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Driving Higher Value
In Multi-Tower Deals

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People matter, results count.

Multi-tower deals are typically programs that span across multiple domains – BPO, Infra, Testing, Application Development and Application Maintenance. These are large and complex deals and in this paper we discuss how a service provider can drive higher value in such deals.

We start by de-linking the normal perception between single sourcing and multi-tower deals and then explore the relevance of these programs in the light of the new technologies, before addressing the value drivers.

Supplier Sourcing Strategies

Technology advancement, primarily the invention of the Internet, provided companies the ability to address the shortage of expert talent by outsourcing the need to a supplier base. Outsourcing IT and business process activities for lowering costs and risks and for improving efficiency, flexibility and quality has since become a standard business practice.

In the last decade, companies have also adopted strategies to rationalize and consolidate their supplier base. In some cases the supplier rationalization programs have created a single sourcing strategy for many services. This strategy has enabled companies to build stronger and more collaborative relationships that deliver a range of benefits.

The strategy has been well proven and many companies have been able to gain a competitive advantage by leveraging the capabilities of their supply chain. The realization of cost savings has been further enhanced by another mega-trend in supplier sourcing – the globalization of the supply chain and the use of offshoring for outsourcing.

Recently there has been a trend of multi-sourcing becoming the global practice for outsourcing work. This allows companies to source from a number of specialized service providers rather than a single service provider. Thomas Friedman in his 2005 book, The World is Flat, says, “The next layers of value creation - whether in technology, marketing, biomedicine or manufacturing - are becoming so complex that no single firm or department is going to be able to master them alone.”

Sourcing services from multiple providers has the advantage of choice among the best of breed vendors, lower costs resulting from vendor competition, and improved agility and adaptability to changing environments.

So, while multi-sourcing has been growing rapidly, there are pitfalls to this strategy and they stem from issues such as lack of interdependence between the parties, as well as the alignment of metrics and incentive mechanisms with the client’s overall objective.

A February 2014 report from sourcing advisory firm ISG reports that multi-sourcing is a growing practice and that in the U.K., nearly 44% of all outsourced functions are divided among at least five service providers. The trend is also apparent in France, Spain, Portugal and Italy where nearly 56% of contracts are sourced from two to four different service providers.

However, the same ISG report also indicates that, “Mature markets, like the U.S., which have previously embraced multi-sourcing but realized it can be difficult to manage the numerous supplier relationships, have swung back to a model with fewer service providers.” According to the report, 44% of the outsourced contracts in the U.S. have been from a single provider, who provides 80-100% of the work.

A Capgemini analysis of more than 190 large deals (>€50M) from the IDC database shows that 37% of the North American sourcing contracts signed in 2013 were multi-tower the percentage was slightly lower in Europe, where it was 31%.

Clearly, there is a co-existence of single-sourcing, multi-sourcing and multi-tower deals, and we believe it will continue.

Impact of the New Technologies

Capgemini recently published its 2014 Application Landscape Report www.capgemini.com/alr based on interviews with more than 1,100 CIOs and IT decision makers. Two key insights in the report were:

(a) A healthy understanding between business and IT organizations is critical for both optimal performance and improvement of the application landscape

(b) Disruptive technologies are crucial to creating new business value. More than half of the respondents felt that competitive advantage through new technologies is expected to have the most impact on IT.

These new technologies will change how IT can provide value to the business. A broader role can be expected where IT will leverage the new technologies and drive technology-based business innovation. But there is a two-way shift that is imminent from these technological changes – CIOs will want to manage some of the business functions and some business executives, such as supply chain managers and CFOs, would want to take direct control of their IT programs.

Gartner predicts that spending on IT from outside the IT organization will grow from 20% of total IT spending in 2000 to 90% in 2020. This fact has also been corroborated in the 2014 Application Landscape Report, where it has been found that "Shadow IT" has begun to emerge as a challenge that CIOs have started to face.

The shift in responsibilities between IT and business is imminent and it has implications on how IT organizations engage with business and vise versa. This potential convergence could also change how services are perceived and priced. Charging a fee based on labor rather than business outcome becomes passé in this new world

In this context, a service provider should look holistically and have a robust IT service delivery strategy that enables them to deliver higher value into such engagements.

