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SAFETY IN NUMBERS

The Discipline of Multi-Sourcing Leaders

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Executive Brief

What are the risks of relying on a single, powerful vendor to address all of one's outsourcing objectives? What are the consequences of adding-on a critical business process to the contract of an outsourcer that doesn't have a true core competence in that process?

Those are questions that many companies are now asking themselves as they formulate their strategies for new outsourcing projects or even seek new providers for existing projects. Many companies are now outsourcing to multiple, specialized vendors as opposed to allowing themselves to be locked into one all-encompassing outsourcing relationship. They are seeking safety in numbers – managing risk through diversification. They are even realizing “quick wins” through their turn to more specialized providers and more tightly focused sourcing arrangements.

Considering the current state of outsourcing, companies have good reason to reconsider their strategies. According to Forrester Research, 25-50% of all outsourcing projects end up failing and 2005 represented a record year for outsourcing contract restructurings.

One reason for today's high level of outsourcing disappointment, according to IT industry analysts, is the tendency to rely on a single outsourcing provider when better results could be achieved through the “disciplined multi-sourcing” of outsourcing projects. While many companies have been burned in the past by expediently taking the short-cut of sole-sourcing, market leaders are now realizing they must take the disciplined path of multi-sourcing if they are to ensure successful outcomes.

1.0 Whose Throat is Getting Choked?

Outsourcing, quite clearly, is now an established business practice. The question among top companies is no longer whether to do it but how to do it most effectively. They must now determine whether to rely on a single, large supplier or, instead, to engage multiple, specialized outsourcing providers.

Sole sourcing, or holistic sourcing might appear to be a much easier path to take – the expedient course. After all, the supplier is expected to take responsibility for a whole array of management tasks and responsibilities, effectively taking them off your organization's plate. You are able to throw a wide array of processes and functions into a large outsourcer's contract vehicle. Indeed, it's popular to say that consolidating one's outsourcing activities with a single provider means having just "one throat to choke."

But who is really getting strangled in the long-run? Consider the impact that sole-sourcing – the most common outsourcing arrangement at present – appears to have had on the current state of the industry:

- MIT's Center for Information Systems Research (CISR) found that "only 50%" of these so-called "strategic partnerships" (based on large, sole-sourced, outsourcing arrangements) are judged successful by either client or vendor.
- Deloitte Consulting released a study in 2005 arguing that "outsourcing is not delivering its expected value to large organizations." One key finding: 70% of study participants had "significant negative experiences with outsourcing projects and are now exercising greater caution in approaching outsourcing."

Clearly, something isn't well in the outsourcing world. And yet, companies continue to pursue sole-sourced, outsourcing relationships even as the evidence mounts that sole-sourcing is one of the primary causes of the industry's widespread disappointment.

2.0 Discipline vs. Expediency

The evidence suggests that most large outsourcers are taking on activities and responsibilities that don't fit cleanly into their business models and practices. That happens as companies choose to keep adding new processes to a large outsourcing contract for the sake of convenience.

Unfortunately, they end up paying a severe price over time. Rather than exercising and eating right to lose excess weight, companies have sought the immediate convenience of the diet pill. While such actions may seem expedient at the time, they often lead to disappointment – unmet expectations, costly contract renegotiations, lost competitiveness – over time. Their overextended outsourcers end up failing to deliver specific capabilities and promised results.

But this state of affairs may be changing. Recognizing a linkage between sole-sourcing and poor performance, there is now a backlash underway against outsourced outsourcing arrangements. At the same time, many recognized companies are implementing what they believe to be a more dynamic and agile alternative. Gartner calls it "strategic multi-sourcing" and Forrester Research calls it "selective sourcing."

Rather than put all their eggs in the basket of a single IT outsourcer, companies now are managing a portfolio of specialized outsourcers. Among the business processes that top companies are outsourcing to these types of providers: security management, help desk management, and production database support.

