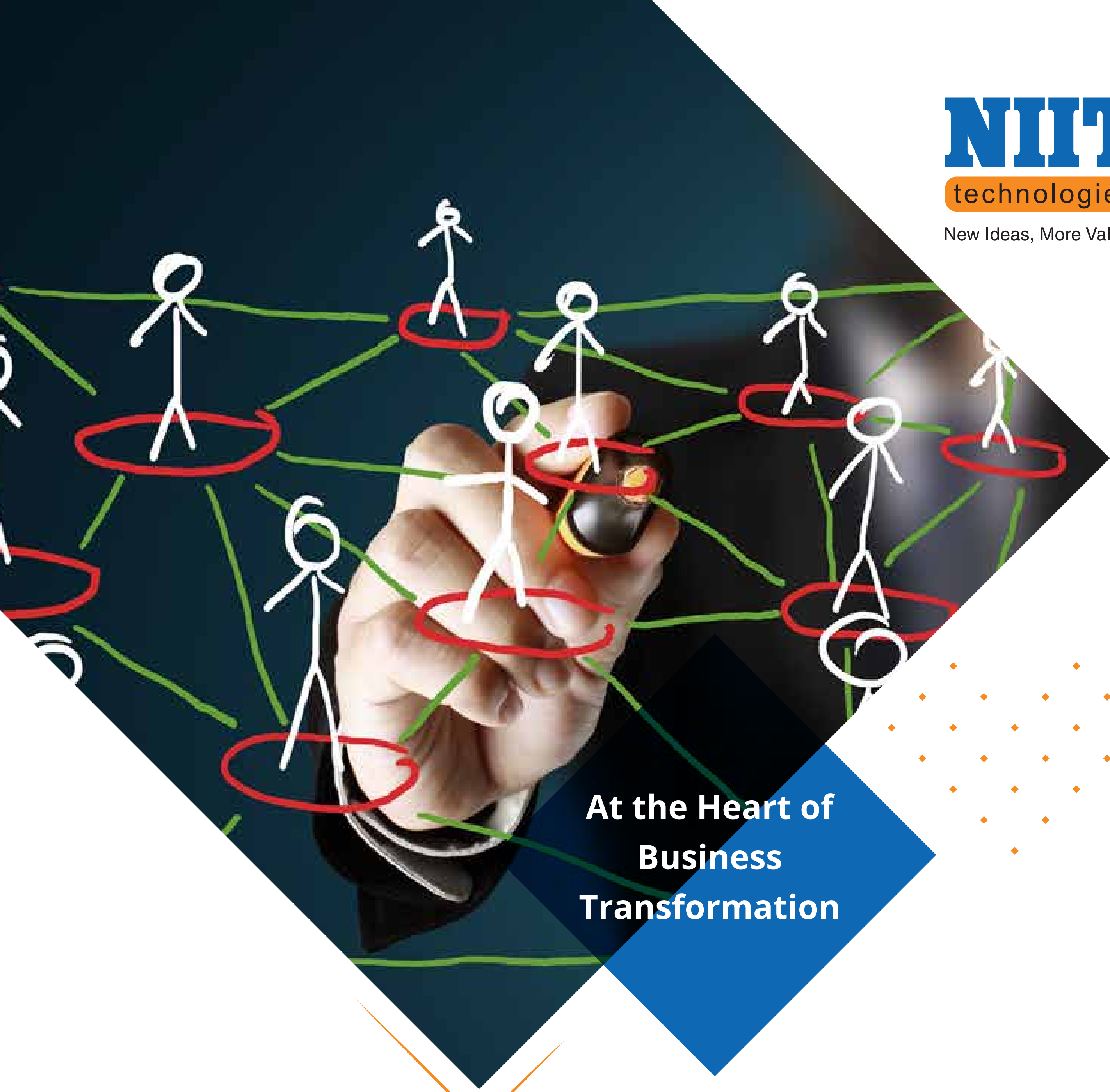

The Art of Multi-Vendor Outsourcing

Getting it Right with Governance, Collaboration, and Metrics

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Abstract

The shape of outsourcing to come is fluid. Businesses today need greater flexibility and agility to deal with the changing business requirements and a new technology landscape, and expect the same from their service providers, too. This has fundamentally altered the model of outsourcing. Organizations are breaking their outsourcing engagements into multiple parts to access niche expertise, enhance quality of services, and redefine cost structures. However, the old adage of the cooks and the broth holds true here as well—if improperly managed, the new model can be as fragile as a house of cards. Success hinges on carefully crafted contracts, integrated objectives, and strong governance. This is a guide to getting it right.

The One-Stop Shop Has New Neighbors

While a record number of outsourcing agreements has come up for renewal in the previous few years, it has also created an extremely complex environment. Facing dynamic global scenarios, organizations are now looking up to de-risk their outsourcing deals by carving up their outsourcing engagements into multiple pieces spread across vendors. In the past, it was commonplace for one large service provider to manage multiple areas of information technology such as application development, maintenance, and support. But the emergence of new technologies ends the status quo—the trend of going to multiple vendors is also dictated by the fact that companies are looking for best-of-breed vendors in every niche like cloud, big data, automation, or mobility. Other key drivers of the trend are optimizing cost through competition for a larger share of the business, and improving service quality across the board.

