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Multi-Sourcing From Best-of-Breed Providers: Perspectives for BPO

Outsourcing to a single vendor used to make perfect business sense, and in many cases it still does. However, the rise in offshoring has started to change that model, and now Multi-Sourcing from best of breed providers is becoming another viable option. Find out when Multi-Sourcing could make sense for your business.

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Introduction:

Traditionally, large organizations have favored outsourcing their IT and Business Processes to a single vendor that has the capability to provide a large number of key services. This practice served to reduce overall management effort and provided a single window interface for procurement divisions. However, with the advent of offshoring, this practice is changing. Sourcing services from offshore locations is more demanding because the risk variables are more dynamic. Distinctions between offshore vendors are significant, not only in terms of their capability and maturity, but also their approach to the onshore-offshore model, HR, Pricing strategy, and Governance. This scenario makes it difficult for buyers to make a choice between selecting a single vendor and dividing the work among two or more vendors.

In this paper, we attempt to answer the following question: What is the best practice for sourcing business processes from an offshore location? To distribute work among multiple vendors or source from a single vendor? In order to answer this we will explore the dynamics of multisourcing and the characteristics of best of breed vendors, the pros and cons of multi-sourcing and the experience of some of the early pioneers with multi-sourcing from Best of Breed providers.

What is Multi-Sourcing From Best of Breed?

Multi-Sourcing is the practice of distributing work to more than one vendor based on a scientific assessment of their capabilities and risk-benefit analysis. Multi-Sourcing from Best of Breed takes this concept one step further and attempts to source from the best out there. This is a very different concept from the prevalent practice of outsourcing to the largest player or the favorite vendor. As offshoring becomes mainstream, organizations evaluating outsourcing have more choices. These include -

The choice to hire resources at lower cost,

- Choice of Scale
- Choice of delivery locations
- Choice of contracting models
- Choice of exploring newer models of delivery
- And Choice of timing

Does every contract need to be sourced from multiple vendors, you might ask? Definitely not! The merits and disadvantages of multi-sourcing depend solely on what is at stake. If you are trying to source \$100 Million worth of services, you better ensure that you have evaluated Multi-Sourcing

with a Best of Breed Vendor model. However, if you are outsourcing a \$100,000 stand-alone project, then going with a preferred vendor may still be a good choice.

The primary reasons for outsourcing are cost and core competency focus. All companies outsource to reduce cost and to continue building on their core competency. The premise behind the Multi-Sourcing model is that the offshore market has brought forth a set of new options that were clearly not available with domestic sourcing.

Before we discuss challenges with multi-sourcing and how you might make the decision to implement it in your company, let us look at what a Best of Breed Provider means.

Best of Breed Providers – Is there something like that at all?

Is the Best of Breed provider the one that offers you good service at an acceptable price? The answer is “Yes” and “No”. Best of Breed providers are the ones that offer an innovative solution that you would otherwise not be able to get in the market. The reason why a Best of Breed provider is able to offer a unique service may be due to deep knowledge they have about your business which no other player can match. Their value could also come from a process or methodology that allows them to provide excellent service at lower cost, lesser time or decreased risk.

One company that we interviewed defines their Best of Breed provider as someone who *“provides services that solves specific business problems by offering superior product quality and deeper functionality than their less-specialized competitors do”*. Another simply says that a Best of Breed is simply the *“one that fits our requirement over a long term”*.

We believe that the simplest way to identify a Best of Breed company is one that **innovates constantly**. A Best of Breed vendor is able to leverage technology, harness the innovation quotient of its employees and constantly evolve to offer customers better and improved services.

Take the example of **ADP** (NYSE:ADP), a company that is the worldwide leader in payroll and employee benefits administration, with more than 46,000 associates, \$ 8.8 Billion in revenues and more than 590,000 clients in over 31 countries.

Today, ADP services 1-in-6 private sector workers in the US, has some of the highest margins in the industry, and is acknowledged as an industry leader. A closer look at what they have done consistently well is insightful. ADP understands that innovation is key, and invests significantly in technology R&D. ADP’s proprietary platforms, including TotalSource, GlobalView and others, provide ADP with the edge that keeps it ahead of its competitors. In order to leverage the benefits of scale and integrated delivery, ADP introduced the concept of “Smartshore Centers”, a centralized environment that services multiple clients, business lines and product solutions under one roof. ADP additionally opened delivery centers in Hyderabad (India), Prague (Czech Republic) and Halifax (Canada), to leverage the benefits of lower costs, regional servicing and better scale. Its technology platforms provide a great combination of an automated solution that integrates payroll, benefits and related administration, compliance, and employee call center support. This is a combination that competitors find hard to match.

