“Don’t wait, go hybrid!”
Hybrid Sourcing – Beyond Shared Services

The 2014 study of Capgemini Consulting and Capgemini
Hybrid Sourcing is a strategy aiming to source along the perfect mixture of service delivery alternatives. It allows companies to realize a perfect balance in service delivery between local structures, captive shared service centers and external outsourcing.

Process sourcing and its corresponding sourcing strategy has for years been an important item on the agenda of executive boards across all organizations. Globalization and competitive cost structures have become key success factors in most industries, forcing C-Levels to leverage economies of scale, labor arbitrage and standardization. Business process outsourcing (BPO) and captive shared service center (SSC) organizations turned out to be proper concepts to meet these challenges.

Recent years have seen many trends and multiple shifts in mindsets as to which approach might be the best one. Both concepts realize cost reductions through process efficiency and enable the business units of an organization to focus on core processes, making them more flexible and effective in their customer value generation. Nevertheless, BPO and SSCs differ in how such benefits are realized. In general, BPO offers a higher potential for cost efficiency compared to SSCs. The process or service delivery by a third party which acts as a service provider for different clients results in higher process volumes and therefore lower transaction costs. On the other hand, SSCs keep process ownership within the organization, enabling the company to stay more flexible in responding to process requirements and increasing process transparency.

Fig. 1: Overview of alternative sourcing approaches

In most cases organizations either focus on outsourcing certain processes or centralizing those in own shared service centers. Each approach has its advantages. Nevertheless, the results of this study suggest that leveraging the best of both worlds – outsourcing and shared services combined as Hybrid Sourcing – brings the highest value impact.
The Capgemini Hybrid Sourcing Study 2014 illustrates trends in corporate sourcing strategies across various industries on a global level, and assesses the potentials of Hybrid Sourcing. This study is the second in an annual series which started last year with the Capgemini Consulting Shared Services Study 2013 (with a focus on internationalization).

65 companies from five continents participated in the study, representing the following regions: Western Europe, Central & Eastern Europe, North America, Central America & Caribbean, South America, Asia-Pacific and Australia.

The Hybrid Sourcing Study focuses on large organizations across most industries: 20% of all surveyed companies employ over 100,000 full-time employees (FTEs). More than half of the participants employ more than 25,000 FTEs.

The study covers the following sectors: Financial Services, Transport & Tourism, Manufacturing, Energy & Utilities, Automotive, Telecommunication, Media & Entertainment, Life Sciences and the Public Sector.

The focus was on finance & accounting and HR processes and services, as these are major corporate functions which are being considered for sourcing activities.

The questionnaire forming the basis of the study contained a total of 24 questions. The key insights deriving from our analysis are summarized and illustrated in the section entitled “Key findings”. For more details on the overall results of our analysis, see the section “Detailed results” which provides a more comprehensive overview.
With contributions from Valentina Georgieva, Denise Gottburg, Florian Mielack, Sebastian G. Suffa and Eric Anderegg.
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This study analyzes the sourcing vision, current strategy, challenges and implementation success of key players from various industries and with different sourcing approaches. The results reveal a clear industry-wide trend towards Hybrid Sourcing. It points out that companies following a Hybrid Sourcing approach perform significantly better compared to their peers following a pure SSC or BPO approach or even a local/ decentral approach (without a SSC and/ or BPO organization). The coverage of Hybrid in the existing sourcing landscape is by far higher than generally expected – Digital Transformation plays an important role in this development.

None of the surveyed companies plan a pure local/ decentralized sourcing setup in future. A local/ decentral and captive SSC sourcing strategy is expected to remain very popular. The combined pure local/ decentral and BPO approach will be out of focus in future.

The study depicts seven key findings:

- 92% of finance & accounting and 73% of HR processes are predestined for Hybrid Sourcing
- Hybrid Sourcing is more successful than independent SSC or BPO solutions and is the next stage in sourcing after 2nd Generation Shared Services
- Pure captive SSC arrangements deliver higher quality but on an upper cost level – BPO solutions show the opposite characteristics
- A clear sourcing strategy is key for realizing the organization’s objectives
- A global sourcing governance is essential for a successful realization of Hybrid Sourcing objectives
- A clearly defined and communicated Hybrid Sourcing strategy leads to higher acceptance in the organization
- Hybrid Sourcing is most suitable for internationally operating organizations

Company representatives initiate Hybrid Sourcing activities especially in order to realize costs reductions, higher quality, more efficiency, faster services and an increase in transparency. The data shows that participants following a Hybrid Sourcing approach are more successful in reaching those objectives. Compared to companies with a non-Hybrid Sourcing approach, they also rate their existing sourcing models as more successful and claim to be more satisfied with the current setup of their sourcing organizations.

These results are complemented by the fact that Hybrid Sourcing companies report significantly higher savings in operating costs compared to the surveyed Non-Hybrid Sourcing-companies. Almost 40% of Hybrid Sourcing organizations have realized savings in operating costs of more than 30%. Overall, savings in operating costs as a result of sourcing activities can reasonably be expected to range between 10-30%. More than 20% of the participants do not know their realized savings, which indicates the need for proper tracking and performance management.
The participants of this study are in different phases: roughly one fifth of the companies have decided on the sourcing strategy and are in the early stages of the implementation phase. Almost 50% of the companies have to decide on which countries and/or processes are to be considered for the sourcing strategy. 6% have not been successful in implementing their existing sourcing strategy. Only 22% have already implemented their sourcing strategy to full success.

The implementation of sourcing strategies often meets similar challenges. Besides the selection of a suitable BPO partner, the participants of the study indicated the following key challenges: resistance of local/decentral management, time of transferring and recruiting of the management team. Hence, it is not surprising that the company representatives describe the abilities to clearly communicate, manage changes, standardize and adequately staff the implementation as key success factors for sourcing implementation projects.

