MULTI VENDOR OUTSOURCING:
PUTTING THE BEST FOOT FORWARD

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# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Factors Driving the Multi-Sourcing Trend</td>
<td>3</td>
</tr>
<tr>
<td>Challenges of a Multi-Vendor approach</td>
<td>3</td>
</tr>
<tr>
<td>Best Practices in Multi-Vendor engagements</td>
<td>4</td>
</tr>
<tr>
<td>Establishing a Governance Mechanism</td>
<td>5</td>
</tr>
<tr>
<td>Advantages of Multi-Vendor Strategy</td>
<td>6</td>
</tr>
<tr>
<td>Check-list for Multi-Sourcing</td>
<td>6</td>
</tr>
<tr>
<td>Commonality of objectives : a Must</td>
<td>6</td>
</tr>
<tr>
<td>Conclusion</td>
<td>6</td>
</tr>
</tbody>
</table>
**Introduction**

While a record number of outsourcing agreements has come up for renewal in the past few years, it has also created an extremely complex environment for user organizations to manage. Facing dynamic global scenarios, organizations are now looking up to de-risk their outsourcing deals, by carving up their outsourcing engagements into multiple pieces spread across different vendors. This trend of going to multiple vendors is also dictated by the fact that companies are looking for best of breed vendors in every niche. A multi-vendor outsourcing engagement can also significantly enhance the quality of service.

However, a multi-vendor approach also exposes the organization to multiple risks, as it has to deal with multiple service providers, which, in turn, introduces governance related risks. Unless properly managed and governed, the multi-vendor engagement can turn out to be more time consuming and expensive.

A well-defined governance framework is the heart of any multi-sourcing engagement, as it enables organizations to get all service providers view a single objective or goal, with adequate control mechanisms, SLAs and penalties.

In the coming years, the pace of multi-vendor deals is likely to accelerate at a fast pace. Organizations have to prepare themselves for this new era through careful planning and assessment, and well defined frameworks.

As with every team, the real success of a multi-vendor engagement can truly be achieved when every service provider thinks of the larger goal instead of individual achievements, as services are interlinked to each other and can have a cascading effect. The responsibility of ensuring that this happens as designed, rests with both the client and the service provider.

**Factors Driving the Multi-Sourcing Trend**

Dynamic business scenarios and emerging technologies and concepts such as “consumerization of IT” and cloud computing, have changed the way that organizations have traditionally looked at IT infrastructure. Businesses today need greater flexibility and agility to deal with the changing business requirements, and expect the same from their service providers too. This has fundamentally altered the model of outsourcing. In the past, it was expected that one large service provider can take care of multiple areas of information technology such as application development, maintenance and support.

Today, with the need of greater business agility, organizations are carving up or breaking their outsourcing agreements into multiple parts, with the intention of getting the best of quality and cost through competition for a larger share of the business. As business processes become more complex and global in nature, multi-sourcing is emerging to be a preferred option.

**Challenges of a Multi-Vendor Approach**

When an organization adopts the multi-sourcing model, it has to deal with multiple service providers, each with their distinct service levels, reporting structures and escalation procedures. To manage such a diverse number of service providers and making sure that they deliver value to the organization is extremely challenging. If they do not work in synergy, the whole objective of a multi-sourcing engagement will be defeated.

As a multi-sourcing engagement involves dealing with multiple vendors, performance of one vendor can significantly affect the performance of other vendors. When service levels are not met and things go wrong, service providers can point out fingers at each other. Greater the number of vendors involved, greater is the complexity.

Typically, analysts estimate that the cost of managing single service provider deals which range from 3 percent-10 percent of the total cost of the deal can go as far as 15-40 percent in a multi-sourcing engagement.
Let us explain this with a simple analogy. Imagine an orchestra or choir where multiple talented musicians gather to deliver a combined musical performance. Now, just as the huge gathering is settling down to hear soothing music, there is a huge shock. All the audience can hear is a cacophony of noises that is difficult to understand. What exactly has happened? Unlike typical orchestras, this particular one did not have a without a musical director or a music conductor guiding the talented bunch of musicians. Without a guiding hand to direct the flow and tempo of the music, the wide variety of conducting styles meant that despite a talented bunch of musicians, the combined music was out of tune, disoriented and unclear to follow.

