



Outsource Portfolio



Multisourcing: A truly global outsourcing delivery

Outsourcing and offshoring business processes and IT functions in particular is no longer a simple matter of choosing between a couple of providers with locations in India or Ireland. The emergence of so many new providers with different sets of capabilities along with numerous potential offshore, nearshore and even homeshore locations has created a new complex global delivery paradigm known as multisourcing.

1. Growth of Multisourcing

Multisourcing is defined simply as the disciplined provisioning and blending of business services (often IT related) in order to find the optimal set of both internal and external service providers. As a strategy, multisourcing treats every functional area as a portfolio of specific activities, some of which are then outsourced to third party providers while other activities are continued to be performed by in-house staff. Likewise, so-called multishoring or the use of multiple offshore, nearshore or homeshore locations can easily be considered an offshoot or very much a key component of any multisourcing strategy.

Although [Gartner](#) first introduced the term of multisourcing back in 2005, it has existed in some form since the 1980s. In fact, the ability to multisource first began with IBM's competitors offering alternatives to their datacenter products, this trend encouraged IT, and other organizations to increasingly consider multiple providers to manage their data centers or IT help desks.

Nevertheless, multisourcing and outsourcing in general was a relatively simple process during these early days. Often the outsourcing vendor would simply hire the client's displaced staff and cost savings came in the form of efficiency gains from the centralizing of particular functions or processes that were being outsourced.

Over time however, the simple outsourcing and subsequent multisourcing model grew more complicated as the offshoring model began to emerge. Initially, the offshore model was simple enough as the work was simply outsourced by the outsourcing vendor to large IT centers in low cost locations like Ireland or India. This led to more significant cost savings but as wage inflation and attrition rates began to rise in these locations, new providers and new countries entered the picture as potential outsourcing partners and offshore locations.

Hence, companies no longer faced a simple vendor A verses vendor B verses vendor C or an Ireland verses India decision. Instead, they faced a decision between several vendors with operations in offshore, nearshore and homeshore locations. Thus, a large and complex multinational organization could now choose a combination of vendors with different capabilities to homeshore sensitive IT work for IP reasons, nearshore business processes requiring Spanish language skills or open source IT work to Latin America, nearshore analytics or complex financial modeling work to Eastern Europe and offshore general IT helpdesk work to India. In essence, multisourcing now offers a large and complex organization a full global outsourcing delivery model.

2. The Basic Benefits of Multisourcing

Such a global delivery model offers an array of potential benefits if implemented correctly. Multisourcing offers an organization superior flexibility and greater adaptability when choosing sourcing solutions. In addition, multisourcing allows an organization to objectively compare their internal shared services arms with external third party vendors. Thus, a larger resource pool is tapped and competition is initiated between providers to deliver the highest service quality for the best possible price.

Furthermore, with the tradition outsourcing approach of utilizing one service vendor, there is always the risk that quality will deteriorate over time. Given the high costs associated with switching vendors and the subsequent loss of institutional knowledge after any switch, significant risks are associated with having all of your processes and projects tied up with one vendor. In the

same manner, having a vendor who sends all of work to one or two offshore locations that may be considered unstable poses significant risks to an organization. However, a successful multisourcing strategy can significantly reduce all of the risks associated with traditional outsourcing and have the added benefit of increasing operational efficiency.

3. Organizational Readiness is Critical for Success

However, the multisourcing model is complex to implement and its success will partially depend upon an organization's position on an outsourcing maturity curve. An organization's outsourcing maturity curve begins with staff augmentation and progresses toward out-tasking, then process outsourcing and finally outsourcing portfolio management. In this final stage, an organization that has successfully outsourced individual tasks or processes in the past must also have the skills and capabilities to manage multiple service vendors.

Given how critical this is, many companies have gone so far as to create a Chief Outsourcing Officer type of position with the person in the role having a direct or dotted line reporting relationship to the Chief Operating Officer (COO), Chief Financial Officer (CFO) or even the organization's Chief Executive Officer (CEO) or Chairman. This person then acts as the key point of contact between the organization and all of the outsourcing vendors.



4. Implementing a Multisourcing Strategy

Once an organization has reached the appropriate maturity level and is ready for a multisourcing strategy, planning for and implementing a well planned strategy will be the critical key to success.

The multisourcing strategy is a general outsourcing framework, consists of:

- Organizational Readiness
- Vendor Selection
- Contract Negotiation
- Project Planning
- Transition Management
- Metrics Tracking

Each of these phases has its own collective set of goals and challenges that will be critical to the overall success of a multisourcing strategy:

4.1. Organizational Readiness

Implementing any outsourcing strategy, especially one that involves multiple vendors and locations, will significantly impact the departments whose processes and tasks are being outsourced and the [organization as a whole](#). Hence, it is critical that everyone within the organization understands the objectives and goals to be achieved and that they are completely onboard. Moreover, if the work that will be outsourced via a multisourcing strategy is IT related or involves another critical day-to-day function that impacts everyone within the organization, communicating goals and objectives and having input from deep within the organization will be all the more critical to overall success.

Furthermore, it will be critical to identify which set of tasks, processes or projects are suitable for outsourcing via a multisourcing portfolio strategy by conducting a careful and detailed portfolio analysis. Not all programs are suitable for outsourcing or for that matter, outsourcing through the use of a multisourcing strategy. Likewise, making a decision simply based upon ROI analysis may not be enough as something that looks good on paper may, in reality, turn into a nightmare to implement with the cost savings not worth the effort. In addition, a careful portfolio analysis must identify which processes or projects depend upon other processes or projects and which do not in order to avoid delays and additional unforeseen costs.

