Multisourcing
A Blueprint for Successful IT Sourcing
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Success in today’s business environment is dependent on the development of more innovative and holistic sourcing strategies which attend to all the business’s needs – both in the short and long term. But the good news is that provided your organisation has the internal capabilities and governance disciplines that a multisourcing strategy mandates, you can look forward to reaping dramatic increases in business value derived from IT, through this approach.

In this White Paper, Dimension Data examines current sourcing trends, provides perspectives on what constitutes an innovative IT sourcing strategy and considers some of the key benefits and challenges associated with moving from a single-sourced model to a multi-vendor model.

1. Multisourcing defined

The IT services market has undergone a fundamental shift in recent years, and we have seen dramatic changes in the way the enterprise procures and aggregates services – from both internal and external providers. The previously polarised worlds of ‘big deal’ outsourcing and “buy / insourcing” have melded into a single broad market most commonly referred to as “strategic sourcing” or “multisourcing”. In such a model, clients attempt to blend the best of the “big deal” outsourcing and the “insource” models to eradicate their negatives.

A decade or so ago, the typical organisation either fully outsourced its IT, or provided the function fully in-house through the IT department. Today, in an effort to gain further competitive advantage, companies are opting to retain certain key functions in-house and employ best-of-breed service providers to perform specific functions.

All the signs indicate the sourcing environment is at a tipping point, in the utilisation of outsourcing and offshoring as service delivery models and the more organisations source and offshore to service providers the more multisourced the market gets. Organisations therefore need to consider multisourcing as a serious way of conducting business going forward.

Service providers’ experiences in the market over recent years bear further testament to the evolution taking place within the sourcing marketplace. Service providers report a fundamental shift in client behaviour, for example, clients are increasingly electing to perform some traditionally-outsourced functions themselves, especially those processes they deem strategic or core to their strategy. When engaging with their service providers on specific functions, clients are requiring that services be tailored to their unique business requirements and integrated more tightly into their service delivery models. Service providers report a growing expectation on the part of clients for them to be willing to share the responsibilities and risks associated with the initiatives they are involved in. Clients are also moving away from traditional contracts and engagement models in favour of more flexible and at times, highly customised alternatives.
Clients have realised that their current sourcing engagements are probably not delivering the value they think they can realise from a new model. They are talking about multisourcing concepts and expressing an interest in developing new ways to work with their services providers.

What further bolsters this argument is the fact that organisations from segments that are traditionally more aligned to insourcing, such as investment banking, are increasingly approaching Dimension Data and expressing dissatisfaction with their current sourcing strategy. These clients have realised that their current sourcing engagements are probably not delivering the value they think they can realise from a new model. They are talking about multisourcing concepts and expressing an interest in developing new ways to work with us.

The advent of multisourcing as the sourcing strategy of choice has presented service providers with a number of new opportunities – and challenges. The service providers that are winning this new marketplace are the ones that provide the best-in-class services and make it easy for companies to do business with them by meeting their business needs and unique sourcing requirements. Thus, service providers need to consider how they evolve their sales and delivery models, and market offerings, to meet new client expectations.

2. What is an innovative IT sourcing strategy?

Let’s take a closer look at what we mean by an “innovative” IT sourcing strategy and how an organisation’s expectations for IT should change when they adopt a new sourcing strategy. Essentially, an innovative sourcing strategy may be understood as a more holistic approach to the procurement of IT services that attends to all of the business’s needs – both in the short and long term. The demise of traditional sourcing strategies occurred largely to their inability to keep pace with the changing business environment and the evolving expectations from IT. A decade ago the primary objective of outsourcing was to improve costs. Today, priorities have changed. Business faces increasing expectations and competitive pressures in today’s global environment.

Technology has grown increasingly complex and organisations are under pressure to understand rapidly evolving technologies, and find ways to harness them to deliver competitive advantage. In this new business landscape, whilst saving money is important it is surpassed by the requirement for IT to actively support the business and contribute to the achievement of higher-end strategic goals. Organisations that focus on outsourcing deals in order to save money alone should be aware that this is a dangerously tactical view. Outsourcing can and should be used for far more than just cost savings: It can be leveraged to create new, innovative business models; to access a new client base; to create new revenue streams or to improve the way the business operates. If organisations outsource just to save money, the business will be unable to make appropriate use of all the potential benefits that an outsourcing strategy can deliver.

