

COLLABORATE TO INNOVATE:

The Future of Sourcing Begins Now

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INTRODUCTION

Enterprises and public sector organizations have long depended on sourcing to solve business problems and save money. Sourcing strategically allows an organization to focus on its core competencies and capabilities and partner with others to bring essential supporting capabilities. Today, the expanding array of new technologies and business solutions enhances this sourcing ecosystem. Enterprises are no longer sourcing their services simply to save money but also to improve operations, get more value from their supply chain and capitalize on new growth and efficiency opportunities. If you are not figuring out how to best leverage the capabilities of business partners to help you to optimize your bottom line and compete better in the market today, your competitors are – and they will use those services to compete against you.

Of course, the explosion of what is possible with partners in the sourcing market today is accompanied by the fact that navigating it and arriving at a truly collaborative outcome takes an increasing degree of expertise. Engaging with service and solution providers is more complex than it once was. The options have expanded, the pace of business has accelerated and the expectations for any kind of business relationship have become greater – and more sophisticated.

In today's dynamic, global marketplace, enterprises need a sourcing solution that can keep up with the rapid-fire changes in technology, services and operating models fueled by the digital revolution, a solution that is flexible enough to handle any business need. They need partners that can help them identify technology and service solutions more quickly, manage the process of transitioning those services to a provider and become more agile when it comes to service integration and management, changing customer requirements and the adoption of emerging technologies.

This ISG white paper explores how an enterprise or public sector organization can accelerate the sourcing process – more quickly determine its goals and find the right partners to accomplish them – so that they can reap the full benefits of a healthy, sustainable and flexible business relationship.

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New Expectations for Sourcing

We've known for some time that a company's internal procurement process, which was originally established for commodity-type purchasing, isn't set up to foster a strategic partnership with a high-quality information technology or business process outsourcing service provider. A lack of collaboration between the two sides during the sourcing process can inadvertently set the relationship on a path to failure. Often, what is a sizable business investment becomes an emotional tug of war from both sides and much of the potential value of the relationship can be left on the table.

The need for automation, modernization of infrastructure and digital transformation across the enterprise throws this inadequacy into sharper relief. For significant initiatives that impact the future of business units and whole companies, the success of a sourcing endeavor depends almost solely on the collaborative nature of the relationship established between a buy-side enterprise and a sell-side service provider. When the collaboration breaks down or was never properly incubated, both parties will suffer and **the diminishing win rate of today's incumbents** is a tell-tale sign of this effect.

An important long-term goal of sourcing is to create a situation in which the buyer and the service provider can work as an integrated entity. This is a carefully orchestrated affair in which the enterprise IT or business operations organization considers the provider an extension of its delivery team – and it does not happen by chance. Market intelligence, early collaboration and close operational and cultural alignment are essential to the health of a strategic sourcing relationship and should be explored and well understood long before contract signing.

The Data Imperative

Today, enterprise leaders who are faced with making services-and-solutions buying decisions must have access to a whole new realm of detailed information. The market is experiencing an exponential rate of change. New operating models and ways of solving problems are emerging and evolving in real time. New capabilities are disrupting whole industries. To make a decision in today's market without the right information is like forecasting the weather from inside a windowless room. It is more than risky to make business decisions of this gravity without deep insight and information.

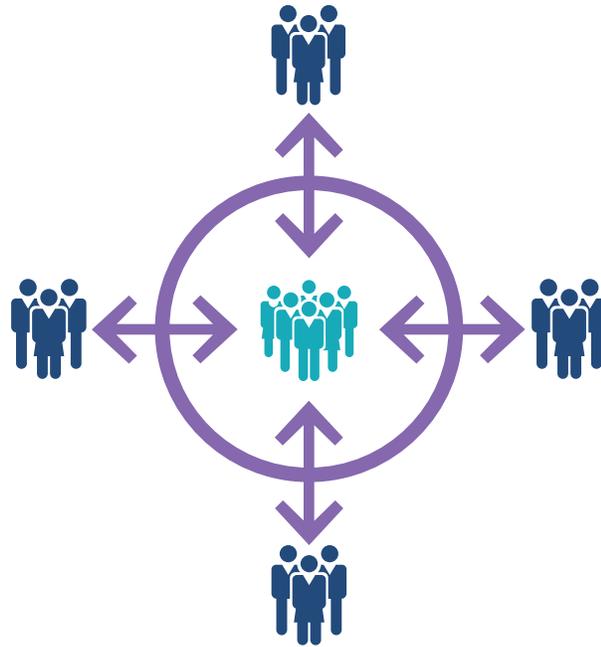
First, an enterprise must look inward by assessing its own organizational readiness for sourcing. A sourcing readiness assessment allows a buyer to understand and address the urgency for honestly reviewing and reimagining its operating model, redesigning its processes, recalculating its organization change plans and internal communications. Every organization has had the experience of taking on a service provider without adequate preparation and knows the costs to performance, effectiveness, efficiency, operations and the bottom line. To create a sourcing relationship that bears the fruit it promises, these adjacent and overlapping capabilities are an essential part of preparation.



