



Pillsbury | Global Sourcing

Realities of Outsourcing: 2nd in a Series of Webinar Presentations

Developing an Informed Sourcing Strategy – A ValueChain Approach

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Alice *"Would you tell me please which way I ought to go from here?"*

Cat *"That depends a good deal on where you want to get to."*



- When pursuing **value creation** through optimized delivery, an organization **must**

Establish an operating model that enables setting priorities and manipulating the levers of change at the macro level

Architect a delivery actor's scope to contain those factors of production necessary for the stated objectives to be achieved

Contract for delivery services in a manner which communicates the objectives clearly, without unduly constraining an actor's opportunity to innovate

Perform the change management activities necessary to successfully implement the new operating model across all of the relevant internal and external actors

Build a strong, vibrant and enduring relationship between the organization and its delivery actors



The first step in strategy development is to:

- identify a wide range of **objectives**...

Examples	A. Strategic	B. Tactical	C. Operational
	<ul style="list-style-type: none"> ▶ Operating strategy ▶ Service delivery model ▶ External responsibility ▶ Resource leverage 	<ul style="list-style-type: none"> ▶ Standardization ▶ External operational transparency ▶ Service delivery locations ▶ Speed of change ▶ Process ownership ▶ Sourcing outlook ▶ External delivery staffing 	<ul style="list-style-type: none"> ▶ Improve performance levels on client-facing activities ▶ Bring best practices to the operation ▶ Simplify and strengthen the security perimeters ▶ Enable an acceleration in the pace of change ▶ Provide continuous access to leading edge processes, products, services, etc.

- ... as well as the **constraints**

etc.	Operational	Financial	Audit
	Legal / Regulatory	Cultural	Geographic

- Many of the **strategic objectives** can be facilitated by identifying five components

1

Identify the **competitive model** of the enterprise to understand the

- ▶ Environment in which the operation exists
- ▶ Contributions the operation are expected to deliver

Competitive Models

Differentiation

- ▶ Positions itself to serve specific attributes important to buyers
- ▶ Differentiation can be achieved through the product, its delivery system, marketing approach, etc.
- ▶ Rewarded with a premium price

Cost Leadership

- ▶ Low cost producer
- ▶ Uses economies of scale, proprietary technologies, etc. to achieve the cost advantage
- ▶ Typically standardized, no frills products

2

Identify the **organizational model** (current or future) to

- ▶ Create linkage between the operation and the business units or geographies it serves
- ▶ Describe the environment in which the delivery mechanisms must perform

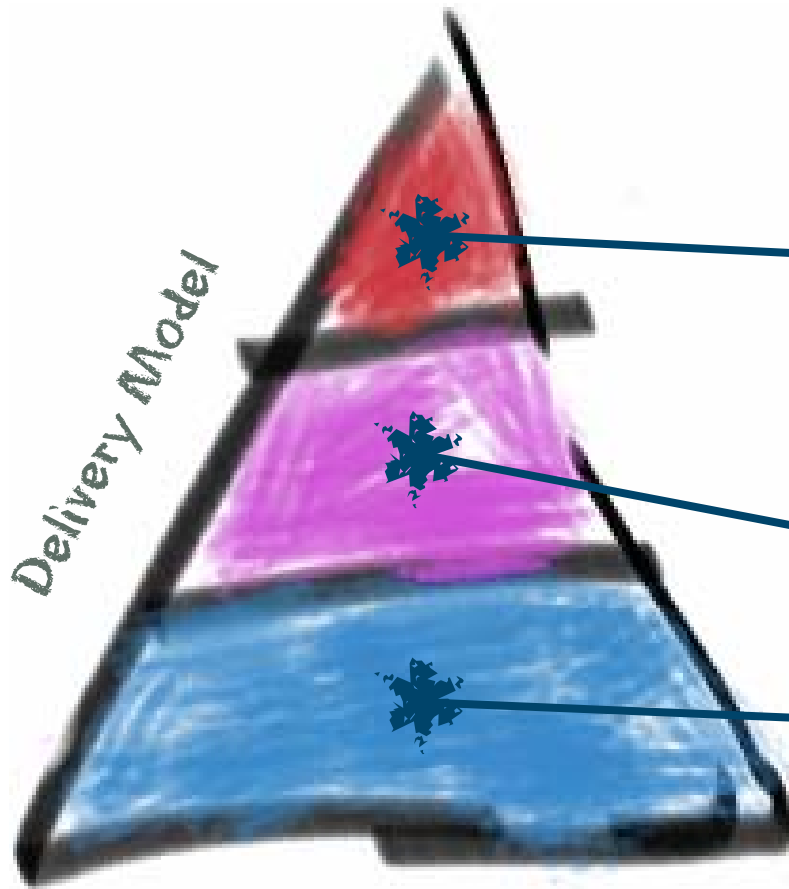


Organizational Models

3

Identify the *delivery model* that best

- ▶ Describes the desired allocation of organizational roles
- ▶ Enables the domain to meet the needs of the enterprise



Domain Governance and Management

The assignment and enforcement of decision rights and the policy framework to encourage desirable behavior in the use of domain-supplied services

The leadership and management of the domain as a whole – including its philosophies, values, strategies and performance

Integration and Service Management

The implementation and management of the delivery actors and the solutions, processes and tools across the domain