Another success factor for winning sourcing implementations is the alignment of local sourcing activities for relevant processes – towards a global view. However, with about 30% a rather small fraction of the surveyed companies have fully aligned their sourcing activities for the relevant processes. The study results show that these companies seem to be more successful than others which have not aligned processes at all or only to a certain extent.

With respect to the maturity of sourcing implementations, companies that combine sourcing approaches – focus here on Hybrid Sourcing – are able to advance most in the maturity model of this study. Those organizations that reach Stage 4 out of 5 have already implemented a support platform with a global delivery model. In addition, the majority of the companies that have reached Stages 4 or 5 of the maturity model have already run optimization programs for their sourcing activities. Organizations that reach the highest stage even operate a digitally enabled global support platform. On average, Hybrid Sourcing-companies were able to reach a higher maturity stage compared to participants not applying a Hybrid Sourcing approach.

The study data illustrates that companies typically implement SSCs on the same continent/within the same region where their headquarters is located at (nearshoring). For BPO the participants of this study set the focus on the Asia-Pacific region.

Finally, most participants are convinced that scaling down the sourcing activities is not an option. Companies rather want to consolidate their existing sourcing activities (e.g. global captive SSCs hub or through a global 3rd party provider hub) and extend their service scope even for services that reach into core business processes (multi-tower services). Implementing an additional or new captive SSC or BPO location is not considered an option by half of the participants.
Extracting the key insights from the survey data and discussing recent developments with our clients, we observe that Digital Transformation has empowered a new trend with substantial impact on the performance of finance & accounting and HR organizations: **Hybrid Sourcing**.

The participants of this study believe that 92% of finance & accounting processes and 73% of the HR processes can be sourced following a Hybrid Sourcing approach, combining local/ decentral delivery as well as SSC and BPO.

Practical experience shows that within a Hybrid Sourcing strategy highly transactional processes such as travel expenses, accounts payable or payroll are most suitable for a BPO provider. This is due to their high transfer potential stemming from clearly defined sub-processes and required skill sets. At the same time more complex processes (e.g. management accounting, regulatory reporting or labor law) should preferably be transferred to a captive SSC.

As a result, companies following a Hybrid Sourcing approach may realize the full potential of optimizations and savings through an appropriate balance of local delivery, SSC and BPO.

Comparing the several options for sourcing and delivering finance & accounting as well as HR processes, the participants clearly stated that the right mixture of local delivery, captive shared services and external outsourcing ensures the highest percentage of cost reduction, but also in gained transparency, quality and overall efficiency. Taking a closer look at cost reduction, savings above 50% seem only possible with a Hybrid Sourcing approach (e.g. for the finance & accounting and HR functions delivery).

Furthermore, practice shows that many companies operating captive SSCs already run optimization programs (2nd Generation Shared Services) in order to maximize the SSC’s efficiency and quality. Now the next stage focuses on selected outsourcing to BPO providers – starting with the transactional finance & accounting and HR processes – to realize further cost reduction potentials and implementing a Hybrid Sourcing operating model.

In addition, many companies face the challenge of extending the functional and regional scope of their SSC and critically assessing the possibility of a new captive SSC (near- or offshore) platform or an external process execution. Besides the realization of further potentials for cost reductions, the realignment of the existing sourcing delivery model should foster standardization, transparency and integration within and between the different company branches and subsidiaries.

Taking a closer look at captive SSC and BPO approaches, the survey results and leading practices show a very clear picture regarding the benefits and obstacles. Captive SSC solutions are still distinguished by higher quality of services and delivery of more complex processes, though at higher costs. In contrast BPO is the first choice when it comes to pure cost reduction aspects and low-cost service delivery. As an example, current practice shows a labor cost arbitrage in India of about 30% between Bangalore and Bangalore’s urban hinterland. However, some of those ‘low cost solutions’ do not meet the high levels of captive SSC solutions in terms of quality and efficiency.
The survey data indicates a strong connection between a clear sourcing strategy and the actual realization of the organization’s objectives. The ‘sourcing strategy’ is the general strategic direction regarding a company’s future process and service delivery model. It can be defined as the strategic direction of how, where and by whom companies will deliver their services to other units in the future. This sourcing strategy sets the frame for all detailed sourcing decisions and activities of the target picture. Despite the obvious fact that a sourcing strategy should be actually built on a clear set of objectives, there could be several levers for realizing these objectives. Nevertheless, the results of this survey combined with expert interviews and our clients’ voice show that in a finance & accounting and HR organization sourcing seems to be one of the most important levers for realizing their objectives. This seems to be valid especially for cost-related objectives: over 70% of companies with a clear sourcing strategy for their finance & accounting and HR functions realize at least 10% and even up to over 50% in cost reductions.

A hybrid sourced delivery model to perform finance & accounting and HR services is an essential factor in order to successfully reach the objectives. Correlating governance as the corporate framework for the organization’s steering and supervision in the context of Hybrid Sourcing and the success of a finance & accounting and HR organization, the data indicates a strong connection between the target realization and a clearly defined governance. This connection is even stronger for a globally governed Hybrid Sourcing approach than for decentral (BU or regionally governed) hybrid approaches. In particular, quality aspects within a global finance & accounting and HR organization as well as transparency, escalation procedures and determined accountabilities and responsibilities are effectively levered by the global governance. A global governance for administrative functions is characterized by a clearly defined overall steering model for all hybrid, SSC and/or BPO organizations, provides group wide consistent standards, policies and guidelines, and coordinates the local administrative functions.

