

Outsourcing Decisions – To Bundle Or Not To Bundle?



SSIT Conference, London 11th June 2010

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Outsourcing – To Bundle Or Not To Bundle?

Insights From LSE Outsourcing Unit/Accenture Research



To bundle or not to bundle?
Effective decision-making for
business and IT services

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The Outsourcing Unit
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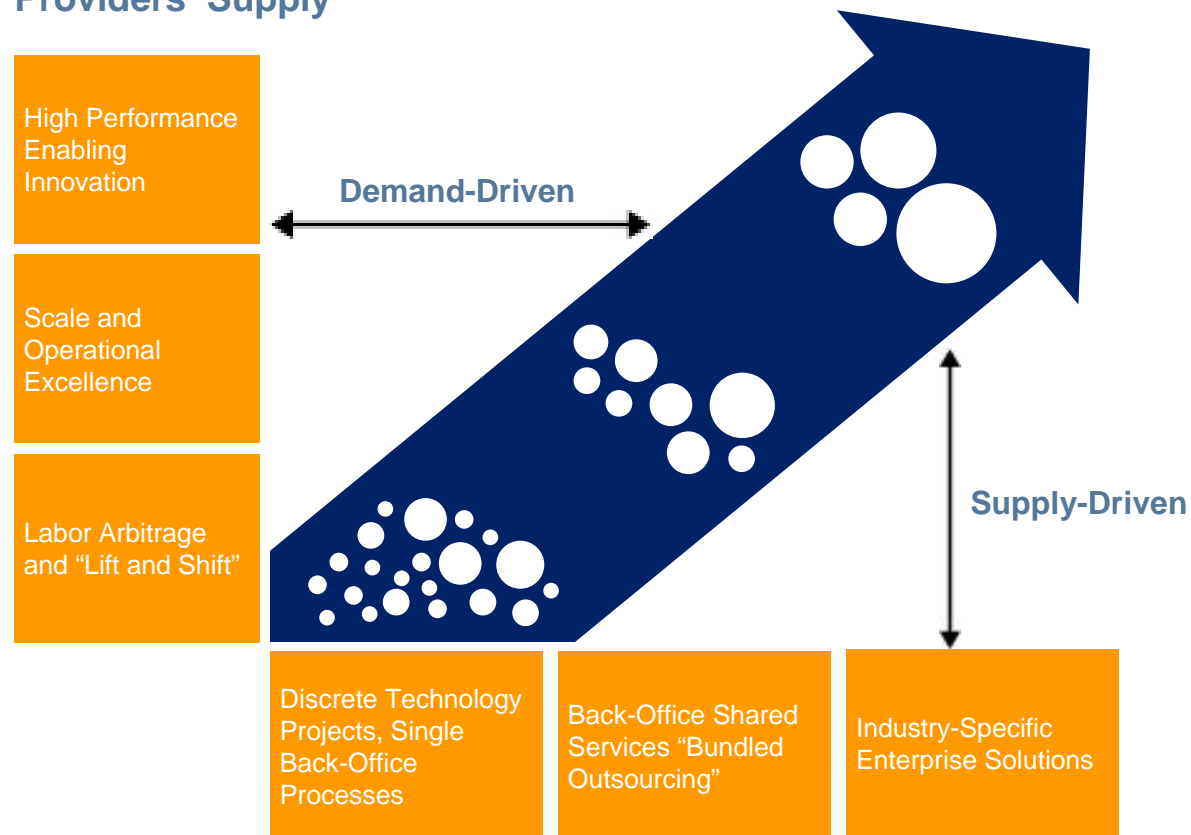
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Industry Trend to Bundled Outsourcing