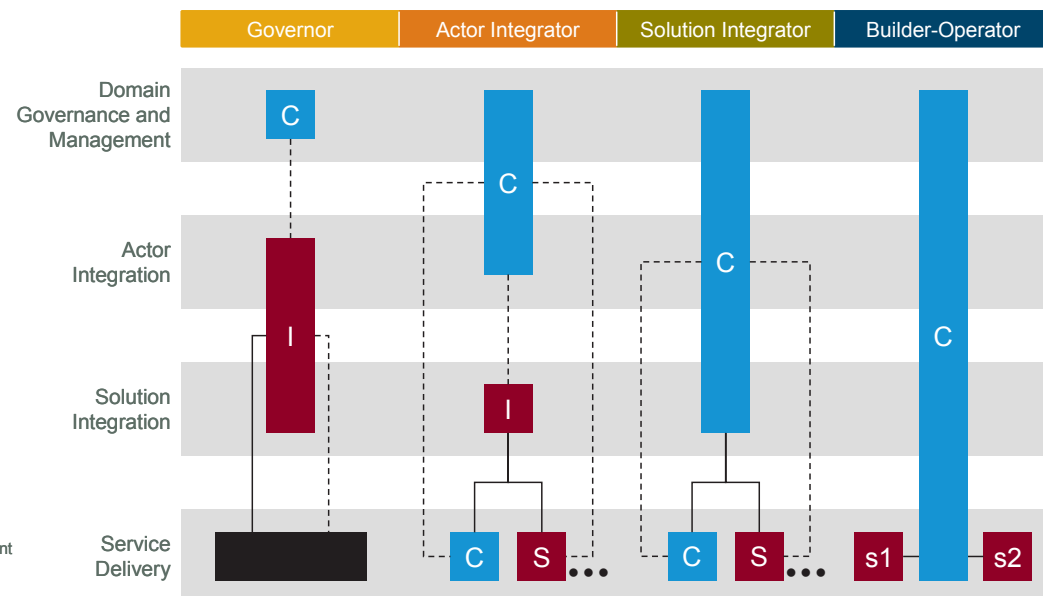
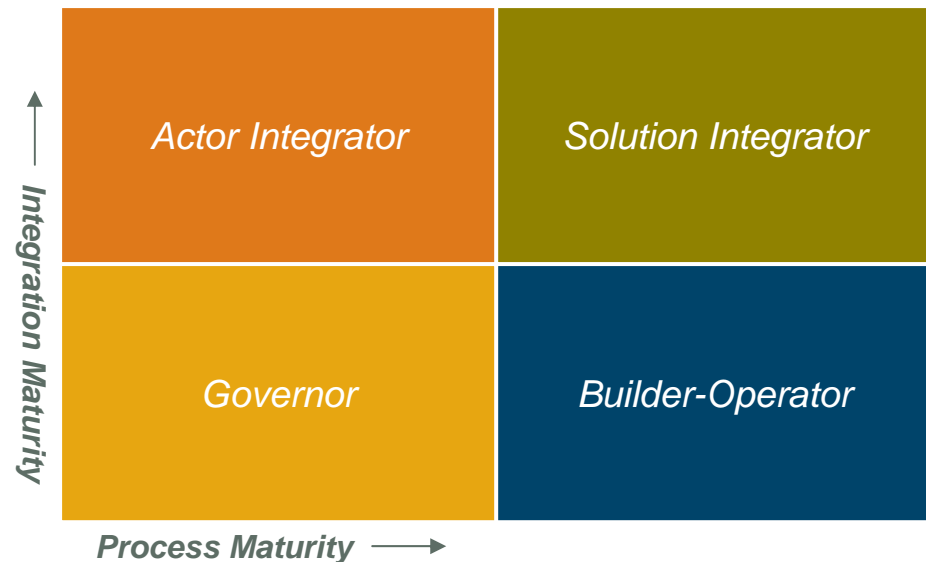
Service Delivery

The activities comprising the delivery of a domain's services to its customers

4

Identify the appropriate **delivery archetype** to guide the

- ▶ Delivery strategy to achieve the **desired outcome**
- ▶ Downstream **change** activities
- ▶ Sourcing activities and **sequencing**
- ▶ Contract **structure** and documents
- ▶ **Responsibilities** of all actors



5

Identify the *operating model* that

- ▶ Implements the delivery model in the form of sourcing relationships
- ▶ Allocates the operational processes to the right delivery actors



Strategic, Above-the-Neck or *Inspirational* Sourcing

- ✦ Characterized by customer-supplier sharing of the strategic processes
- ✦ Customer retention of the *strategic* processes that make itself unique (e.g., client relationship, enterprise architecture, information architecture, standards and policies)
- ✦ Sourcing of the processes that are inherent in designing, building and operating selected technology environments



Operational, Below-the-Neck or *Perspirational* Sourcing

- ✦ Characterized by customers who are interested in utilizing suppliers for its day-to-day operational needs
- ✦ Customer retention of the *strategic and tactical* processes (e.g., domain architecture, application and platform engineering, testing)
- ✦ Sourcing of the processes that are truly routine (i.e., operational) in nature (e.g., scheduling, monitoring, configuring, moving, fixing, helping)

Increase the probability of success

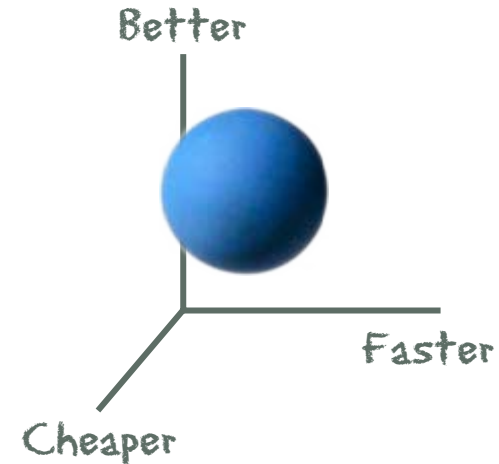
- By radically shifting the approach to a diverse set of functions, greater levels of operational ***value can be created***

	<i>Classic Approach</i>	<i>Next Generation Approach</i>
<i>Delivery Answer</i>	Outsource!	Delivery Optimization
<i>Expected Benefits</i>	Cost Reduction	Value Creation
<i>Perspective</i>	Towers	Verbs and Nouns
<i>Statement of Work</i>	Supplier-focused	Holistic Delivery Fabric
<i>Delivery Solution</i>	Prescribed	Requested
<i>Customer Change</i>	Minimal	Change Management Program
<i>Performance Measurement</i>	Point-specific	End-to-End; Coverage-based
<i>Customer/Actor Alignment</i>	Governance	Defined Interactions

- To identify and capture the value, one must...