Many organisations struggle to innovate in a business sense because they are held back by the inability of their IT infrastructure to move quickly with the business.

Another drawback of outsourcing deals formed just to save money is that they are rarely sustainable. These engagements typically start to fall apart two to three years into the deal, because by that point, the business expectations have changed, and there is anticipation for some kind of improvement in the business operation or in the business performance itself. Organisations therefore need to take the long view, when they are taking important decisions about what to outsource and why.

Another critical requirement of an innovative sourcing strategy, is the inclusion of the right metrics, in order to facilitate the correct measurement of IT. This will ensure that the business feels that it is truly harnessing value from its IT investment and that the IT strategy is helping it move forward. It is also important that the sourcing strategy allows for flexibility and agility. Many organisations struggle to innovate in a business sense because they are held back by the inability of their IT infrastructure to move quickly with the business.

3. The Challenge of Business Alignment

A key question that many organisations ask themselves when they are formulating their multisourcing strategy is “What should my key area of focus be? Should I be looking to reduce costs or should I be targeting service delivery improvements or should I be focusing on innovating my IT infrastructure?” Petty argues that the
It is critical that you look at the **business strategy** and align that to the sourcing strategy – and only then move ahead to execute that strategy in the marketplace.

The issue of the sustainability of the sourcing strategy and its ability to continue to be relevant over a number of years is also key to decision making around an organisation’s sourcing objectives. In order to ensure ongoing alignment between the sourcing strategy and the business, it is important to consider the sourcing strategy for the long haul. There are three different objectives an organisation can tackle with an outsourcing plan – to improve cost, to improve the way the business operates, or to make radical business improvement transformation. However, consideration must be given to how long that action will endure. For example, if an organisation outsources today because it believes a certain service costs too much or it needs access to skills it can’t attract or retain internally, that will solve a problem – a tactical problem – for the short haul. Inevitably, two years down the road, or at best three, it is going to need something else. It might then realise that now it needs business performance improvement and it has the wrong kind of deal, perhaps even the wrong vendor. The answer therefore is to look at all three objectives and synchronise the organisation’s short term requirements with its anticipated needs over a three to five year planning horizon, every time a sourcing action is taken.

In this context, the issue of how often a sourcing strategy should be refreshed – in order to continue to deliver optimally - is an important consideration. After all, business will change and accordingly, the organisation will need to refresh its sourcing strategies and actions - including its vendors and deals, periodically.

Change in business is constant and if an IT strategy is to be fully aligned to the business it will accept that it will need to change on an ongoing basis – it follows therefore that IT sourcing strategies will need to change and evolve throughout the life of the contract. A very good sourcing strategy would embed ongoing improvement and innovation into that sourcing strategy so that it continues to deliver value to the business.

In their book ‘Multisourcing – Moving Beyond Outsourcing to Achieve Growth and Agility’, Gartner’s Linda Cohen and Allie Young state, “The development of sourcing strategy...needs to become coequal with other parts of strategy planning, like operations strategy and IT strategy, rather than an afterthought. The proper sequence of strategy development...requires that sourcing strategies be set as a direct outflow of business strategy.”

4. Evaluating and Selecting “Best-of-breed”

Multisourcing provides resource options. By design, this approach to IT sourcing gives organisations the opportunity to “pick and choose” amongst service providers and select “best-of-breed” sources for IT services in pursuit of optimal business outcomes. However, organisations must make careful and informed sourcing decisions in order to be confident that the service providers they select have the core competencies and proven experience to deliver the desired results. As some service providers may offer a very broad array of competencies and services, one of the ways organisations can differentiate amongst service providers is to assess their capability to deliver under certain standards.