Driving Higher Value from Multi-Tower Engagements

True value from multi-tower engagements can be realized by using an appropriate delivery model and commercial construct that leverages the synergies obtained by stitching together a solution across multiple service lines.

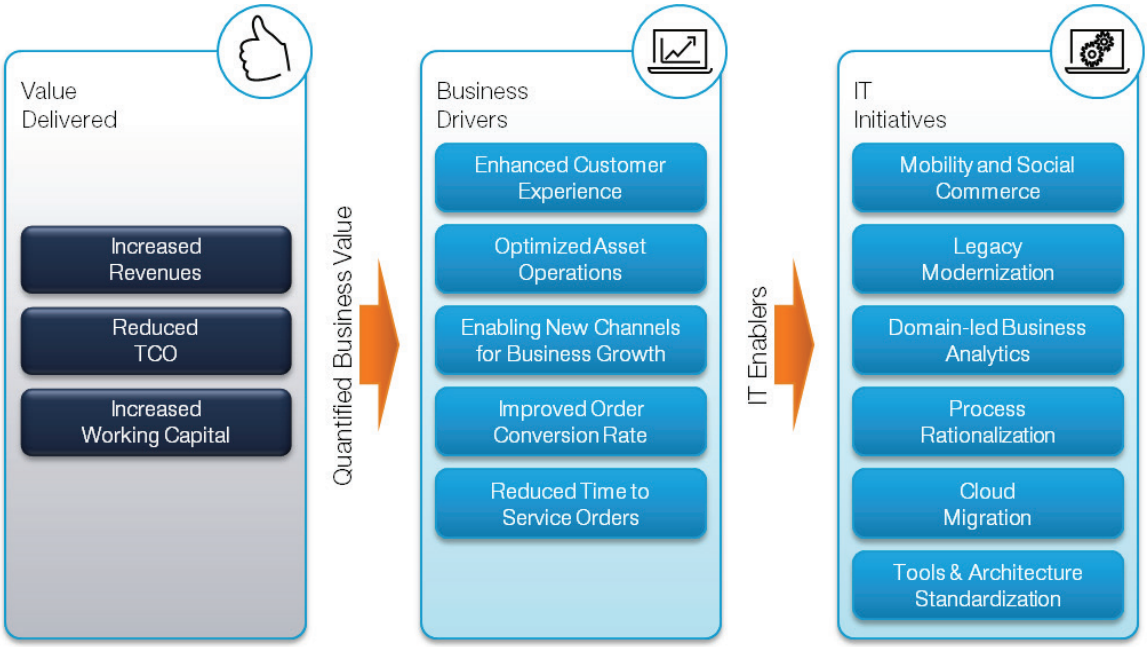
It is imperative to utilize a vertical stack model to deliver business value from multi-tower engagements. The ideal virtual stack would be one that is aligned by process areas wherein BPO services, BPO processes, applications and infrastructure can be combined to deliver the requisite business outcome. And this integration across the layers of stack is the game-changer in a market that is already moving at high speed and buyers increasingly looking at partners to deliver world-class outcomes. However, if there are limitations around combining the BPO and infrastructure services with applications, the vertical stack model can be aligned by key ERP processes or functions.

Either of the two options should be integrated with the following tenet to drive optimum value within multi-tower engagements.

Value Driver #1 - Business Led IT

The traditional approach taken by IT service providers has been to drive IT initiatives based on their offerings and capabilities. While this has been successful in delivering value to clients, especially from the service providers with the larger offerings, it is still a restrictive approach.

When looking at the context of an engagement that overlaps business and IT, the IT initiatives should be driven starting from the expected business value to be delivered and then traversing back to their business drivers and IT initiatives as illustrated below:



Value Driver #2 - Unit Pricing Models

As business and IT converge, the accuracy of demand management and budgeting should improve and the concept of unit pricing can be leveraged; it helps procuring services in a variable cost model, which can be increased or decreased depending on changing business conditions. A client can enhance capacity during periods of growth without incurring fixed costs and can avoid difficult labor-rate negotiations during periods of slow down.

