

Outsourcing

Rationalizing ADM Suppliers for Financial Benefit

Podcast Transcript



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Welcome to the Accenture podcast entitled
"Rationalizing ADM Suppliers for
Financial Benefit".

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As companies look for ways to reduce costs, Application Development and Maintenance (sometimes referred to as ADM) outsourcing has grown in popularity. In fact, some companies have amassed a complex network of multiple suppliers to meet their outsourcing needs. But managing such a network can create a management nightmare. Today, leading companies have reduced the number of suppliers in their ADM portfolio resulting in a less complex sourcing environment.

Accenture asked the Everest Research Institute to look at how these leading-edge organizations can achieve more with less. This podcast by Eric Simonson of the Everest Research Institute summarizes the key learning points from their research. A companion white paper, titled "The Hidden Costs of Complexity of Managing Multiple ADM Suppliers ", is available for downloading from the Managing ADM page on the Accenture website.

Hello. I'm Eric Simonson, Managing Principal at the Everest Research Institute. I work with a group of people who spend a lot of time studying what happens when real companies begin to outsource their processes and systems. Today I will be talking to you about one particular aspect of outsourcing Applications Development and Maintenance, and that's how to look beyond any one specific deal and into the essential mindset of a successful outsourcing organization.

Intentionally or not, outsourcers of Application Development and Maintenance tend to accumulate whole families of suppliers. And as time goes by, there's a cost to it. There's the cost of setting up each relationship, and managing it. There are the missed opportunities for economies of scale. There are operational hiccups because of inter-linkages in project management, testing, and so on. Just try to practice good governance when you have so many moving pieces across multiple

areas. When it ends up costing you project overruns or downtime, you know it's something you can no longer put up with. That's why leading buyers are rationalizing the number of suppliers in their ADM portfolio – all for the better.

We know one company that had 4,000 applications served by 20 suppliers for application maintenance, and another 300 vendors for application development. No standardized processes. Different pricing structures. Service levels all over the board. Overlaps in scope. They've finally had enough. They're reducing the 20 suppliers down to 2 and the 300 to 10. And those 4,000 applications are coming down too.

Let's talk about how you could do the same thing and what you would get in exchange.

As a starting point, buyers seeking to rationalize their ADM vendors need to adopt several "no regrets" approaches. For instance, you need consensus

across your organization that "fewer suppliers is almost always better." You need to segment your suppliers into those that are "strategic" and those that are "specialists." And you need to aim for a level of scale that allows you to build mutually beneficial relationships with your suppliers.

And then you need to work through three essential steps of managing complexity and cost. They are:

One, decide which organizational entities you're going to include. For example, are you going to be enterprise-driven from the beginning or is it better to start with a few business units, functions or technologies and expand from there? Two, figure out your engagement model – for instance, are you going to focus on outcomes or on getting talent at the right price? And three, optimize day-to-day operations by carefully managing three key areas: division of work, scope and scale, and your governance model.

When you succeed at reducing your ADM vendors to a manageable number, you stand to benefit in terms of business impact, quality and productivity, and cost savings. Business impact involves a greater capacity inside your organization to focus on your core issues and more strategic value delivered by your suppliers. Quality and productivity stems from a lower risk of poor quality or downtime. And by transferring accountability to your suppliers, you can drive higher productivity and leverage output-based pricing arrangements. On a Total Cost of Ownership basis, you can achieve savings of up to 22 to 28 percent by working with fewer suppliers. Key drivers include both one-time and recurring cost reductions. One-time costs can be reduced 35 to 40 percent by working with existing suppliers instead of bringing in new suppliers. And recurring costs can be reduced 20 to 25 percent as you begin to manage fewer contracts, fewer invoices, and fewer compliance relationships. In addition, you'll have less complexity

in project management, testing and quality assurance.

So it's a simple story. Whatever reasons there may have been for using multiple ADM suppliers in the beginning, high performers are now consolidating their vendor base. Remember the company that's going from 20 application maintenance suppliers to 2, and from 300 development vendors to 10? They're aiming for 30 percent savings in steady state. A big part of those savings will come from greater offshore leverage by their suppliers, especially through moving more senior roles offshore. The financial benefits are a significant motivator, but they're looking forward to less complexity as well. Specifically, they're creating a sourcing environment of more standardized processes and service levels, fewer redundancies in vendor relationship management, project management, and quality assurance, and more accountability moved to their suppliers and a greater ability to focus on their more strategic issues.

To make sure that they actually receive all these benefits, they're paying close attention to their internal environment. They've created Centers of Excellence for process groups, such as testing. They've made sure to align the procurement organization with their concept that fewer suppliers is almost always better. And they've moved from input-based engagement models to output-based pricing.

If this sounds like something you'd like to do in your organization, just remember the three-step process: Decide which organizational entities to work with; Figure out your engagement model; And then optimize your day-to-day operations by carefully managing division of work, scope and scale, and your governance model. The payoffs are the sort that make a lot of sense in today's business environment – improvements in business impact, in quality and productivity and in cost savings, with the opportunity to save as much as 22 to 28 percent on an annualized basis,

all by effectively rationalizing your ADM supplier base.

To learn more, go to www.accenture.com/managingadm and download our report entitled "The Hidden Costs and Complexity of Managing Multiple ADM Suppliers"—again, that's www.accenture.com/managingadm.

We hope you found this podcast useful.

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