Assessing Sourcing Effectiveness: A Framework for Review & Improvement

2008 Sourcing Experts Webinar Series

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Managing Director
Outsourcing Advisory Svc.
PricewaterhouseCoopers

Jim Diggs
VP of Strategy & Business Development
Janeeva, Inc.

Call in: (712) 432–9998 access code 789130#
Today’s Panelists

• Matt Shocklee
  Managing Director, PwC’s Global Sourcing Advisory Services
  - 30 years with technology and business process organizations
  - Worked with Providers & Advisors (IBM, CSC, Capgemini, PwC)
  - Widely published and featured speaker at industry events such as IAOP, SIG, IQPC & Conference Board
  - Chapter Co-Chair of IAOP’s Pacific Northwest Chapter with Safeco & Nike and also a Certified Outsourcing Professional (COP)

• Jim Diggs
  VP of Strategy and Business Development Janeeva, Inc.
  - 30 years in technology companies
  - VP, Janeeva, ADP, IBM, BlueGill Technologies
  - CEO, Adapted Wave Technologies
  - International Association of Outsourcing Professionals (IAOP), Chapter founder/chairman for the Outsourcing Tools Interest Group.
Webinar Objectives:

• Share latest insights and best practices on assessing and optimizing global sourcing relationships

• Understand contemporary tools and techniques for creating, managing and sustaining value in global sourcing relationships

• Extend an invitation to participate in a “health check survey”
Sourcing relationships are evolving

Outsourcing
Non-core

Core & Customer-facing functions

Transformation & Integrated Services

Extended Enterprise

1990’s
2002
2006
Tomorrow

Mega-Deal
Focused scope
Low price
SLA Mgmt
Penalties

Multi-Sourcing
Multi-vendors
Multi-processes
SLA Mgmt
Variable pricing
Incentives, CSAT

Global Transformational Sourcing
Complex integrated svcs
Bus. transformation
Gain share
Revenue growth

Any “O”, Anywhere & All the Time

To meet rapid change, companies will need to:
• Dynamically implement new services, new providers and new projects
• Build collaborative relationships with their service providers
• Manage to overall business goals

“Outsourcing relationships are typically structured in a very tightly coupled manner, requiring lengthy negotiations and detailed contracts . . . (however) collaborative business processes create very different kinds of relationships, much more flexible in nature.”

John Hagel III, et al
Business models have changed
... and so have the relationships
Janeeva provides solutions which enable enterprises to manage their global sourcing relationships (i.e. shared service centers and outsourcing) in an organized way to:

- realize the full value from sourcing relationships, while
- reducing the risk and complexities associated with managing a portfolio of relationships, thereby
- enabling successful and sustainable long term sourcing results

http://www.janeeva.com
Welcome To Janeeva
The Old World
The Status Update Conference Call

The Janeeva World
Global Visibility and Resolutions On-Demand

QBR - Quarterly Business Review

Immediate Business Reviews & Alerts

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Assessing & Optimizing Sourcing Effectiveness:

A Framework for Improving Value of Sourcing Relationships

Matt Shocklee

PRICEWATERHOUSECOOPERS
PwC’s Research & Advisory Engagements Confirm the Potential to Improve the Value of Global Sourcing Relationships

PwC 2007 Outsourcing Research

Outsourcing Comes of Age: The Rise of Collaborative Partnering

...55% of Clients reported they were not realizing the expected benefits they had anticipated from outsourcing...

...an overwhelming 81% said despite this they would still consider outsourcing again....

“PwC’s Clients Typically Experience From 10% - 30%+ Value Improvement”
In the past,

Corporate strategies existed “between four walls” and a traditional operational style and technology infrastructure were sufficient.
Today, Extended Enterprise strategies and the adoption of strategic outsourcing offers cost savings, increased agility, process improvement and competitive innovation.
The Challenge:
Optimizing the Business Value From Global Sourcing That Increasingly Involves a Broad Portfolio of Sourcing Relationships
Today’s Reality – It’s a Chaotic Sourcing Environment:
“A bunch of deals and/or series of transactions where the vendors have greater control and transparency into performance/data than the client”

Global Sourcing - External Governance Spectrum
(On – Near – Offshore)

Consulting & Staff Augmentation Services
Outsourcing/Service Providers
Shared Service Centers
Partnerships, Co-branding
ITO BPO KPO ASP
Joint Ventures & Strategic Alliances

“Supplier provided portal–mania and excel spreadsheet proliferation… where the clients/users are managing in the rear–view–mirror”
“Optimizing Business Value in the Globally Sourced Extended Enterprise Requires a Holistic “Client Centric” Data Driven Approach to Sourcing Management”