Increase the probability of success

- ... recognize the **environment of change** in which clients operate and their occasional need to **reconfigure for success**...
 - ▶ Quality of service delivery and performance
 - ▶ Cost to provide the service
 - ▶ Speed in responding to changed requirements



- ... identify the **three options** available to address the reconfiguration...

Leave it alone

- ▶ Already working okay
- ▶ No value in changing it

Reengineer it

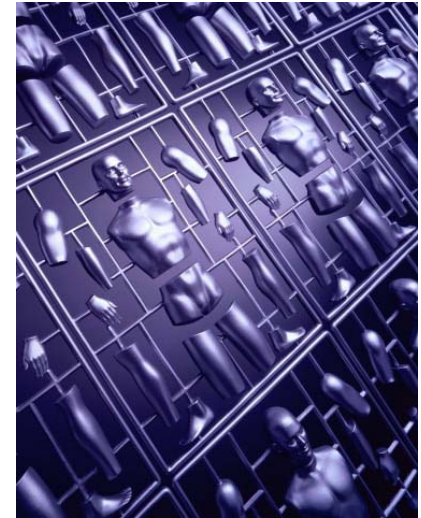
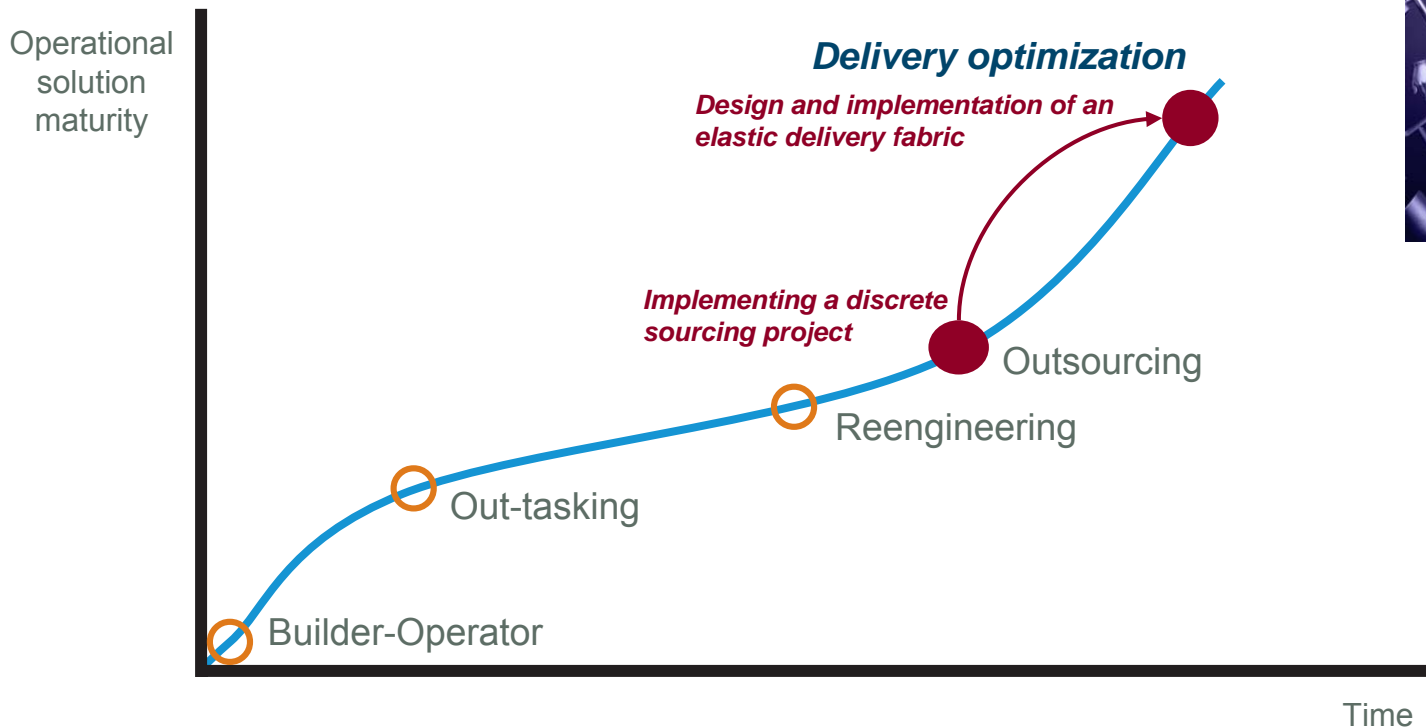
- ▶ Strategically important process (i.e., can't be sourced)
- ▶ Improvement of interactions (internal and external)

Source it

- ▶ Large-scale change required
- ▶ Infusion of new skills and/or technologies needed