Change management and especially the need for a clear, simple and understandable communication remains an often underestimated aspect in transformation projects – even if these aspects are also often named as a critical success factor for projects regarding shared services, sourcing and organizational design. The survey data provides proof for the value of a clear communication of a sourcing strategy – especially for those focusing on an hybrid approach. Over 90% of the participants with a clear and consistent communication concept were able to create acceptance for the Hybrid Sourcing strategy among a majority of employees (e.g. could manage the employee’s concerns of losing process ownership). On the other hand, less than 20% of the participating companies without a clear communication could reach this goal.
Thinking about the suitability of Hybrid Sourcing, the size and the structure of companies seem to be key drivers for this sourcing approach of finance & accounting and HR services. Currently, all assessed companies which are operating on a global level use the advantages of Hybrid Sourcing. Survey data indicates the special fit of a hybrid approach to those global players. All of them realize faster services, and more than two in three unleash the potential for increased transparency, cost reduction and efficiency. The combination of acting internationally within a hybrid sourced finance function for costs seems to perform especially well: more than half of these companies realized cost savings way above 30%. Experts explain these results with the high degree of flexibility and adaptability a Hybrid Sourcing organization offers within the complex structures of a global player.
Depending on process/business unit the majority of companies follow a mix of a big bang and step-by-step approach to establish their sourcing organization.

Reasonable savings in operating costs as a result of sourcing activities lie between 10-30%.

Scaling down of sourcing activities is not an option, rather focusing on consolidating existing activities and expanding towards multi-tower services.

Cost reduction, efficiency gains, quality improvement, transparency and faster services are the main objectives of sourcing activities, but hardly achieved to the expected degree.

Cost reduction

Efficiency

Quality

Transparency

Faster service

Most of participants could not yet reach a digitally enabled global support platform, but advances can be noticed in comparison with the results of the 2013 study.
Clear communication leads to higher acceptance
Over 90% of participants with a clear communication strategy were able to create acceptance for their Hybrid Sourcing strategy among the majority of their employees.

Hybrid Sourcing is especially suitable for internationally operating companies
% of internationally operating companies which realized the following targets through Hybrid Sourcing

A vast majority of F&A and HR processes are predestinated for Hybrid Sourcing
The participants state that 92% of F&A and 73% of the HR processes could be realized through Hybrid Sourcing.

A clear sourcing strategy is key for realizing the objectives of the F&A and HR organization
Level of satisfaction considering the target achievement of sourcing objectives

Only companies following a Hybrid Sourcing approach could realize cost reductions around and above 50%
In this section the company representatives were asked about their current sourcing strategy as well as how they plan to deliver services in the future. Additionally, this part examines the preferred locations for SSCs/ BPO organizations, the alignment of the relevant processes and their governance.

Design of existing and future sourcing strategies

According to the survey results the majority of future sourcing strategies are organized in a Hybrid Sourcing approach. Hybrid Sourcing is a way of sourcing that combines the advantages of a captive structure with those of an external outsourcing structure, partly, flanked with a small part of local delivery. In this model, a company still maintains competency in terms of processes and quality whilst reducing costs and leveraging labor arbitrage at the same time.

In fact, by leveraging the benefits of both worlds companies aim to realize captive SSC advantages like:

- control, quality and low risk to data
- long-term cost savings combined with a continuous improvement of processes
- process innovation in own responsibility
- ownership and internal acceptance

“Hybrid Sourcing with its combined advantages of a captive and an outsourcing structure is identified as the main future trend in sourcing strategies”

Strategic topics

In this section the company representatives were asked about their current sourcing strategy as well as how they plan to deliver services in the future. Additionally, this part examines the preferred locations for SSCs/ BPO organizations, the alignment of the relevant processes and their governance.

Detailed results

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<td>Can’t analyse channel and customer profitability</td>
<td>Data model is not capable of providing the information you need</td>
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<td>• We don’t have a quick view of channel and customer profitability</td>
<td>• Master data is inconsistent across channels – one product has multiple master data records</td>
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<td>• We can’t see product profitability across channels</td>
<td>• The chart of accounts does not reflect the organisational reality – e.g. where the online channel is set up as a store</td>
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<td>• We have no insights into the drivers of profitability</td>
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<td>Lack of trust in profitability information due to inappropriate allocations</td>
<td>Not using the right tool for the job</td>
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<td>• Our online and physical channels receive equal cost allocations, despite different cost drivers</td>
<td>• The chart of accounts is designed for financial reporting and consolidation – it is not appropriate to use it as a sophisticated profitability tool as it can’t cope with multi-dimensional profitability analysis and it doesn’t allow any visibility of cost drivers</td>
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<td>• As online is set up as a store / cost centre, we are now having to reallocate the costs of that channel to other stores in a very complicated manner that users can’t comprehend</td>
<td>• There is no use of techniques such as Cost to Serve or Activity Based Costing to allocate significant overhead costs with accuracy</td>
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<td>Profitability information is not available for decision making</td>
<td>Lack of clarity on profitability management objectives</td>
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<td>• We don’t have the information to support cross channel promotional activity</td>
<td>• Often profitability tools develop over time by trying to accommodate multiple objectives, this results in cottage industries and indecipherable outputs</td>
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<td>• We don’t know where to drive the value out of new channels</td>
<td>• Profitability information is not aligned to the responsibilities of decision makers</td>
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<td>• Our profitability reports do not reflect the new operating model, they’re based on history</td>
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<td>Channels are competing</td>
<td>Mismatch of incentives</td>
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<td>• Our store managers do not promote online trading and potentially lose sales for the company</td>
<td>• Store managers, if purely targeted on in-store sales, will focus on what gives them the best bonus, irrespective of whether this is a profitable outcome for the company as a whole</td>
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<td>• Our online channel is not accountable for the items bought online and returned in the store</td>
<td>• Setting online up as a project also fosters a competitive mentality (complete with sliced KPIs) rather than an organisation focused on overall profitability</td>
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On the other hand companies plan to achieve typical BPO advantages such as:

- immediate cost reduction, flexibility and low investment costs
- enforced standardization
- focus on core competencies
- significant labor cost arbitrage
- transfer of financial and operating risks
- new innovation potentials

At the same time it becomes evident that none of the surveyed companies plans a pure local/ decentral and captive SSC service delivery is expected to remain very popular. Almost all companies see the combined local/ decentral and BPO approach as out of focus. Nevertheless, BPO will play a significant role in companies’ Hybrid Sourcing approach in the future.

