

View Point



From Outsourcing Projects to Strategic Relationships

Converting Short-term IT Services Projects into Long-Term Multi-Year Strategic Relationships

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Overview

Organizations typically initiate their global sourcing efforts by selecting a small part of their ADM projects to be undertaken from offshore locations. Gradually, they increase the offshore component of such projects as they get more and more comfortable with the global sourcing concept. Over time, a large part of the support for such projects gets moved to offshore locations. This process of identifying projects, determining global sourcing vendors and their roles gets reviewed year after year during the annual IT budgeting cycle. Benefits from these efforts are realized and organizations tend to remain content with this process

Few organizations are able to leap from this short term project view into assessing how they could truly leverage the benefits of global sourcing and build capabilities in partnership with their vendors. Perhaps the most mutually beneficial approach to this is by looking beyond annual agreements with vendors and evolving these into multi-year strategic relationships with selected partners. This provides incentives for vendors to invest the knowledge gained through the relationship back into the client. It also pushes them to devise richer ideas that bring about sustainable improvements and business results.

Introduction

Project-level IT outsourcing is based on assumptions that were valid in the past, but are questionable today. A project approach to outsourcing assumes that the overall level of outsourcing in an organization is low, and therefore, no substantial benefits can be derived from scale. This piecemeal approach also focuses on cost management rather than integration and joint development of capabilities. Both these assumptions, lack of scale and lack of strategic intent, are becoming increasingly irrelevant. Outsourcing has become a strategic imperative that flows from a vision at the highest levels of an organization. Consequently, outsourcing has become a common tool to increase an organizations productivity, flexibility and quality.

The project approach provides a worm's eye view to a bird's eye initiative. In order to address this mismatch of operational scale management of strategic scale plans, there is a need for consolidation of projects under a unified governance framework that takes a long term, multi-year view of the outsourcing initiative.

Benefits of Multi-Year Strategic Relationships

Multi-year strategic relationships could provide a number of benefits which are otherwise difficult to bake into agreements that cover a short timeframe of a project or a year. A well articulated multi-year agreement could, for instance, help realize many of the following benefits:

- Better assessment of capabilities needed for organizations to become world-class in sourcing
- A predictable (yet flexible) way to build these capabilities – through SLAs on various parameters
- Year-on-year improvements in many of these SLAs – on productivity, cost, quality, etc.
- Simplification, standardization, re-engineering and transformation of processes / activities
- Vendor investments and sharing of business risks / rewards – signs of a true partnership

The Roadmap towards Developing Multi-Year Strategic Relationships

To build long-term relationships, the organizations must take a strategic view towards sourcing and follow a structured approach covering the following phases:

