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Single and multi-sourcing models

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The outsourcing model has evolved over time, causing many companies to question the efficacy of having one service provider meet all of their needs. Instead, more and more companies have begun to source related functions to multiple providers. This practice, known as "multi-sourcing" or "best-in-breed sourcing", has become very popular with companies in their second or third generation of outsourcing.

When a company decides to outsource, it is typically seeking to achieve one or more of the following:

- Increased cost savings.
- Value for money.
- Better service levels.
- Access to best practices.
- Greater innovation.

Whether a company chooses to multi-source or to single source will have an impact on each of these factors.

This article will:

- Describe multi-sourcing and single sourcing models, discussing the advantages and disadvantages of each.
- Review the governance issues that arise in outsourced environments.
- Analyse the impact of sourcing models on the outsourcing drivers.
- Describe methods of risk mitigation in single sourcing and multi-sourcing transactions.
- Discuss the potential impact of cloud computing on outsourcing.

SINGLE OR MULTI-SOURCING MODEL?

This section describes the different characteristics of single sourcing and multi-sourcing.

Single sourcing

The customer chooses a single supplier to provide the entire set of services that it wishes to outsource, and relies on that supplier to carry responsibility for the outsourced services throughout the contract term. In this model, the customer looks to the supplier for all matters related to the outsourcing agreement, and the supplier is solely responsible for meeting the service obligations under this agreement.

In many instances, the single supplier uses a range of subcontractors to help it deliver the services. This can happen because either:

- The supplier is not equipped to provide the range of services from its employee base, and must therefore use third parties to deliver portions of the services at the desired quality levels.
- The customer has directed the supplier to use certain co-partners to deliver the services.

In any case, the supplier usually provides the majority of the core services to the customer. This ensures that it obtains the maximum revenue possible, and compensates the supplier for taking on all of the outsourcing's risks and responsibilities.

However, the customer pays a premium for the convenience of having all of the services organised by the supplier. Since the supplier is acting in the role of systems integrator, it will charge the customer a "management fee", as well as a mark-up of the amount the subcontractor is charging the supplier. However, it is difficult to determine whether that mark-up would equal the profit margin that the supplier would charge if it were performing the services itself. The amount of "margin on margin" that a supplier charges in this situation is often a source of friction between customer and supplier, especially if the customer cannot perceive any direct value being added to the subcontractor's services by the prime supplier. Therefore the gross amount the customer pays to a provider in a single sourced solution is likely to be more than the amount the customer would pay to a panel of suppliers in a multi-sourcing model.

A single sourcing arrangement generally has the following features:

- **Responsibility.** The key differentiation between a single sourcing and a multi-sourcing relationship is that the customer can look to the supplier as a single point of failure of service delivery, even where the supplier has subcontracted. In theory, this model causes the supplier to choose its subcontractors carefully, because it is responsible for the subcontractor's performance or failure. In addition, customers can minimise the risk of a supplier choosing unsuitable subcontractors by requiring approval of subcontractors under certain circumstances (*see below, De-risking the sourcing model: Governance*).
- **Long-term contract.** Historically, single sourcing contracts were lengthy engagements, at times lasting as long as 15 years. However, in recent years single sourced deals have shortened in duration, with most falling within a range of three to seven years for the initial term. Typically, these contracts include renewal terms allowing the customer the discretion to extend the term for two or three one-year periods. As expected, suppliers seek long-term contracts because this gives them more leverage to deliver cost savings and value for money over time to their customers. However, a long-term contract can be disadvantageous for the customer if, for example:
  - the supplier's performance is poor;
  - the relationship between the customer and supplier is not working;
  - the expected innovation is not being delivered; or
  - the cost savings and value for money do not materialise.

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- **Lock-in.** One of the frequent problems with single sourcing can be that the customer is "locked in" to its supplier. This can have disadvantages: the supplier controls its subcontractors, and is often more concerned with protecting its own margins than ensuring that new or existing services are tendered or re-tendered competitively among them. Therefore, customers often find it difficult to create any sense of competition around the award of new services in a single sourcing.