Perception of success for the implementation of the existing sourcing strategy

The company representatives were asked to describe whether or not they consider the implementation of their existing sourcing strategy successful. Within the group of Hybrid Sourcing operating companies the share of those perceiving their sourcing strategy as being implemented completely successfully is higher than for the other analyzed sourcing models. Interestingly, around 70% of all participants see their implementations as only partially successful. This result strongly implicates leeway for further improvement. When it comes to analyzing why the implementation has not fully succeeded, almost a third of the participants mentioned that some countries and/ or processes are still missing in their implementation.

Only a few companies (6%) indicate that the implementation has not been successful at all. All of these companies mentioned in the first part of this section that their

Hybrid Sourcing models are considered to be more successful regarding the implementation of the existing sourcing strategy

Fig. 4: Perceived success per sourcing strategy
implemented sourcing strategy is limited local/decentral. This result supports the assumption that companies implementing a captive SSC, BPO or Hybrid Sourcing approach actually perform better in practice, even though they need a higher degree of flexibility and adaptability to specific and varying circumstances compared to pure local/decentral solutions.

Alignment of the relevant processes
Sourcing activities are referred to as aligned when there is a global sourcing strategy for all respective processes. I.e., responsible for these processes collaborate and share the same vision in terms of sourcing activities. Around 30% of the surveyed companies describe their sourcing activities as fully aligned while about half of the participants indicate that their sourcing activities are aligned only to a certain extent.

This is rather surprising as clearly aligned sourcing activities that are well-planned and established with respective goals can significantly help to leverage potential synergies. In practice companies failing to align their regional or global sourcing activities for their respective processes or functions – ideally based on an integrated strategy and operating model – struggle after a while to realize cost, quality and transparency gains. As an example, contracting with one global operating BPO provider apparently strengthens the negotiation position for the service delivery and underlying prices compared to contracting with a single BPO provider on a local or regional level.

Additionally, the data shows that more than half of the companies which perceive their existing sourcing strategy as completely successful have fully aligned their sourcing activities. At the same time, companies with activities aligned to a certain extent or with completely independent activities mostly perceive the implementation of their existing sourcing strategy as only partly successful or not successful at all. This suggests that a proper alignment of the chosen sourcing activities is a key success factor for a good sourcing strategy.

15% of the survey participants still have to manage completely independent sourcing activities, which not only causes higher sourcing management efforts and sourcing

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*Unaligned sourcing activities increase the risk of unsuccessful sourcing projects and decrease the expected benefits*
costs but also offers a lower level of transparency. Furthermore, implementing a global process ownership becomes a serious challenge when sourcing activities are not aligned and different sourcing types for the same processes are applied for each region.

As size matters when it comes to sourcing, business cases frequently only show a significant benefit when the sourcing activities are aligned at a global level. If this is the case only for a fraction of the business or process, then the impact will be too small and offset by higher fixed costs. Unaligned activities also dramatically increase the risk of changing the strategy over time and lead to parallel investments in projects that do not last for a long time or are not finished at all.

**Sourcing locations**

The data illustrates that companies typically implement SSCs on the same continent/within the same region where their headquarters is located. Western European companies tend to build SSCs in Europe (especially Central & Eastern Europe) and North American companies in Latin America, while companies from the Asia-Pacific region, Central & Eastern Europe and Latin America stay within their respective region for building up a SSC.

In reference to BPO activities there is a clear focus on the Asia-Pacific region. The study results show that especially North American and Western European companies use BPO resources in Asia. The strong presence of BPO engagements in the APAC region

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"Europe remains a strong captive SSC location while in most cases the benefits of higher labor arbitrage in APAC can only be exploited by BPO providers."
is widely spread across many companies with a Hybrid Sourcing approach. This fact indicates that these companies build their global hub for the administrative processes and services in the APAC region utilizing labor arbitrage benefits and further cost advantages of the BPO concept.

Therefore the possibility to successfully establish hubs in the lowest cost countries (most of them happen to be in Asia) has so far been an advantage for BPO providers. Establishing business in those countries is quite a challenge when it comes to mastering the very different (compared to Europe and North America) business environment and attracting and managing qualified staff. Having local experts and a long-standing experience are crucial success factors most of the BPO providers possess.

Additionally, the tendency for installing captive SSCs and/or BPO arrangements either in Europe, APAC or in North America is also explainable by the needs of most companies for staff with higher qualifications and a high level of education – especially for more complex processes. Analyzing data from previous surveys, the quality of the workforce was and continues to be one of the major drivers for the sourcing location.

Consequently, these two facts offer a clear hint that Hybrid Sourcing approaches often go hand-in-hand with a global hub (typically BPO) & spoke (typically captive SSC) delivery model.

Africa and the Middle East only play a subordinated role in today’s sourcing activities of the surveyed companies. The unstable political and economical context in some of the countries in this region contributes to that.

