Value Driven Sourcing in the Digital Era
The New Playbook

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Executive Summary

We stand at the threshold of the period of the most profound change in the history of the IT and Business Services Sourcing industry. Consumers, armed with their digital devices, are interacting with businesses in new ways—demanding IT instantaneously analyze and react to massive amounts of data. Surviving and thriving through this liminal state demands that the providers of these services undergo a fundamental reinvention of their businesses—from their commercial models, through what and how services are delivered, to the mindsets that drive behaviors.

There is no doubt digital transformation is an unstoppable, irresistible catalyst for change. Study after study presents clear and convincing evidence of the digital data tsunami and its impact on businesses and organizations of every shape and size. The pursuit of digital transformation isn’t limited to data centers or IT organizations within an enterprise. Marketing, sales, research and development, purchasing, human resources and finance departments are all being “digitized” in some way, whether deploying new apps to interface directly with customers or suppliers, accessing third-party content or procuring on-demand resources for special projects.

Even more important than this blitz of digital data permeating every part of the business is the recognition that we are entering the next phase of the digital innovation curve—moving from early adoption to broader growth through the early maturity. True digital transformation, however, demands more than the exploitation of existing innovative digital services and tools. It also requires establishing new operating models, implementing new governance structures and crucially, creating new, value-driven sourcing models.

The traditional approaches to outsourcing will impede, not facilitate successful migration to the Digital Business Era. So what elements should be part of the new framework? What steps should you take to implement a value-driven sourcing model? Recognizing key characteristics and features of this new sourcing model will ensure an organization is well prepared to survive and thrive in the emerging digital world.

In short, we need a New Playbook for Value-driven Sourcing in the Digital Business Era.
This Time It Really Is Different

To date, outsourcing has been primarily cost reduction centric. Initially, leverage came from economies of scale and service consolidation. Since the start of the new millennium, offshoring has been the key to driving even further efficiencies with labor rates and location playing a pivotal role in delivering substantial cost savings to clients. Sourcing strategies have evolved from monolithic sole source contracts to multi-source arrangements. Yet the underlying business models have remained largely unchanged as have their persistent shortcomings; the inability to deliver innovation, lack of responsiveness to change, and complexity of service integration and management.

Today, two key trends—advances in automation and as-a-service business models—are turning the tables on outsourcing as a one dimensional cost reduction move and helping usher in a new dynamic era, one that generates business value across an enterprise.

Moving from labor arbitrage to automation. Since the combined waves of Y2K and .com brought offshoring into the mainstream, labor arbitrage has remained the single most powerful cost reduction weapon in the outsourcing arsenal. Although this has had a massive impact on the economics of service delivery, it has had a comparatively negligible effect on what is done and how it is executed.

For many buyers, the internal IT budget remains centered on “keeping the lights on” with as much as 80% spent on systems maintenance heavily weighted in routine tasks, not new value creation.

Automation is changing this. By adopting software automation as part of IT modernization projects, including autonomics, systems can do the work—making decisions on their own, using high-level policies, constantly checking, optimizing and automatically adapting to changing conditions. Automation frees IT professionals and knowledge workers to focus on higher-value tasks by making technology work smarter, with business rules guiding systems. Human engineers are replaced by virtual engineers with studies showing 30% of routine issues easily handled by automation.

This automation becomes a key lever in the new service delivery paradigm. It is changing the focus away from labor arbitrage towards expertise. Predictions abound on the full financial impact and span revenue, cost and operational efficiency—as much as 45% price reduction in IT services, up to 60% savings in providing managed service solutions, and staff reductions of 45% for customer care centers. These savings can now be applied to new value creation for the business, fostering new Business-IT alignment.

Finding the sweet spot to apply automation is part of the value-driven sourcing model. Understanding business objectives and identifying matching IT modernization projects is just the first play in the new sourcing model. Quantifying the value derived from automation is the other play—where outcome-based gains replace outdated pricing models. Businesses are already benefiting from new sourcing models producing outcome gains, including more customer calls completed, more open tickets closed, etc.
Location becomes irrelevant. The as-a-service approach has replaced the advantage of location, which was once the key to success for many outsourcers who created low cost labor centers around the globe. Specialized skills in those regions may still exist, but with today’s as-a-service approach the competitive landscape is leveling with innovative pricing models from cloud service providers.

Successful organizations are also making location irrelevant by constructing an IT framework where application and data eco-systems extend across front-to-back functions, sales and marketing through fulfillment and service, and well beyond their own boundaries. As-a-service models are bringing together business users, partners, regulators, suppliers and customers with IT resources. Each of these has their “data fabrics” and applications that were never designed to connect, so with data-as-a-service and big data tools, the application development community is challenged to bring them together. By setting up a shared services model, CIOs are allowing data related and other IT services to be handled either in a centralized place or, as is happening more often, virtually with no location tags—aggregating, cleaning and enriching data and offering it to different systems, applications or any type of user—mobile, virtual, or office—irrespective of where they are.