If you observe carefully, the art of conducting an orchestra has similarities and resonates with the world of multi-sourcing. Just as a musical conductor guides and communicates real time instructions to the performers, to ensure the right melody -- the current trend of multi-sourcing needs the services of a dedicated engagement team who can guide companies to deal with and smoothen the complexities, risks and integration issues which are typically seen in such engagements. Without the necessary preparation and knowledge about the implications of multi-vendor outsourcing, the very objective of going in for a multi-vendor relationship model can be lost.

When you factor in management time to manage multiple vendors, it can translate into higher costs. Typically, analysts estimate that the cost of managing single service provider deals which range from 3 percent-10 percent of the total cost of the deal can go as far as 15-40 percent in a multi-sourcing engagement. Transitioning services from a single service provider to multiple service providers is another major challenge. This requires careful planning and a detailed assessment approach to gauge inter-dependencies among applications and processes. If this is not done properly, it will be extremely difficult for organizations to pin down responsibilities for every service, and resolving issues in case of problems.

In some cases of multi-vendor engagements, there are also issues of finger pointing between service providers if service responsibilities are not clearly defined and documented.

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**Best Practices In Multi-Vendor Engagements**

Before going in for a multi-sourcing relationship, it is imperative for organizations to do a thorough and careful assessment of the organization’s capabilities in terms of people, process and infrastructure. A thorough rationalization and standardization of existing infrastructure and resources is a pre-requisite for reducing the complexity of multi-sourcing arrangements. Standardization is crucial as it allows organizations to measure every service provider using a common baseline.

Typically, when you have multiple service providers, each with their own proprietary tools and frameworks, measuring value across the enterprise is a challenging task. Hence, it is important for organizations to standardize on a particular technology or application. Once you have a standardized infrastructure in place, measuring value across multiple locations or even service providers becomes relatively easy. This approach results in a well defined and categorized set of service requirements and their optimal performance metrics.
Once a baseline for performance metrics is standardized, the next stage is to identify the right service providers. Selection of the service provider also depends on the stage of outsourcing that the organization is currently present in. For example, while a small service provider may give an organization the specific domain or business process capability, it may not be able to ramp up quickly as compared to a large service provider.

It is also equally important to track down the record of service providers. This is not only with respect to outsourcing and domain expertise, but also with respect to operating in multi-sourcing agreements. Simultaneously, organizations must also verify whether the standards or platforms that they adhere to are standard in nature. This is crucial in a multi-vendor deal, as organizations can measure service providers using a common set of rules for service support, service delivery and application management.

**Establishing a Governance Mechanism**

Effective governance is a critical factor for the success of any multi-sourcing initiative. An effective governance mechanism successfully integrates project management efforts with methodologies, tools, processes and accordingly directs the resources to achieve the desired objective. Through a dashboard, the governance mechanism must allow enterprises to have an overall aggregate level insight of the services delivered along with the ability to drill down into each service.

Establishing a multi-sourcing framework and making sure that all service providers adhere to the framework should be governed by a team drawn from the technical and business units. The governance framework should specify the key deliverables for each service and provide mechanisms to measure the achievement of goals. A well-defined and documented governance framework will enable every service provider to effortlessly communicate, collaborate and align their efforts towards common business objectives.

Equally important to the success of a multi-sourcing initiative is the contract, which defines agreed service levels and related incentives and penalties. A poorly defined contract can lead to finger pointing between the service providers and the client. In a multi-sourcing environment, SLAs should be defined with respect to SLAs signed with other service vendors.

In multi-sourcing agreements, it is advisable to enter into Operating Level Agreements (OLAs). This must be clearly defined between each service provider to avoid any finger pointing at a later stage. This OLA should not only specify the responsibility of the service provider but also their expected behaviors in case of overlaps or exceptions. In some cases, it may also require some of the service providers to share proprietary knowledge with other service providers.