Challenges with Multi-Sourcing From Best of Breed:

- a) **Convenience vs. Risk of Stagnation:** The convenience of outsourcing to a single vendor is definitely great. Large players have always been providers of comfort. As technology became more complicated and grew at break-neck speed, buyers felt safer choosing the biggest. As the old adage went: “No manager ever got fired for buying IBM!” A single vendor reduces the hassle of managing multiple relationships, operational processes and resources. A single vendor approach offers a more substantial relationship with one provider in lieu of minimal relationships with many. However it does increase the risk of stagnation. As part of a poll about the challenges with offshoring of services, we interviewed procurement and sourcing managers in 25 organizations. More than use a single vendor, respondents reported that their biggest worry was the huge cost difference between onsite and offshore price for services that they are currently getting from existing vendors. A related feedback was that they believed that their current contracts did not offer them any flexibility in line with changes in the market. (see chart below).

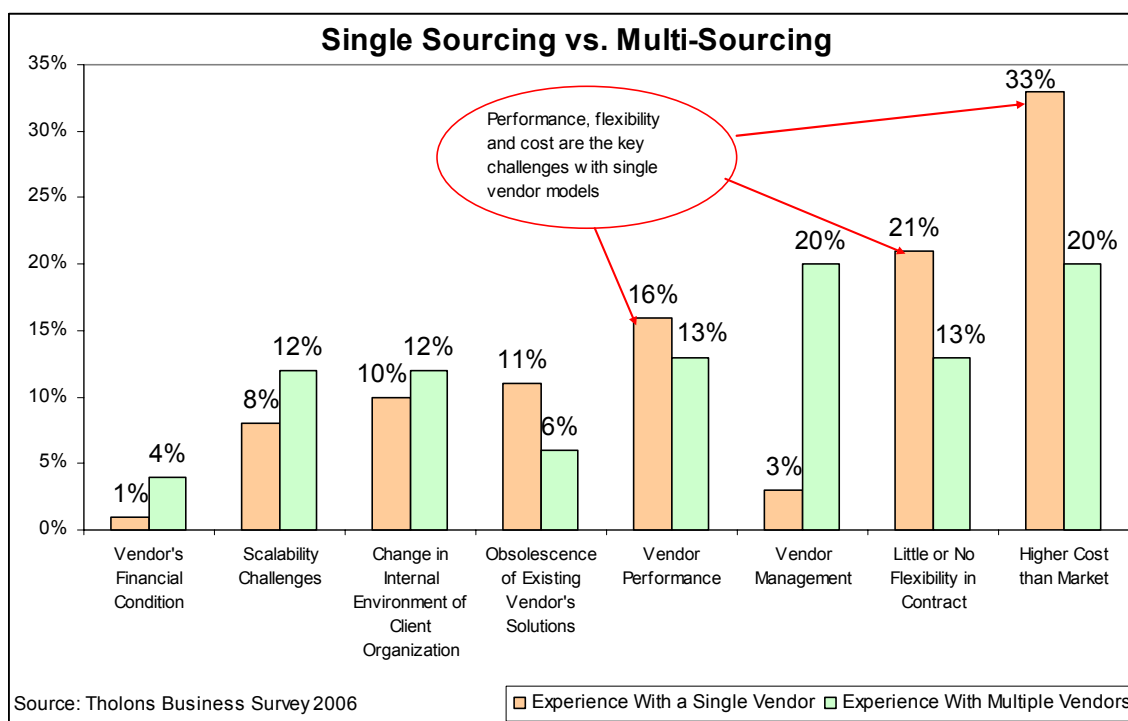


Figure 1: Reasons for Changing an Existing Vendor

Inflexibility translates to stagnation when your own business grows and expands into new areas but the solution provided by your vendor does not keep up with this change. As a result your company will be faced with reduced productivity, higher costs and lessened ability to innovate.