Digitization has also driven businesses to be able to respond to their customers, regardless of location. Through on-line agents—Twitter, Facebook and other social media sites—businesses need to be able to respond to customers anytime, anyplace. Constant monitoring and prioritization of digital data pouring in during a product launch can make the difference in gaining or losing share.

Product marketers need a technology infrastructure that allows them to connect directly with new and existing customers quickly, seamlessly and across multiple channels.

A value-driven sourcing model recognizes these new business demands and ensures organizations take an integrated, holistic view of both business and technology objectives. Solutions embody the demands of this new always-on, digital world. Businesses that do not adjust their sourcing playbook will quickly find they are not able to keep up with responding to their stakeholders and worse yet, see their market share shrink.
What Changes?

Simply stated, a value-driven sourcing model changes the business value focus from primarily one dimension—cost reduction and efficiencies—to three dimensions. Although cost savings and higher efficiencies will remain an important element in any managed services offering, sourcing in this new digital era will equally be driven by the realization of two additional benefits streams: increased revenues and improvements in working capital as highlighted in Figure.

Traditional Sourcing Model – Cost Centered

New Value-driven Sourcing Model

Value Delivered

Business Drivers

Tools and Enablers

- Reduced Costs
- Lower Cost of Operations
- Traditional IT SLAs
- Traditional IT SLAs
- Technology / Domain COEs
- Technology / Domain COEs
- Tower Based Delivery Model
- Tower Based Delivery Model

IT Impact

- Increased Productivity
- Higher Quality
- New Products and Services
- Process Transformation

Business Drivers

- Enhanced Customer Experience
- Optimized Asset Operations
- Enabling New Channels for Business Growth
- Improved Order Conversion Rate
- Reduced Time to Service Orders

Tools and Enablers

- Business Outcome SLAs
- End-to-End Domain Led Solutions
- Collaboration/Innovation Framework
- Standardized Rates
- Integrated Delivery Model
- Unit Pricing Models

Quantified Business Value

- Increased Revenues
- Reduced TCO and Higher Efficiencies
- Increased Working Capital
- Mobility and Social Commerce
- Legacy Modernization
- Domain-led Business Analytics
- Process Rationalization
- Cloud Migration
- Tools & Architecture Standardization
This sounds easy, but it is important to understand the characteristics of this new sourcing model to capitalize on these additional benefits. Moving beyond reducing costs to contributing additional business value takes a new type of approach and leaders willing to challenge traditional views.

Key Characteristics of the New Sourcing Model

1. New Leadership Roles

Effective C-Suite leaders understand they must work together in new ways. Business and technology objectives need to be aligned on paper and in practice. CIOs are no longer focused solely on IT or legacy IT but are quickly becoming business experts—partners that can add real business value through IT. Conversely, IT decision-making is no longer only the CIO’s mandate and is in fact moving to business units outside of the CIO’s office. Many organizations are embracing the digital age by changing the title and role of their key execs—some CIOs are taking on the title and responsibilities of Chief Digital Officer (CDO). CMOs understand IT and work with CIOs or CDOs to ensure decisions are not solely technology driven. Companies such as Starbucks and Burberry’s have CDOs who bridge the gap between front and back end functions. CIOs and CDOs are equally powerful players because they can be an enabler and catalyst in propelling business growth.


The digital age is driving a change in business services from horizontal to vertical. Successful companies are combining vertical “slivers” across application, BPO and infrastructure services to gain efficiencies and support new product launches. By addressing the vertical stack or “stack sourcing,” companies take a holistic, end-to-end approach when launching a new product or service to achieve outcome based improvements. A proactive sourcing plan considers each vertical element—infrastructure, sales and marketing, billing, payment, etc. Other companies have been successful in aligning services to key ERP processes. Rather than worrying or tracking the number of tickets your ERP system handles, value-driven sourcing takes a cross domain view to drive positive outcomes.


Given the fast pace of IT change and shortened time to market, companies need a range of flexible delivery models. Creating options including plug and play models that allow for different services, hybrid platforms that support public and private cloud, and the as-a-service model that can be tailored as needed are key to a value-driven sourcing model. Depending on the size of business, diversity of business units, competitive intensity, or company treatment of capital, constructing a sourcing model inclusive of these adaptive delivery models can be essential to the overall business agility. Responding to competitive threats in specific markets or entering new regions to exploit a short-term growth opportunity demand delivery model choices be ready in months rather than years.
4. Services Tailored for the Digital Economy.

