

# Global Sourcing in practice

From time-hire to offshore BPO

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Report Roundtable  
Global Sourcing  
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• Consulting • Technology • Outsourcing



The dust of the first experiences in near-shoring and off-shoring is settling. The initial 'hype' has grown into a structural development. Managing cross-border IT is maturing and enterprises are designing truly global sourcing models, sometimes very innovative. Before diving into global sourcing, it is time to share best and worst practices, so that we move safely from 'shoring' towards global sourcing. These and strategic issues were addressed during the roundtable on Global Sourcing held on October 26 in the Boardroom of the Rembrandt Tower in Amsterdam.

Sander van 't Noordende, managing director of Accenture Netherlands, the facilitator of the roundtable, welcomed those attending. He emphasized that the use of the term "global sourcing" instead of offshoring was deliberate. "Global sourcing covers sourcing in general, including offshoring, outsourcing and BPO. This is how, according to Accenture, companies should look at their business processes and their IT processes." Van 't Noordende invited everyone to share their insights: "The goal for this roundtable is to share knowledge and to be inspired."

## Budget challenges

The first speaker, Matthieu Groenewoud, Director Philips International, Corporate IT Purchasing, started off by setting out the Philips IT architecture, aided by a picture of a Roman temple. Because their market is getting tougher IT has to reduce their budget with 25 per cent within two years. "This we can only do with the help of breakthrough analysis. At the same time we cannot afford to lose our ability to innovate." One of the issues that can help to achieve this kind of saving is optimal contracting: going after the perfect mix between time and material, make-or-buy, insourcing and outsourcing. In order to achieve this perfect mix, especially in the area of outsourcing, Philips hired Morgan Chambers, an independent third party to compare Philips contracting practice against market best practices. One of their findings was that the contracting practice within Philips was dominated by IT time-hire. In one Philips division, the ratio of time-hired people, own people and people from low-cost countries is 75:20:5. "T&M sourcing will always be needed, especially in the early stages of product and services creation, but it should be avoided whenever possible", commented Groenewoud. "Output and performance bases and SLA opportunities were not being used enough."

Philips' purchasing specialists were not very experienced in advising on the right contracting practice. So they decided to develop a toolkit that would provide the right parameters for arriving at the best possible contracting methodology in each situation. "We're currently in the midst of this process, aided by Morgan Chambers and the University of Delft."



Kris Wadia

## Toolkit

One of the parameters in this toolkit is life-cycle consideration: a study of the feasibility of operations and maintenance. Other parameters are the uniqueness of the work, the level of innovation, the maturity of the market and the size of the work. "The outcome is not only good advice on the right contracting model", said Groenewoud, "but also advice on the vendor strategy; should you use one or multiple vendors, and what is the best interaction model: auctioning, competitive bidding or cost plus?" In an attempt to use this tool in a standard working environment, investigations are started to embed the contracting toolkit in a project management tool that is common within Philips IT: Prince2. "If things continue to be as promising as they have been so far, this will be an enterprise-wide working tool by the end of this year."

One of the people attending asked how the mindsets of CIO's, who have been working in the old style for a long period of time, would be changed. "There is a lot of distributed buying within companies. Every program and project manager has his own contacts from whom they buy. This may be conflicting with this new way of procurement."

"First", Groenewoud explained, "we will train fifty people globally who, as ambassadors of the toolkit, will approach the program and project managers. You're right about this easy way of dealing with resources. Every time we wanted to track the benefit of their procurement for Philips, they remained silent. With this tool we are removing the convenience." At the moment 70 per cent of Philips' sourcing takes place in Western Europe, of which 80 per cent is in the Eindhoven area. "We definitely need to shift this in order to break through on our cost-down", Groenewoud stated. "In cooperation with vendors we've been active in India, Malaysia and Brazil for two years now. It's too early to talk about breakthrough advantages yet. Alongside this we're investigating the whole sourcing stack, including the option to start up a captive center for IT in India. So far nothing has yet been decided."

## Reluctance

The next speaker, Stephen Hanford, A-Force Program manager from Cargill, explained how Cargill got into outsourcing. "Cargill grows partly via acquisition. This means that you end up with an awful lot of systems." In order to maintain some form of efficiency, Cargill Europe in cooperation with Accenture kicked off an ERP project to replace numerous legacy systems. From the moment the pilot went live, in April 2002, development work on this new system continued alongside keeping the legacy systems up and running. There was not enough capacity to resource both courses of action, so application support and ongoing development work for the new system were outsourced to Accenture in a short-term

3-year contract. "With some reluctance", Hanford added. "We wanted to keep all our activity onshore at an Accenture delivery center in Almere and it was our intention to bring the outsourced services back in-house at the end of the contract." But at that time Cargill decided to take the outsourced solution one step further by moving part of the work