Minding the Governance Gap

While the benefits of multi-sourcing may seemingly far outweigh the challenges, the approach also exposes the organization to multiple risks as it has to deal with multiple providers, which in turn introduces governance-related risks. Unless properly managed, multi-vendor engagements can turn out to be more time-consuming and expensive than traditional single-provider engagements.

A well-defined governance framework is the heart of any multi-sourcing engagement, as it enables organizations to get all the service providers to view a single objective or goal, with adequate control mechanisms, service level agreements (SLAs), and penalties.

In the coming years, the pace of multi-vendor deals is likely to accelerate. Organizations have to prepare themselves for this new era through careful planning and assessment coupled with well-defined frameworks.

As with every team, the real success of a multi-vendor engagement can truly be achieved when every service provider thinks of the larger goal instead of individual achievements, as services are interlinked to each other and can have a cascading effect. The responsibility of ensuring this happens as designed, rests with both the client and the service provider.

What to Expect When You are Multi-Sourcing?

When an organization adopts the multi-sourcing model, it has to deal with different service providers, each with their distinct service levels, reporting structures, and escalation procedures. To manage such a diverse number of providers and to make sure they deliver value to the organization is extremely challenging. If they do not work in synergy, the whole purpose of multi-sourcing is defeated.

The more the number of vendors involved, the greater is the complexity. The performance of one vendor can significantly affect the performance of other vendors. When service levels are not met and things go wrong, providers can end up pointing fingers at each other.

When you factor in resource time to manage multiple vendors, it can translate to higher costs. Typically, analysts estimate that the cost of managing single service provider deals, which range from 3–10 % of the total cost of the deal, can go as far as 15–40 % in a multi-sourcing engagement.

Imagine an orchestra or choir where multiple talented musicians gather to deliver a combined musical performance. Now, just as the huge gathering is settling down to hear soothing music, there is a huge shock. All that the audience can hear is a cacophony of noises, which is difficult to understand. What exactly has happened? Unlike typical orchestras, this one did not have a musical director or a music conductor guiding the talented bunch of musicians. Without a guiding hand to direct the flow and tempo of the music, the wide variety of conducting styles meant that despite a talented bunch of musicians, the combined music was out of tune, disoriented, and unclear to follow.

The art of conducting an orchestra has similarities and resonates with the world of multi-sourcing. Just as a musical conductor guides and communicates real-time instructions to the performers so they achieve the right melody, the current trend of multi-sourcing needs the services of a dedicated engagement team who can guide companies to deal with and smoothen the complexities, risks, and integration issues that are typically seen in such engagements. Without the necessary preparation and knowledge about the implications of multi-vendor outsourcing, the very objective of going in for a multi-vendor relationship model can be lost.

Transitioning services from a single service provider to multiple service providers is another major challenge. This requires careful planning and a detailed assessment approach to gauge inter-dependencies among applications and processes. If not done properly, it will be extremely difficult for organizations to pin down responsibilities for every service, and resolving issues in case of problems. In some cases, there are also chances of one provider passing the buck to another, if service responsibilities are not clearly defined and documented.

The Rules of Engagement

Before going in for a multi-sourcing relationship, it is imperative for organizations to conduct a thorough and careful assessment of the organization's capabilities in terms of people, process, and infrastructure. A thorough rationalization and standardization of existing infrastructure and resources is a pre-requisite for reducing the complexity of multi-sourcing arrangements.

Typically, when you have multiple service providers, each with their own proprietary tools and frameworks, measuring value across the enterprise is a challenging task. Hence, it is important for organizations to standardize on a particular technology or application. Once a standardized infrastructure is in place, measuring value across multiple locations or even service providers becomes

relatively easy. This approach results in a well-defined and categorized set of service requirements and optimal performance metrics for each requirement.

Once a baseline for performance metrics is standardized, the next stage is to identify the right service providers. Selection of the service provider also depends on the stage of outsourcing that the organization is currently present in. For example, while a small service provider may give an organization the specific domain or business process capability, it may not be able to ramp up quickly as compared to a large service provider.

It is also equally important to track the record of service providers. This is not only with respect to outsourcing and domain expertise, but also with respect to operating in multi-sourcing agreements. Simultaneously, organizations must also verify whether the standards or platforms that they adhere to are standard in nature. This is crucial in a multi-vendor deal as organizations can measure providers using a common set of rules for service support, service delivery, and application management.

The Anatomy of Governance

An effective governance mechanism is critical as it successfully integrates project management efforts with methodologies, tools and processes, and accordingly directs service providers to achieve the desired objective. Through a dashboard, the governance mechanism must allow enterprises to have an overall aggregate-level insight into the services delivered along with the ability to drill down into each service.