Implementation approach

Aiming for a more efficient organization companies usually have to undertake two transformation steps:

a) transfer into the new target sourcing organization and
b) exploit the potential of process and system optimization

Different implementation options hence exist on the way to the optimal sourcing arrangement – expressed as the new target sourcing organization. Described in a routing the organizations have the alternative between the three general routes or a mixture of the routes depending on the rolled-in process. The company representatives were asked to describe their sourcing implementation strategy considering the routing model (see figure above). Four strategies can be distinguished:

- **‘Big Bang’ Route 1:** Less than 15% of the surveyed companies concurrently standardize and implement processes in the target sourcing organization
- **‘Fix and lift’ Route 2:** About 15% of the surveyed companies first standardize processes before implementing them in the target sourcing organization
- **‘Lift and fix’ Route 3:** Over 30% of the surveyed companies first implement their non-standardized processes in the target sourcing organization and then standardize them
- **Mixture:** About 40% of the surveyed companies follow an implementation strategy consisting of a combination of routes 1–3, depending on the respective process/business unit

“Depending on process/business unit the majority of companies follow a mix of a big bang and step-by-step approach to establish their sourcing organization”
The survey data shows no correlation between one of the implementation routes and the success of the sourcing initiatives, in particular related to cost, quality and transparency improvements. This fact confirms the common perception that the right implementation strategy mostly depends on the initial setup of the administrative functions and the specific situation.

In practice companies often follow a structured way of rolling in their administrative processes depending on the business unit structures, company size (FTE and business/transactional volume), legislation requirements and internal political sensitivity. Having already stabilized, homogeneous and optimized processes as well as the underlying IT infrastructure in place, companies often transform their sourcing model using a big bang approach. Facing a complex political and even emotional environment, e.g. heavy resistance of local management against any optimization and decentralization initiatives, the lift and fix approach is a common implementation strategy in order to get processes quickly under the responsibility of the target sourcing organization prior to further transformation activities.

More complex processes where a know-how transfer is essential – especially if the process is relevant for core business – should also be lifted first and only optimized afterwards. In those cases the cooperation from process experts in local departments is crucial. From a change management perspective it is quite difficult to first optimize a process together with said experts when they are fully aware that they will then have to transfer the process to an SSC or BPO.
Governance

Around 28% of the survey participants have implemented an integrated overall sourcing governance responsible for all sourcing activities of the company. The major responsibility types for a governance structure that have to be considered are:

- Budget and cost responsibility (responsibility for costs of attached functions – budget, plan-is control, etc.)
- Disciplinary people leadership responsibility (responsibility for management and operational leadership of people in attached functions)
- Functional responsibility (responsibility for selected processes and services)
- Standardization responsibility (responsibility for the process definition, guidelines and task allocation/ process split along the end-to-end process)
- Delivery responsibility (responsibility for the service delivery along the given standards and SLAs for the attached function)

45% have independent governance bodies, each of them responsible for a separate area (e.g. one for each region, business unit, function, etc.). 17% report either having only a limited governance model or no governance model at all for their sourcing organization. As the survey data suggests that a global sourcing governance is a key success factor for realizing the objectives of a Hybrid Sourcing strategy, it follows that around 60% of the surveyed companies take the risk of not benefiting from potential synergies that could be generated within their sourcing organization.

Fig. 8: Sourcing governance of the participants

To set up an efficient and effective global sourcing organization, the governance has to be defined very clearly and needs to be equipped with strong management backing.
Also critical for a successful sourcing strategy implementation is the degree to which management is backing the governance. Sourcing activities are always painful for certain parts of the company and resistance is a common reaction every sourcing project has to address. Therefore a governance that has the full backing of the CEO and has a sponsor at C-level dramatically increases the chance of a successful sourcing strategy implementation.

Internal communication

Half of the participants report to have fully communicated their sourcing activities within their company. Roughly 40% indicate that they partly communicated their sourcing activities while around 8% have not communicated them at all within the company. Almost half of the participants are not communicating adequately within the company about their sourcing activities. As a clear communication strategy is part of successful change management, this should be considered in every sourcing project to improve the chances of success.

Operational topics

In this part we put the focus on operational issues. First, the section discusses which finance & accounting and HR processes companies believe should be delivered through sourcing and how this should be implemented. This is followed by an analysis of how companies manage the sourcing of different processes today and which plans they have for the near future. Furthermore, we discuss the maturity of the companies’ current sourcing activities as well as the effectiveness of optimization programs.

Focus on finance & accounting and HR processes

The company representatives were asked if and how specific finance & accounting and HR processes are currently sourced and what sourcing scenario they have planned for the next five years. The following processes were taken into consideration:

Finance & accounting processes:
- Accounts payable
- Accounts receivable
- Customer service
- External reporting
- Fixed asset accounting
- General ledger accounting
- Intercompany
- Management accounting
- Regulatory reporting
- Taxes
- Travel expenses
- Treasury
- Other

HR processes:
- Administration
- Development, training and counseling
- Labor law
- Payroll
- Performance, recognition, reward and retain
- Recruitment and selection
- Redeployment, retirement and leaving
- Time control
- Other
The process characteristics for sourcing activities can be summarized as follows:

The more a process is related to a company’s core activities, the closer it needs to be managed and operated by the owning unit. The smaller the frequency of process cycles and the more complex and unstructured a process is, the lower the capability and the outcome of centralizing it. Highly transactional processes such as travel expenses, accounts payable or payroll are predestinated for sourcing due to their high transfer potential associated with clearly defined sub-processes and required skill sets. The highest potential in terms of cost optimization can be realized through outsourcing, depending on the process complexity and regional specification.

In general it seems that more complex processes will mainly be transferred to Hybrid Sourcing models that include a captive SSC, while the delivery of transactional processes is to be efficiently ensured using BPO activities within the mixture.

