

From Strategy to Value:

Why smart buyers should abandon the traditional approach to sourcing.

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Outsourcing is generally considered to be an Anglo-Saxon option for change. This is borne out by the fact that, globally, the hot-spots of activity are still primarily the US and UK. In those jurisdictions, where the employment laws legislate against outsourcing, shared services and re-engineering approaches are becoming increasingly prevalent. Consequently the transformation landscape predominantly comprises pockets of outsourced or 'in-sourced' (shared) services. However, a new picture is emerging as organisations are becoming increasingly sophisticated in their sourcing approach and more confident of their ability to manage a multi-faceted sourcing delivery model. At the same time, the traditional sourcing advisor role will continue to evolve towards expert only high-level coaching and enabling.

The traditional approach to sourcing, involving only a cursory look at the overall strategy before diving into the transaction (build or buy), is now being recognised as not being 'fit-for-purpose'. The next 5 years will see more complex service-delivery models and increasingly sophisticated service-management and governance constructs as a result. This will be underpinned by more time and resource allocated to the Strategy and Design Phase of the outsourcing journey, moving away from the Anglo-Saxon urge to 'get-on-with-it'.

Background

The global variation in approach to sourcing is partly due to cultural and political preferences, partly to the fact that both approaches offer a similar net balance of benefits and drawbacks and partly to the way in which many sourcing strategies are conducted. In the Anglo-Saxon corridor there is a cultural tendency to 'get on with it' where activities and deliverables are more highly rated than clarity and alignment as evidence of progress.

In any outsourcing engagement there are huge benefits to be gained by careful journey planning with a clear understanding of where, why and how before setting off. It is also vital, at the earliest opportunity, to identify the key stakeholders and understand how they will be impacted; failure to consult and obtain buy-in to this group is always expensive and can be fatal.

Thinking and planning time committed early in the sourcing process is time well spent, reducing risk, cost and time-to-value and maximising the initiative's chances of succeeding.

To explore this hypothesis further we first need to look at the Sourcing Lifecycle.

The Sourcing Lifecycle

The sourcing lifecycle comprises of three main phases:

Phase 1 - Strategy & Design: Here risk and value are created. Questions arise such as: What do you want to buy or build and how much do you want to pay? Who (if anyone) do you want to buy from? Where will the services be centred? What is the current service platform? How much is it currently costing? What improvements are required? And how will you manage the service?

It is during this phase that **risk and value are created** so it is crucial to invest sufficient time and effort here. Phase 1 is not resource heavy and therefore represents a low cost, risk and distraction to the business.

Phase 2 - Solution and Implementation: This phase is essentially just making Phase 1 happen. Either building (captive shared service) or buying (outsourcing) or some form of hybrid solution which is becoming increasingly popular. This Phase is extremely **resource hungry and carries high risk** and should not begin without strong internal alignment, a clear strategy and a robust business case.

Phase 3 - Transition, Operation and Innovation: The moving, managing and improving of service provision. It is at this stage where **risk and value materialise**.

Getting the balance wrong

In most undertakings of this nature, the majority of time and expense is devoted to Phase 2, avoiding (or paying insufficient attention to) the real strategic considerations and typically resulting in Phase 1 being reduced to a few binary decisions such as:

- ✓ Should we build captive shared service or outsource?
- ✓ Should we fix first or transfer and then transform?
- ✓ Will multi-tower transformation deliver greater benefits?
- ✓ Should we implement in phases or big-bang?

This cursory approach is invariably sub-optimal. Too often there is a natural tendency or impatience to move into Phase 2 with only an outline understanding of what, how, where or who with. However, this is both a mistake and a wasted opportunity because:

- **Solution and Implementation**, the ‘money-burn’ Phase, involves gathering, compiling and analysing huge volumes of data. It consumes vast amounts of time (client, providers, advisors and lawyers) and is wholly reliant for success on survival of the Business Case. This is not the time to be constantly revisiting and re-casting either the solution or the Business Case. The difficulty in maintaining the integrity of the Business Case is further exacerbated by the diversity of advice and opinion offered by the providers and professional advisors.
- The **Transition, Implementation and Innovation** phase is where value and risk materialize, the relative proportion of each depending to a great extent on the planning and preparation conducted during the Strategy stage. (Note that here the balance of power shifts from service receiver to service provider, both internal

or external, and sufficient funds and energy should have been reserved to manage this transition properly).