There are several industry standards and best practices that have been widely adopted by IT organisations, including the Information Technology Infrastructure Library (ITIL), Capability Maturity Models (CMMI), CoBIT, Six Sigma, e-Tom and ISO/IEC 20000, to name a few. Organisations, as buyers of service, should be dictating the requisite standards to their supplier community – both internal and external. If, for example, an organisation favours ITIL as a standard, it will want to ensure that all its service providers can operate within an ITIL-compliant environment. This will provide surety of service delivery standards for the organisation’s service delivery clients.

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Effective multisourcing is all about building partnerships. It is very difficult for two organisations with vastly different cultural backgrounds to work well and easily together.

Dimension Data, for example, has a long history in the area of network integration, where it focuses on helping its clients to innovate with their use of networking technology and evolve their technology needs. As a result, the company is very well-suited to organisations that are looking towards a multisourcing strategy, who are looking to advance their technology architecture, move forward quickly and be early adopters of newer technologies. We’re perhaps less suited to organisations who are not focused on moving forward quickly and are looking to stay at the back-end of technology adoption curves. Our maturity model is different to theirs and it is harder to build a partnership in that situation.

The degree of cultural compatibility between client and service provider is also an important consideration. Effective multisourcing is all about building partnerships. It is very difficult for two organisations with vastly different cultural backgrounds to work well and easily together.

5. Delivering and Measuring Results

An obvious question for organisations considering the adoption of a strategic approach to acquiring IT to ask is, “How soon can I expect to see results?” The ability to demonstrate results quickly depends on how well the transition phase is implemented. Any service to be delivered by an external service provider needs to be transitioned from the client in a risk-free fashion, with minimal disruption to business process. Transition is about changing and adapting the business’s IT services from the current, in-house delivery model to one provided by the service provider, ensuring that the client’s business needs are considered every step of the way. The manner in which a transition is undertaken is a reflection of the potential operational delivery experience and much planning is necessary by both parties if this is to succeed.

The initial phase of a transition begins with understanding the current environment, performing the gap analysis against the new service offering and building the change plan, which comprises all the steps necessary to move into operational status. This plan needs to include the four main focus areas throughout the transition process: The client’s business (finance, continuity, legal, security, relationship); people (affected staff, end users and stakeholders); process; and technology. Even with the most seamless of transition processes, it is difficult to show improvements straight away, but this must be balanced with the business’s desire to see results - and often to see results early. An IT sourcing strategy needs to focus on improving the business as quickly as possible, but at the same time, the business needs to accept that some of the bigger savings and benefits will perhaps come at the back end of the contract.

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The next challenge the organisation will typically face is to find ways to effectively measure the success of the partnership and provide proof that it has indeed made the right sourcing decisions. One of the contributory factors in the failure of traditional outsourcing contracts to deliver satisfactorily is the absence of effective measurement tools. All too often the Service Level Agreements (SLAs) that govern these outsourced contracts just measure incidental items that are not related to business outcomes. The
result? The organisation cannot ascertain whether it is getting value for money and is unable to prove to management that it has made a good decision to outsource. In addition, inadequate measurement tools can compromise the organisation’s ability to effectively manage its service providers’ performance. It is therefore critical that in any sourcing strategy the organisation puts in place a more refined set of metrics that provide quantitative measurements which are able to show that the sourcing strategy is working. Metrics should exist on two different levels: Of course you will have technical SLAs, that show whether the network is working and whether infrastructure is up and running and delivering response times that are necessary, but at the same time you need to be developing metrics that sit above that, which measure true business value.

The development of a formal sourcing business case is a practical means to identify the appropriate set of metrics. Ideally, for every sourcing strategy that an organisation creates, it should develop an attendant sourcing business case that underpins that sourcing strategy and defines the outcomes that are expected for every sourcing action taken.

Literally mapping the business expectations to the sourcing actions and documenting these in a business case will provide organisations with the right kind of business performance metrics. Those business performance expectations will flow down into service provider contracts and be specified in the SLAs, along with the technical metrics that are expected.