Therefore, in a single sourcing model, it is crucial that the customer carefully select a supplier that will, over the outsourcing term:

- Meet its aspirations, expectations and objectives.
- Deliver the particular set of services in a competitive manner.
- Create cost savings, value for money and innovation.

In addition to engaging in thoughtful supplier selection, customers must attend to these requirements contractually. For example, customers must require in their outsourcing contracts that suppliers maintain market competitive pricing during the contract term by means of benchmarking or similar provisions. Similarly, customers must require suppliers to develop and maintain short- and long-term strategic plans for the services that align with the customer's changing business requirements.

Governance structures must also be designed to require that suppliers demonstrate continuing innovation in service delivery. These types of mechanisms reduce the risk of customers becoming saddled with outdated contracts that are not responsive to their changing needs. For a summary of the benefits and risks of single sourcing, see box, *Single sourcing: benefits and risks*.

Multi-sourcing

In multi-sourcing, the customer enters into separate, parallel agreements with different suppliers for different parts of the services to be outsourced. The separate agreements should ideally be interconnected (*see below, De-risking the sourcing model: Allocation of responsibility*), but often they are not. The customer assumes the role of project manager of the outsourcing and integrator of the various services being performed (except in cases where one of the suppliers is tasked with integration responsibilities, in which case that supplier is paid an additional management fee), and cannot demand that the suppliers co-operate with each other unless it builds this co-operation into the contract. Contractual multi-sourcing vehicles are far more diverse than for single sourcing (*see below, Alternative sourcing structures*).

A typical multi-sourcing might involve Supplier A performing data centre functions, Supplier B performing desktop functions and Supplier C performing network functions. For example, the German utility E.ON recently announced its decision to outsource its data centre and desktop environments to Hewlett Packard (which will also act as "operational integrator" of services performed by other service providers) and its network environment to T-Systems, in what is anticipated to be a multi-billion Euro transaction.

A multi-sourcing structure generally has the following features:

- **Choice and flexibility.** In contrast to single sourcing, multi-sourcing involves competition between suppliers, and avoids lock-in to a single supplier for a broad range of services for a long period of time (*see above, Single sourcing: Lock-in*). It allows the customer to market test projects and services other than those originally contracted for on a case-by-case basis. Often, customers deliberately set up their various outsourcing contracts so that the durations overlap and expire in "waves" rather than simultaneously.

  The customer can also take a "mix and match" approach to outsourcing, that is, building on suppliers' different strengths to obtain better overall service quality. For example, if Supplier A and Supplier B described above offer applications development services in addition to the services they already perform, the customer could request that each supplier bid to perform applications-related services as new services under their existing services agreements. The customer could either engage one of the suppliers to perform all of the new services (and amend the services agreement with that supplier to include applications functions) or allocate the new services between the two suppliers (and so amend each of the services agreements). The latter model, sometimes referred to as a "panel", affords the customer continuing leverage between the suppliers where each tender of a new applications-related project can involve competitive bids by the two suppliers.

  A disadvantage to having multiple suppliers is that suppliers from similar sectors may be wary of entering into contracts that require close co-operation with competitors, for fear of making their confidential information or intellectual property available to a competitor. Customers can attempt to manage this concern by using an Operating Level Agreement (OLA) that addresses the sharing of confidential information (*see below, Responsibility*).

- **Responsibility.** The customer's operational risk is higher than in a single sourcing (*see above, Single sourcing: Responsibility*) because it delegates responsibility to several suppliers. This interaction with different parties can make it harder to strike the right deal and ensure that the separate contracts are properly implemented. The customer is responsible for any gaps in the services' scope:
  - that it has not fully or properly allocated to the various suppliers; and
  - around any interactions or handovers between the suppliers, because there is no contractual relationship between them. A contractual relationship among suppliers may be created through an OLA to reduce this risk.