One company that has embraced this approach is Procter and Gamble. P&G, which has grown 40% to \$57 billion and doubled its stock price since 2000, truly understands the value of multi-sourcing. Under the leadership of CEO A.G. Lafley, the company has outsourced an array of business processes: IT to Hewlett Packard, human resources, accounting and purchasing to IBM, and data infrastructure management to dbaDIRECT.

Gartner goes so far as to predict that world-class companies will be applying a “multi-sourcing discipline” to “all” sourcing arrangements by 2009. However, the firm also points out that the transition is only beginning. “Most organizations are ill-prepared to move toward multi-sourcing and the discipline that is required,” Gartner states. “The combined forces of core-competence focus, IT, communications, globalization and hyper-competition will not allow companies to maintain their practices.”

3.0 The Case for Disciplined Multi-Sourcing

So what are the benefits of multi-sourcing? There are several to consider:

3.1 Maximizing Business Value. As companies embrace disciplined multi-sourcing, they become skilled at identifying which best-of-breed, cost-effective outsourcing providers can deliver solutions that most directly align IT to business strategy. Large, single-sourced arrangements tend to lack this level of clarity and focus – a key factor in their underperformance.

3.2 Minimizing Risk Exposure. When companies sign enormous deals with outsourcing providers they take on tremendous strategic and financial risks. Multi-sourcing enables them to spread these risks around and manage them more vigorously. It also reduces risk by enabling IT groups to more actively respond to market developments, new business priorities or changes in the health of a supplier over time.

3.3 Ensuring True Outsourcer Accountability. Too often, sole-sourcing leads to an unhealthy dependence on a single, powerful, outsourcing vendor. When companies add new business tasks and responsibilities to existing outsourcing contracts out of convenience, they are liable to find their vendors are unqualified to deliver. Disciplined multi-sourcing, by contrast, helps ensure they engage deeply focused and accountable outsourcers that generate measurable results.

4.0 Profiles in Disciplined Multi-Sourcing

A growing number of companies have embraced disciplined multi-sourcing. They've discovered that the approach enables them to continue managing the strategic aspects of IT and business processes, while off-loading activities that are not key differentiators.

ABN Amro Bank NV has continued to keep its strategic planning and enterprise architecture design capabilities in-house, even as it outsourced an array of IT activities. Bruce Jacobs, the Amsterdam-based company's CIO, told *Computerworld* that “you're responsible for your own destiny in defining how the systems work together.”

Working with five different vendors including Accenture, Patni Computer Systems and Tata Consultancy Services and dbaDIRECT, the bank is outsourcing IT infrastructure management, application development and telecommunications services. The companies compete for application services contracts, but are required to collaborate. As Jacobs explains, ABN Amro has created an “internal market” for application development work that creates greater efficiencies and vendor accountability.

In order to manage the multi-sourced operations, the company has kept experienced IT managers and teams in house that are capable of ensuring that outsourcers are aligned with business objectives and deliver to expectations. It has staffers, for instance, that are highly experienced in the functional aspects of



payment and trading systems. The bank also has its own IT architects to ensure service providers meet technical specifications and relationship managers to ensure outsourcers are addressing business concerns. In addition, it has requirement analysts who translate business requirements into technical specifications for the outsourcers.

Like ABN Amro, DuPont has capitalized on this approach as well. In order to remain agile and effective, it created what it calls its Global IT Alliance to integrate services from more than 10 different service providers. The alliance blends both internal and external resources in order to meet the company's demanding business objectives.

In the new book *Multisourcing*, Gartner analysts Linda Cohen and Allie Young contend that success "requires the selection of the 'right' sources for business services." They quote Maryann Holloway, Director of DuPont IT Alliance, with regard to the importance of integrated management: "We have to maintain positive partnerships with our service providers, and they have to work well with each other, so that we can all jointly meet changing needs."

Under the company's multi-sourced IT structure, all operations, internal and external, report to the director of the alliance. "Performance managers directly oversee daily operations under the purview of a global operations manager," explain Cohen and Young. "Relationship management and contract management functions also report to the director of the Global IT alliance through the strategic sourcing manager."