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Figure 1 Enterprises and public sector organizations must first look inward at their own business requirements and then outward at what the market can offer.



Second, an enterprise must look outward. New technologies and solutions increasingly come in different packages, which are not always easy to identify in a one-time scan of the market. A sourcing buyer needs to know what the market has to offer – what solutions and services exist, which firms are successfully delivering them now and which firms are continually innovating in response to client needs and market evolution. What are the pricing models and performance programs that lead to customer satisfaction? And what are the best systems for measuring and governing a long-term relationship?

A New Approach to Sourcing: Collaboration

In the 30-plus years that businesses and public sector organizations have been looking to service and solution providers to help them become more efficient and innovative, one thing is still true: creating strong and lasting solutions, even the most technical in nature, is above all a human endeavor. The enterprise stakeholder team and the provider team must fully understand, appreciate and trust each other. The most important factor to this outcome is the spirit and execution of collaboration. It follows, then, that a truly innovative sourcing solution must weave collaboration throughout the four phases of the solution design and transaction process.

Figure 2 The diamonds show where deliberate and structured collaboration with enterprise and provider teams will make the biggest impact in the sourcing process.



Defining Your Business Requirements

To get to the most productive sourcing decisions, an enterprise needs its business leaders to talk openly with the IT or business process sourcing decision-makers about what they need, when they need it and how they want to experience and enjoy its outcomes. At this stage, after the team has assessed its sourcing readiness and proactively addressed its needs, it should create a list of positive outcomes that will guide its decision-making throughout the transaction. Coming together to define the exact business objectives and requirements and sourcing goals ensures all members of the buying team are engaged and invested in the solution.

Collaborating with the business stakeholder team taps the creativity of the group in determining the scope of the project and the anticipated and expected outcomes. It allows decision-makers to truly understand the transaction process, build executive-level buy-in and start the process of aligning to the best possible provider solutions on the market – whether provided by traditional service providers or emerging providers. Starting with a broad list of qualified potential provider candidates identified through intensive research and market knowledge increases the opportunity for innovation and thereby success.

The goal for this team at this phase should be to answer three questions:

1. **Where do we want to go?** A statement of positive outcomes should be used throughout the sourcing process to keep the team moving in the right direction.
2. **What exactly can we take on at this moment?** Creating a clear and realistic picture of what the organization can take on includes assessing the scope and ensuring all stakeholders are in agreement with the plan.
3. **How can we make this work?** Assessing organizational readiness allows the buying team to develop and implement a successful sourcing plan by considering the big picture involved in managing change.



Access to the latest market data can fast-track this winnowing process so enterprise teams spend less time discovering what different providers can offer and more time in face-to-face exchanges with the right candidate provider teams.



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Consolidating the Data

Once business and sourcing decision-makers have a clear understanding of their business requirements, they must quickly become familiar with the playing field. This is especially challenging in a service and solution provider industry that is constantly changing. Starting with an expansive list of IT or business process sourcing providers and reducing them into a manageable set of qualified candidates should be a matter of mapping providers’ capabilities and credentials to the buyer’s sourcing objectives and scope. Access to the latest market data can fast-track this winnowing process so enterprise teams spend less time discovering what different providers can offer and more time in face-to-face exchanges with the right candidate provider teams. Collaboration is paramount at this stage. Discussing requirements and getting to know potential partners up front in the process pays big dividends down the road.

