

Global Corporations Leveraging the Outsourcing Market

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Introduction

Outsourcing on a global basis brings additional sets of demands beyond those involved in a purely national outsourcing decision: issues of scope, supplier selection and cross-border issues each need careful consideration. Furthermore, specific corporate factors, such as the degree of centralisation and previous exposure to outsourcing, ensure that each overall sourcing solution is unique.

When considering outsourcing on a global basis, an organisation has to assess very carefully the business justification, as the potential overheads may be large. Few organisations are truly global; many have major operations in a few main centres with smaller operations elsewhere. Similarly, only a small number of suppliers are truly global. The question is often one of scoping and governance, with a single supplier across all geographies sometimes being less attractive than a tightly controlled centre with local sourcing solutions. Another approach that is becoming attractive is to slice scope by activity (e.g., helpdesk, data centre) and exploit suppliers' existing offshoring capabilities to deliver the global service. In all cases, the aim must be to make use of suppliers' inherent strengths.

This paper reviews the context of an organisation's approach to global outsourcing and goes on to discuss the main ways of using sourcing solutions and how they are impacted by the organisation's geographical footprint.

Organisational context

In EquaTerra's opinion, there are three fundamental dependencies that will determine the appropriateness and the potential success for an organisation outsourcing on a global level. These are:

- The business justification, including the overall level of savings achievable, and how these savings are derived
- The organisation's corporate culture
- The nature and geographical spread of the organisation's operations

Business justification

Although benefits can come from multiple sources, most global organisations considering outsourcing will derive the major benefits from simplification and standardisation. Typically, (as a result of mergers and acquisitions and the associated inheritance of various IT/IS departments), the global operation of such an organisation will comprise numerous platforms and applications that have a high maintenance overhead, both in terms of manpower and cost. As a part of a global outsourcing solution, many organisations take the opportunity to use the competencies of a supplier to rationalise platforms, such as mainframes and mid-range servers, desktop environments and expensive parallel enterprise applications.

Driving standardisation will not only save costs but will also help improve staff mobility, ease upgrades and improve all aspects of security, including virus protection, intruder prevention and detection, and facilitate disaster recovery.

Ultimately, the level and derivation of cost reductions will drive the shape of any outsource: an ambitious global outsource not underpinned by a robust financial case is likely to fail and should probably be replaced by tactical initiatives. It is, therefore, imperative that at the outset of any global initiative, the organisation clearly establishes the level and scope of any savings and standardisation requirements. Such expectations must be clearly agreed with both the business and any suppliers.

Some organisations limit the scope of rationalisation to enterprise systems and further reduce the scope by focusing on key countries or regions. This has the advantage of reducing risk while at the same time achieving demonstrable benefit in a shorter timeframe. The downside is that, unless a second phase is implemented for the 'residual' countries/regions, an organisation is often left with a dual operation comprising legacy and enterprise applications.

Alternatively, we have seen standardisation implemented in totality for specific countries/regions, leaving small operations out of such programmes. Again, this provides standardisation 'where it matters' and gains efficiencies and savings in a shorter period. However, the down-side is that, again, it leaves a heterogeneous operation – this time based on a geographical split. Such an operation may have such negative implications in terms of inter-connectivity and security that the organisation subsidises small operations in order to achieve a uniformity of coverage.

Finally, EquaTerra has also experienced standardisation in totality where platforms (in particular servers) and the desktop environment have been standardised on a totally global basis. It should be noted however, that even in such a scenario, legacy applications continue to be used as the cost of porting them is often prohibitively high.

Corporate culture

Organisations having a mature and centralised corporate culture are likely to attempt (and succeed in) implementing a broader level of standardisation and geographical spread, as the sponsorship is less likely to be openly challenged.

Conversely, organisations that are arranged on a "federal" or independent country/business unit operational basis are less likely to succeed as local business drivers typically supersede any corporate vision.

Either way, it is imperative that the organisation doesn't ignore its culture as the supplier will inevitably be left in the middle of any fight between centre and regions: the exception being where senior executives take a conscious step to use outsourcing as a change agent to force standardisation. The implications – and risks – of this approach need to be weighed carefully.

Finally, to obtain a wider acceptance of outsourcing and rationalisation, we believe that it is fundamental to carefully consider the funding of the actual transformation and the on-going operational service. Even in highly centralised organisations sites/countries and regions may feel aggrieved at having to 'fund' the corporation's larger operations. Often it is felt that such smaller countries are being penalised whilst the larger countries benefit from any savings. We would recommend that some form of internal cross-subsidisation be considered.