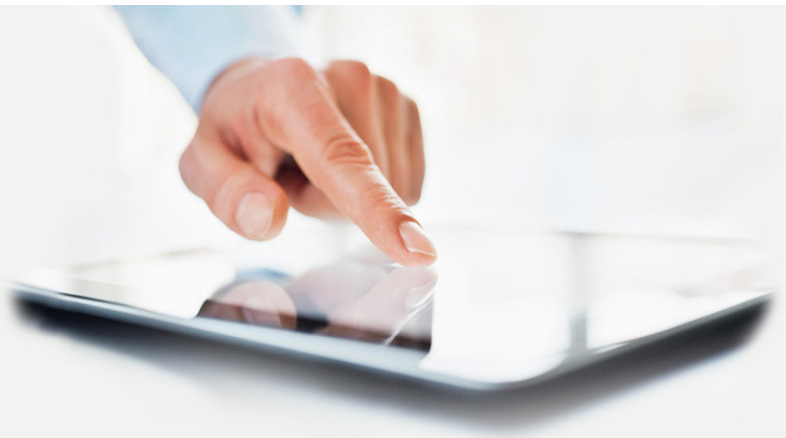
This pay-per-use approach requires a mature service management process and a collaborative governance process between the client and the service provider. It has been a feature in infrastructure, BPO and, more recently, in independent testing engagements. But it is not a common practice in most application development and maintenance engagements.

The future, however, beholds a shift in the pricing model to work volume rather than input. A volume based pricing model is variable, based on the business output.

Value Driver #3 - Business Outcome SLAs

One of the biggest advantages in ITO and BPO convergence scenario is the ability to offer KPIs linked to business outcomes. The basic philosophy is to align the interests of the service provider and the customer so that both groups work toward the same goal. This alignment could directly impact measurable business outcome like revenue or cost.

Extending the concept of business-linked KPIs to projects will enable a client to convert a fixed cost into a truly variable cost model that scales with the business. This shift can free client executives from worrying about issues like technology, process and people, and allows them to focus on business outcomes – things that really matter to the business.



Value Driver #4 - Innovation Framework

Traditionally the viewpoint of most client organizations has been that an outsourcing service provider should free up in-house resources, so the client firm's staff can focus on higher value activities. Hence, most outsourcing contracts did not include clauses to compensate the service provider for innovation programs. However, that expectation is beginning to change.

In a 2013 Forrester survey of 1,031 IT executives and technology decision makers, lack of vertical industry and business process expertise was stated as the biggest challenge faced by IT executives; a fact that has been corroborated in Capgemini's 2014 Application Lifecycle Report.

Innovation is becoming a stronger requirement, and there has been a trend of clients including KPIs around innovation and an associated risk-reward mechanism in the contracted scope of work. Incremental innovation in services delivery is largely taken for granted, so the focus is on more radical innovation.

Value Driver #5 - Collaboration & Unified Governance

Governance is an important aspect that should be designed to close the gap between what the client expects from the outsourcing relationship and what is being achieved. Most outsourcing contracts have a standard governance structure overseeing a set of SLAs and interactions between the parties. This practice was adequate when outsourcing was about transferring service delivery responsibility to a service provider while the client still holds the accountability.

Governance should move beyond contractual and static models. A February 2014 Gartner report on the future of IT services states that there is no longer a "steady-state operation", as standing still means falling behind. A key focus on governance in the new world includes injecting innovation - incremental innovation to existing services delivery and radical innovation beyond it.

And as clients move to outcome-based models, the focus of governance shifts toward business outcome, rather than process. Clients should learn to "let go" and cede more end-to-end responsibility to their service providers, placing a higher premium on mature governance disciplines.

Conclusion

In conclusion, we believe that single sourced multi-tower engagements can deliver higher value to clients if structured appropriately. The overall focus on business outcomes versus IT services is an inherent tenet in pursuing this approach.

About the Authors

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Sudhir is currently responsible for solution design for large outsourcing pursuits in North America. He has about 20 years of experience in Information Technology having worked with clients across Asia, Europe and North America. He is a keen observer of the outsourcing ecosystem, spotting trends and identifying opportunities to maximize the winnability.

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