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BEST PRACTICE

Getting Multisourcing Right!

CEO Today's 2009 Vol. 2 issue features a Best Practice article including insights into how multisourcing can provide significant advantages for corporations. With proper planning and an investment upfront, corporations can benefit from reduced cost, increases in efficiencies and an optimized supplier landscape.

As a leading sourcing advisory firm, Trestle Group provides suggestions in this article for organizations as they prepare for their multisourcing journey.

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Getting Multisourcing Right!

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Multisourcing, defined as optimising business, information technology and infrastructure services across external suppliers and internal departments / companies, can provide significant advantages for corporations. To reap these rewards, organisations require a cohesive strategy that is managed consistently throughout the business.

Benefits of a successfully implemented multisourcing strategy should include:

- A consolidated vendor landscape
- Optimised processes and reduced transaction costs
- Consolidation of activities in low cost destinations
- Ongoing savings ranging from 20 to 30%

A robust multisourcing strategy will incorporate the following components:

- Strategy, governance & stakeholder commitment
- Relevant geographic footprint
- Coordinated allocation of activities (internal and external)

Strategy, governance & stakeholder commitment

The strategy should determine the impact multisourcing would have on the organisation i.e. financial, operational, market share and competitive advantage. Additionally, the strategy should allow for enough flexibility for individual divisions to fulfill their local market requirements and should be solid enough to ensure that allocation of activities are applied consistently both internally and externally.

Top down governance is an imperative. If organisations are able to ensure that the multisourcing strategy requirements are implemented

consistently, sufficient volumes of activities will be consolidated internally and externally allowing for cost and operational benefits to be achieved. The governance structure should contain a number of key performance measures that are committed to the business units' senior management teams. Appropriate governance with external vendors and captive centers will ensure that the business units are receiving the services they require according to defined conditions.

Implementing a multisourcing strategy requires significant commitment from senior management. In every organisation, there will be resistance to change. Depending on how this resistance is managed determines if a company is able to truly multisource or maintain the status quo with a multitude of services providers and duplicate internal activities.

Relevant geographic footprint

A dynamic multisourcing strategy will incorporate a combination of onshore, nearshore and offshore activities to take advantage of labor cost and access to skills. These activities will be performed by either vendors or captive centers. When evaluating locations for processing activities, a variety of criteria should be considered such as language, culture, time zone, political stability and the ability to deliver based on expected service level agreements.

To put this into perspective, an example scenario would have a company with operations in Europe establishing a captive center in Eastern Europe for business process activities based on local language requirements. Furthermore, the company may then choose two to three vendors in India to cover and consolidate English-speaking activities from their operations in North

America. Lastly, they may also consolidate infrastructure in Spain to take advantage of a captive center for European operations.

Importantly, a comprehensive risk analysis should be conducted to ensure the selected location would not have an impact on daily operations.

Coordinated allocation of activities

IT development and maintenance

There is much debate regarding how to allocate IT development and maintenance activities. From our experience in working with corporations, activities that require significant increases and decreases in resources such as IT development can be effectively sourced with several strategic vendors. These vendors have a deep bench of resources that can absorb fluctuations.

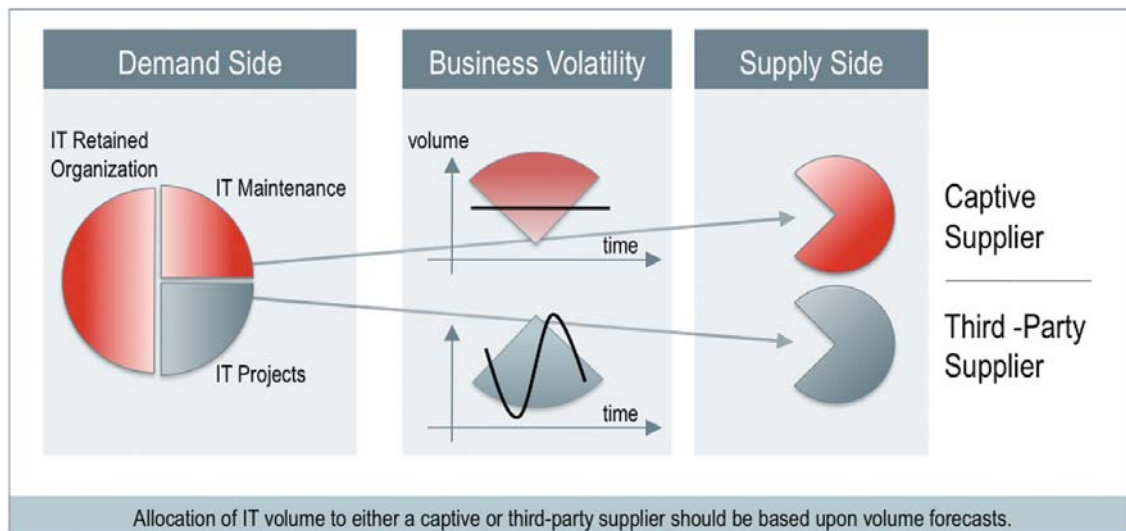
Activities that are steady and span over a long period of time such as application maintenance tend to work well when managed by captive centers. This allows organisations to save the premium they would pay to a third party provider.

