

## ***The Truth about Multi-Sourced Outsourcing***

*Multi-sourcing may be the trend of the moment, but organisations simply do not have the skills or resources to manage multiple supplier relationships. Facing seriously escalating cost and business risk, organisations need to take positive steps today if they are to have any chance of achieving the multi-source promise of a more agile, profitable business, argues Jonathan Cooper-Bagnall, Member of the Management Group for PA Consulting Group (PA).*

### **Risk Profile**

The economic crisis is prompting companies to review outsourcing costs and contracts, accelerating the trend towards multi-sourcing. Indeed, according to a forthcoming survey from PA, growing numbers are either currently or in the process of moving to the use of multiple service providers for key outsource requirements.

At first glance, the trend is understandable. The mega, single source outsourcing deals in many cases failed to deliver against expectations. By breaking up these contracts and allocating key elements to different suppliers, organisations hope to improve competition, maximise supplier skills and expertise and, critically, drive down costs by achieving better contract pricing

But the reality is proving somewhat different. Far from saving money and reducing the risk profile, this strategy is actually exposing organisations to unprecedented levels of risk and significant costs which will become all too apparent in the next 12-18 months.

### **Cost Driven**

The problems with replacing a single outsourcing arrangement with a set of separate agreements for the component parts, are twofold. Firstly, in the traditional single source model, the vendor typically undertakes a significant amount of work to cover the gaps between defined areas. Much of this work is unseen and unpaid, but it is key to ensuring service consistency and continuity.

Break up the contract into its component parts and no single vendor is going to undertake that integration role any longer, making the organisation suddenly responsible for holding everything together.

Typically, the organisation has neither the capability nor the resources to undertake this role, which is the second key problem with multi-sourcing.

Organisations rarely have the skills, expertise or knowledge to manage these multiple vendor relationships. More critically, few as yet even recognise the problem, failing to accept that a successful transition from single to multi-sourcing requires a significant and sustained programme of change. Few are willing to even contemplate the necessary investment at a time when cost reduction is paramount.

### **Hidden Problem**

In the headlong rush to embrace the latest trend, too many organisations are reluctant to admit to these problems. Contracts have been awarded and no one wants to lose their job in the current climate as a result of the mess that has been created by an ill-conceived outsourcing strategy.

Instead, the marketplace is awash with organisations lauding multi-sourcing despite the problems, and encouraging more companies to follow suit. The result is fast-growing numbers of companies locked into lengthy multi-sourcing contracts, which are already failing to deliver the stability and performance expected with a single source approach – and are set to cause significant problems some 12 to 18 months down the line.

And while it is currently hidden from public view, many of those organisations that entered into the multi-sourcing fray early are throwing £100,000s at the problem; building teams of experts to manage the gaps in service delivery and attempting to create an integrated approach to these diverse service provider relationships.

For the rest of course, the failure to meet expectations will be laid firmly at the door of the outsourcing suppliers – even when the problem patently lies elsewhere.

### **Poor Governance**

Indeed, given the endemic poor management of single source outsourcing contracts, it is extraordinary that so many organisations are attempting to embrace multi-sourcing without even considering the operational impact. Two years ago, a PA survey revealed that 50% of organisations had no idea of the cost of the retained organisation managing the outsource relationship. Today, upwards of 40% still cannot put a figure on this cost.

And it is from this base that organisations are planning to move into an environment that requires absolute discipline in the coordination of suppliers and a new set of competencies for staff engaged in managing the new arrangements.

The business risk associated with a poorly designed, implemented and managed multi-source strategy is significant. Contracts rarely address the critical issue of managing integration across different suppliers; the amount of change control required and the need to define how the bridging role between services will be carried out by suppliers. Suppliers are unlikely to commit to legally binding management processes – and even well-meaning collaboration is not guaranteed.

Therefore, unless organisations plan to appoint a prime to act as service integrator, they will have to be prepared to take on end-to-end accountability internally – and many ‘tier one’ organisations have already had to invest heavily in large teams of people to fulfil this requirement.

As a result, making multi-sourcing work in reality is proving to be an expensive exercise - from the intangible cost associated with failing to improve business agility and service levels to the quantifiable need for additional head count to support and manage this complex operational strategy. Without embarking on a significant shift in strategy, appointing a service integrator to oversee the process or investing in the required skills today, organisations can expect unexpected costs to soar over the next few years. And with the global outsourcing market set to grow by 8.1% in 2009 (Gartner), it means that there are a lot of boardroom surprises to come.

### **Conclusion**

The reality is that multi-sourcing is not always a sound strategy. Unless an organisation is good at managing complexity, has the right skills and is prepared to invest and take on end-to-end responsibility, multi-sourcing simply adds too much management complexity to deliver the required risk and cost rewards. There are

undoubtedly alternatives that will be better suited to the organisation that will deliver the required cost reduction.

There are enough businesses losing money today by not thinking through the consequences of actions – this is not the time to join them by failing to consider the true implications of multi-sourcing.

ENDS.