4.2. Vendor Selection

When it comes time for the outsourcing vendor selection process, careful due diligence is required by the organization to understand the capabilities of potential vendors and for vendors to thoroughly understand the needs and expectations of the client organization. Potential outsourcing vendors should be able to offer customized solutions to fit the needs of complex and unique client organizations as well as practice what they preach. In other words, they should have global best practices already in place. Furthermore, potential vendors should have the appropriate domain experience and expertise in the targeted areas for outsourcing and be able to deliver economies of scale in these given area.

4.3. Contract Negotiation

[Contracts or services agreements](#) need to be more complex when utilizing a multisourcing strategy as the actions or inactions of one outsourcing vendor may interrupt or delay the actions of another vendor. Hence, during the vendor selection process it is important to identify the strengths and weaknesses of potential vendors and to identify potential dependencies that could delay the entire process should something go wrong. Likewise, it is important to spell out clearly in any agreement which party is held accountable for any delay.

4.4. Project Planning

Once vendors have been selected and contracts are signed, careful planning of all phases of the engagement process, in other words a “roadmap,” will be necessary along with the creation of detailed requirements documentation. More importantly, contingency plans will need to be prepared in the event of a delay involving one vendor or project impacting the work of other vendors or work on other implementation projects. These contingency plans should also take into account additional costs that are associated with any potential delays.

4.5. Transition Management

Once the actual work begins, project status, milestones and deliverable must be consistently tracked and updated. It is during this phase that having one person (i.e. a “Chief Outsourcing Officer”) who is in contact with all vendors along with a steering committee consisting of key stakeholders from the organization and the vendor is critical.

Furthermore, it will generally make more sense to outsource the least business critical and the least complex processes or projects during the first implementation phases before moving on to the more mission critical processes or projects – in other words, a “wave” strategy. Such a wave strategy will limit any risk associated with a lack of domain knowledge by one of the vendors that may have been identified or missed during the vendor selection process.

4.6. Project Governance & Risk Mitigation

Finally, organizations must have methodology for project governance that takes into account performance, financial, contract, relationship and resource management. Such a methodology acts as a “health checkup” on the outsourcing agreement to ensure that goals and contractual obligations are still being met. Furthermore, an independent program management office (PMO) type of group can also be engaged as the project governance team to monitor all of the outsourcing projects for any deviations from stated objectives or contractual agreements.

Irrespective of all the best efforts both by the organization and outsource vendors, several issues will arise in the projects. Both the organization PMO office and the outsource vendor management must adopt proper [risk mitigation strategies](#) to deal with the issues and resolve it in a timely manner.

4.7. Potential Risks and Pitfalls

Although a [multisourcing strategy](#) offers less risk and fewer pitfalls than the traditional outsourcing model of using one provider, it is not a perfect solution. In fact, there are still potential pitfalls and added costs associated with a multisourcing approach. For starters, there is always the possibility that both the organization and the vendor will under-invest in the assets necessary for the strategy to work or in the relationship aspects of the arrangement. After all, neither is the client nor the outsourcing vendors completely dependent upon each other.

Moreover, using multiple vendors may limit their capacity to use their economies of scale to achieve significant cost savings for the organization. Furthermore, there is inevitably larger management overhead costs associated with managing and monitoring multiple vendors while managerial turnover on the client side can in fact make it more difficult to switch vendors or to shift work between vendors.

4.8. Conclusion

Nevertheless, successfully implementing a multisourcing strategy will still depend upon the maturity level and capabilities of the organization seeking to pursue it and how well the implementation process is planned and then implemented and monitored. A successful implementation will not only save the organization money but it will also reduce the traditional risks associated with outsourcing and improve overall operational efficiency. Thus, multisourcing is an improvement over the traditional outsourcing model and offers a truly global delivery approach to complex multinational organizations.

Disclaimer

This publication is provided “AS-IS”. The author(S) and the publisher (OutsourcePortfolio, its affiliates, partners, and its related entities) will assume No liability or responsibility to any person or entity with respect to any loss or damage related directly or indirectly to the information provided in this publication. No warranties of any kind, express or implied, are made, the publisher will provide no remedy for indirect, consequential, punitive or incidental damages arising from this publication, including such from negligence, strict liability, or breach of warranty or contract, event after notice of the possibility of such damages. This publication is not a substitute for professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. The publisher shall not be responsible for any loss sustained by any person who relies on this publication. Your use of the information is at your own risk and you assume full responsibility and risk of loss resulting from the use thereof. The publisher will not be liable for any direct, indirect, special, incidental, consequential, or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without imitation, negligence), or otherwise, relating to the use of the information.

If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

Copyright

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying or otherwise without the written permission of OutsourcePortfolio

Copyright © 2009 OutsourcePortfolio.com. All rights reserved

About OutsourcePortfolio

OutsourcePortfolio is a fully owned entity of Cybelink Systems, Inc. The primary focus of OutsourcePortfolio is to publish news, blogs, and research articles pertinent to outsource industry. For the past several months, OutsourcePortfolio has collaborated with several organizations, professionals, and bloggers working in outsource industry to bring in latest research articles to our readers.

For more information contact

5786 Blackshire Path

Inver Grove Heights

MN 55706

USA

www.outsourceportfolio.com

info@outsourceportfolio.com