- b) **Risk Aversion:** When you are outsourcing a large and complex portfolio and you are doing it for the first time, it is wiser to adopt a multi-vendor model. A single-source provider makes sense if the service solution you want is already mature and has been refined in the marketplace. When it comes to using multiple offshore vendors, the risk is greatly increased due to the relatively lower maturity of these markets. Since the returns are much more

significant compared to domestic sourcing, this poses a dilemma for organizations – Go with a higher return but with a higher risk or be content with a lower risk and return. Such organizations typically tend to take a risk averse position – i.e. source the simplest work from a single large vendor. As a result, organizations often forgo the opportunity to reduce costs and improve scalability of valuable resources. This ends up hurting them strategically, since their competitors will most likely have leveraged offshore outsourcing by then. One case in point is that of a large US Insurance company that first started offshoring in 1998. It outsourced to a large Tier I vendor in India and started with about 75 people. Three years later they attempted to scale up the relationship with the vendor and also introduce new processes. However, the vendor did not have the necessary expertise and the client had to abandon the expansion exercise. In 2003, they again attempted to approach the market. They floated an RFP to select three – four new vendors. During the time of the bid walk-through they discovered that the vendors present were really not interested at what was being offered in terms of the nature of work. This was based on the perception that the bulk of the work was not available because the incumbent vendor already had the best part of the portfolio. Therefore, the solution and billing rate submitted were not the most competitive, which again prompted the client to abandon the exercise. In this case, the client did not have a clear strategy for distributing the right type of work and was again looking for a single vendor to meet all the requirements.

- c) **Finding Best of Breed Vendors:** The biggest challenge that buyers face when they are sourcing is finding out who the Best of Breed vendors are for a particular type of work and then being able to evaluate and compare them to their existing vendors. Since the offshore market is not as mature as the domestic vendor market, very few offshore vendors have the necessary capabilities and scale to handle all of the work. As such, it becomes imperative to distribute work based on specific expertise. However, simply distributing work to the vendor that has the most experience may not be the best option. Take the case of a very large technology client from the US that outsourced its Level 3 Customer Support to a large Tier I vendor with basic expertise in call center work. Even though this vendor had the necessary scale and domain knowledge, the client very quickly found that the quality of the call agents were not on par with the client's own internal team. Additionally, they had no way of moving some Level 2 support offshore since they were already facing too many challenges with Level 3 work with no option of a second vendor. The client is still evaluating other options.

The best way of identifying Best of Breed vendors is by talking to people who know the local market very well and can help with the identification and selection of vendors and de-risking of the whole process.

Experiences with Multi-Sourcing from Best of Breed –

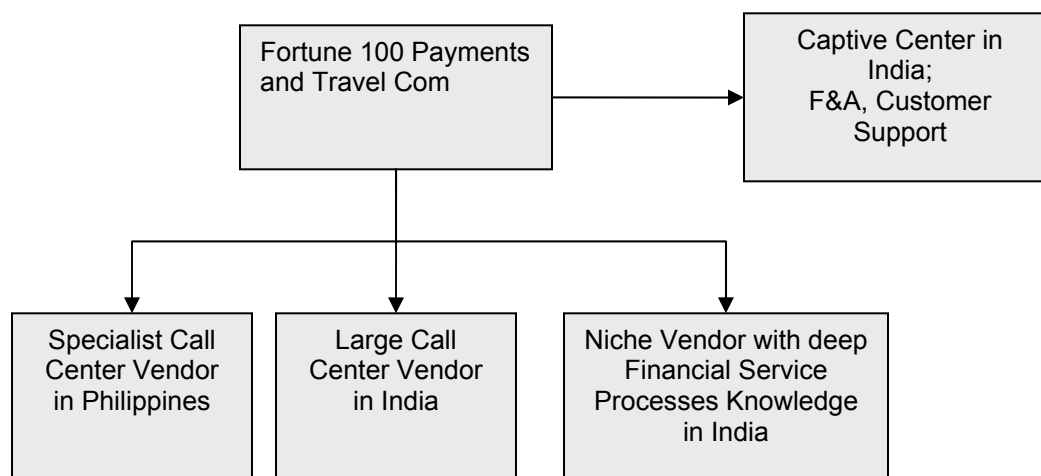
We studied the experience of two large Fortune 100 companies that employed Multi-Sourcing models at offshore locations. Both these organizations were early adopters of offshoring and were willing to experiment with different models. Their offshore models have evolved over time and are currently providing value over and above just cost and quality considerations.