  If a gap occurs, the customer must pick up any activities that are not clearly in-scope for the suppliers, or pay more to a supplier to do so. Oversights may not always be evident until a problem arises. Responsibilities also tend to be duplicated within one organisation and across suppliers in multi-sourcing environments, which can result in service delivery missteps and increased costs to the customer who is paying multiple suppliers to perform the same task.

  The customer can address these issues by clearly allocating responsibility among the suppliers (*see below, De-risking the sourcing model: Allocation of responsibility*).

  In addition, the customer often cannot state which supplier is ultimately responsible for a given failure, or cannot prove it to a sufficient standard to enable the customer to enforce its rights and remedies under the contract. This dynamic increases the risk that suppliers will seek to excuse their non-performance (including service level failures) on the basis that another supplier's failure was the root cause. If this risk is not eliminated with proper contractual structures and strict management by the customer account team, the customer will be left with sub-standard service level regimes across multiple contracts.

For a summary of the benefits and risks of multi-sourcing, see box, *Multi-sourcing: benefits and risks*.

DE-RISKING THE SOURCING MODEL

A customer can take steps to manage the risks of a single or multi-sourcing.

Retention of control

One of the most basic, but key, steps that a customer can take to manage its risks is to ensure it has the right level of control over the outsourcing. Irrespective of the customer's attempt to create the best possible contract, an outsourcing arrangement (particularly a multi-sourcing) is likely to fail if the post-signature contract management activities are understaffed or poorly performed by the customer account team.

Customers often underestimate the level of management required during an outsourcing, particularly during its initial transition phases. Transactions that contemplate a transformation of the customer's environment require a particularly robust customer account management team with expertise in the environments to be transformed.

To retain control, the customer must consider:

- Retaining enough staff to manage the outsourcing.
- Taking on additional staff with appropriate contract management experience.

This is to ensure that:

- The contract is performed as required.
- The customer's risks and liabilities during the life of the contract are reduced.

Notwithstanding these benefits, customers must take into account bringing on additional staff when considering finances for the sourcing venture. Adding staff could significantly reduce the anticipated savings of not paying a management fee to a single provider or systems integrator in a multi-sourcing.

In a multi-sourcing, the customer deals with many parties, so de-risking considerations become more important.

The customer must combine retaining control of management with a good governance structure (*see below, Governance*).

Governance

A governance structure ensures effective management of the outsourcing. Governance structures can vary significantly:

- **Single sourcing.** Governance is primarily used to manage the:
  - relationship between the customer, supplier and subcontractors; and
  - number and quality of subcontractors that the supplier can use.

  (*See above, Single or multi-sourcing model: Single sourcing: Responsibility.*)
- **Multi-sourcing.** Governance is used (along with, for example, OLAs (*see below, Allocation of responsibility: OLAs*)) to bring together the various suppliers, so that everyone works together to minimise gaps and risks (*see above, Single or multi-sourcing model?: Multi-sourcing: Responsibility*). Multi-sourced environments present unique challenges to the customer's governance structure. The complexity of managing the expectations and cultures of multiple providers and co-ordinating multi-party delivery can strain available customer resources and overload committees in a typical sourcing governance structure. As discussed above, in many multi-sourced deals it becomes the customer's job to integrate the services. Customers must be prepared to take on this expanded role and must factor in the costs of retaining a larger account management organisation.

A typical governance structure involves many layers of interaction between the customer and the various suppliers. For example, it could follow this pattern:

- At the top level, a partnership board, attended by senior management from both the customer and each of the suppliers or subcontractors.
- At the intermediate level, substructures (for each supplier in that multi-sourcing) that consist of:
  - project executive committees (attended by senior executives of the customer and supplier(s)); and
  - national executives or committees (attended by region- or country-specific executives of the customer and supplier(s)).
- At the lower level, a project manager to organise meetings (attended by the customer and supplier(s)).

The governance regime should also set out, among other things:

- The frequency of meetings.
- Quarterly and annual reviews.
- Reports that the parties must produce.
- Informal and formal escalation, and dispute resolution procedures.