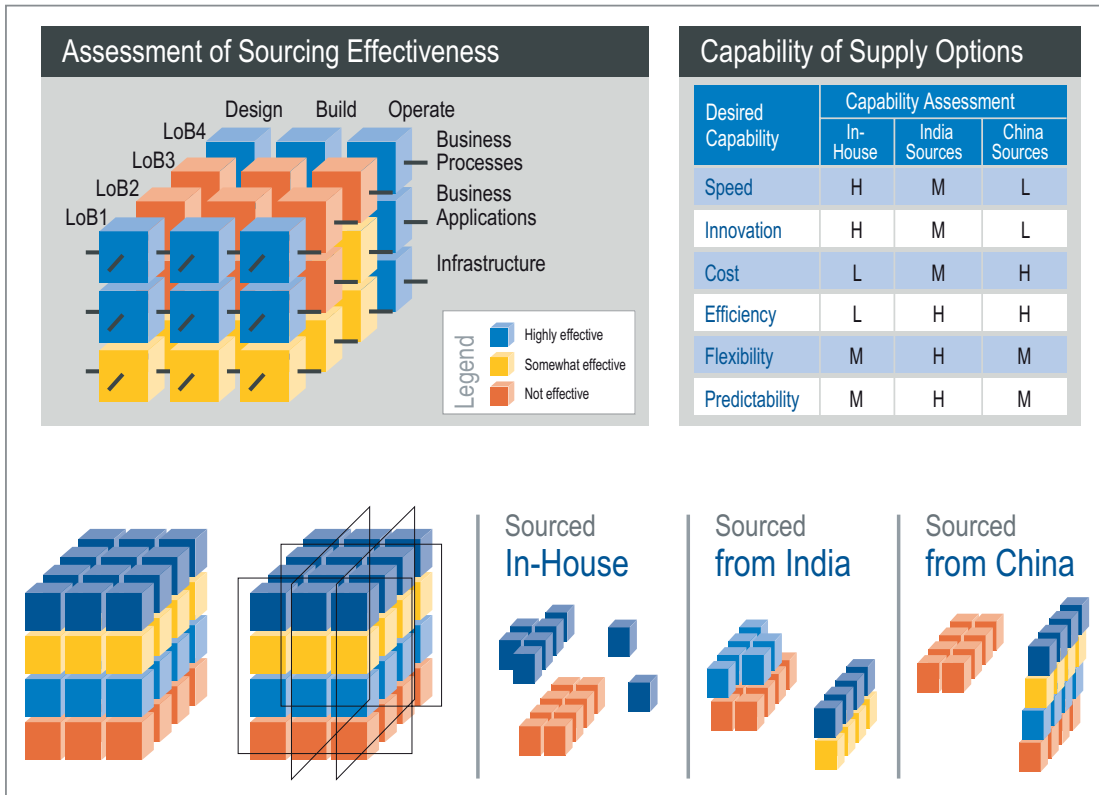
Phase 1	Assessing sourcing capabilities to be built through relationships	<ul style="list-style-type: none">§ A metric-based assessment of current sourcing effectiveness§ Defining the future state of sourcing - a detailed plan on how the organization can have access to world class capabilities§ Identification of key capabilities to be built on various dimensions of the global sourcing program
Phase 2	Structuring the portfolio to be sourced in a modular fashion	<ul style="list-style-type: none">§ Structuring the sourcing portfolio: identifying what would be in-sourced, out-sourced and co-sourced - if the organization has to build world-class capabilities§ Splitting (optimally) the global sourcing portfolio among shortlisted partners - to help build these capabilities and balance with internal capabilities
Phase 3	Identifying and developing specific relationships and agreements with each of the partners	<ul style="list-style-type: none">§ Identifying SLAs with each partner on various global sourcing dimensions§ Identifying OLAs (Operational Level Agreements) for contractual interactions between vendors§ Agreeing on the SLAs and OLAs with each partner

Phase 1:

Assessing sourcing capabilities to be built through relationships

Before going down the path of multi-year relationships, organizations should have an honest assessment of their sourcing capabilities and how they compare with the leaders. It is critical that they have a clear vision of their desired future state and a roadmap of how to get there. A metric-based assessment of sourcing effectiveness (both current and desired) provides a very good indicator of the various capabilities that global sourcing can help enable. These capabilities include – but are not restricted to - parameters such as cost, efficiency, predictability, flexibility, innovation, speed, quality, measurement etc.

In addition, a future looking global sourcing strategy should also cover various aspects of a global sourcing program. These will help identify specific capabilities that need to be built while working with various sourcing partners.