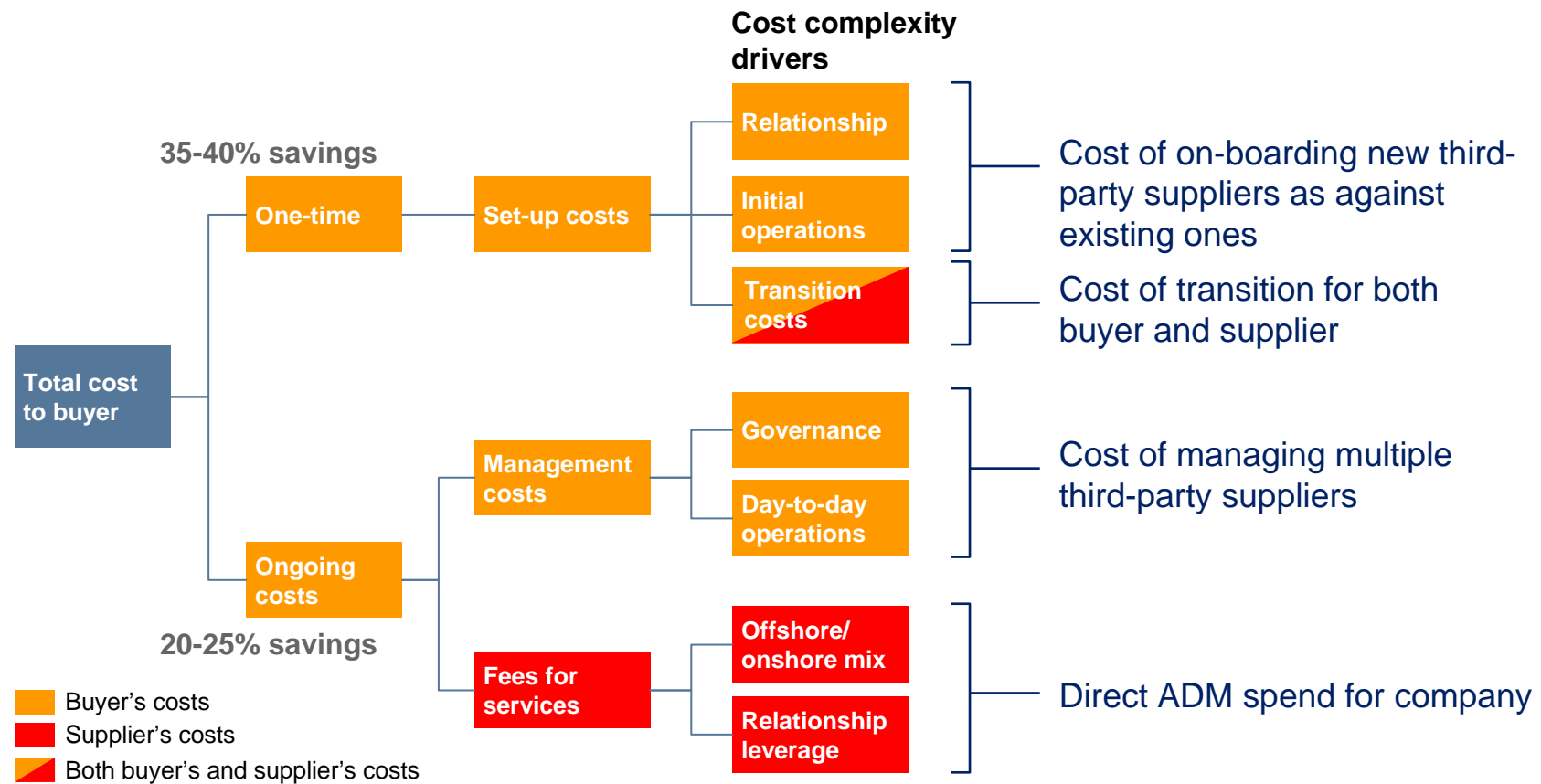
Providers' Supply



As clients consolidate suppliers, outsource additional services, look for new models for cost, innovation and business enhancement, they seek bundling to reduce complexity and enable greater innovation

Demand of Major Clients – see IDC Jan 2010

Cost of managing a supplier portfolio



Source: Everest Research Institute, 2009

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Scope aggregation in outsourcing



As a buyer matures in its outsourcing efforts, four forces emerge which impact scope decisions

Suppliers with initial positions in a buyer are advantaged for access to future scope