Sander van 't Noordende

offshore and taking advantage of labor arbitrage opportunities. "Working with an outsourcer we got very used to the high level of service and service management capability", explained Hanford. "However we did not believe that the required level of service could be delivered with a complete offshore solution. So we chose a split-delivery model: 30 per cent of the outsourced delivery capability onshore in the Netherlands, the other 70 per cent offshore in Mauritius." Someone asked why there wasn't 100 per cent faith in the offshore service levels. "We firmly believe that application support by its very nature requires face-to-face communication", Hanford explained. "Contact by phone or videoconference isn't effective enough. Even with rock solid processes it's our experience that it's important for senior developers to sit down with designers." Kris Wadia, Partner, Accenture, added to this, some of the wall space in project areas in India is covered with photographs of the people onshore. "To them the relationship factor is also extremely important."

## Split delivery

The biggest challenge for Cargill in outsourcing is labor turnover within the outsourcer. There is a big difference, especially in the offshore part, between someone who is new to the organization and someone who has built up some experience there. "This is a threat to quality and therefore to cost", Hanford emphasized. "Therefore labor turnover is part of the contract: we insist on certain notice periods and other provisions."

Someone at the roundtable said that Cargill had taken a rather cautious approach toward outsourcing and offshoring. "Looking back, are you happy with the way things went?" Hanford admitted that they had wondered why they did not go offshore and take the cost savings straight away. "The announcement that we would outsource resulted in huge lines of people outside my door. I believe that if we had announced offshoring straight away we would have created a great deal of unease within the IT division at Cargill."

## Labor arbitrage

After a short break, Kris Wadia, Partner, Accenture Global Delivery Network, shared his extensive knowledge of offshoring. He mentioned the typical business drivers for offshoring, with labor arbitrage at the top. "Some CIO's have the view that the people in India or wherever can screw it up two to three times and still be cheaper than onshore firms. However, this is not the right approach. You should ask yourselves what else you're getting as part of this package, because then the chances of your offshoring becoming a success are substantially higher. Technological expertise, productivity, market discipline and flexibility can be decisive advantages in opting for offshoring."

One of those attending asked how long labor arbitrage would still be an advantage. Wadia painted a picture of the Indian labor pool with unconstrained supply and wages tied to the global economy. "Therefore I believe that the differential will continue longer than we might assume. The differential in the Eastern European countries however will be wiped out sooner, simply because the size of the labor pool is much smaller." "I believe", added Van 't Noordende,



"that China is going to be there soon as well. Every year 4 million students graduate from university." Supporting what Hanford had said, Wadia emphasized the importance of the site visit. "It is a kind of industrial tourism", he said, "yet I am delighted that this is happening. Understanding is crucial. And you have to be comfortable that the people that work for you are of the intellectual and cultural caliber that you expect." To illustrate the cultural differences between India and the Western countries, Wadia told a story of a bake-off: an identical pilot project for three parties to determine who interfaces best with your organization. "When we got the specifications from the client we realized they were incomplete and called the client immediately to say so. To us that is normal behavior. Apparently the client had forgotten to send the appendix with the specifications. One of the Indian vendors first asked for the appendix four weeks later. The other Indian vendor never even called to say something was missing."

## Trust

When selecting an offshore partner, several key factors like delivery capabilities and business value are important. "But at the end of the day it boils down to trust", according to Wadia. "We all know that IT-projects without any hiccups are exceptions. So who do you trust? And make your choice as objective and emotion-free as possible." In response to a question from one of those attending, Wadia amplified on the advantages and disadvantages of working with one vendor instead of with multivendors.

One of the attendants from the banking world said that applications and maintenance in his sector are highly knowledge-intensive. "I see great advantages in sharing the knowledge of development and maintenance, so to combine the two in one vendor would have my preference."

Between the client and the vendor there can be a large gap in CMM level (Capability Maturity Model). "Do not assume", Wadia warned, "that if you buy CMM-5, everything will be wonderful. It is very important that the offshore provider can incorporate the client's delivery assets into their global quality standards. CMM-fixated (instead of client satisfaction fixated) companies are not good at adjusting to client's needs outside established parameters."

The cultural differences between offshore and onshore locations stimulated Accenture to develop a program that is very useful for both offshore and onshore people. For example, it teaches people at offshore locations not to say "yes", unless they understand that it binds them to a verbal contract. Wadia remembered a specific incident where he asked the people at an offshore location if the work could be finished by Friday. "They all said yes immediately. Then I asked to name the issues that could prevent the work being done by Friday and I got over forty items that showed us that it was absolutely impossible to have the work done by Friday."

He also encouraged onshore participants to treat offshore colleagues like equals and not third parties, to create the environment in which offshore would feel comfortable with sharing their considerable knowledge and experience.

Much more than can be included in this report was discussed during the afternoon. Sander van 't Noordende concluded the session by thanking all the speakers and those attending.

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