Infrastructure

With advances in technology, there are many benefits to consolidating infrastructure internally or with a third party provider. We have observed both models working well with the caveat that the business case must be managed aggressively. If cost savings are not being achieved, action is required immediately.

Business Process Outsourcing (BPO)

A similar approach as defined with IT development and maintenance can be applied to business process



outsourcing. Most organisations find economic or operational benefits by consolidating business process activities into captive centers or with vendors. As activities are consolidated, processes are optimised and transaction costs are reduced. Current trends indicate that BPO is expected to grow considerably in the future, with continental Europe positioned as a growth leader.

Lessons learned

Getting the ideas into PowerPoint is much easier than implementing the concept

Designing a realistic multisourcing strategy requires input from sourcing practitioners and commitment from senior management. Once the strategy is agreed upon, the real challenge organisations face is implementing according to timeframe and ensuring that the benefits are achieved. Organisations should not underestimate the value of involving sourcing practitioners who have lived through complex implementations.

Manage your vendors and captive centers

Vendors have considerable experience managing their clients. It's their livelihood. If proper controls are not in place, this can lead to a disadvantage for the company engaging the vendor. Buyers must ensure that KPI's are robust and monitored regularly. Any irregularities should be addressed according to escalation agreements and dealt with rapidly.

Likewise, internal captive centers are most likely not in a position to manage their customers. It is important to ensure that these centers are utilised appropriately. Centers that are not integrated will quickly become costly and inefficient.

Communicate, communicate and communicate

Once the multisourcing strategy is defined, it is important to develop a communication plan. Providing managers and team leaders with an overview of frequently asked questions

/ answers will help ensure that communication is consistent and will help reduce individual's concerns that he or she is communicating something that is inappropriate. Utilising change management practices throughout the communication process is essential.

Conclusion

Multisourcing is ultimately the optimisation of activity management. There are significant advantages that can be achieved by developing a multisourcing strategy that is consistent with the goals of the organisation and is implemented with the required governance. Organisations will find that a successful transition will ultimately provide more flexibility as processes are optimised and consolidated.

Steady work that can be planned over longer periods of time is most favorable for captive centers. On the other hand, vendors with a deep bench can best absorb variable activities with significant peaks and valleys.

PowerPoint presentations and business cases are only the beginning. Get the

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Sourcing Strategy

governance right, gain the support of the critical influencers in the organisations and develop a robust implementation plan. Measure your progress throughout the transition and do not tolerate unmet service level agreements / key performance indicators.

When sourcing practitioners are not available in-house, invest in external advice. Additionally, implementing a multisourcing strategy requires an investment in change management. If there are any doubts, speak with organisations that have recently gone through such complex transitions.

About Trestle Group

Trestle Group is a leading sourcing advisory firm. Utilising experienced practitioners, we guide organisations through the sourcing lifecycle. Whether an organisation is considering outsourcing to Eastern Europe, establishing centers in Asia or implementing a multisourcing strategy, we get sourcing done!

To learn more about Trestle Group, please visit our website: www.trestlegroup.com

To learn more about our commitment to society by supporting women

entrepreneurs through Trestle Group Foundation, please visit our website: www.trestlegroupfoundation.org. ■

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About Trestle Group

Trestle Group is an international firm providing services solely focused on global sourcing. Through our diverse and complementary set of services, clients benefit from support ranging from strategy through to implementation. Whether you are interested in setting up operations in Eastern Europe, outsourcing to India or ready to make the world a better place through our Foundation, Trestle Group is a solid partner. We welcome you to experience Trestle Group today.

For more information about the services Trestle Group provides, please contact one of our offices or visit our website.

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