Allocation and definition of services

To minimise its risks and liabilities as much as possible, a key part of the customer's preparatory work is to correctly define:

- The services that must be supplied.
- The set of services allocated to each supplier.
- How the different sets of services relate to, and depend on, each other. Accurately documenting dependencies is critical in a multi-sourced environment.

Combining these definitions and allocations together to form a workable outsourcing can be difficult, especially in multi-sourcing situations. The customer must invest time in ensuring that statements of work take into account the obligations that a supplier has to both:

- The customer.
- Other suppliers in the multi-sourced environment.

In a multi-sourcing arrangement, it is helpful if the customer enters into agreements with the different suppliers at the same time rather than consecutively. Entering into one contract may require any earlier contract to be amended, which often results in the earlier supplier demanding a re-negotiation in price (*see below, Allocation of responsibility*). If simultaneous contracting cannot be achieved, then the customer must at least contemplate the multi-sourcing impact on suppliers in each of its contracts, to alleviate future re-negotiations.

Value for money mechanism

In a single sourcing, it is advisable to have in place a value for money mechanism, which comes into play when the outsourcing does not deliver the required services.

This consists of:

- Benchmarking to ensure the deal pricing remains market competitive during the term of the contract.
- The ability to competitively bid on the required services during the term.
- A mechanism that allows the customer to perform the services in-house. This would include:
  - an express right for the customer to "in-source" functions at its discretion (subject to, in certain cases of termination for convenience, payment of termination fees to the supplier); and
  - terms requiring the supplier to assist in the transition of services back to the customer.

  The same standards would apply where the customer elects to "re-source" services from one supplier to another third party.

Allocation of responsibility

In a single sourcing, it is relatively easy to ensure that the supplier is contractually responsible for the services throughout the outsourcing term (*see above, Single or multi-sourcing model?: Single sourcing: Responsibility*).

In a multi-sourcing arrangement, it is harder to avoid and allocate responsibility (*see above, Single or multi-sourcing model?: Multi-sourcing: Responsibility*). The customer has two main methods to reduce this risk; contractual provisions and OLAs.

Contractual provisions. When drafting an outsourcing agreement, the customer must evaluate risks and carry out due diligence across the outsourced services, processes and systems to ensure that both:

- All the interactions and handovers between suppliers, and all responsibilities, have been clearly identified.
- The contracts state exactly who is responsible at any particular time for failures that arise.

In addition, if the customer splits the same service across a number of suppliers, it must ensure that the contracts are as interdependent as possible, requiring the suppliers to co-operate with each other. The customer must seek to have a balance between incentives and penalties in the contract, to encourage co-operation and interaction between suppliers.

OLAs. An OLA is an agreement between the customer and its suppliers that creates an understanding of which entity, including the customer, is responsible for each function included within related processes. In other words, in an environment where more than one supplier has responsibilities with respect to a customer's end-to-end processes, the OLA sets out the:

- Inter-dependencies of the parties' obligations.
- "Touch-points" and "hand-offs" required by each entity.
- Ramifications for the suppliers if they fail to meet these obligations.

The chief goal is to ensure that each of the suppliers is focused on meeting the customer's overall business needs (and not just focused on its own part of the process).

OLAs are a key element of a successful multi-sourcing. An OLA creates contractual privity between otherwise distinct suppliers, and imposes a degree of shared responsibility on them for service continuity.

The OLA must be set up so that if a problem arises, each party's immediate focus is on fixing it, leaving arguments over responsibility for, and payment of, remedial costs until later. An OLA's strength depends on how well the customer polices its terms and provisions.