Today's provider must bring new tools specifically tailored for the data tsunami reshaping every aspect of the enterprise. A true value-driven sourcing model includes four key elements. First, innovative dashboards that allow real time data accessible from any device, anywhere, anytime are a must for executives and business users. But it does not stop there. Accessing the data is only the first step. Value-driven sourcing includes a core set of analytics that help make sense of all the data now available to decision makers. Next, mobile access to core functions is a given for both employees and customers. Proliferation of smart devices and easy-to-use mobile applications are driving employees and consumers to interact with businesses in whole new ways. Industry analyst Gartner estimates that mobile phones will dominate overall devices in 2014 with 1.9 billion mobile phones projected to be shipped in 2014, a five percent increase from 2013. Lastly, a cloud assessment should be undertaken to determine the appropriate cloud solution that is most suitable for the client's requirements. Trade-offs across security, cost and other factors can determine the optimum level of service.

Co-Creation Example of Value-Driven Sourcing

5. Quantified Transformation Benefits.

As discussed above, a value-driven sourcing approach delivers quantified benefits in up to three dimensions: increased revenues, reduced costs and improved working capital. Look for providers to offer proactive proposals for initiatives with measurements that guarantee positive business outcomes rather than lower costs. Applied to an IT modernization project, you should expect to eliminate most legacy applications during the consolidation, which not only reduces IT costs and capacity consumption but also simplifies the application landscape, compresses the technology stack and increases the business and technology value of the remaining applications. Innovative approaches such as a dedicated facility to drive co-creation can accelerate solution development to help produce new revenue streams more quickly or mechanisms to reduce working capital requirements. Below image highlights key features delivered as part of an outcome-based value-driven sourcing contract.
Steps to Implementing a Value-driven Sourcing Model

For most organizations, the digital transformation process has already begun. Now is the time to take the right steps to adjust sourcing models to ensure the greatest benefits during adoption. It is as much about the journey as it is about the ultimate destination, so it is worthwhile to ensure your sourcing partner can provide the leadership and experience to match your specific business objectives.

Real business understanding will be a core competence of service providers who succeed in the new business era. This demands starting by taking an outside-in, rather than inside-out view. This means applying a lens that includes customers, competitors, partners, suppliers, regulators and other “outsiders”. Looking at the outsourcing of internal departments as a way to shed costs is now both out-of-date and simply the wrong approach.

Successful providers will be able to clearly map their transformation plan to business and technology objectives for a holistic approach.
### Steps to Achieve Value-Driven Sourcing

**Step 1: Collect Financial Metrics**
Successful providers should spend time to understand not only their clients’ financial metrics but also those of your peers and key competitors. This first step ensures an industry wide view rather than an isolated business view, which can help expose best-in-class metrics to use as a guide for outcome-based contracts.

**Step 2: Assess Business Drivers**
Following the financial understanding, providers must fully explore and understand the business drivers. This step involves immersion in the industry and company initiatives. Pain points should be uncovered and openly discussed to create meaningful, outcome-based metrics. For some companies, enhancing the customer experience may be the priority while others seek new channels for growth. And even within a single company, priorities may differ for each business unit based on several factors such as competitive threats, industry consolidation or supplier constraints.

**Step 3: Analyze Input to Identify Strategic Value**
Given this financial and business assessment, key initiatives or focus areas come to light. By taking inputs from the first two steps, this analysis phase should identify strategic business drivers and value levers. Understanding these drivers in detail is an essential step prior to customizing the appropriate solution.

**Step 4: Customize Solution**
Once initiatives are fully analyzed, a customized solution can be proposed. Successful providers will be able to clearly map their transformation plan to business and technology objectives for a holistic approach. By understanding the details such as how the client handles working capital and balances opex and capex investments, flexible delivery models with the appropriate pricing structure are added to the plan.

**Step 5: Quantify Business Value**
Lastly, clear quantified business value should be communicated and documented in outcome-based SLAs. A value-driven outsourcing provider does not shy away from more aggressive, business outcome-based SLAs. They are ushering in a new era—one that supports alignment of business-IT objectives.
Future Proofing in a Digital World

By shifting to a value-driven sourcing model, businesses will be better positioned to capitalize on the unstoppable digital transformation.

Understanding the characteristics and the steps to implement this new value-driven sourcing model can help your firm uncover unexpected sources of growth. Once implemented, models can be scaled to drive even greater business outcomes. Requirements will always continue to change and evolve. Applying this value-driven sourcing model, however, offers organizations increased operational nimbleness, greater flexibility around pricing and delivery and, most importantly, quantified transformation benefits.

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