Suppliers with larger positions within a buyer tend to retain scope and capture more scope during supplier rationalization efforts

Suppliers with broader offerings tend to capture more scope

Buyer encourages/allows a supplier with a strong track record with the buyer to enter areas in which the supplier lacks capabilities

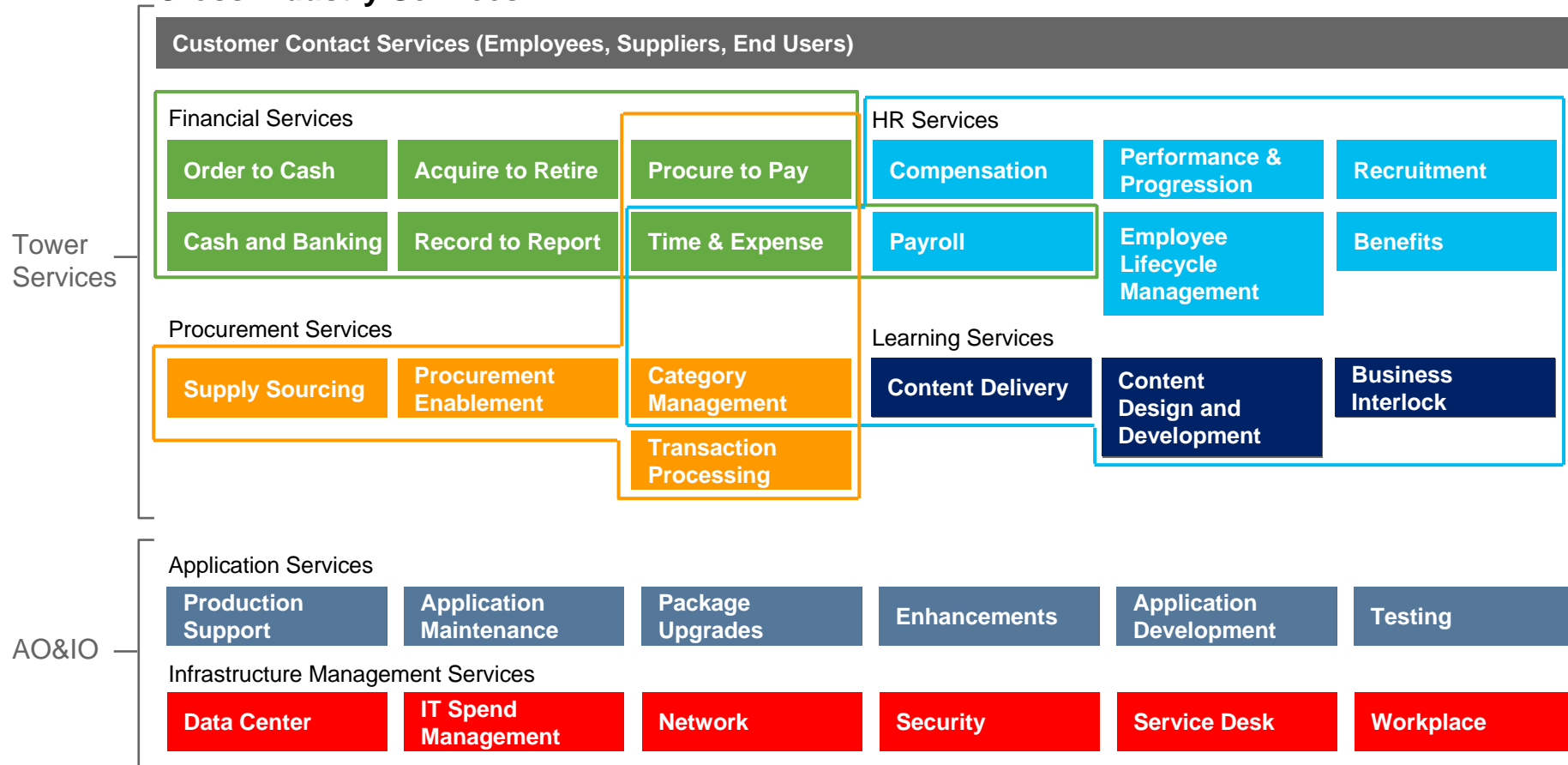
- These forces interact to constrain the number of suppliers and concentrate scope with a sub-set of suppliers serving a buyer
- In aggregate across all buyers, larger suppliers attain a disproportionate benefit:
 - Larger presence to grow relationships
 - Better availability to survive and thrive in a rationalising supplier base
 - More opportunities to enter new areas