Geographical footprint

The organisation's actual geographical spread is also likely to have a bearing on the scope of the savings and standardisation to be achieved. In general, we have assumed that global organisations have size; however, some highly specialist organisations may have numerous 'field' operations spread across the world (research organisations, companies involved in short-term projects, oil exploration, etc.). Such operations may often have a number of central offices with the in-field operations being limited to a few desktops and/or laptops that don't readily lend themselves to a global outsourcing venture. Consideration should be given to economics and though it may appear attractive to have the entire estate standardised, in such environments it often becomes impractical to standardise everything. Most clients in this situation tend to focus on the larger offices to obtain quick wins.

Conversely, those organisations with fewer sites that are located in or around major global cities are often able to benefit from a far wider reaching service and/or standardisation programme, as supplier representation will usually be more closely aligned to that of the client's operation.

Finally, hybrid situations often occur where the organisation's operations are centralised into national/regional offices but whose operation tends to be highly spread. Examples are in the banking, retail and leisure (travel agencies) sectors in which high-street outlets are involved. Here it is usual to review the operation and qualify each branch in or out on a combination of location/size/business-criticality basis.

Outsourcing options

Global external sourcing solutions can be split into three main types:

1. Outsource on a global basis to a single tier one supplier (such as IBM, CSC, EDS or Accenture).
2. Outsource on a regional basis to several suppliers (in addition to above, ACS or Perot Systems in U.S., and Capgemini or Atos Origin in Europe).
3. Hybrid solutions that may involve outsourcing to one or more prime suppliers as above, but:
 - Retaining some sites/countries in-house
 - Utilising local suppliers for specific sites/countries
 - Utilising local suppliers for specific services.

It should be recognised that the design of a global sourcing solution is often constrained by local country factors that simply don't apply in (say) a U.K.-only contract – some of these are described below.

(a) Geo-Political factors

One key deciding factor in determining the scope of a global outsource is the stability (and international status) of each country where the client is represented. Depending on the situation it may not be possible for the supplier to provide support whilst in others, local political uncertainty may negate the value of the supplier providing services. In some cases it may not be legal for a U.S. company to even operate in a country (e.g., Iran, previously Vietnam and Libya) and therefore, a global solution must consider these as special cases.

In other countries, whilst suppliers may be free to operate, political uncertainty, such as civil wars or punitive restrictions, may make it unattractive for a supplier. In such cases, the supplier may not offer any services, or might do so but at a premium.

(b) Legislative restrictions

Often a supplier's solution may be restricted by local legislation. This may include legal or cultural obstacles against outsourcing itself (many developing countries) or the transfer of cross border data (e.g., Singapore), or even restriction on use of third-party network facilities (e.g., South Africa).

(c) Technical infrastructure

One deciding factor governing the scope of a global outsource may be the level of the existing technical infrastructure and applications especially in Third World regions, such as Africa. This may extend to high cost local telecoms that restrict remote support and effectively mandate a high degree of local support. Again, it is recommended that for such countries/regions, a business case be prepared against which an objective assessment can be made.

(d) The size of the country user base

In our experience it is unusual even for a global deal to include all sites/countries, and in fact, some suppliers specifically exclude smaller countries from the contract. Normally this is because they don't have adequate coverage and are forced to sub-contract making their service uneconomical (either to the customer or themselves).

e) Future business plans

Although a client may only have a small presence in certain countries or areas at the time a global outsource initiative is undertaken, it may well have clear business plans to expand in such areas and although it may initially look unattractive to include them, any future growth should be considered. We have seen extensive expansion of businesses in Eastern Europe, Russia, India and China.

In general, the greater the complexity of the supplier structure, the greater is the need for a strong governance and larger retained organisation.

Outsourcing to a tier one supplier

This is the obvious path taken by a client requiring global coverage, as the advantage of outsourcing to a single supplier on a global basis is that there is a single point of accountability. Of course, the logic of a single global supplier can equally apply to multiple global suppliers for different service lines – for example a single supplier for Applications Support, and a single supplier for Telecommunications.

It should be noted that even the largest players do not necessarily have coverage in all countries whilst in others, they may have only sales/representational offices rather than support personnel. When considering this option, a comparison needs to be made between the geographic footprint of the supplier and the organisation – a regional or more likely hybrid solution may be more appropriate.