Especially finance & accounting processes underpin the course of centralization. While the companies indicated that already 35% of their finance & accounting processes are delivered as services from a captive SSC and local delivery, this share will further increase to 52% within the next five years. The share of finance & accounting processes delivered by local/ decentral organizations and BPO will increase by 5 percentage points within the next five years. The finance & accounting processes most often listed as already sourced or planned for a sourcing implementation are accounts receivable (88%), accounts payable (86%) and general ledger accounting (79%).

Fig. 9: The participants’ sourcing of F&A and HR processes today (as-is) and within the next five years (to-be)
In HR, an increase of about 9 percentage points is planned by the survey participants in terms of delivering processes following a sourcing approach that combines local/decentral delivery with a captive SSC. Accordingly, 35% of all HR processes will be delivered following this sourcing type.

Five years from now there will be a significant decrease in HR processes being delivered by local/decentral organizations compared to today. The participants clearly indicate that in the near future more HR processes will be shifted to a Hybrid Sourcing organization, i.e. the combination of local/decentral, captive SSC and BPO.

Among the processes planned for at least a partial BPO, payroll (77%), administration (57%) as well as development, training and counseling (49%) are the ones most often listed for such a centralization.

Independently of their individual company situation and characteristics, the surveyed company participants were asked to evaluate the general suitability of sourcing options for specific finance & accounting and HR processes.

Hybrid Sourcing is rated suitable for almost all finance & accounting processes and most HR processes: Participants believe that 92% of finance & accounting processes and 73% of the HR processes could be covered in Hybrid Sourcing organizations combining local/decentral delivery as well as SSC and BPO.
Apparently, company representatives rate significantly more processes as potential candidates for Hybrid Sourcing than they individually plan to centralize and standardize through SSC and BPO for their own company within the next five years. The reason for this discrepancy may be based on the individual situation of the participants’ organizations and processes and their hitherto insufficient ability to implement more sophisticated scenarios.

**Fig. 10: The participants’ evaluation of the general suitability of Hybrid Sourcing options for F&A and HR processes**

<table>
<thead>
<tr>
<th>Process Type</th>
<th>Percentage of Processes Rated Suitable for Hybrid Sourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>F&amp;A</td>
<td>92%</td>
</tr>
<tr>
<td>HR</td>
<td>73%</td>
</tr>
</tbody>
</table>

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**Maturity level of sourcing activities**

The results show that although sourcing strategies have already been deployed for some years, almost all companies struggle to transform their sourcing organizations into a global and digitally enabled platform and realize the full cost and efficiency benefits of a global sourcing model. Only a small fraction of the surveyed companies (2%) indicate to have reached Stage 5 and therefore fully exploit the exhaustive benefits of Hybrid Sourcing.

Most companies find themselves in the development Stages 1–4 according to the Capgemini Consulting maturity model:

The biggest group of companies (over 40%) is in Stage 3. They already have multiple clustered platforms with a consistent methodology but have not yet been able to transform them fully into a support platform with a global delivery model – 17% of all surveyed companies state to have been able to do so (Stage 4). 18% still pursue an immature global service approach in a decentralized environment (Stage 2). The remaining 17% operate decentralized and independent service functions (Stage 1) resulting in the smallest yield from the potential benefits in efficiency, effectiveness and flexibility.

“Only a few companies have reached the highest stages of maturity”
These results can be compared with the findings of the Capgemini Consulting Shared Services Study 2013. In this study (with data from 2012), the participants were evaluated with respect to their maturity stage: 38% of the companies appeared to be in Stage 2 and 43% in Stage 3. Apparently a lot of those companies have been able to move on to an advanced stage (Stages 3, 4 and 5) in the meantime.
The study data shows that all companies which indicated to follow a local/ decentral sourcing approach are stuck in Stages 1–3. Furthermore, 70% of all companies in Stage 1 belong to this group. Most of the companies that follow one of the other sourcing approaches (local/ decentral and captive SSC, local/ decentral and BPO or Hybrid Sourcing) find themselves in Stages 2–4 while the majority is in Stage 3.

The data also shows that organizations practicing Hybrid Sourcing are more likely to reach higher maturity levels than companies following other strategies. More than a quarter of Hybrid Sourcing companies have left the first three stages behind.

**Optimization programs**

Especially in sourcing organizations optimization programs are essential. When starting a new sourcing organization usually more people are necessary to perform the required activities than before the transfer which is mainly caused by a lack of experience of the new staff. However, transferred processes often have high optimization potentials, and successful improvement measures are essential to reach business case and quality targets. Approximately 70% of all survey participants have already carried out optimization initiatives in order to improve their sourcing organizations. This fact shows that continuous improvement initiatives, after implementing a sourcing organization, are part of the sourcing strategy of most surveyed companies.
From those 70%, around 60% managed to achieve their optimization objectives, and 7% even stated to exceed initial optimization objectives.

In general, 40% of the optimization programs did not manage to deliver the planned benefits. Typical challenges to achieve the defined benefits are a lack in transparency of the current performance (baseline of optimization), missing benefits tracking of the initiative (e.g. missing responsibilities, processes or key performance indicators) as well as not sustainable optimization approaches.

A further analysis of data shows that a continuous optimization of the sourcing model is an important aspect of reaching the next maturity stage for a sourcing organization. All the companies which have reached Stage 5 undertook at least one optimization program – so did over 90% of the Stage 4 companies and roughly 70% of Stage 3 and Stage 2 companies. Only half of Stage 1 companies did so, too. Optimization programs seem to become indispensable for companies aiming to reach the most advanced stages.
The main obstacles for achieving initially set goals of a sourcing implementation are a lacking transparency of process performance and the inability to sustain improvements. In most cases such obstacles are caused by the way processes are managed and how the people are involved.