Source: Everest Research Institute, 2007

There are many possible bundling scenarios across the enterprise



Cross Industry Services



Bundling: The Touted Benefits

- Fewer process overlaps and duplicate costs across business processes/IT
- Simplified contracting, management and governance
- Better risk management –limits points of failure/offers simplified contact points
- Standardised and simplified operations
- Relationship scale benefits

Common Concerns and Trade-Offs

- **More Control – multi-sourcing or bundling? How?**
- **Risk – one, two or more suppliers?**
- **Incremental or Big Bang – moving into bundled services**
- **Tidy then Outsource Or Bundle Immediately?**
- **Cost and Operational Gains? Role of Primary Contractor Model?**

Definition of Bundled Outsourcing



“A mix of business process and/or IT services purchased separately or at the same time from the same supplier where synergies and efficiencies are sought in end-to-end processing, governance, relationships.

Examples include within or across IT, HR, F and A, Procurement, Learning, Customer Contact, typically including enabling process technologies (applications, ERP, and/or infrastructure) and front-end access and/or process management systems (contact centers, workflow management systems, user portals, etc.)

Processes may be/have been procured separately over time (e.g., “add-on” strategy), or together and simultaneously (“big-bang” strategy), depending on prevailing industry capability and client sourcing maturity



Research Methodology

Stage 1

We analysed prior literature drawn from strategy, economics, marketing, information systems, and our own research work. From this we arrived at **20 factors**. For each factor, from prior research, we established the rationale as to why each factor would influence buying behaviour. At this stage we called each rationale a **hypothesis**, indicating that it requires further testing.

Stage 2

From our database of **750 plus outsourcing arrangements** we selected 300 deals where there was sufficient data to draw conclusions on all 20 factors. We established, through piloting ten deals, that a **total scoring of 100** seemed to work. Using this as the total 20 factor score we worked through each deal. Each factor was weighted in importance in that deal. For the whole 300 sample we then found the median for each factor.