For example, if you decide to outsource certain services, because you know that they are utilities in today’s market, you are going to expect cost improvement by outsourcing that service. This should be documented in your plan as your expectation of the outcome there, for example, better productivity in a certain application or better performance on the supply chain in a business process outsourcing endeavour. The balanced scorecard method of analysis provides a methodical way for an organisation to align its objectives and monitor its progress on all kinds of business goals. Rather than focusing on past financial performance, this tool also includes human, operational, and strategic indicators. This provides a holistic view, allows managers to better understand the current status of their business and empowers them to make informed predictions about the future. Dimension Data recommends the inclusion of a balanced scorecard as part of the sourcing strategy, to ensure that the strategy is focused in reality and at the same time that it is delivering value against the IT and business strategy. It is important to have a balanced scorecard that looks at elements such as: Am I really achieving true delivery gains for the organisation? Am I truly embedding continuous service improvement? Am I helping IT infrastructure to innovate and change the way the organisation uses IT? Be aware however that the balanced scorecard needs to be evaluated by people other than IT. You cannot allow IT to measure and score all of those metrics. You need to be constantly asking the business for feedback as to whether you are aligned to their business strategy.

6. The Challenge of Vendor Management

Managing multiple parties within any multisourced engagement is always going to present a challenge. Gartner’s Linda Cohen and Allie Young point out that “Multisourcing requires new management approaches that recognize the interdependencies and fluid relationships that are created... In multisourcing, there is a far greater complexity due to the number of parties involved, the interdependencies of providers, and the relationships required to ensure success.”2

ITIL allows for the creation of a standard service definition and services catalogue and provides a mechanism for managing processes and managing the hand-off between multiple organisations.

By ensuring that a number of basics are put in place, these challenges can be mitigated. Organisations must develop a governance process framework which is applied to all the organisation’s sources of supply so that all parties operate in similar ways and provides rules and guidelines, for example, around reporting, auditing or benchmarking. This does not imply that the organisation tells vendors how to execute or how it wants them to deliver service, but rather it provides guidelines to ensure that all parties operate in a seamless and cohesive way and know what is expected of them.

Some of the standards in the marketplace, like ITIL, can be useful in establishing a common language or taxonomy to ensure that all parties understand one another. ITIL allows for the creation of a standard service definition and services catalogue and provides a mechanism for managing processes and managing the handoff between multiple organisations.

The importance of putting in place the right metrics again comes into play in the context of vendor management. It is critical to apply a common set of business metrics across all vendors to ensure that they are all focused on the one end goal - which ultimately is delivering value to the end IT organisation: Without this consistency,

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it is very easy for relationships to become siloed or for ‘stovepipes’ to develop. If this happens, it is difficult to deliver seamless end-to-end service and there will be a lot of finger-pointing between the individual service providers.

7. How New Sourcing Approaches Impact Client / Supplier Relationships

How can an organisation expect the adoption of a multisourcing procurement model to impact its relationships with its service providers? Are greater levels of trust being established? Is more value being delivered? In traditional client / supplier relationships, organisations often view the service provider with suspicion and a lack of trust exists between the two parties, which can jeopardise the success of the overall engagement.

When adopting a multisourcing model, the development of a “partnership” relationship between client and supplier, based on trust and focused on mutual business outcomes, is key to the success of the contract. Perhaps the greatest change that multisourcing strategies will drive in our industry is the move away from a traditional client / supplier relationship – where each organisation has a different set of goals and outcomes that they are trying to deliver against, to a partnership relationship where both organisations are focusing on the same end goal, which is to deliver business value to the client organisation. Dimension Datat’s view is that this style of partnership requires a significant change in the way the two organisations work with each other and mandates greater levels of maturity in the way they interact. Trust and transparency are critical elements of this process. Clients and service providers need to move away from models based on list pricing and hidden margins to a much more open and transparent construction of the service. You need dialogue around the value that needs to be delivered and we must ensure that the metrics provide a win-win situation for both parties. The service provider needs to be focused on the client’s end-user business goal, while at the same time the client needs to build an environment that allows the service provider to be successful in delivering that service cost-effectively.

