourcing, Gartner. "Implementing best-practices can quickly take a multisourcing initiative to a new level of maturity," says Young.

Emerging Best Practices

Among the many different multisourcing governance ideas, Operational-level Agreements (OLA) are aimed to enable better cross-provider partnering. In multisourcing service providers are individually accountable to the client through Service-level Agreements (SLA) but not to one another. Multisourcing means dealing with different skill sets, value propositions and service provider contracts that contain specific service-level requirements.

"Operational-level agreements combine the benefits of multisourcing with single-point accountability," says Charles Gulotta, World Wide Marketing Head, Strategic Global Sourcing, Infosys Technologies.

OLAs are subsets of global contracts that provide a framework and mechanism for achieving coordination and collaboration among providers. "But partnering is possible only through sustained and coordinated effort," warns Gulotta. "Since OLAs don't have legal recourse and only incentives to induce adherence, customers must play a number of different, often critical, roles throughout the OLA planning, implementation and governance lifecycle."

To establish an OLA, customers and providers should first:

- Identify service provider interdependencies
- Capture contractual gaps in managing interdependencies
- Create and agree on cross-provider services
- Champion OLAs both on the buy and sell sides

"A Responsible-Accountable-Consulted-Informed (RACI) matrix called the responsibility matrix holds the partnership among providers together," says Infosys' Gulotta. The matrix fixes the roles and responsibilities of various providers in a multisourcing deal:

- The responsible provider executes an activity
- The accountable service provider owns the "bottom-line" for the activity, and hence is also a decision maker. This can be a lead provider
- The concerned parties or stakeholders provide decision-aiding inputs for the activity. This can be the customer or service provider

- Then the parties, which need to be informed of the outcome are conveyed the same. This can be the customer or lead provider.

The matrix is executed through governance mechanisms that include management organization, cross-provider communication protocols, escalation protocols and a dispute-resolution mechanism. "Settlement of disputes is handled between providers and we step in only if they don't reach an agreement," says ABN Amro's Jacobs.

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Guardian service provider: At ABN Amro having just one service provider hold the "accountable" position makes multisourcing smoother. "We have IBM as what we call the 'guardian' service provider," says Jacobs. IBM is finally responsible for delivery and if the delivery faces hurdles, IBM is responsible to find the problem, manage the problem, change the process and resolve the problem.

"OLAs and guardianship have worked pretty well and there has been no finger pointing among service providers so far," says Jacobs. "We are streamlining the process as we go along, and are confident that it'll work."

An ideal guardian service provider must be experienced in running large-scale sourcing initiatives and get a hold on all outsourced processes. For ABN Amro, IBM handles the data centers and helpdesk services. These are the places where problems manifest themselves, which gives IBM an insight where issues arise in the system and how best to solve them.



SOURCE: ABN AMRO

Internal markets: An internal-market concept is inherent in multisourcing, with a list of approved service providers competing with each other. Recent deals have taken this concept to a new level. "Mature multisourcing has infused a reasonable element of competitiveness in the market," says Mrinal Sattawala, COO, Patni. "Instead of having 50 IT service providers

providing the same services, the new multisourcing contracts sign on three or five providers to get scale and build long-term relationships.”

“I feel that our internal-markets approach is one of the best-practices in the area of multisourcing,” says Jacobs. At ABN Amro internal markets ensure that the company gets the best deal for every new outsourcing project. Providers are not guaranteed new projects just because they are part of ABN Amro’s service provider list, but must competitively win projects.

Jacobs gives an example. ABN Amro wanted to build an imaging system for which it did not have internal expertise. It put out a mini RFP, which again is a new best practice. Out of the five services providers asked to bid, two declined. After awarding the project to one provider, ABN Amro made sure that the other two knew why they had lost.

Mini RFPs are aimed to shorten cycle time of the proposal process. “The global contract defines most of the relationship, and hence mini RFPs focus on what needs to get done instead of worrying about terms and conditions,” says Jacobs. “Now RFPs need not be measured.” The other benefit of internal markets for ABN Amro is that it never has to evaluate more than a handful of provider proposals as against 40-50 in a traditional RFP process.

The Fine Print

L&T Infotech’s Narashimham points out that several things need to work for a multisourcing strategy to succeed.

First, each service provider must see enough business to have the incentive to be part of the multisourcing strategy. The issue of managing competing providers can get complex when proprietary knowledge such as skill mapping, delivery models, costing and bidding processes and change management are involved.

Narashimham gives an example of how a telecom client of L&T Infotech effectively managed conflicting needs of partnering and confidentiality. “The client held periodic meetings with all service providers to discuss issues of common interest and specific confidential issues were discussed individually,” he says. The customer also does not share information that the provider classifies as confidential. It eventually comes down to trust in the relationship, which multisourcing models working with a few select providers must achieve.

Rewards and penalties. Buyers are also providing unique rewards and penalties to providers to keep them engaged in a multisourcing relationship. “There are financial penalties for not meeting service levels,” says Jacobs. “The benefit of internal markets is that we can transfer work to a different provider if one is not performing well.”

Vendors are also rewarded if they exceed service levels. “Some of our customers in a multisourcing relationship give us financial rewards by way of gain share if we perform above service levels,” says Narashimham.

Control. A differentiator of mature multisourcing is control through governance. “Governance is a key customer responsibility,” says Patni’s Satawalla. Despite the crucial role of governance in controlling a multisourcing initiative, not enough attention is paid to this aspect in many cases both by customers and the providers, believes Narashimham. “It’s only when serious issues start surfacing in outsourcing that customers and service provider think of governance in earnest,” he adds.

Typically, multisourcing deal negotiations focus on cost, technical requirements and legal issues, but not governance. Once the cost structures are tied in without allocating resources to governance, neither the provider nor the buyer wants to invest in governance. “The resources for building governance structures should be committed right up front,” says Narashimham.

Gartner's Young recommends that customers and providers adopt co-management to effectively manage and control a multisourcing relationship. "When performed effectively, co-management transforms sourcing deals to focus on business needs and long-term flexibility," says Young. "Experience with clients has shown that organizations lacking co-management can spend up to twice the amount managing relationships compared to those with highly effective co-management and skilled internal teams."

Six co-management processes, which include strategy, responsibility, integration, audit and assessment, communication and feedback connect all parties involved through a multisourcing management office. "

In co-management these processes are applied consistently for all the relationships — between the consumers and providers, between the enterprise and providers, and between providers that must interface with each other — for maximum benefit," says Young. Gartner refers to these processes as co-management processes, as they involve cooperative management between providers and recipients of services.

Successful multisourcing depends on effectively managing a list of trusted service providers. Emerging best practices show that fewer providers, cross-provider partnering and clear definitions of provider roles and responsibilities are imperative in multisourcing. However, the alternative is to develop a higher tolerance for failure.

Next Steps: When you move from a single-sourcing to multi-sourcing strategy, consider the following:

- Send out an RFP for new providers
- Select providers based on needs, which may include:
- Servicing to multiple technologies
- Industry expertise
- Providers' presence in specific geographies.
- Commit during contracting to implement multi-sourcing best practices
- Build a governance structure to control the initiative
- Work with OLAs to fix roles and responsibilities as well as achieve consistent service levels
- Cut RFP cycle time using mini RFPs
- Select "approved" providers to compete for new projects
- Measure outcomes against set goals
- Reward or penalize service providers based on performance.

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