Case 1: Fortune 100 Payments and Travel Company

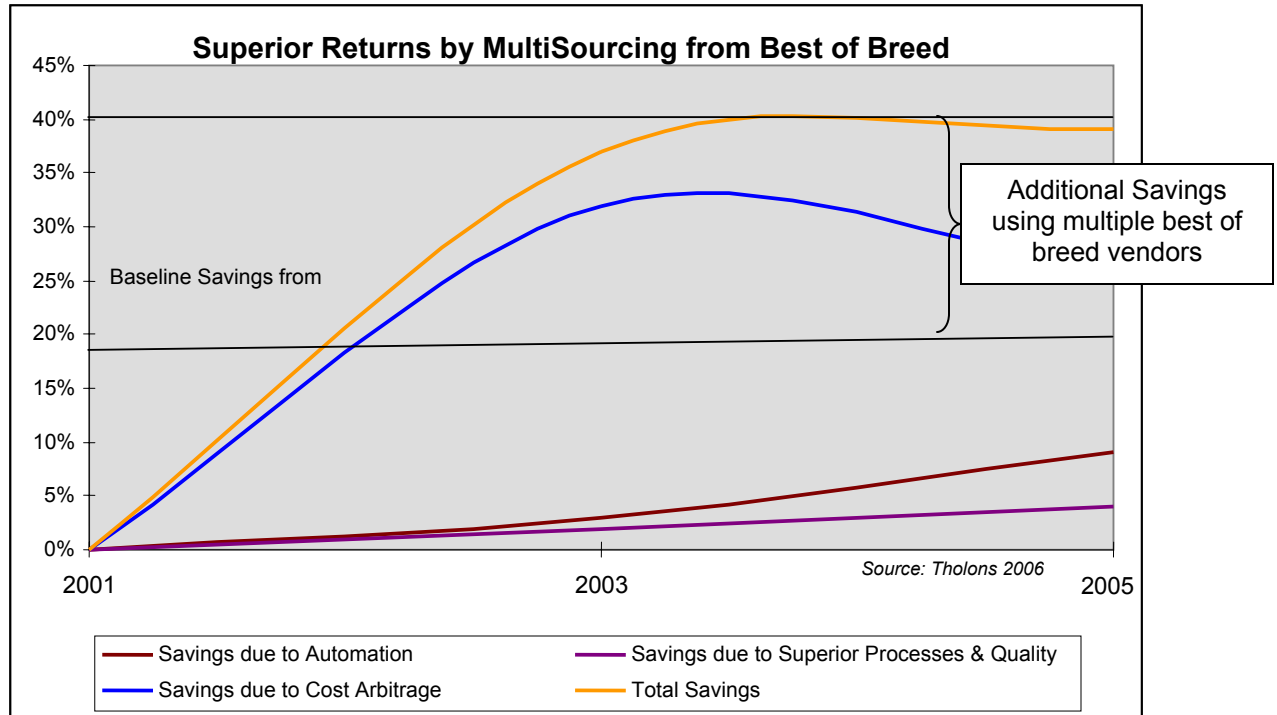
In 2001, a Fortune 100 payments and travel company from the US was exploring ways to leverage low cost locations such as India and Philippines for a host of customer services including inbound customer support, outbound sales, accounts payable, accounts receivable, and collections. The total scope of work was around 500 resources to start with, with the probability of scaling up to 1500 resources within three years. At that time, the BPO industry in India and Philippines was in a nascent stage. The evaluation criteria included –

- Deep domain knowledge about the client’s business
- Proven automated processes that would reduce the unit cost of transaction over the long term
- Acceptance of a fixed price contract with significant productivity factors built in to the service levels.
- Capability and willingness to partner with client to jointly develop IP

Based on a comprehensive evaluation of various players in India and the Philippines, including offshore arms of large US BPO providers, they identified two companies in India – one with a proven call center expertise and the other a niche vendor with a solid background and domain knowledge of financial services processes in India. A year later, they added a specialist customer care provider in the Philippines. These three vendors supplemented their Captive center in India.