In order to overcome such hurdles, many sourcing organizations implement Lean Service Management. The main objectives of Lean Management for services are customer focus, efficiency in value generation and transparency in team management as well as process performance. It enables organizations to continuously analyze own performance in order to identify and challenge improvements. Lean for services aims to change the cultural setting in a bottom-up approach, involving operational employees in process/ interface improvements and increased service orientation. However, creating a continuous improvement culture is not easy to establish and needs a clear strategy with targets and dedicated trainings. It should also be linked to compensation schemes for the management levels. In addition, nominating methodical and operational roles especially in charge of improvement programs can enhance this process significantly.
In this part, we discuss the participants’ level of target achievement regarding the five most often mentioned objectives (transparency, quality, cost reduction, efficiency and faster services). This is followed by an illustration of key success factors as well as potential challenges. Finally, we illustrate the realized savings in operating costs.

**Main objectives for sourcing**

The company representatives were asked about their main objectives for implementing a sourcing organization:

**Fig. 15: Main objectives of the sourcing organization’s implementation**

Most companies are striving for cost reductions, gains in efficiency and an increase in quality – one of these three possible answers was chosen in three out of four cases. Fewer companies stated to intend an increase in transparency or to accomplish faster services.

**Level of target achievement**

For analyzing to what extent these objectives have been reached, company representatives were asked to rate their respective target achievements by 1 (targets exceeded) to 5 (target not reached at all).

These results show that many companies have difficulties to fulfill their objectives related to the sourcing activities. Especially the aim for a faster service seems to be difficult to reach.
A major challenge when measuring the achievement of targets is the often missing baseline. Processes are often not measured at all or at least not at a sufficiently detailed level to compare them to future results. Attempts to measure a baseline at project start are often blocked by resistances in the local departments and technical issues that make such an undertaking expensive and sometimes unreliable. However, especially for the acceptance of a sourcing project it is essential to have a baseline at least to a certain extent, and for the long-term success the attempt for a baseline should always be made. This is also essential for improvement programs (see section above) because only what gets measured gets done.

The degree to which targets are achieved is related to the type of sourcing model a company uses. A closer look to the study’s data reveals that participants following a sourcing approach with a SSC or BPO performed significantly better (average target achievement of around 2.50) compared to participants with a pure local approach (average target achievement of 3.71). With an average target achievement of 2.38 companies pursuing a Hybrid Sourcing strategy were way more successful in reaching set targets of existing sourcing activities than pure decentralized organizations.
Several key factors determine the success of a sourcing strategy, e.g. clear communication, quality standards, the right HR approach and change management abilities.

**Key success factors**

The participants were asked to mention the five key success factors for reaching their objectives. The received answers to this open question were aggregated in 15 clusters and matched on the respective objective where they significantly influence its realization.

- **Objective ‘transparency’**: A clear communication, appropriate management support and effectively managing the value chain considering partnership and standardization aspects are regarded by the participants as key for ensuring high levels of transparency.

- **Objective ‘quality’**: The surveyed companies most often mentioned a clear communication, change management abilities and the right skill set/ mindset – these are the key success factors for reaching the desired quality standards.
The majority of participants are satisfied with the setup of their current sourcing organizations.

- **Objective ‘cost reduction’**: in summary, a clear and efficient communication and assignment of tasks, the right HR approach and change management qualities are all identified means which can contribute to the accomplishment of cost reductions.
- **Objective ‘efficiency’**: Governance, a respective strategy and quality control are perceived to be key success factors to foster the efficiency within implementation and beyond.
- **Objective ‘faster service’**: The participants consider CRM, a focus on cost and an appropriate staff and management approach as key success factors for reaching faster services.

**Satisfaction with current sourcing setup**

59% of the companies appear to be satisfied with the current setup of their sourcing organization – more than a third of the participants are unsatisfied or were not able to state whether they are satisfied.

Interestingly, only 17% of the companies following a local/ decentral approach indicated to be satisfied with their setup. Companies with one of the other three sourcing types (local/ decentral and captive SSC, local/ decentral and BPO or Hybrid Sourcing) perform significantly better according to their self-assessment: 73% of the representatives from these companies answered the question with ‘yes’.

**Fig. 19: The participants’ satisfaction with the current sourcing organization’s setup**

- Satisfied: 59%
- Unsatisfied: 31%
- n.a.: 6%
When implementing the sourcing organization, overcoming local/ decentral resistance is regarded as the major challenge for captive SSC and BPO organizations: 69% of the participants name it as a major challenge with regard to captive SSC organizations and 26% with regard to BPO organizations.

Besides the initial resistance of local management, a sourcing implementation has the challenge to reach a sustainable acceptance throughout the organization. The study shows that in most companies – even those with a high grade of sourcing maturity – there is still room for improvement. Only two thirds of the participants believe that their sourcing activities are accepted by at least the majority of employees, while not more than a small fraction (6% of all surveyed companies) think that this is true for almost every employee. In contrast, 20% have reason to believe that their company’s sourcing activities are not accepted by more than half of their workforce. This strengthens our statement in the key findings part: a clearly defined and communicated Hybrid Sourcing strategy leads to higher acceptance in the organization. Open communication and a well designed change management within a sourcing implementation is a key driver to lower resistance.