OLAs offer other significant benefits, such as:

- Avoiding arguments about confidentiality by including a mechanism by which the suppliers agree on terms to govern their exchange of confidential information. (*See above, Single or multi-sourcing model?: Multi-sourcing: Choice and flexibility*).
- Establishing an enforcement mechanism (which may be similar to a service level credit regime) that holds a supplier responsible for service failures of another supplier caused by the first supplier's failure to perform a service agreed to be a dependency. (As expected, reaching agreement on enforcement mechanisms is typically the greatest challenge in formalising an OLA.)
- Obtaining supplier commitments to co-operate in disaster recovery and business continuity planning, testing and remediation.
- Establishing a process for resolving multi-party disputes that arise under the OLA.
- Imposing a "fix first, argue later" culture and process for problems and issues.
- Creating a change management process specific to the OLA for changes in the customer's environment or service delivery that impact multiple suppliers.
- Preventing data sharing.
- Imposing common IT standards on suppliers (*see below, Standard processes or platforms*).
- Ensuring that suppliers have a unified approach towards dealing with IP rights.

In practice, an OLA can be a very difficult arrangement to negotiate unless the customer designs its multi-sourcing model around it. Previously independent suppliers are unlikely to accept an OLA that the customer imposes on them retrospectively, particularly if the OLA contains any meaningful penalties, service credits or rights for the customer to claim damages or terminate the main multi-sourcing agreement. Customers must reference an OLA at the request for proposal phase of a transaction, to make potential suppliers aware that the customer requires an OLA and to obtain early commitments from suppliers to participate in the OLA process. In addition, statements of work with each supplier must be structured in a way that allows for an OLA.

An additional method of dealing with fault attribution is a good governance structure (*see above, Governance*).

Standard processes or platforms

An issue in any outsourcing, and particularly a multi-sourcing, is ensuring that all suppliers are equally up to date in terms of processes. For example, in successful IT outsourcings, customers spend a lot of time and effort standardising common IT processes, so that suppliers are interchangeable or can effectively work together. The use of standard templates is becoming fundamental to success in multi-sourcing, including the following:

- IT Infrastructure Library (ITIL), as a basis for operations monitoring.
- Service desk management.

- Capacity management.
- Other IT processes.

THE IMPACT OF CLOUD COMPUTING

The rise of cloud computing as a part of companies' supplier portfolio may have a significant future impact on multi-sourcing arrangements.

What is cloud computing?

Cloud computing is a rapidly growing method of delivering remote information technology resources, and business solutions based on those resources, in a scalable, dynamic and rapidly provisioned manner. Although many of the underlying technologies enabling the delivery of cloud computing have been available for years, there has been recent unprecedented growth in the use of this service delivery model as a result of new and emerging uses of these technologies. Companies like Google and Amazon, who were never part of the service provider regime, have become key players in this market.

Companies tend to look at cloud computing solutions for many reasons, in particular their cost-effectiveness. In the model's purest form (a "public cloud"), cloud service providers house companies' data in a shared data centre. Cloud service providers can take advantage of economies of scale and offer cloud services at a much lower price than the equivalent service from traditional providers. However, to remain cost-effective, public cloud providers must standardise not only the service offerings, but also the contractual terms by which companies may participate in the public cloud.

Solutions to data protection concerns

Where companies have no control over the cloud service providers and their environment, there are security concerns about keeping sensitive data in a public cloud environment. This has brought about different kinds of clouds:

- **Private clouds.** These tend to resemble a normal sourcing transaction, because services are rendered in a segregated area of the cloud service provider's data centre. This is much less cost-effective than the public cloud.
- **Hybrid clouds.** These allow companies the opportunity to keep their less sensitive data in the more cost-effective public clouds, but the more sensitive data in the more costly private cloud environment.

The future of cloud computing

As cloud services continue to become a larger segment of the service delivery world, companies are likely to opt to have some of their needs managed by cloud service providers and others by traditional service providers. It is likely that many companies will observe the overlapping responsibilities of traditional and cloud service providers, leading them to consider many of the multi-sourcing concepts listed above. However, companies will be challenged when attempting to apply many of these principles to cloud service providers, as it may be difficult to force them outside of their standard contracts and their standard service offerings.

ALTERNATIVE SOURCING STRUCTURES

Various outsourcing models address some of the inherent drawbacks of multi-sourcing (*see above, Single or multi-sourcing model?: Multi-sourcing* and box, *Multi-sourcing: benefits and risks*).