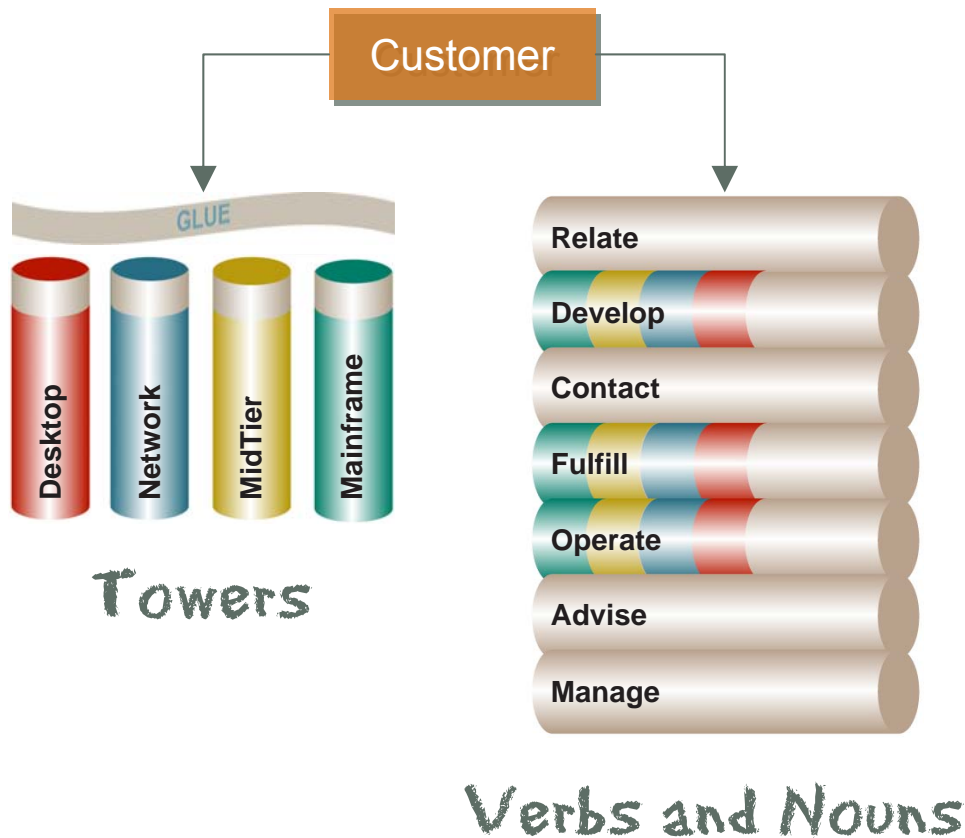
Increase the probability of success





- ... study the current ***sea change*** in thinking about how operations choose to ***deliver*** their services



Increase the probability of success

- ... shift to **designing with verbs and nouns** rather than towers to promote the optimal state of **service delivery**...

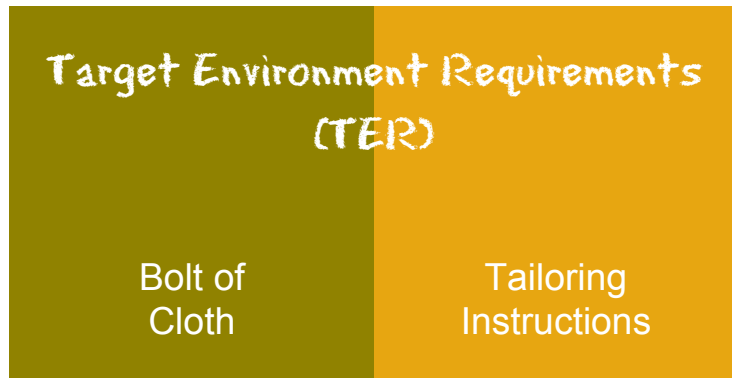


	Provides an integrated, seamless view to the operation and its customers
	Places the integration responsibility with the party most qualified for the role
	Addresses internal (customer) delivery actors in the same manner as external delivery actors
	Allows the alignment of performance measures with customer expectations

Increase the probability of success

- ... create the mechanisms from which a **diversity of solutions** can be obtained **within the designated boundaries...**