Besides the identified difficulties caused by a potential resistance of the local management, it seems that identifying the appropriate staff as well as the right timing is generally more difficult than finding the right location for the sourcing organization’s implementation.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Captive SSC</th>
<th>BPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resistance of the local/ decentral management</td>
<td>69%</td>
<td>26%</td>
</tr>
<tr>
<td>Developing measurable performance KPI’s</td>
<td>28%</td>
<td>2%</td>
</tr>
<tr>
<td>Recruiting of the management team</td>
<td>35%</td>
<td>8%</td>
</tr>
<tr>
<td>Time of transferring (right time schedule for transfer)</td>
<td>35%</td>
<td>19%</td>
</tr>
<tr>
<td>Finding the location meeting our requirements</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>Finding a suitable BPO partner</td>
<td>6%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Fig. 20: The biggest challenges of the sourcing organization’s implementation
Another essential factor to overcome this obstacle is a strong backing of the project by top management (see also section “governance” in the chapter “strategic topics”). This goes together with choosing the right point in time for a sourcing implementation. In all major companies the management teams are driven by a lot of different external factors, e.g. shareholders, public opinion, political restrictions. Therefore opinions on sourcing activities might significantly change over time. Experience from successful sourcing projects suggests using phases with strong management backing to set up the sourcing organization as fast as possible.

The development of measureable performance KPIs is perceived as a difficulty for captive SSC organizations, while sourcing organizations using BPO claim to invest a lot of time and resources to find a suitable BPO partner.

**Savings in operating costs**

Most of the surveyed companies could realize savings in operating costs of 10–30%, while a significant fraction (around 15%) were able to save 31–50%. 8% of the participants report savings of less than 10%. This result should imply a realistic potential of future savings for the respective companies, as their peers apparently performed better.

> Overall, savings in operating costs of the finance & accounting and the HR organization as a result of sourcing activities can reasonably be expected to range between 10-30%
Over 20% of the participants could not make a statement regarding their realized savings, which indicates an absence of a proper tracking and relates to the missing baseline mentioned before in the chapter “general success measurement”.

With respect to the implemented sourcing approach, companies following Hybrid Sourcing and single BPO arrangements are performing best in terms of costs savings. This is not surprising as BPO tends to have the highest cost saving potential. However, a Hybrid Sourcing organization is a more complex construct and also incorporates advantages from captive SSCs, resulting in even slightly higher cost savings for this setup. In contrast, Hybrid Sourcing organizations have to be well managed and require a certain stage of maturity to realize these effects.
Asked about their current plans for future sourcing activities, most participants (over 85%) indicated that scaling down the sourcing activities is not an option. The focus of future sourcing activities will be on expanding the scope of sourced processes or re-designing the existing sourcing organization.

More than 50% of the participating companies will consolidate or are currently consolidating existing sourcing activities. This shows that companies are working on the optimization of their sourcing organization. For example, captive SSCs might be consolidated. Participants also indicated that they would re-organize the current BPO organizations, e.g. by consolidating existing BPO from multiple BPO vendors to one or two. Consolidation of existing structures and processes enables them to realize synergies and optimization potentials building on the existing infrastructure, processes and competencies.

**Consolidation and Multi-Tower Sourcing organizations are the current major trends with high cost saving potentials**

**Fig. 23: The participants’ current plan for future sourcing activities**

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Companies invest in new and additional sourcing arrangements. 30% will implement new/ additional BPO arrangements, while more than 35% will implement new/ additional captive SSCs. About 60% of the companies do not consider implementing a new or an additional captive SSC or BPO arrangement, respectively.

Developing the overall sourcing strategy and the optimization of sourcing within the delivery model, today many companies especially assess the scope of the delivered services. Thereby, not only optimizing ‘the HOW’ through Hybrid Sourcing, but also ‘the WHAT’ will be an important aspect of sourcing organizations of tomorrow. In this case the majority of companies intend to expand their sourcing scope towards services that even encompass core business processes – half of this group is yet in the process of shaping this strategy, also in context of the overall sourcing strategy. This should support the further standardization and optimization of processes in terms of cost, efficiency and effectiveness by leveraging the structures already set up for a structured central delivery.

This approach is widely known as ‘Multi-Tower Sourcing’. It enables companies to shift support activities along the process of primary activities into sourcing organizations.
For example, support activities such as procurement or supply chain management are closely linked to the companies’ primary activities. These processes are not as transactional as certain finance & accounting and HR processes but can be shifted especially to Hybrid Sourcing organizations as well. They are important to the core activities and accordingly require a special treatment, which can be realized by following a hybrid approach. Companies can thereby lower the operational cost of these activities by benefiting from sourcing advantages while ensuring standardization and quality.

Digital Transformation is an important driver for hybrid approaches and figures as technological enabler. In ‘Leading Digital’, another recent publication by Capgemini Consulting (in cooperation with the Massachusetts Institute of Technology), the authors predict that the next imminent phase of digital technology adoption – driven by the convergence of mobility, analytics, social media, cloud computing, and embedded devices – will make everything that’s happened so far look like a prelude. It yet remains to be seen at what pace companies will proceed to implement hybrid approaches in the future – though one thing is certain:

The Hybrid Sourcing revolution is on its way.
Appendix: The participants

65 company representatives from various industries have participated in this study. The Consumer Products & Retail sector was the largest group encompassing almost a fourth of all participants. Second are Financial Services with around 20%. Transport & Tourism are ranked third with about 12%, followed by Manufacturing accounting for slightly above 10%.

The remaining companies (roughly 30%) either belong to Energy & Utilities, Automotive, Telecommunication, Media & Entertainment, Life Sciences or Public Sector, respectively.

The majority of the study participants employ between 5,000 and 50,000 people. A fifth of the companies count more than 100,000 FTEs.
Most of the companies participating in this study operate on a global level. More than half of the respondents operate subsidiaries/branches in more than 20 countries and four-fifths of the companies run subsidiaries in more than five countries.

**Fig. 27: Number of countries where participants have subsidiaries/branches (in 2013)**

- >20: 52%
- 16-20: 9%
- 11-15: 8%
- 5-10: 12%
- <5: 17%
- n.a.: 2%
# Contacts

<table>
<thead>
<tr>
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<th>Email</th>
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