Taking a new, more strategic approach to sourcing therefore requires that organisations adopt a very different view as to how they value and manage vendors. They can no longer look at these engagements as transactions. In a long-term outsourcing relationship, you are establishing just that – a relationship between two parties. It is also important to constantly realign the purpose of the deal and the expectations between the buyer and seller. Both parties have to think about – at least annually – whether they have the right relationship, whether they are aligned in that relationship, in other words, why they are still in that relationship together? The original reasons for entering into a deal may no longer serve either of the two parties two to three years down the road. If a vendor entered into the deal originally to access a new market, two to three years later they may no longer be in that market; they may have found other avenues for revenue improvement or may have decided to focus on other industries. On the buyer’s side, they may have got into the deal for cost improvement, but three years later, their business is growing dramatically and now they need a deal that instead delivers scalability and agility.

8. Internal Competencies You Need to Make Multisourcing Work

Multisourcing requires that organisations shift their focus in terms of the roles and responsibilities that manage the sourcing environment. Multisourcing drives a lot of change within an organisation and that involves many skills and competencies that perhaps did not exist in the past.

There are essentially two new types of competencies – demand management and relationship management – necessary to manage multisourcing. When services were supplied internally, organisations could focus on becoming the most competent source of supply. In other words, service management excellence was really their focus. However, once they have outsourced these functions, they tend to focus instead on demand management competencies. This means being out there with the business, constantly looking at what they are going to need, how much they are going to need and how fast they are going to need it. Shifting from supply management competencies to demand management competencies is therefore critical.

The need to shift to relationship management competencies and roles is equally important:Organisations are going to have to appoint people responsible for relationship management at two levels: Relationships with external business clients as well as relationship management with vendors. According to Gartner’s Linda Cohen and Allie Young, one of the initial tasks of the governance of multisourcing is putting in place appropriately-skilled individuals: “Finding personnel with the right mix of competencies should be one of your first priorities...If there aren’t appropriate internal personnel, you’ll need to hire these skills.”

Organisations that support IT infrastructure are often very technically-heavy – in other words, they comprise individuals that understand the technology but lack the skill sets in building and measuring relationships with suppliers and structuring the Operating Level Agreements (OLAs) that are required to make multisourcing successful. It is important that organisations identify those new skill sets and build the open and transparent relationships with their suppliers, perhaps tipping the balance away from technical skills to more operational and business competencies within the IT organisation.

9. Is a Multisourcing Approach Right for You?

Clearly, the change imperatives associated with adopting a multisourcing approach present IT organisations with certain challenges. This begs the questions: Should everyone be thinking of strategically sourcing IT or adopting a multisourcing strategy? Who shouldn’t? What are the signs that an organisation is at the right point to change?

While all organisations must consider developing a sourcing strategy, not every organisation is ready for Multisourcing. Multisourcing requires a lot of competency which is not innate in IT organisations today. Being given the opportunity to ‘prepare’ for multisourcing would be ideal, but in fact most organisations are not afforded the time or luxury of investment necessary to get ready for multisourcing – in fact most ‘happen’ into it. Multisourcing requires a better process for deciding how many vendors are right for the organisation. You have to consider how many vendors you are really ready to handle. In some cases, for instance, the organisation will utilise a prime contractor over a group of sub-contractors in order to learn how to manage multiple vendors. The organisation will be able to learn from the construct of that deal and the competency that the prime contractor provides, how best to manage relationships with service providers.

When opting to work with multiple vendors, the internal organisation has to act as its own general contractor, managing the supply of a multitude of vendors. It must then create new processes and even adopt new skills in managing the multiple vendor alliances and the multiple resourced operation. Here, the organisation will need to scrutinise its internal resources closely, take a step back and consider whether it has the right people profiled into the position of managing multiple providers, or even managing service providers at all.

A certain level of maturity is required in order to manage a multisourcing strategy. This includes a maturity to build partnerships and put in place the appropriate governance and metrics necessary to make those partnerships successful.

10. Conclusion

Multisourcing is not simply outsourcing improved. Nor is it a short term “quick-fix”. Multisourcing is a strategy and an ongoing process that requires that businesses revolutionise their approach to IT sourcing. It calls for a new mindset and the development of frameworks for interacting and managing service relationships, both internal and external to the organisation. However, as long as an organisation is prepared to apply the right level of discipline and is able to develop the requisite internal capabilities, then a multisourcing strategy has the potential to deliver dramatic increases in IT value delivery, along with impressive bottom-line results.