What



Scope model
Process definitions
Element definitions

Vision
Objectives
Constraints
Interactions
Implementation



How

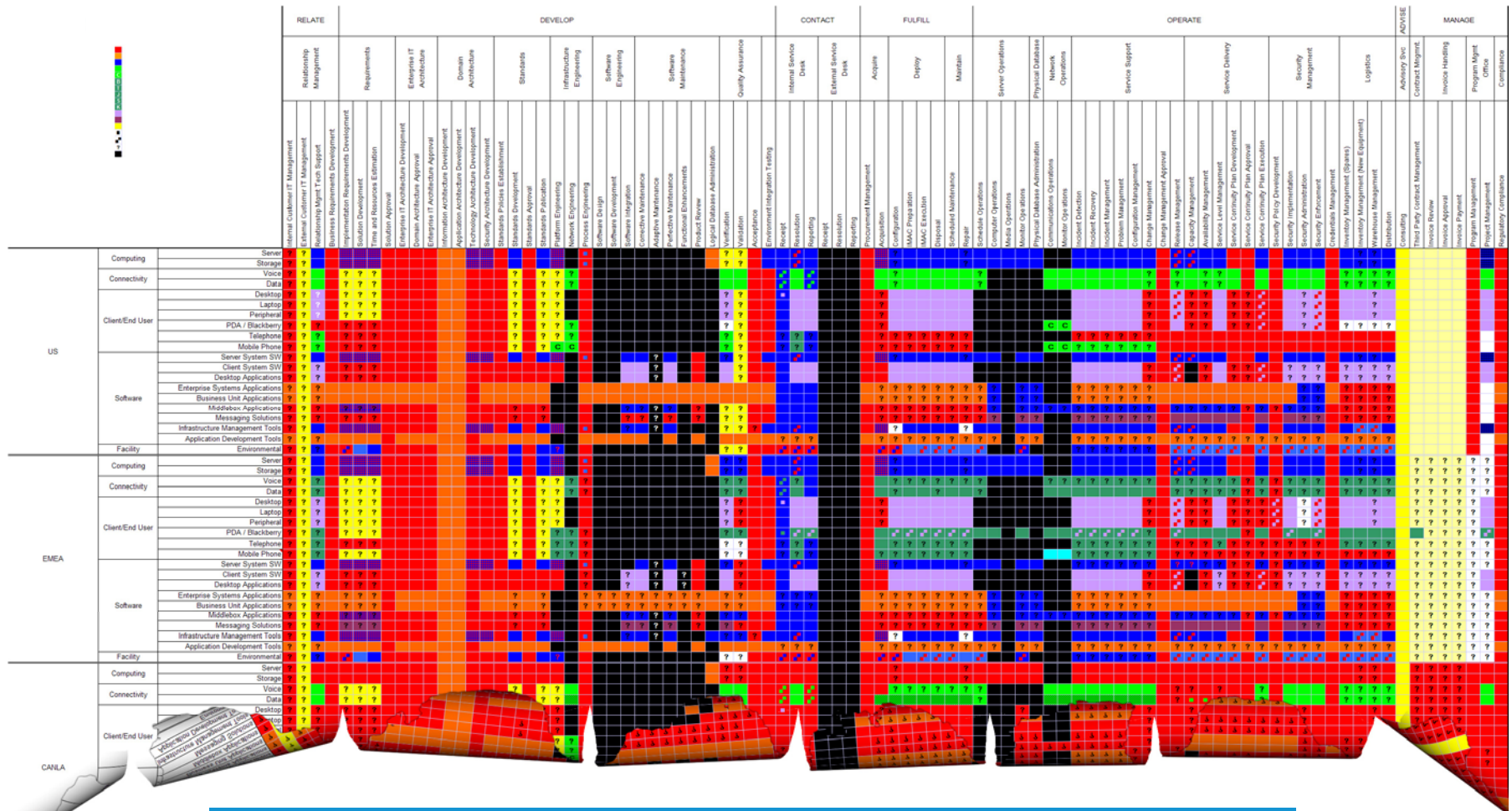


Holistic solution
Implementation plan
Interaction models
Performance model
Pricing

- ✱ ***Produces a diversity of delivery solutions – using a common allocation of operational responsibility***
- ✱ ***Leverages deliver actor know-how, strengths and configuration***
- ✱ ***Reduces service delivery impediments to produce innovative solutions***

Increase the probability of success

... implement the ability to work visually – VisualSourcing



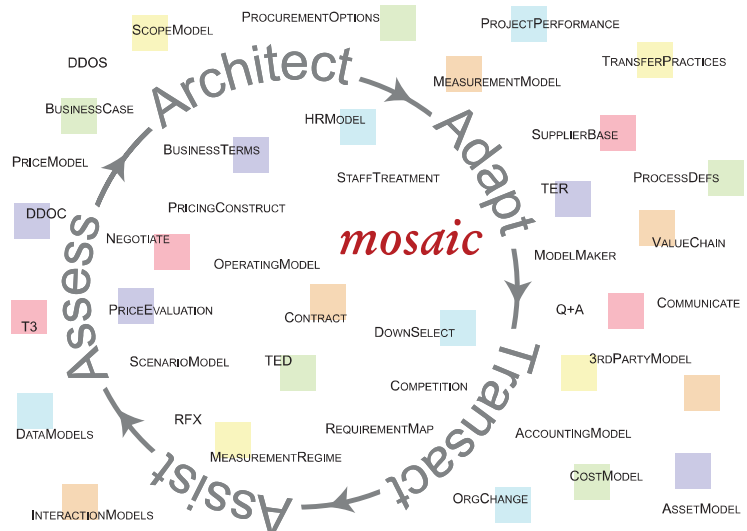
This is a visualization of delivery actors mapped to the intersections of an IT value chain and technology segments by geography



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VALUECHAIN

Structuring Delivery Roles and Linkages



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- The **value chain** has been the process reengineering tool of choice to identify and create operational value for well over a decade
 - ▶ Value creation
 - ◆ Cannot be understood by looking at an organization as a whole
 - ◆ Stems from the many discrete activities each organization performs in designing, producing, marketing, delivering and supporting its services
 - ▶ A value chain model
 - ◆ Examines activities (in a systematic way) and how they interact
 - ◆ Disaggregates the organization into its strategically relevant business processes to better understand where opportunity for improvement exists
 - ◆ Builds the bridge between strategy formulation and implementation
 - ▶ Optimization and value creation are a direct result of focusing on linkages between activities



- A value chain catalogs naturally partitioned **groups of activities** in an organization
- The processes of an operation are **disaggregated** along the value chain to understand the
 - ▶ Mechanisms and resources used to accomplish the activities
 - ▶ Relationships and interactions needed for inter-operability