Stage 3

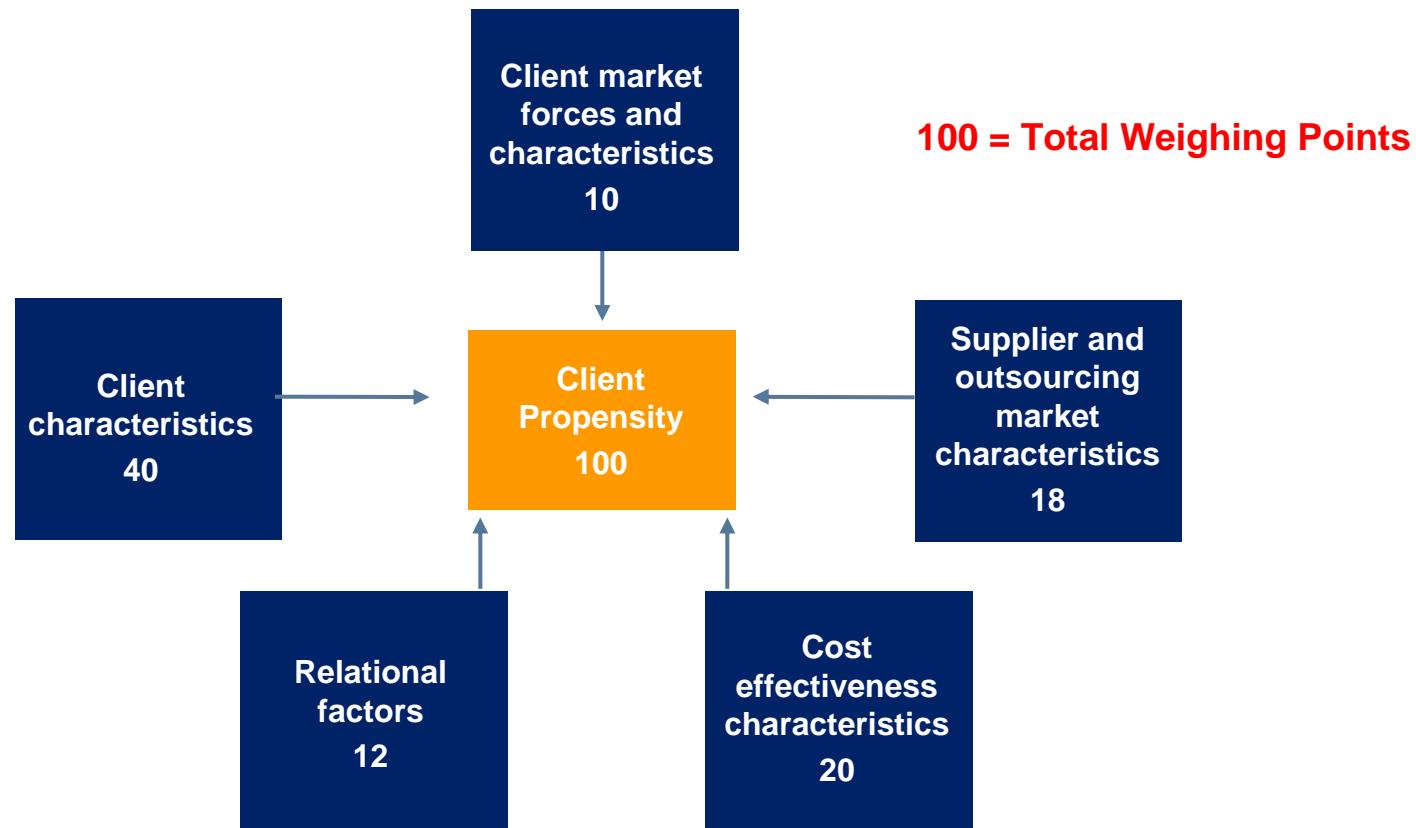
The weightings and factors were further developed and tested against **1,200 contracts signed 2003-2008** and more focused research involving **69 interviews in 35 client and supplier organizations** from a spread of industries and geographies.

Note: It should be noted that the final weightings represent the collation of judgements, and that for each weighted factor the median expresses the middle value. In such a large sample we found many cases where certain factors outweighed others in different ways than the ones expressed here (note that the median tends to be more robust than the mean in the presence of such outlying values). This reflects the relatively simple statistical underpinning at this stage.



“To Bundle or Not to Bundle?”

Main Factors in Bundling/Unbundled Outsourcing Decisions



Source: Willcocks, Oshri, Hindle, 2009



Client Factors (weighting: 40)

1. **Decision-making process** - centralized/decentralized.
2. **Conduct of process** - e.g., procurement in charge, influence of adviser recipes, CIO preferences, CEO preferences, of other key influencers on buying decision e.g., COO
3. **Maturity of company with outsourcing** - history of success/what worked and did not, capabilities built, attitude to competitiveness between vendors.
4. **Organizational and technological factors** - size, infrastructure, interdependence of activity, degree of reliability, transparency of information needed
5. **Burning platform** - cost, new CEO/CIO, strategy, acquisition policy
6. **Business profile** - doing well, badly, need to do something different
7. **Heavy users and high spenders on outsourcing**
8. **Risk attitude** - attitude to back up, security, complexity



Relational Factors (weighting: 12)

9. **Culture** - transaction-orientated or relationship orientated as a client (USA/UK vs. Europe?)
10. **Prior relational aspects: client and supplier**
11. **Relationships and performance as incumbent supplier**

Client Market Forces and Characteristics (weighting: 10)



- 12. Regulatory compliance** - better off with one supplier
- 13. Geography** - USA more likely but will Europe now grow faster into bundled services, if so where (Netherlands, Germany, France?)
- 14. Level of innovation required.**
- 15. Sector Influence** – e.g. telecoms and utilities tend to buy bundled services. Some sectors prefer industry verticals e.g. UK military logistics in 1990s.

