Making multisourcing work

Multisourcing, as opposed to large end-to-end outsourcing deals, is on the rise. So what are the wider implications for companies taking on such arrangements? Anthony Nagle and Alistair Maughan

One of the key features of the outsourcing industry over the past few years has been the trend away from large, end-to-end outsourcing deals. Companies that make use of outsourcing are increasingly looking to so-called multisourcing arrangements, where the business receives its services from a number of best-of-breed service providers.

This marks a clear contrast from the feature that really caused outsourcing to burst into life in the 1990s, ie, the expansion of full-scope, full-service, long-term outsourcing contracts with a single prime service provider. For whatever reason – risk mitigation, avoidance of having all the eggs in one basket, or a preference for more flexible, niche suppliers – companies' IT and administrative functions are changing the way they procure outsourced services.

But it's no surprise that as the companies adopt multisourcing solutions, someone ought to check the wider implications for the company's operation, including any impact on business risks, possible cost savings, flexibility, and service performance. That role, as so often, falls to the finance function. This article focuses on such issues from the CFO's perspective.

Contract management

One consequence of the shift to multiple service providers is the requirement for more interaction between the different service providers and the need to manage the commercial and legal risks.

Irrespective of the effort expended by the customer in creating the best possible contract, if there are insufficient numbers of appropriate staff in place to carry out the post-signature contract management activities, or if such activities are poorly performed, the multisource arrangements will almost certainly fail.

Given that the customer will have to interface with many more parties than in a traditional single-source regime, the customer will need to retain a significant degree of control in order to make the multisource environment work successfully. In practice, this means retaining more staff than might otherwise be the case in a single-source arrangement – meaning that multisourcing environments are generally more expensive to operate from a management perspective than single source deals. Indeed, in some cases, because of the greater management skills required, additional new staff with appropriate contract management experience may need to be hired by the customer.

This extra retained cost is frequently overlooked or underplayed by project teams. But it is central to the success of multisourcing that the management skills must be provided somehow – and the costs need to be factored into the total cost of ownership equation in assessing project value for money.

Governance

The onus is on the customer to put an appropriate governance structure in place to ensure that the multisource environment is managed effectively. Governance structures can vary significantly, but they are primarily used either to manage the relationship between the customer, service provider and sub-contractors, or to manage the number and quality of sub-contractors that the service provider is entitled to use.

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As CFOs are often the executive champions for their businesses' outsourcing projects, they will need to firmly support the need for a detailed and often multi-layered governance structure (eg, partnership board, project executive committees, regional and possibly country-level executives/committees, and at the lower end of the governance structure, there will be a need for project manager-to-project manager meetings, etc) if the multisource environment is to be successfully implemented and operated. From the outset of the project, CFOs will need to allow for the extra associated governance costs in their multisource business cases.

Scope of services

It is important when multisourcing to define correctly the scope of services allocated to the different service providers (who each enter into separate contracts with the customer) and the relationship and dependencies between the different sets of services. Although a company's technology function normally takes the lead in this area, the CFO and finance functions need to be aware of the difficulty of allocating scope across service providers in a multisource environment.

To minimise the customer's risks and liabilities as much as possible, it is crucial that the services are clearly defined and comprehensively specified. Statements of work supporting the allocation of responsibility between the various service providers need to be put in place and collectively agreed. It certainly helps if contracts are agreed at the same time rather than consecutively because consecutive projects may mean the earlier contracts or statement of works need to be retrospectively amended which may often result in a price re-negotiation. Therefore, CFOs should seek assurances from the deal teams that sufficient time is being invested in clearly allocating and defining the scope of services.

End-to-end responsibility

In a multisource environment, there are two main dangers in the allocation of responsibility for service provision. Firstly, there is the danger that the customer retains too much responsibility without realising it, ie, if the customer fails to allocate service responsibility fully to the relevant service provider, the customer will have to pick up (or pay more to the service providers to do so) any activities that are not clearly in scope for each service provider. Oversights may not always be evident until a problem arises – and this could result in continual requests for budget increases to cover the unplanned work. Secondly, there is the danger that the company never knows who is ultimately responsible for any given failure, and even if it knows, it may not be able to prove it to a sufficient standard to enable the company to enforce its rights and remedies under the contract.

To minimise these two dangers, during the preparatory work for the multisource, the customer needs to do a gap analysis or carry out appropriate due diligence, end-to-end, across the in-scope services, processes and systems to ensure that all the touch points, handovers and responsibilities have been clearly identified and that the customer and service providers know (ie, via the contract) exactly who is responsible at any particular time for any failures that arise under the contract. Normally, the deal team would be expected to provide assurances that they have carried out this preparatory analysis and due diligence.

Multisourcing and the finance function

The rise of multisourcing coincides with another growth area of outsourcing: the outsourcing of finance and accounting functions (F&AO). The outsourcing industry has been predicting serious growth in F&AO for many years but, despite a few high-profile deals, it is only now that companies seem to be on top of their internal Sarbanes-Oxley requirements that they are turning to F&AO in any material way.

But so far at least, F&AO and multisourcing have not come together. This may be because – with the honourable exception of payroll (which companies have farmed out to experts for so long that it seems not to be regarded as a true outsourcing any longer) – finance and accounting functions are seen as a homogenous mass of services. Certainly, by comparison to IT services (which are routinely sub-divided between distinct hardware, software, support and telecoms functions), finance functions are more often viewed as one set of services. It seems that only when this begins to break down, and true niche specialist service providers appear, will F&AO and multisourcing become better bedfellows.

CFOs and other finance leaders who are active in determining their businesses' direction and sourcing strategies should be keen to ensure that appropriate multisource arrangements and mechanisms are put in place as their businesses move away from large single source arrangements to smaller, shorter-term multisource arrangements.

In taking the decision to go down the multisourcing route, CFOs need to factor in the trade-off between the economies-of-scale that might be achieved under the single source model against the better balance of long-term competition and innovation that is likely to be achieved under the multisource model.

By going down the multisource route, CFOs are giving their businesses the best chance of maximising the opportunity to deliver value for money in the outsourcing transaction but, at the same time, if done properly, CFOs will be ensuring that the deal:

- allows the business to concentrate on its core competencies;
- achieves a fair balance of risk and reward between the customer and service provider;
- allows as much competition as is possible between service providers;
- maintains flexibility for the customer and avoids lock-in to a single service provider; and
- ultimately has a better chance of achieving a win/win for both customer and service providers than the traditional single source model.

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