IT

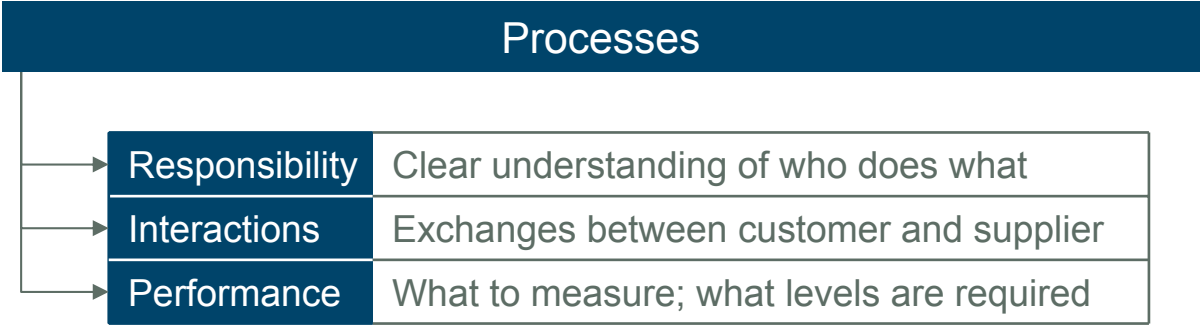
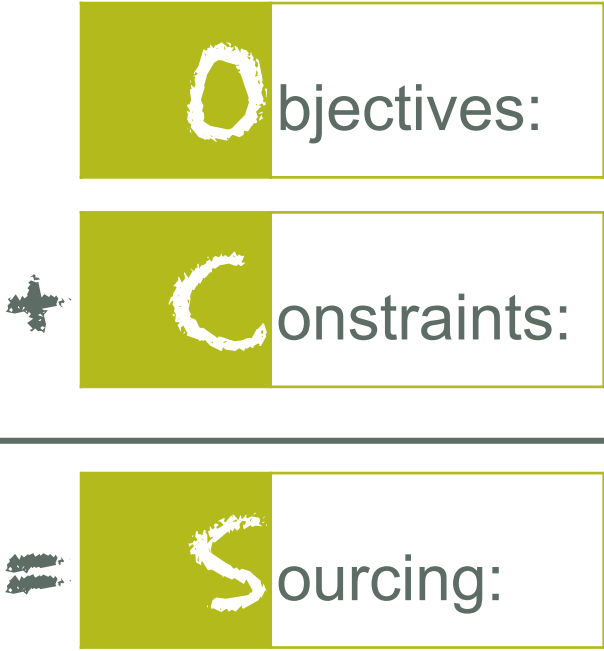
F&A

Relate	Develop						Contact	Fulfill			Operate					Advise	Manage						
Relationship Management	Requirements	Enterprise Architecture	Domain Architecture	Standards	Infrastructure Engineering	Application Engineering	Application Maintenance	Quality Assurance	Service Desk	Acquire	Deploy	Maintain	Server Operations	Network Operations	Service Support	Service Delivery	Security Management	Procurement Management	Logistics	Advisory Services	Contract Management	Invoice Handling	Program Management Office

Level 2

Business Processes

Relate	Develop				Contact	Fulfill	Operate					Advise	Manage					
Relationship Management	Requirements	Enterprise Strategy	Domain Strategy	Business Tactics	Operational Standards	Quality Assurance	Service Desk	Ad Hoc	Transaction Processing	Capital Management	Control	Procurement	Goods Handling	Financial Reporting	Compliance	Operations Support	Advisory Services	Program Office



- Factors of production are divided into four **classes of elements**



- A **customer-specific span** depicts the elements and how they apply to the enterprise

Geography Region, Continent, Country, State, Province, City, Building

Business Unit Holding Company, Division, Subsidiary, Department, Unit

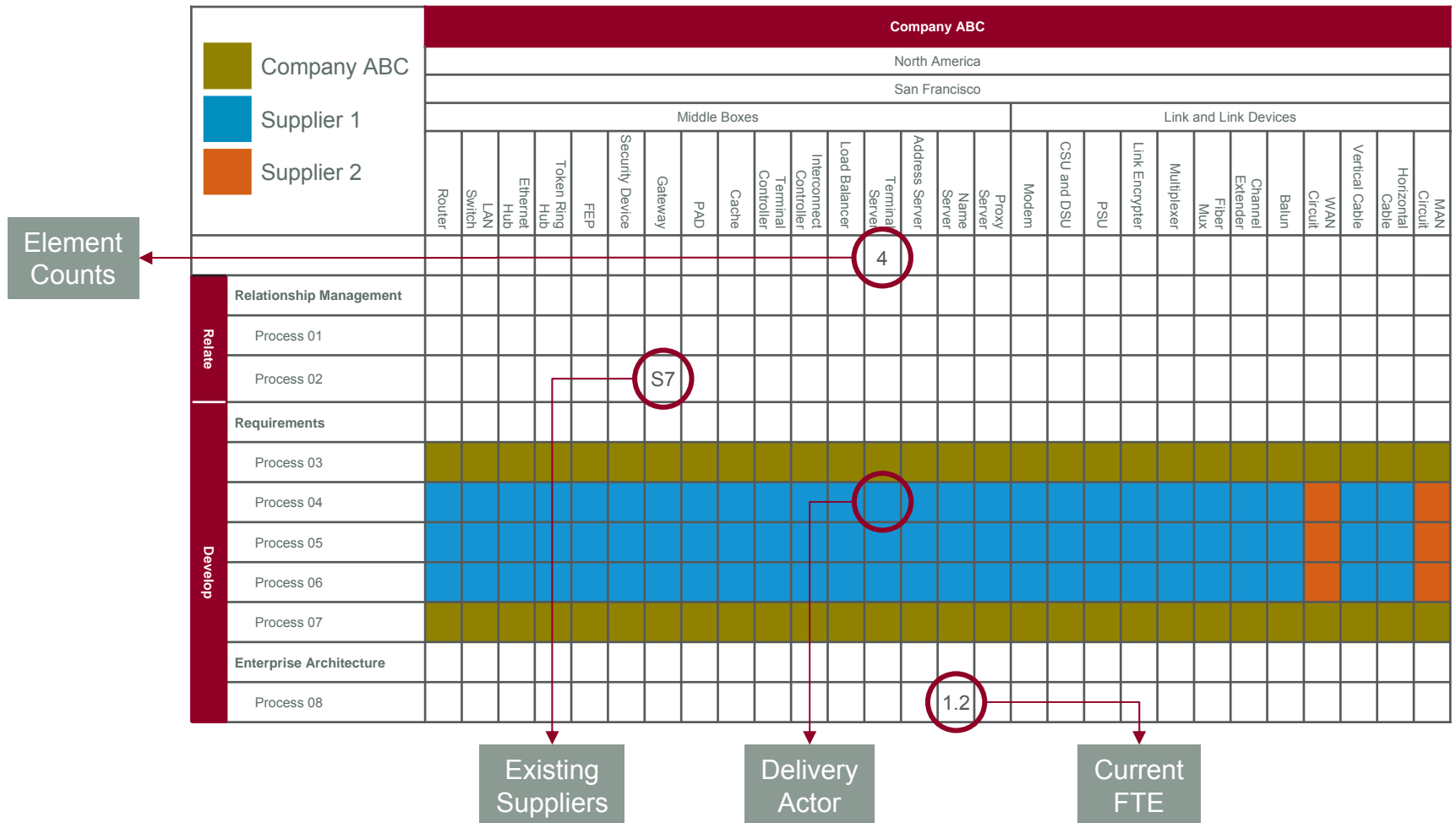
Facility Type Data Center, Corporate Offices, Stores, Warehouses, Distribution Centers, Kiosks