Old World = Vendors
- own data & algorithms
- provide reporting to clients
- may charge client for reporting
- typically weekly/monthly summaries
- & client repackages for governance

New World = Clients
- own data & algorithms
- provide reporting to vendors
- may charge vendor for reporting services
- real-time performance analysis
- integrated governance/dash-boarding

Global Sourcing - External Governance Spectrum
(On – Near – Offshore)

Consulting & Staff Augmentation Services
Outsourcing/Service Providers
Shared Service Centers
Partnerships, Co-branding
ITO BPO KPO ASP
Joint Ventures & Strategic Alliances
Sourcing to address “traditional” business requirements is not a new phenomenon...there’s an art & science
Sourcing of business processes & information technologies has raised the ante and now a “life-cycle” approach is mandatory.
Following the sourcing life-cycle alone won’t address the global sourcing challenge, a more rigorous & holistic approach is required.

Global Sourcing Life-Cycle

Phase I: Strategize
Phase II: Assess
Phase III: Design
Phase IV: Build & Transition
Phase V: Operate & Optimize

Performance Management Environment – “Value Drivers”

- Balanced Scorecard
- Economics
- Performance & Quality
- Governance
- Risk & Compliance

Sourcing Relationship Maturity Model (SRMM)

- Management Structures
- Supplier Rationalization
- Supplier Selection
- Supplier Relationships
- Manage Costs
- Manage performance & Quality
- Use of Technology
- Managing Business Risk

Sourcing

- Global Sourcing Strategy
- Procurement
- RFP/RFQ
- Selection & Contracting
- Supplier Data Maintenance
- Requisitions
- Supplier Relationships
- Use of Technology
- Managing Business Risk
What is a Performance Management Environment? (PME)
“A holistic and rigorous approach to governing sourcing relationship that focuses on managing the key drivers of sourcing value”

PME Objectives:

Monitor, capture and report on the realization of the expected economic benefits associated with global sourcing initiatives.

Continuously monitor, manage and mitigate risks associated with global sourcing of business/IT operations.

Ability to internally & externally manage a multi-vendor global sourcing environment while minimizing administrative costs.

 Seamlessly manage multi-vendor performance & optimize operational governance.

Projects continuously roll into steady state contracts/SOW’s

Sample Scorecard Elements – RACI Driven

A. Economic:
- Overall business case realization - % & timing
- % reduction in capital expenditure
- FTE reduction – impact/timing
- Vendor comparative pricing performance

B. Risk:
- Vendor/Contract compliance %/Trends
- Key personnel turnover ratios
- Vendor debt/equity ratio & other key metrics
- Market success/competitiveness

C. Governance:
- Change management compliance
- End-user satisfaction improvement %
- Vendor contract compliance ratios
- RACI compliance (% on-time)

D. Performance/Quality:
- % improvement in 1st call resolution
- % improvement in cross sell closings
- Project SLA’s budget vs actual
- Innovation SLA compliance/acceptance
### IT SSSC - Goals & Objectives - Value Scorecard - By OLA Contract

<table>
<thead>
<tr>
<th>Operating Level Agreement Name/Number</th>
<th>Marketing Systems - Call Center Global (20014875)</th>
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<tbody>
<tr>
<td>OLA Contract Type</td>
<td>Infrastructure - Call Center</td>
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<td>Contract Effective Date</td>
<td>2/1/2006</td>
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<tr>
<td>Contract End Date</td>
<td>1/31/2011</td>
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<tr>
<td>Account Manager Name/Location</td>
<td>William Chi/Manila, Philippines</td>
</tr>
<tr>
<td>IT Delivery Manager</td>
<td>Angela Sires</td>
</tr>
<tr>
<td>ITSSC OLA Manager</td>
<td>Kim Torre</td>
</tr>
<tr>
<td>Other Key Stakeholders</td>
<td>ERM/Bill Golf, Audit/Tom Skips, Marketing/Sam Adams, Offshore Office/Rajib Gul</td>
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#### Scorecard Date

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Overall Scores</td>
<td>6.9</td>
<td>8.5</td>
<td></td>
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<td>YTD Status</td>
<td></td>
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</tr>
</tbody>
</table>

#### Economics

- Financial Business Case Realization: ![Green](#) ![Yellow](#) ![Red](#) ![Yellow](#) ![Green](#)
- Opex Spend to Plan: ![Green](#) ![Yellow](#) ![Red](#) ![Yellow](#) ![Green](#)
- Capex Spend to Plan: ![Yellow](#) ![Red](#) ![Red](#) ![Red](#) ![Red](#)
- Revenue Impact (if appropriate): N/A N/A N/A N/A N/A
- FTE Reduction: ![N/A](#) ![N/A](#) ![N/A](#) ![N/A](#) ![N/A](#)
- Comparative Pricing Performance (annual): N/A N/A N/A N/A N/A