At the same time, an enterprise needs to collect the financial and operational data for a business case and develop a solution-oriented requirements communication and transfer toolset that will structure the contract. When an enterprise has clarity about its business requirements – including clear definitions for services, performance and pricing – and about the providers that are most well-aligned to those requirements, identifying “best fit” partners becomes a logical outcome of the sourcing process, not a guessing game or a best bet based on anecdotal information. Having a solid, industry-accepted standard to start with for the business requirements is a significant accelerator as well at this stage – making it an editorial process rather than a white page exercise that could take months.

Evaluating the Future Potential

Arriving at the right sourcing relationship – partnering with the best-aligned service or solution provider and setting the stage for a healthy relationship – depends on having the right information at the right time. Continuing to iterate on a final decision is a matter of becoming more closely acquainted with the specific solutions proposed by three or four final candidate providers.

Once each of these providers have received the requirements, the buying team should engage in a series of collaborative solution review workshops with each provider so it can fully understand the proposed solutions. Collaboration between the buyer and the provider at this point accelerates solution design development for an accurate response, alignment of the involved parties and stakeholder acceptance. It encourages innovation in both the solution and in service transition planning – so both parties are arriving at a solution together – and builds cultural and operational alignment that strengthens the sourcing relationship for the long term.



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If the definition and consolidation phases prior to the evaluation are highly structured, decision-makers are operating with a keen sense of clarity about their goals and objectives and how the proposed solutions, plans for transition and ongoing governance will, or will not be achieved. Checking references and conducting necessary due diligence prior to negotiations will result in a comprehensive understanding of the providers' capability, including the expected delivery experience and transition readiness.

Deciding on Success

Once the buying team selects a provider and the two parties negotiate a contract, the relationship begins in earnest. Even with the right match, the honeymoon period will not last forever, and plans for a healthy working partnership need to be clear and proactive. This is the ideal moment to conduct an operational alignment session to prepare the buyer and the service provider for transition prior to a signed contract. Aligning operations should involve setting clear expectations, assigning roles and responsibilities and creating a strong governance model that streamlines hand-offs to optimize the working relationship for the long term. Taking the time to set the course for the transition, transformation and a fruitful working relationship now will save countless hours and energy later.

The Future of Sourcing: ISG FutureSource™

The increased need for speed and the expanding array of solutions in the digital era are fundamentally changing the way companies operate. As the market has changed, the way to a healthy and productive sourcing relationship has changed as well. Both enterprises and public sector organizations need to find solutions that can help them capitalize on – perhaps even pivot on – new and advanced capabilities to reach their customers, their markets and their revenue potential. They first must understand what is possible, then they must make sourcing decisions that are right for them.

ISG has been helping companies build productive sourcing relationships longer than any other advisory firm in the industry. Today's new market demands a new way to conduct sourcing selection, transactions and transitions. This is why we've created an approach that allows enterprises and public sector organizations to set visionary strategy; more quickly identify technology and service solutions that fit; accelerate the process of provider selection, contracting and transition; and become more agile when it comes to service integration and management, changing customer requirements and the adoption of emerging technologies.

This new approach is called ISG FutureSource™. It combines the "best of the best" thinking, approaches and solutions for sourcing in today's dynamic market. This innovative solution helps buyers more precisely define their sourcing-related strategic business requirements, align them with potential solution providers, consolidate their options in an ever-expanding provider marketplace, evaluate responses and select the best-fit partner – quickly and efficiently.

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At the core of ISG FutureSource™ is the unmatched sourcing data and market intelligence of ISG Research. ISG FutureSource™ draws on provider evaluations developed through ISG Provider Lens™ Buyer Archetype and Quadrant research to fast-track the provider selection process. This research generates insights into provider capabilities and maps them to buy-side requirements through focused surveys, briefings, interviews with providers, input from ISG advisors, ISG benchmarking data, and data drawn from the ISG Contracts Knowledgebase™ and ISG Engagement Database™.

ISG FutureSource™ builds on the best of our industry-leading data, market intelligence and the unmatched expertise of our advisory community to create the most collaborative, innovative solution yet to help enterprises and public sector organizations choose sourcing partners that will help them achieve the outcomes they need to compete in today's dynamic business environment.

ABOUT THE AUTHOR

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Clay Calhoun leads ISG's Sourcing Solutions service line for the Americas and Australia. He brings more than 25 years' experience in IT consulting, strategy, service delivery and advisory services. He has both led and supported engagements with Global 2000 client that have helped them maximize the benefits from internally optimized and sourced service delivery operations. Clay has advised on more than 50 ISG engagements totaling more than \$25 billion of contract value.



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