- Obtaining optimal future solutions and alternative service delivery models is often hampered by fears surrounding governance and service management (SM). The widely-held view is that a single provider, multi-tower approach will be easier to manage from governance and service management perspectives. This *might* well be the case but the resulting compromise in service quality and value could easily far outweigh any governance benefit. Phase 2 should commence only after the optimal new delivery model has been designed and assuming that it will be manageable, it probably will be.
- The overall elapsed time from initiating strategy to realizing value **will not** be increased by taking more time over the strategy. Normally, the opposite is more likely to be true because a clearer vision of what, when and how coupled with better planning will for-shorten the time taken to execute Phase 2 and therefore significantly reduce cost.
- Forces of Darkness - Every programme of this nature will have its detractors. A flimsy or weak Business Case, or a failure to gain strong stakeholder support from the outset, will not last the course and the Business Case will have to be continually shored-up, re-built and re-sold or the programme might have to be abandoned altogether.
- The external provider community will welcome the certainty that goes with a clear vision on scope and delivery. It will also welcome a shorter, more intensive competitive phase; provider pursuit dollars come straight off the bottom-line and are frequently wasted by buyers feeling their way through the process and 'designing on the hoof'.
- If you **are** opting for the outsourcing route, remember that the providers will have access to infinitely more experience than you can gather. It is therefore essential to control the agenda throughout the sourcing process and be as clear as possible about what and how you want to buy. The focus during phase 2 should be selecting the provider(s) that best fit your needs and other criteria and not on trying to wrest control from them nor managing internal issues arising from lack of consensus. It is also worth noting that even the most cohesive Business Case is likely to erode as more information is gathered on both sides and the negotiations with the providers' progress. So it is crucial that **expectations are realistically set and that the Business Case itself has been built on sound logic and research.**

All of these points support not rushing to move beyond the Strategy and Design Phase and taking care to develop a robust Business Case.

Business Cases that are likely to survive the sourcing lifecycle will have the following defining elements:

- a. They qualitative and quantitative benefits will be sufficiently compelling to survive bad weather during the process.
- b. It will be based upon a well-defined (ideal) new service delivery model and clear understanding of what this should cost.
- c. It will set out realistic but meaningful targets and success metrics (expectation setting is critical but often overlooked).
- d. It will comprise a combination of 'efficiency' (direct) and 'effectiveness' (indirect) savings. The latter often deliver higher commercial value to the enterprise than the direct savings.
- e. It will have continued support of the key stakeholders. It cannot be widely supported unless the stakeholders have a consistent understanding and acceptance of the need for change and what the journey itself will mean to them (effort, cost, distraction, participation, risk and benefit.) This is absolutely essential if a sourcing initiative is to maintain momentum and this cannot be achieved overnight. The 'buy-in' from key stakeholders cannot be underestimated, particularly in consensus-driven organisations.

What should be done to get the balance right?

1. Firstly, identify all stakeholders and involve them in the building of the Business Case. Run workshops, communicate and educate – understand their issues, concerns, level of understanding and other priorities.
2. Demonstrate sympathy for risk and distraction to other in-flight projects. It is a good idea to develop a road-map which shows the sourcing-initiative timeline and activities against the other corporate programmes and how they will inter-relate.

3. Understand, and widely disseminate, the indirect and intangible benefits as well as the direct savings. Ensure that the Business Case is maintained.
4. When outsourcing, **legislate for success**. Without exception, the primary focus in the long run-up to contract is to legislate for failure and concentrate on terms and conditions which may be necessary for corporate governance and compliance but provide little value towards ensuring the success of the arrangement. This focus is almost always at the expense of the ingredients that really matter such as service management, good governance practices (tailored for each supplier), relationship building, innovation, key performance indicators and performance measurement, change management and retained organisation design. **This imbalance is detrimental to the success of the initiative.**

Conclusion

The traditional sourcing landscape is changing. Arrangements are disaggregating, hybrid deals involving various internal and external models are emerging and buyers are becoming increasingly discerning in their approach to sourcing initiatives. These new models, however, demand a more rigorous approach to the sourcing strategy and to governance / service management. The optimal approach is to ensure the correct allocation of resource across the entire planning, implementation and transition lifecycle. It is crucial to avoid impulsive behaviours. Instead allow yourself the time to conduct a thorough Strategy and Design and thereby have a clear picture of the desired outcome and the rest of the journey before proceeding to the next Phase. By doing this, the overall elapsed time will be shorter; cost, management distraction and risks will be minimised and better managed and the rewards will be greater and the sourcing journey will be less stressful.

About EightyTwenty Insight

EightyTwenty Insight is a new approach to sourcing advice:

- Strategy-led: starting with the end in mind.
- Expert-driven: lean, fast and focussed on what matters.
- Methodology-enabled: but not prescriptive.
- Enabling & empowering: by transferring knowledge, skills, tools & methods.

We understand the pressures organizations face today and the importance of a tailored approach - one that builds lasting relationships and works with your team to provide the best solution. EightyTwenty Insight was formed to provide this more sophisticated approach. We provide sourcing advice to the public and private sectors, in the BPO, ITO, HRO and F&A markets; utilising a team of experienced professionals.

EightyTwenty Insight aims to be the 'local pilot' - the expert that can help you navigate a difficult course successfully - reaching your destination faster and with lower risk.

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