#### Performance Quality

- Project SLA's Budget vs Actual: ![Green](#) ![Yellow](#) ![Red](#) ![Yellow](#) ![Green](#)
- Staff Turnover Ratios: ![Green](#) ![Yellow](#) ![Red](#) ![Yellow](#) ![Green](#)
- Innovation SLA's: ![Red](#) ![N/A](#) ![N/A](#) ![N/A](#) ![N/A](#)

#### Governance

- Change Management Compliance %: ![Yellow](#) ![N/A](#) ![N/A](#) ![N/A](#) ![N/A](#)
- Issue Resolution Timeliness: ![Yellow](#) ![N/A](#) ![N/A](#) ![N/A](#) ![N/A](#)
- RACI compliance (% on-time): ![Green](#) ![Yellow](#) ![Red](#) ![Yellow](#) ![Green](#)

#### Risk/Compliance

- Non-SLA Contract Compliance: ![Green](#) ![Yellow](#) ![Red](#) ![Yellow](#) ![Green](#)
- Key Personnel Turnover Ratios: ![Yellow](#) ![N/A](#) ![N/A](#) ![N/A](#) ![N/A](#)
- Vendor Financials/Market Stability: ![Green](#) ![Yellow](#) ![Red](#) ![Yellow](#) ![Green](#)

#### Legend:

- Very Good
- Good
- Fair
- Poor
- Unacceptable
Assessing & Optimizing the “Value” of Sourcing Relationships

Periodically Perform a Sourcing Effectiveness Assessment (SEA)

Why Perform A Periodic Health Check?
- Have limited visibility and/or transparency into the actual value derived from a Shared Services, ITO, BPO, or KPO relationship
- Are uncertain whether the supplier is delivering to competitive market standards
- Existing contract(s) is approaching the renewal notice period and you’re questioning whether you should renew, repatriate or re-compete the contract
- Have a need to standardize and/or improve the overall governance of a multi-sourcing environment
- Have concern over the risks associated with globalization of existing outsourcing contracts and increasing regulatory compliance/audit requirements
- Have a change in business strategy or rationale for outsourcing, i.e. M&A decision

What If You Don’t?
- You could be paying for services that are below market standards or contracted SLA levels
- You may not be realizing the expected value and/or planned savings from the relationship
- Your sourcing environment could be exposing the business to unwarranted and/or unknown risks
- You could be procuring services that do not align with current business, IT or other strategic business objectives
- You could choose to re-compete or repatriate unnecessarily…all options that are very costly, i.e. renewal is typically the least risk and lower cost option
It Starts With A Clear Understanding of the “Health” of The Existing Sourcing Relationship

- Fast, easy & web-enabled
- Value driver statements
- Stakeholders weight & score
- Immediate feedback/results
- Provides directional insights for a detailed assessment
- Future peer feedback

## Section 1: General Questions

<table>
<thead>
<tr>
<th>Generic</th>
<th>Sourcing characteristics</th>
<th>Sourcing contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Industry of client</td>
<td>4. Sourcing Scope: Telecommunications</td>
<td>7. Size of contract (py): &gt;5m and &lt;25m</td>
</tr>
<tr>
<td>2. Client Co. name</td>
<td>5. Location: ITO - Infrastructure, On-shore</td>
<td>8. Contract start date</td>
</tr>
</tbody>
</table>
Results Provide Basis For A Sourcing Effectiveness Assessment (SEA)

Overall Health Check results

0.0 1.0 2.0 3.0 4.0 5.0 6.0 7.0 8.0 9.0 10.0

- The sourcing relationship appears to have serious issues and action should be taken immediately. Perform detailed assessment of sourcing effectiveness and consider 3R options: Refresh, Repatriate or Re-Compete.
- Relationship appears healthy, continue to identify areas to improve sourcing value and unlock additional potential sourcing value.
- Perform detailed assessment of sourcing effectiveness and develop plan to improve relationship and unlock additional potential sourcing value.