Holloway says DuPont's transition to multi-sourcing has depended on several factors. First, the company had a skilled and dedicated integration team that "was comfortable with ambiguity," she said. Second was senior-level sponsorship – all the way up to the CEO. The third factor was a solid understanding of its business objectives, which has helped to keep IT outsourcing projects on track.

"We remain the integrators of all our service providers," Holloway said at a recent conference, underscoring the importance of strong IT governance. "You need to know what you're going to do together and what you need to do separately."

5.0 Critical Success Factors in Disciplined Multi-Sourcing

There are a number of critical success factors now being observed by companies that have embraced disciplined multi-sourcing. Among them:

5.1 Maintain the Strategic High

Ground: Companies outsource activities because they are not competitive differentiators or core competencies. However, it's vital to maintain and retain the strategic aspects of IT management and architectural design. These are vital activities that contribute value, differentiate companies and cannot be surrendered to outsourcers. Senior IT people – experienced in the value creating elements of the enterprise – must remain in-house if enterprises are to ensure that outsourcers meet the objectives of the business, act consistently with enterprise technical architecture, and create a standardized and integrated (as opposed to a needlessly siloed) infrastructure.

5.2 Vigorously Manage the Vendor

Portfolio: One of the problems with single-sourcing is that a company becomes overly dependent on a single vendor. The capacity to manage an outsourcer actively, hold it in check and hold it accountable inevitably weakens. If a muscle isn't exercised, it tends to atrophy and deteriorate. There's safety in numbers – just as risk is best managed through diversification. It's vital to have an outsourcer portfolio and actively manage it if one is to achieve the best possible results over time.

5.3 Clearly Define Processes Before Outsourcing:

While this point is as true for all outsourcing as it is for multi-sourcing, it's worth emphasis. One can't expect a good outcome if a bad and poorly defined process is simply thrown over the wall to an outsourcer. Successful outsourcing – and multi-sourcing – depends on ensuring a business process is carefully defined and delineated before it is handed off to an outside party for management. Diligent process definition also helps in setting the objectives, milestones and metrics that must be met in order to ensure the outsourcer has delivered a successful outcome.

5.4 Demand Vendor Accountability:

This may seem like an obvious element in any outsourcing contract. The trouble is that it becomes increasingly difficult to establish clear measures of successful performance as the scope of the contract starts to creep. Large, powerful outsourcers start to lose the incentives that can drive smaller, specialized outsourcers. In multi-sourcing environments, it is simply easier to ensure vendors are meeting expectations – and it's less costly to replace them if they are not being met. Because it is easier to clarify and measure performance, multi-sourcing makes it easier to ensure specific business outcomes are met.

5.5 Get the Quick Wins. As research from MIT's Center for Information Systems Research (CISR) has clearly demonstrated, it's easier to obtain near-term success from "transaction outsourcing" – well defined, straight-forward and tightly focused relationships – than from more expansive and all-encompassing "outsourcing partnerships." These transactional arrangements represent a quick win – something that demonstrates rapid value and provides a foundation for more far-reaching endeavors. These opportunities are wide open to disciplined multi-sourcers.

However, companies that allow themselves to be locked into rigid, multi-year and monolithic arrangements with big outsourcers have no such opportunity. They hope for long-term returns and, as the evidence increasingly suggests, their hopes are all too often dashed.

6.0 Conclusion:

As a growing number of leading companies see it, the future of outsourcing will depend on disciplined multi-sourcing. This is how companies heighten the likelihood of success, while achieving safety in numbers. The era of sole-sourcing has played out and the results have not been impressive. While companies will continue to employ large outsourcers for big projects, they are now refraining from loading those partners up with added tasks and responsibilities that are not central to their business models. Instead, they are turning to a portfolio of specialized outsourcers to meet these objectives in a defined and demonstrable way. Multi-sourcing, in other words, is the discipline of tomorrow's market leaders.

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