Supplier and Outsourcing Market Characteristics (weighting: 18)



- 16. Initial choices and incumbent vendors shape future bundling** – incumbency and capability to do other services lead to client inclination to given them bundled services
- 17. Provider capabilities** - widely capable across different services and able to use IT in each, scope of service geographically, can deal with large contract size.
- 18. 'Lock-in' through supplier services**
- 19. External Media and Bandwagon effect**

Cost Effectiveness Characteristics (weighting: 20)



20. Management and integrated service efficiencies

- **Management and transaction costs** can be reduced significantly by bundling
- **Integrated service efficiencies** can be achieved e.g. through standardisation, integration, common service management platform



Research Findings

Insight 1

The maturity of the organization to manage innovation and suppliers has a big influence on their ability to contemplate bundled services.

Insight 2

We are finding that **clients do not know how to evaluate getting value from bundled services. As result they tend to evaluate based on function or silo.**

Insight 3

As a result, on bundled services, an organization will tend to take an even more 'political' than 'economic' approach to decision-making.

Insight 4

Mature organizations will look at bundling if they can get innovation - i.e. they have high ambition in these sort of deals - **and** if they can shift risk to the vendor



Research Findings (cont.)

Insight 5

More mature organizations all emphasize that the relationship – if you know them well and the track records is OK to good – you are more likely to go for bundled services.

Insight 6

Some organizations did bundle as start-ups (e.g. Optus) or to achieve fast change but were immature in their ability to manage outsourcing and had poor experiences subsequently. One consequence was a move to multi-supplier sourcing in their second and third generation outsourcing arrangements.

Insight 7

A bundled service proposition really does need a client Board member driving it. The ancillary strong finding was that our relationship factors (9-11) received strong independent endorsement but that relationships needed to be many-to-many between client and supplier with lots of touch points and 'glue'.

Insight 8

One interesting route to pursue further is the notion of **a tipping point** where a client is likely to pursue an add-on strategy, gradually bundling services over time.

Phase 2 Preliminary Review and Findings 2010



Insight 9

Evidence of trend to supplier consolidation amongst most large clients especially, together with their willingness to look at new delivery and finance models.

Insight 10

Major benefits reported from multi-function shared services in 50% cases. In rank order: Cost, leverage infrastructure investment, sharing leading practices, accelerated response to change, one consistent delivery face; process integration benefits.

Insight 11

Evidence of further management (10-20%) and operations (10-40%) cost savings from bundled vs. one-off outsourcing. Also additional value opportunities including functional leverage, effectiveness, alignment and compliance payoffs.