The legal structures employed in different sourcing models tend to involve a balance between two approaches:

- Employing a project management or systems integration supplier to act as a middleman between the customer and supplier, and therefore take responsibility for performance and delivery.
- Cutting out the middleman, with the customer retaining greater control, risk and responsibility.

A summary of some of the main alternative contractual outsourcing structures is set out below.

Contract manager sourcing

The customer negotiates and enters into direct individual contracts with suppliers, as in a multi-sourcing (*see above, Single or multi-sourcing model?: Multi-sourcing*). The customer also enters into a contract with an independent contract manager, who manages the relationship between the customer and suppliers. The contract manager becomes liable for the integration and management of the multi-sourcing, and the suppliers remain directly liable to the customer for their services.

One of the benefits of this model is that the contract manager can put pressure on suppliers without hindering or damaging their relationship with the customer. In addition, the customer's risk is reduced because the contract manager is independent, and has a specialist skill and knowledge in managing complex outsourcing arrangements.

The main disadvantage for the customer is that it no longer has day-to-day contact with the suppliers and must fully rely on the contract manager for the services' integration and delivery. In addition, this model can be more expensive than a traditional multi-sourcing because the customer pays for the independent contractor (effectively paying to reduce the risk of managing the contract).

A strong governance structure (*see above, De-risking the sourcing model: Governance*) is key to successful contract manager sourcing, particularly if this governs the scope and manner of the interaction among the customer, contract manager and suppliers.

Supplier supervision sourcing

The customer negotiates and enters into direct individual contracts with suppliers, as in a multi-sourcing (*see above, Single or multi-sourcing model?: Multi-sourcing*). The suppliers enter into OLAs (*see above, De-risking the sourcing model: Allocation of responsibility: OLAs*) in which they agree to work with each other, but only remain liable to the customer. In this model, one of the suppliers (usually the largest) supervises the outsourcing and takes on some level of responsibility for integration.

One of the benefits of this model is that the customer can choose each supplier. Another advantage is that the customer can receive integration assistance and service support for a lower cost, as the suppliers are directly responsible to the customer. In addition, there may be long-term cost savings, because:

- The customer does not have to retain a third party to manage the outsourcing.
- Competition among suppliers helps keep them focused on delivering value for money to the customer.

One of the disadvantages is that this model depends on the suppliers' willingness and ability to work with each other. The customer is limited in its ability to make suppliers co-operate, particularly if it tries to bring in a new supplier to manage existing suppliers. In practice, the customer must provide suppliers with incentives to co-operate, such as a joint bonus pool, together with a clear protocol for co-operation.

Geographic sourcing

In a multi-sourcing (*see above, Single or multi-sourcing model?: Multi-sourcing*), the customer sometimes enters into separate contracts for the same sets of services but in different geographical areas.

This increases competition among suppliers because, if one supplier fails to perform, the customer can easily replace it with another supplier in a different region. The customer has good business continuity and reduced risk because it has several suppliers providing the same services. In addition, the customer can allocate responsibility for failures with certainty because the services are geographically self-contained, making it generally clear which supplier has created a problem or performed poorly. For similar reasons, some customers award specific self-contained service lines to different suppliers under separate contracts.

KEY CONSIDERATIONS IN OUTSOURCING

In any outsourcing, it is important for the customer to invest the right degree of time and effort into planning the sourcing arrangement. In particular, an outsourcing's early focus must be on identifying the appropriate sourcing and retaining or recruiting individuals to manage that model.

Current trends point at significant growth in the size and scale of multi-sourcing transactions, although given outsourcing's cyclical nature, and the fact that both models have their own inherent benefits and drawbacks, this may only be a temporary trend.

Whatever the sourcing model, the customer must ensure that the supplier relationships are planned clearly, with interactions, handovers, responsibilities and governance clearly defined.