Establishing a multi-sourcing framework and making sure that all service providers adhere to the framework should be governed by a team drawn from technical and business units. The governance framework should specify the key deliverables for each service and provide mechanisms to measure the achievement of goals. A well-defined and documented governance framework will enable every service provider to effortlessly communicate, collaborate, and align their efforts towards common business objectives.

Equally important to the success of a multi-sourcing initiative is the contract, which defines agreed service levels and related incentives and penalties. In a multi-sourcing environment, SLAs should be defined based on SLAs signed with other vendors. It is also advisable to put in place operating level agreements (OLAs). These OLAs should not only specify the responsibility of service providers, but also their expected behaviors in case of overlaps or exceptions. In some cases, it may also require providers to share proprietary knowledge with each other.

For the success of the multi-sourcing relationship, it is also important to ensure that the metrics defined are within control of the vendor. The goal of establishing metrics should be to motivate vendors to meet and exceed service levels. Used intelligently, the use of incentives can encourage healthy competition between vendors. Similarly, penalties must be used appropriately to prevent recurrence of problems, and must be focused towards identifying the root cause of problems.

Every multi-sourcing relationship requires extensive tracking mechanisms. This includes tracking a project from a performance, financial, and compliance point of view. For example, in a multi-vendor deal, it is critical to use financial management tools, as typically, the pricing of services is tied to the service level delivered. By using financial management tools, outsourcers can compare actual performance to the budget, along with the ability to manage penalties and incentives. More importantly, it allows outsourcers to consolidate the costs of individual service components and compare it with the overall cost of service. Performance management tools can help in providing a single, unified view of the performance of multiple vendors—helpful in measuring and comparing service levels.

Similarly, usage of compliance management tools can help outsourcers get an end-to-end view of processes along with their dependencies on all vendors. This will help organizations automate the process of monitoring compliance levels across vendors.

More Value at the Heart of Engagement

Typically, when a company decides to outsource, it is looking for increased cost savings, better service levels and access to best practices. In a multi-sourcing model, the focus is more on innovation and delivering value. This is being preferred by a number of global organizations as they look at outsourcing engagements as 'value' creators. For example, a 'support and maintenance' service in the earlier single outsourcing model can be changed to a 'managed' service with specific SLAs and defined outcomes.

Commonality of Objective, Equality in Outcome

The ability to get all service providers to view a single objective or goal is critical for the success of any multi-sourcing initiative. To ensure every service provider has an opportunity to win, organizations must specify incentives that get paid only on the success of combined results. This is important as in a multi-vendor relationship, the combined value proposition is more important than individual achievements of vendors, as services are interlinked to each other. Having a common goal will encourage every vendor to push their respective efforts in the same direction.

The NIIT Technologies Thought Board: The Art of Multi-vendor Outsourcing

What is Driving the Shift to a Multi-Sourcing Model?

Reducing Dependence	Changing Technology Landscape	Optimizing Cost
A single service provider is 'too big to fail'—having different providers distributes risks, responsibilities, and outcomes	Adopting new technologies faster requires scale, flexibility, and expertise, which one vendor alone may not be able to deliver	This is achieved through increased competition as well as new payment models driven by incentives and penalties

What are the Pros and Cons?

Advantages

- Drives greater competitiveness and leads to better service levels, as vendors raise the bar to deliver better services and provide greater value
- Reduces risks significantly as organizations are not locked in to a single service provider
- Equips organizations with the capability of gaining access to experts in specific domains, business processes, or technologies

Disadvantages

- Requires more management time to manage multiple vendors, which may increase the overall cost of the engagement
- Can expose the organization to governance related risks, as it has to deal with multiple service providers
- Measuring value across the enterprise when you have multiple service providers, each with their own proprietary tools and frameworks, is a challenging task

Is there a Checklist to Help Better Manage Multi-Vendor Outsourcing?

Based on our experience, we have summed up some of the best practices in a checklist. While this list is not exhaustive, these practices can serve as a starting point for building and sustaining a successful multi-sourcing strategy.

Assessment and Governance

Assess capability and preparedness in terms of people, process, and technology	Establish a governance mechanism to look at integration, process flow, and interdependencies

Integration and Collaboration

Standardize and establish common service measurement collaboration mechanisms	Enforce systematic co-operation by using agreements such as OLAs

Metrics and Measurement

Regular evaluation based on agreed metrics and measurement framework	Incentives and penalties to encourage and push service providers

Taking the Long View

While a multi-sourcing approach offers many compelling benefits, achieving the desired objectives requires transparency and flexibility. While the outsourcer must have clear visibility into the service levels provided by each service provider, the service provider should have clear visibility in the way its services are benchmarked. Multi-vendor outsourcing is here to stay. A word of caution: it will not bear fruit overnight. The key is to keep a long-term goal in mind, and by doing so, organizations can significantly transform their business processes while becoming more efficient and competitive.

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