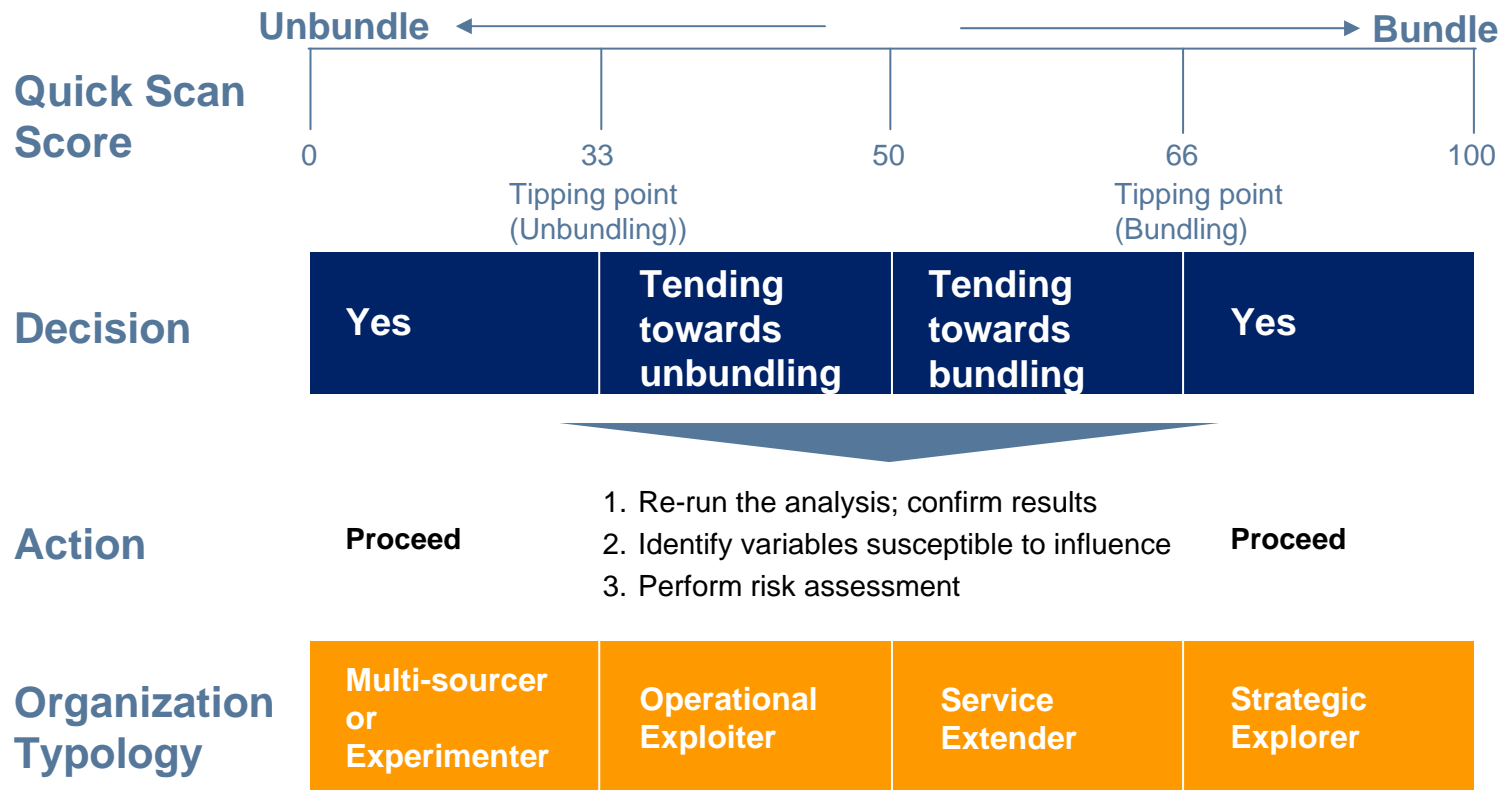
Insight 12

Depends on a) how bundled, and b) supplier capabilities. e.g indirect procurement consolidation across F and A, HR, Learning and/or IT is very powerful; IT infrastructure and applications bundling achieves management/ops efficiencies and costs savings but on a much smaller playing field.



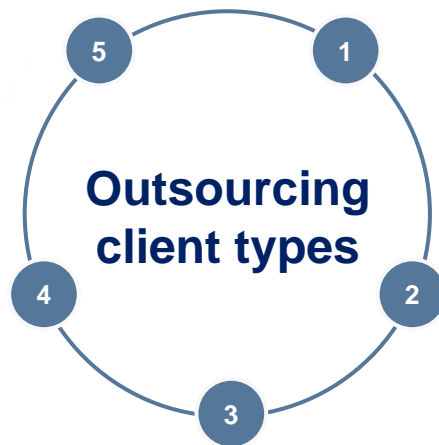
Weighing the Options

Sourcing Factor Analysis





Outsourcing Client Types



1 Strategic Explorer

- Highly developed outsourcing capabilities
- Low- and high-value services
- Strong retained organization
- Seeks innovation and synergies
- Measures outcomes

2 Multi-sourcer

- Strong, 3rd generation management capabilities
- Best-of-breed outsourcing and provider competition
- Seeks strong governance and low switching costs
- Looks internally for innovation
- Next step: **Strategic Explorer**