- 📁 **Company ABC**
 - 📁 North America
 - 📁 United States
 - 📁 New York Data Center
 - 📁 Application Server
 - 📁 Processing Unit
 - 📁 Mainframe
 - 📁 General Midrange
 - 📁 Groupware Server
 - 📁 Storage
 - 📁 DASD
 - 📁 Tape
 - 📁 External
 - + 📁 Print
 - 📁 Infrastructure Server
 - 📁 Print & Store
 - 📁 Database
 - 📁 P2P Telecom
 - 📁 PBX
 - 📁 Voice Mail
 - 📁 ACD
 - 📁 VRU
 - + 📁 San Francisco Data Center
 - + 📁 Canada
 - + 📁 Asia
 - + 📁 Europe

- Linking the processes and span in a zFrame, enables a **universal window** from which VisualDelivery is enabled

Company ABC													
North America													
United States													
New York Data Center													
Application Server							Infrastructure Server			P2P Telecom			
Processing Unit				Storage			Print	Print & Store	Database	PBX	Voice Mail	ACD	VRU
Mainframe	General Midrange	Groupware Server	DASD	Tape	External								
Relate	Relationship Management												
	Process 01												
	Process 02												
Develop	Requirements												
	Process 03												
	Process 04												
	Process 05												
	Process 06												
	Process 07												
Enterprise Architecture													
	Process 08												

- Using the z-axis, important, yet disparate, **information** about the operation can be **organized consistently** in multiple zFrames



- The format historically used to document scope is ***inherently complex*** as it attempts to deal with all of the processes simultaneously

Typical Contract Language

Network Service Management:

- A. Supplier's responsibilities to provide the Services will include:

- i. Managing and reporting on the capacity and configuration of the Network.
- ii. Acting as a single point of contact for the management of the Network.
- iii. Maintaining Equipment inventories, locations lists, Network diagrams and other Network documentation and information.
- iv. Providing such information to Client in an online, self-service, electronic Web format available to Authorized Users.

IT Processes

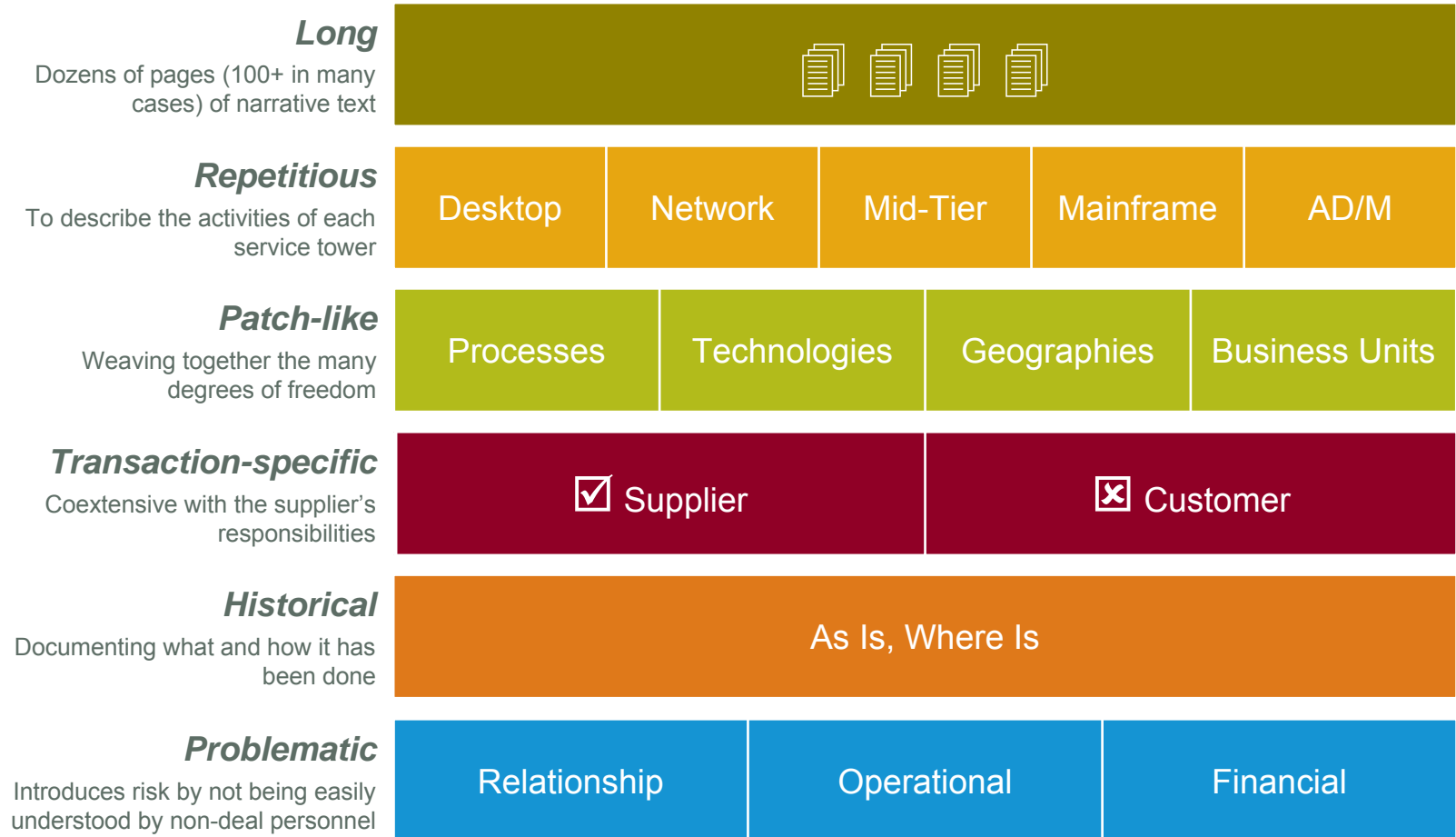
Network Operations, Capacity Management, Configuration Management, Service Desk Reporting