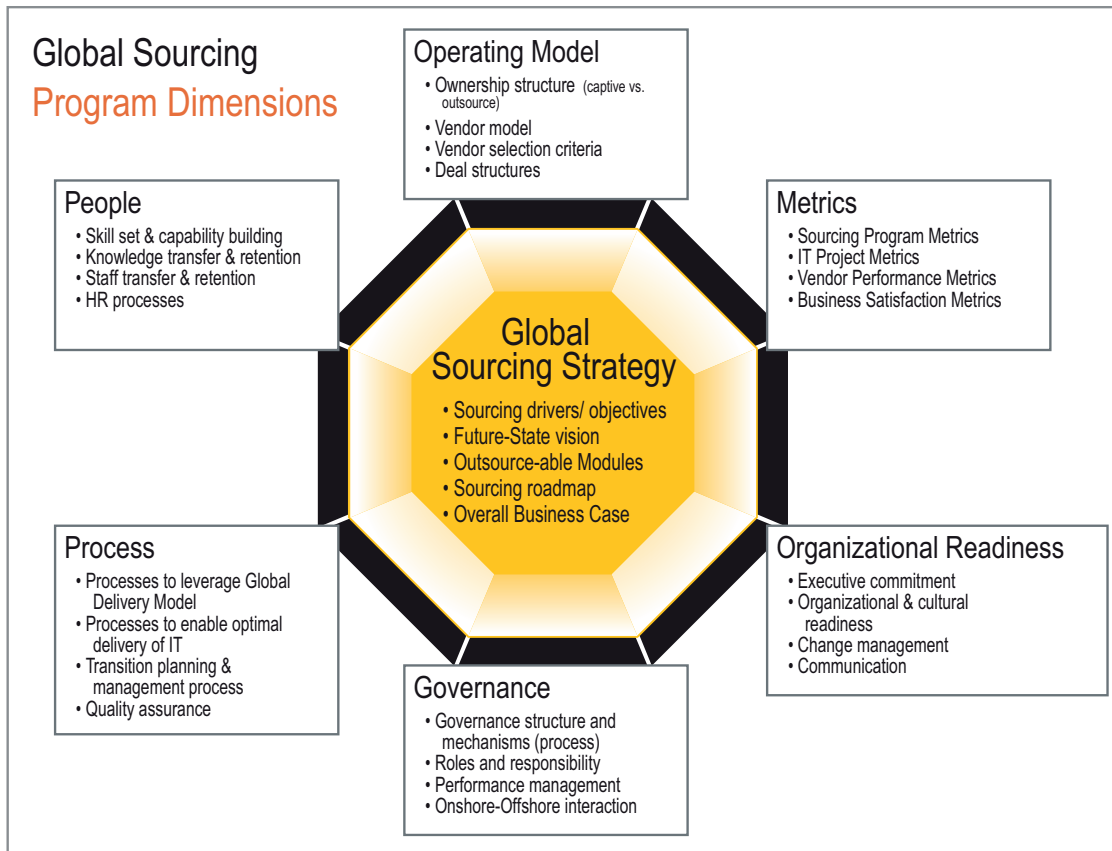


Phase 2:

Structuring the portfolio to be sourced in a modular fashion

A metric-based assessment across the enterprise-wide sourcing landscape (applications, infrastructure and processes) provides a good indication of areas where capabilities have to be developed. This, taken in conjunction with the capabilities of various sourcing options available (in-house and partners), helps identify the portfolio that needs to be sourced from various partners.

Other key determinants of this structuring across partners would be the timeframes within which they could provide these capabilities as also the desired commercial terms and conditions. These need to be factored into the process by which the future state sourcing vision is achieved and the desired portfolio of capabilities is built out by each of the partners.



Phase 3:

Identifying and developing specific relationships and agreements with each of the partners

In this phase, the focus is on identifying realistic yet stretch targets on various aspects that could be incorporated into the contractual agreements with the partner. These would include desired SLAs on various parameters (cost, productivity, quality, etc.) and also the year-on-year improvements expected on them. In most cases, it may be necessary to revisit existing Master Service Agreements (MSAs) that may exist – since existing contracts may not cover many of the parameters and improvements desired. This would also help elevate the partnership to new levels.

Furthermore, in a multi-vendor situation, it may be necessary to identify Operational Level Agreements (OLAs) needed for any contractual interactions between vendors. These would help all partners collaborate towards realizing future state sourcing capabilities and vision.

Conclusion

Multi-year SLA-based strategic relationships are a win-win arrangement for service providers and their clients. The longer-term view provides companies with the means to build or access world class capabilities, while providing strong incentives for the service providers to make investments that translate into improved productivity, costs, time and quality for their clients. This approach enables both parties to leverage the full benefits of global sourcing.

About the Authors:

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