3 Service Extender

- Moderate experience
- Long-term relationships
- Focus on reliability, integration, seamless service
- Next step: **Strategic Explorer**

4 Operational Exploiter

- Excels at day-to-day contract management
- Limited learning capabilities
- Low-value services
- Next step: **Multi-sourcer**

5 Experimenter

- Limited experience
- Underdeveloped outsourcing management capabilities
- Frequent switching of providers
- Next step: **Operational Exploiter or Service Extender**

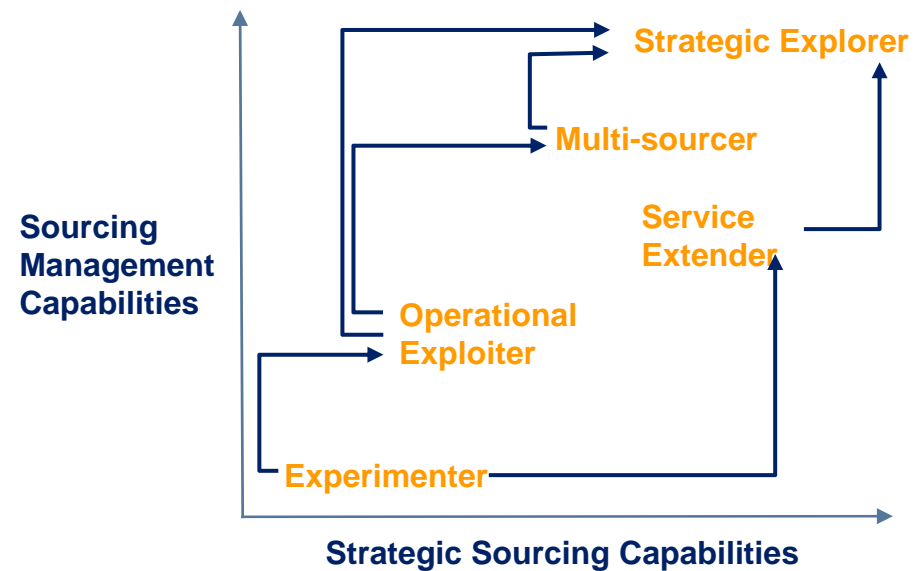
Changing lanes....



Outsourcing client types

- Experimenter
- Operational exploiter
- Service extender
- Multi-sourcer
- Strategic explorer

Changing Lanes



Case Studies In Bundled Services




- **Microsoft**
- **BT**
- **Caixa Catalunya**
- **Thomas Cook**



Improving cash flow and reducing cost: Microsoft

- Common processes rolled out across 92 countries.
- Services provided in 36 languages from four Accenture delivery centers.
- Procurement savings and benefit have generated a payback of Microsoft business case in less than six months.
- 35% operational cost reduction plus negotiated savings up 35% from prior year through Procurement Buy Centers.
- Standardized global processes and increased transparency enabled early payment discount savings of >\$10m last financial year.



Delivering a cost-effective platform for growth: BT

- Supported overseas expansion through a global finance & accounting, HR and learning model
- Increased sales conversions by 102% and sales confidence by 60% through e-learning
- Reduced almost 60% cost per transaction in finance and total cost of ownership by half
- Increased workforce productivity and satisfaction, e.g., 30% reduction in absence rate



Managing cost while improving services: Caixa Catalunya

- Supplier maintains the core banking system, plus other applications and full support for the client's infrastructure technology – with assets owned by the client
- Reduced total IT budget by 30% through application and infrastructure outsourcing
- Reduced cost to income ratio by 14 points in three years
- Achieved higher service levels, fewer incidents and greater platform availability



Transforming back-office operations: Thomas Cook

- Created a single shared services centre combining IT, finance and HR admin plus SAP solution
- Improved operations and reduced cost base by £140 million in just 16 months.
- Achieved a further 30% saving via the Accenture Global Delivery Network
- Built in continuous improvement via the inclusion of innovation as a performance metric.
- Delivered post-merger integration of ERP systems and critical processes in less than 5 months.