Network Operations

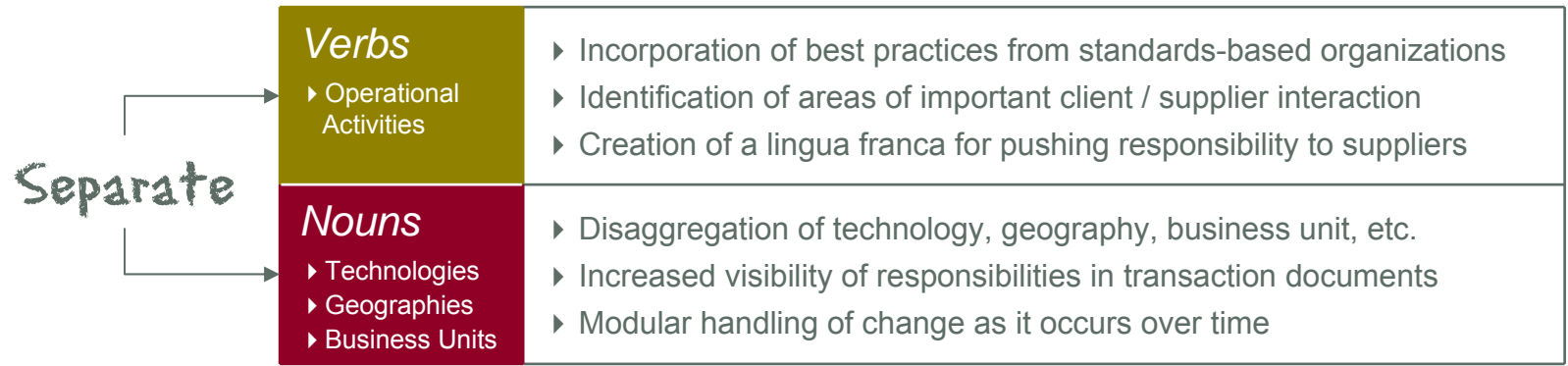
Configuration Management, Infrastructure Architecture, Network Engineering

Service Desk Reporting, Operational Interaction

■ The traditional statement of work is



- Following the **ValueChain approach**, operational responsibility is defined in two parts



- **Decomposing** the description of **responsibility** into its constituent components
 - ▶ **Increases readability** by customer management and subject matter experts
 - ▶ **Eliminates the cover-to-cover reading** necessary to fully understand a process
 - ▶ Helps **ensure full coverage** of each process

- For each process, a **definition** is written
 - ▶ **Neutrally** – responsibility is allocated to actors on the ScopeModel
 - ▶ Using (when available) the **best practices** promulgated by standards-based organizations
 - ▶ By **expressing activities**, not how it is to be performed

Relate	Relationship Management
	Process 01
	Process 02
Develop	Requirements
	Business Requirements Development
	Implementation Requirements Development
	Solution Development
	Time and Resource Estimation
	Solution Approval
	Enterprise Architecture
...	




Definition

The purpose of the “**Business Requirements Development**” process is to identify and document the business input, output and schedule requirements, and the actors providing input or receiving output from the requirements. The Business Requirements Development process includes the following activities:

1. Identifying and documenting business stakeholder needs, expectations and constraints;
2. Identifying and documenting business drivers and business interfaces (both internal and external);
3. Identifying and documenting schedule and business case requirements;

•
•
•

- When available, the *engines of best practice* are utilized

Organization	Standard	Focus
 <p>OGC Office of Government Commerce (UK) www.ogc.gov.uk</p>	<p>ITIL IT Infrastructure Library</p>	<p>Process Management for IT Infrastructure</p>
 <p>PMI Project Management Institute Building professionalism in project management.® www.pmi.org</p>	<p>PMBOK Project Management Body of Knowledge</p>	<p>Project Management Methodology</p>
 <p>SEI Carnegie Mellon Software Engineering Institute www.sei.cmu.edu</p>	<p>CMM Capability Maturity Models</p>	<p>Software Development Methodology</p>
 <p>NCMA National Contract Management Association www.ncmahq.org</p>	<p>CMBok Contract Management Body of Knowledge</p>	<p>Contract and Supplier Management</p>
 <p>ITGI IT Governance Institute www.itgi.org</p>	<p>COBIT Control Objectives for Information and related Technology</p>	<p>IT Governance</p>

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