SINGLE SOURCING: BENEFITS AND RISKS

Benefits

- The customer is released from most of the day-to-day monitoring and operating of the outsourcing.
- The customer has only one agreement and one line of contact.
- The supplier is responsible for the outsourcing and its integration, throughout the term of the contract.
- The supplier is responsible for ensuring that subcontractors provide the agreed level of service according to the agreed schedule.

Risks

- The customer must rely fully on the supplier for integration and quality of service.
- The customer has no direct contract with any subcontractors, and must negotiate with the supplier even if another party will carry out the work.
- It is harder to obtain the best price for the services and require the subcontractors to engage in a competitive bidding process.
- A weak governance regime undermines the benefits of single sourcing.
- If there are problems with the supplier, the overall process is likely to become more costly and risky.
- The customer must meet the supplier's costs of managing its subcontractors.
- The supplier is likely to put its own interests before its customer's. Therefore, it can be difficult to engage the supplier's subcontractors in a competitive bidding process, or encourage the supplier to be innovative during the term of the contract.

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Recent transactions

- Advising on a US$1.4 billion IT outsourcing for one of the largest US states.
- Advising on a US$600 million renegotiation of a global manufacturing company's IT outsourcing agreement.
- Advising on a US$150 million transaction whereby a major transportation company outsourced its managed voice and data networks.

MULTI-SOURCING: BENEFITS AND RISKS

Benefits

- The customer benefits from flexibility, as it is not locked in to one supplier.
- Contracts tend to be shorter than in single sourcings.
- The customer can tender competitive offers from various suppliers on an open market, on the basis of service as well as price.
- The customer is free to choose the best supplier for each outsourced service. This "best-in-breed" result is one of the primary reasons companies favour multi-sourcing. Customers expect that hiring a supplier with the greatest skill in a particular area will increase the long-term value of the contract for the customer and benefit the customer in the form of service quality and innovation.
- The customer has a direct contact line with each supplier.
- Each supplier is contractually directly responsible to the customer.
- The customer can replace a supplier without this affecting its contracts with other parties. However, in cases where there are dependencies among the services performed by the suppliers, the elimination of one supplier will require alterations to arrangements with the remaining suppliers. Accordingly, customers must understand dependencies among services performed by suppliers. A strong OLA can provide a roadmap of dependencies (*see De-risking the sourcing model: Allocation of responsibility: OLAs*).

Risks

- The customer must take on the role of project manager. Unless the customer specifically engages one of the suppliers to integrate the services, the customer must also take on the demanding role of integrator.
- The customer can only persuade, rather than order, suppliers to co-operate with one another. An OLA can reduce this risk (*see De-risking the sourcing model: Allocation of responsibility: OLAs*).
- Responsibilities tend to be duplicated within one organisation and across suppliers, thereby increasing costs.
- There are often unknown interdependencies between suppliers that can delay or complicate scheduling.
- Process information flow between different parties can be complicated and convoluted.
- The customer must spend resources and management time on resolving issues across different suppliers.
- Suppliers from similar sectors may be wary of entering into contracts requiring close co-operation with competitors, for fear of making their confidential information or intellectual property available to a competitor.
- If services fail or are poorly performed, the customer must take up claims separately with each supplier.
- A supplier is not responsible for another supplier's failure.

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Recent transactions

- Advising HMRC on Europe's largest "second generation" outsourcing and the rationalisation and upgrade of HMRC's networks platform.
- Advising the UK Police on its national fingerprint identification system and its project for the delivery and operation of the national UK emergency mobile radio network.
- Advising AIG Europe on a US$100 million pan-European ten-year deal with Accenture in connection with the outsourcing of certain back-office and insurance intermediary operations across five European countries.

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Recent transactions

- Advising a US-based financial services company in a business process outsourcing transaction related to its Canadian operations.
- Advising a diversified healthcare services company in the outsourcing of finance and accounting services and in connection with the development and implementation of core transaction processing systems.
- Advising a global health services company in the structuring and negotiation of a multi-party arrangement for the development and commercialisation of insurance management tools.