The following table provides an indication of tier one coverage for each region:

Region	Coverage	Comment
USA	Strong	As this is the home base of all tier one suppliers this is to be expected
Canada	Strong	Proximity to the above
Europe (Western)	Strong	Although some have limited coverage in France
Europe (Eastern)	Medium	Strong development here as labour rates are currently attractive
Middle East	Medium	Representation in some countries (mainly in the Gulf) is strong whilst in others (Iran, Iraq) non-existent
Africa	Weak	With the exception of South Africa, generally only representative offices
South America	Medium/Weak	Suppliers tend to have fairly good representation in stable countries such as Brazil and Peru Representation in countries such as Bolivia and Columbia may be limited
Asia-Pacific	Strong/Medium	Most strong in developed countries such as Hong Kong, Singapore, Australia and New Zealand In-depth support not always available in other countries Suppliers usually want to hub services
Former Soviet Union (including Russia)	Weak	Though again, presence is developing
China	Weak/ Developing	Representation in key cities such as Shanghai. Again, developing

Regional outsourcing

This approach normally involves outsourcing all services within a region to a supplier but using different suppliers for each region. Such an arrangement is often undertaken because an incumbent supplier is already in place and the cost of termination/transfer to the global supplier would be prohibitive or where it is felt that another supplier has better regional coverage than the global supplier.

Whilst this approach adds an operational complexity, management overhead and reduces the level of standardisation, this can provide a cost-effective solution while eliminating any cost/risk of transfer. Nevertheless, having multiple regional suppliers requires a specification of which supplier defines standards and policies. This either has to be a nominated 'prime' supplier, or needs to be part of a retained organisation. Typically, the prime supplier will be the supplier that services the region where the corporate headquarters is located.

Hybrid solutions

Inevitably, most global sourcing solutions evolve toward a hybrid solution, with large outsourcing contracts in the primary geographies and more tactical solutions elsewhere.

For reasons shown below, many clients create hybrid solutions that involve one (or more) of the following approaches for the 'special cases' that do not fit with the single or regional supplier models. Used selectively, (i.e., only a small percentage of the user base is covered), these allow the scale advantages of large supplier contracts whilst retaining flexibility in supplier choice and economic viability.

1. Retaining some sites/countries in-house
2. Utilising local suppliers for specific sites/countries
3. Utilising local suppliers for specific services

(f) Retention in-house

Some customers feel that certain elements of their IT/IS operation are too business critical to outsource. In other instances, it may not be possible to use an outsourcer's services, whilst in others, remoteness, language or limited infrastructures may make outsourcing commercially unattractive. In such cases, it must be recognised that standardisation of services and infrastructure will be diluted and that an additional management overhead will be borne by the client.

(g) Local supply – by site/country

Again, geographic remoteness, local legislation and/or working practices may preclude the use of a tier one supplier and often clients find that the use of local supplier (either at a site or country level) is more economic and efficient than attempting to use a 'one-size-fits-all' solution.

In cases where legislation or the political situation precludes the use of a global supplier, it may be necessary to use a local supplier to continue to provide services at a country level.

In some instances we have noted a client using a second tier one supplier for a specific country as the charges and service coverage were better and a local relationship was already well established.

(h) Local supply – by service

Similarly, local suppliers especially of telecommunications and desktop services, often have a far wider spread in a country or area than the global supplier who will invariably sub-contract such services. Whilst the management of another such local supplier will have to be borne by the client, this often provides the client with greater flexibility and allows direct negotiations with such suppliers. Any resulting savings will pass directly to the client rather than the managing global provider.

Conclusion

Outsourcing on a global scale introduces levels of complexity not seen on a more local scale. At an overall high level, the tier one suppliers emerge as the only candidates with truly global delivery models. Assuming sufficient scale, they can offer robust services and are able to manage the complexities involved.

However, most global organisations will have operations that for geographical (country politics), scale (too small or remote) or internal (arms length subsidiary) reasons do not fit with a standard delivery model, and it is often uneconomic to make them do so. In such cases, a pragmatic approach needs to be taken and some kind of hybrid will emerge with local or in-house delivery.

Lastly, the importance of effective governance needs to be addressed. The more complex the structure, the greater the need for a larger retained organisation to provide technical direction as well as contract governance; on the other hand, single suppliers need to be managed carefully to ensure adherence to contract and to ensure that service (and price) evolves with market levels.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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