For the success of the multi-sourcing relationship, it is also important to ensure that the metrics defined are within control of the service provider. The goal of establishing metrics should be to motivate service providers to meet and exceed service levels. Used intelligently, the use of incentives can encourage healthy competition between service providers in a multi-sourcing relationship. Similarly, penalties must be used appropriately to prevent reoccurrence of problems, and must be focused towards identifying the root cause of problems.

Every multi-sourcing relationship requires extensive tracking mechanisms. This includes tracking a project from a performance, financial and compliance point of view. For example, in a multi-vendor deal, it is critical to use financial management tools, as typically, the pricing of services is tied to the service level delivered. By using financial management tools, outsourcers can compare actual performance to the budget, along with the ability to manage penalties and incentives. More importantly, it allows outsourcers to consolidate the costs of individual service components and compare it with the overall cost of service. Performance management tools can help in providing a single unified view of the performance of multiple service providers, and in measuring and comparing service levels.

Similarly, usage of compliance management tools can help outsourcers get an end-to-end view of the processes along with their dependencies for all the service providers. This will help organizations automate the process of monitoring compliance levels across multiple service providers.
Advantages of Multi-Vendor Strategy

The biggest benefit of a multi-sourcing model is the fact that it allows organizations to change service providers, if they fail to deliver according to defined service levels. In the long run, it drives greater competitiveness and leads to better service levels, as service providers strive for delivering better services and providing greater value. It also reduces risks significantly, as organizations are not locked in to a single service provider.

Multi-sourcing is also being preferred as it equips organizations with the capability of gaining access to experts in specific domains, business processes or technologies. For example, organizations can choose one vendor for application development and another for testing. By leveraging the best-of-breed vendors in specific categories, organizations can gain access to a wider pool of skills and best practices.

Typically, when a company decides to outsource, it is looking for increased cost savings, better service levels and access to best practices. In a multi-sourcing model, the focus is more on innovation and delivering value. This is being preferred by a number of global organizations as they look at outsourcing engagements as ‘value’ creators. For example, a ‘support and maintenance’ service in the earlier single outsourcing model can be changed to a ‘managed’ service with specific SLAs and defined outcomes.

Check-list for Multi-Sourcing

Based on our experiences, we are summing up some of the best practices in a check-list. While this is not the most comprehensive list, these practices can be taken as preparatory points for building and sustaining a successful multi-sourcing strategy.

Commonality of Objectives: a Must

The ability to get all service providers view a single objective or goal is critical for the success of any multi-sourcing initiative. For encouraging that every service provider has an opportunity to win, organizations must specify incentives that get paid only on the success of combined results. This is important as in a multi-vendor relationship, the combined value proposition is more important than individual achievements of service providers, as services are interlinked to each other. Having a common goal will encourage every service provider to push their respective efforts in the same direction. This can be achieved using a comprehensive governance framework.

Conclusion

In summary, while a multi-sourcing approach offers many compelling benefits, the key to achieve the desired objectives of a multi-vendor relationship is transparency and flexibility. While the outsourcer must have clear visibility into the service levels provided by each service provider, the service provider should have clear visibility in the way its services are benchmarked.

Multi-vendor outsourcing is transformational and here to stay. By keeping a long-term objective in mind, organizations can significantly transform their business processes and make them more efficient and competitive.
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NIIT Technologies is a leading IT solutions organization, servicing customers in North America, Europe, Asia and Australia. It offers services in Application Development and Maintenance, Enterprise Solutions including Managed Services and Business Process Outsourcing to organisations in the Financial Services, Travel & Transportation, Manufacturing/Distribution, and Government sectors. With employees over 7,000 professionals, NIIT Technologies follows global standards of software development processes.

Over the years the Company has forged extremely rewarding relationships with global majors, a testimony to mutual commitment and its ability to retain marquee clients, drawing repeat business from them. NIIT Technologies has been able to scale its interactions with marquee clients in the BFSI sector, the Travel Transport & Logistics and Manufacturing & Distribution, into extremely meaningful, multi-year “collaborations.

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