Your peer group overall score typically is _____

1. Global Sourcing Governance - Health Check Results

0.0 2.0 4.0 6.0 8.0 10.0

Your peer group score typically is _____

2. Global Sourcing Economics - Health Check Results

0.0 2.0 4.0 6.0 8.0 10.0

Your peer group score typically is _____

3. Global Sourcing Performance/Quality - Health Check Results

0.0 2.0 4.0 6.0 8.0 10.0

Your peer group score typically is _____

4. Global Sourcing Risk/Compliance Management - Health Check Results

0.0 2.0 4.0 6.0 8.0 10.0

Your peer group score typically is _____

URL to take the survey: __________________________
Sourcing Effectiveness Assessment - Rigorous Rapid Approach

Sourcing Effectiveness Assessment (SEA)

Global Sourcing – Rapid Relationship Health-Check

Phase I: Strategize
Phase II: Assess
Phase III: Design
Phase IV: Build & Transition
Phase V: Operate & Optimize

Data Collection
Assessment & Analysis
Conclusions & Recommendations

6 - 12 Week Period

Interviews:
- Interviews with key business/IT stakeholders

Document Review:
- Review outsourcing contract, original business case, financial reports, quarterly invoices, monthly service level reports, Business & IT plans etc.

Workshops:
- Conducted workshops with various stakeholder groups (IT Help Desk, IT Applications, IT Finance, & the service provider(s):
  - Existing Value Workshop
  - Future Requirements Workshop
  - Future Value Workshop.

Benchmarking:
- Conducted benchmarking exercise, aligned to the scope of the contract, to gather industry and market data on labor rates & operational metrics

Quantitative/ Economics:
- Built a quantitative model to evaluate actual spend against the original business case.

Qualitative/ Performance:
- Feedback from the company’s personnel about service provider’s quality, value of the relationship, and areas for improvement.
- Feedback from service provider regarding areas for improvement in the relationship, processes, tools and techniques.

Governance & Risk:
- Compare the outsourcing contract, financial management processes, and performance monitoring processes against industry standards and best practices, and identified variances, weaknesses, and risks.

Historical Value Scorecard:
- Did the Client achieve the anticipated & expected benefits from the outsourcing relationship with the service provider - cause/effect

Recommendations to Improve Value:
- Specific recommendations to improve business value from the relationship based upon “current” business needs

Roadmap for Realization of Benefits:
- Timeline, resources, costs etc.

10% – 30%+
Value Enhancement
IT Shared Service Center - Our Goals & Objectives - Value Scorecards, Contract Compliance, Portfolio Management, Relationship Health

- **Relationship Health**
- **Portfolio Management**
- **Contract Compliance**
- **Value Scorecards**
What we have learned . . .

Assessing and optimizing the value from global sourcing relationships requires:

- A “Holistic” approach to developing and managing global sourcing relationships (i.e. they’re not just a series of deals/transactions)
- A periodic rigorous review and subsequent refresh of the sourcing relationship that involves more than just benchmarking
- Continuous focus on the four (4) key value drivers: economics, performance/quality, governance and risk/compliance
- Take control and ownership of the data and supporting processes, tools and technologies that enable “you” to be in control of and manage your portfolio of global sourcing relationships.
- A continuous understanding of the changing dynamics of the global sourcing industry as it is a highly experiential business and the management science around global sourcing is just beginning to emerge into the industry
Assessing Sourcing Effectiveness: A Framework for Review & Improvement

Q & A

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Jim Diggs
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## Professional Resources

<table>
<thead>
<tr>
<th>Organization</th>
<th>Website</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Assoc. of Outsourcing Professionals (IAOP)</td>
<td><a href="http://www.outsourcingprofessional.com">www.outsourcingprofessional.com</a></td>
<td>Professional certification; Outsourcing World Summit Conference</td>
</tr>
<tr>
<td>Sourcing Interest Group (SIG)</td>
<td><a href="http://www.sourcinginterests.org">www.sourcinginterests.org</a></td>
<td>Broad scope: service providers, law firms, advisory firms, consultants and users</td>
</tr>
<tr>
<td>Human Resources Outsourcing Assoc.</td>
<td><a href="http://www.hroassociation.org">www.hroassociation.org</a></td>
<td>SharedXpertise forums</td>
</tr>
<tr>
<td>Outsourcing Institute</td>
<td><a href="http://www.outsourcing.com">www.outsourcing.com</a></td>
<td>Sponsors annual &quot;Outsourcing Roadshows&quot;</td>
</tr>
<tr>
<td>Project Management Institute (PMI) - Outsourcing SIG</td>
<td><a href="http://www.pmi-saosig.org">www.pmi-saosig.org</a></td>
<td>Professional development for managers working on both sides of Service and/or Outsourcing engagement.</td>
</tr>
<tr>
<td>Outsourcing Benchmarking Organization</td>
<td><a href="http://www.obenchmarking.com">www.obenchmarking.com</a></td>
<td>Association of outsourcing professionals to compare operating performance and identify best practices</td>
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</table>