An analysis of the performance of these vendors in the last three years shows that the company has been able to save 15 - 20% more than it would have by employing traditional single vendor sourcing. The specialist vendors introduced technology systems that automated about 20% of the processes and cut short delivery time by over 175%. The robust methodology and quality processes helped the company save additional rework time by more than 50%. In addition, these best of breed vendors jointly worked with the client team to develop new ways to handle customer support requests, which further reduced processing time. The new practices were adopted by the client organization themselves as best practices.



The company made a conscious decision to select only the best of the best and not the largest or lowest cost provider, and also made sure to split the work on a best fit approach of capability and long term value generation. As a result, they have been able to maximize the benefits from globalization. Over a 4 year period, the savings realized from their best of breed vendors was approximately 15 – 20% more than typical savings with a single vendor sourcing model.

Case 2: Fortune 100 Travel and Real Estate Services Firm

The second case looks at a leading US travel and real estate services firm that has successfully leveraged offshore benefits using a unique Best of Breed approach.. In 2003, the company was undergoing internal change and reorganization. The team that came on board decided that serious cost-cutting measures were required to shore up the bottom line. However, a far more critical reason for cutting costs was that the company was finding it difficult to grow their IT and BPO fast enough to keep ahead of competitors. In this scenario they decided to look at services globalization. Initially they looked at moving some of their IT work to a lower cost location that provided the necessary scale and quality. Not surprisingly, this led them to India. But what they did next was unique. The company conducted an extensive landscape study on the Indian IT vendors that might be able to partner with them. After looking at various options, they decided their applications were more complex than what the vendors had anticipated and some of the technology they used was in short supply in most markets. Instead, they decided to search for a vendor that had the basic expertise and domain knowledge that they could acquire in order to build their own delivery platform in India.

The company did find a vendor that had a great background in the travel industry and initiated discussion for a possible acquisition. However, the deal did not go through due to difference in valuation expectation. The Client still decided to outsource some IT work to the niche vendor and at the same time look for other vendors that could help with their bigger outsourcing requirements. After a rigorous RFP process, the client decided to award work to two vendors based out of India. About a year later, they were looking at outsourcing their back end BPO processes. This time they did not include the original IT vendors even though both had BPO capabilities. Instead they decided on a different strategy. Earlier that year, the Client had acquired a leading travel company from Europe. Along with this acquisition, came a BPO setup in India. This company specialized in processes for the travel industry, so they did a comprehensive evaluation of the capabilities of the subsidiary. In addition they went back to the IT partner they had tried to acquire. This vendor had started a BPO arm based on their strength in IT and their pedigree in the travel industry domain. Once the due diligences process for the two companies were complete, the company decided to outsource specific work that leveraged the individual strengths of each of the companies. In the bargain, they got access to the best of breed solutions without using Tier I vendors.

Currently, the client outsources close to 35% of their original portfolio to offshore vendors using the best of breed approach. Their annual savings are estimated to be in excess of \$ 20 million. They also redeployed the internal resources that were affected by the globalization into other critical areas of their organization that were short of resources and thereby saved on new recruitment and retention costs.

Conclusion

Multi-Sourcing from Best of Breed vendors is an option that no CFO or CIO can afford to overlook. CFOs and CIOs are increasingly asked to ensure that the risks from offshoring are “managed” rather than “transferred”. Moreover, the expectation from globalization has changed from simple cost savings to long term value generation. In this scenario business leaders must explore avenues to generate long term sustainable value. They must seek out vendors that are true leaders and can provide sustainable long term value. Multi-sourcing from best of breed will provide these leaders with the edge that will help them differentiate their company in the marketplace and protect against obsolescence and complacency within their organizations.

About Tholons

Tholons is a Services Globalization and Investment Advisory firm that combines "Best of Breed" consulting experience with deep execution expertise and investment insights to deliver truly effective services to its clients. Tholons offers a detailed understanding of business processes and combines it with practical hands-on expertise in executing the strategy. Tholons draws upon the considerable experience of a hand-picked team, which has successfully formulated and executed globalization strategies to unlock value for Global Fortune 1000 companies. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors engage with government bodies to build compelling strategies for making countries attractive destination for outsourcing.

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