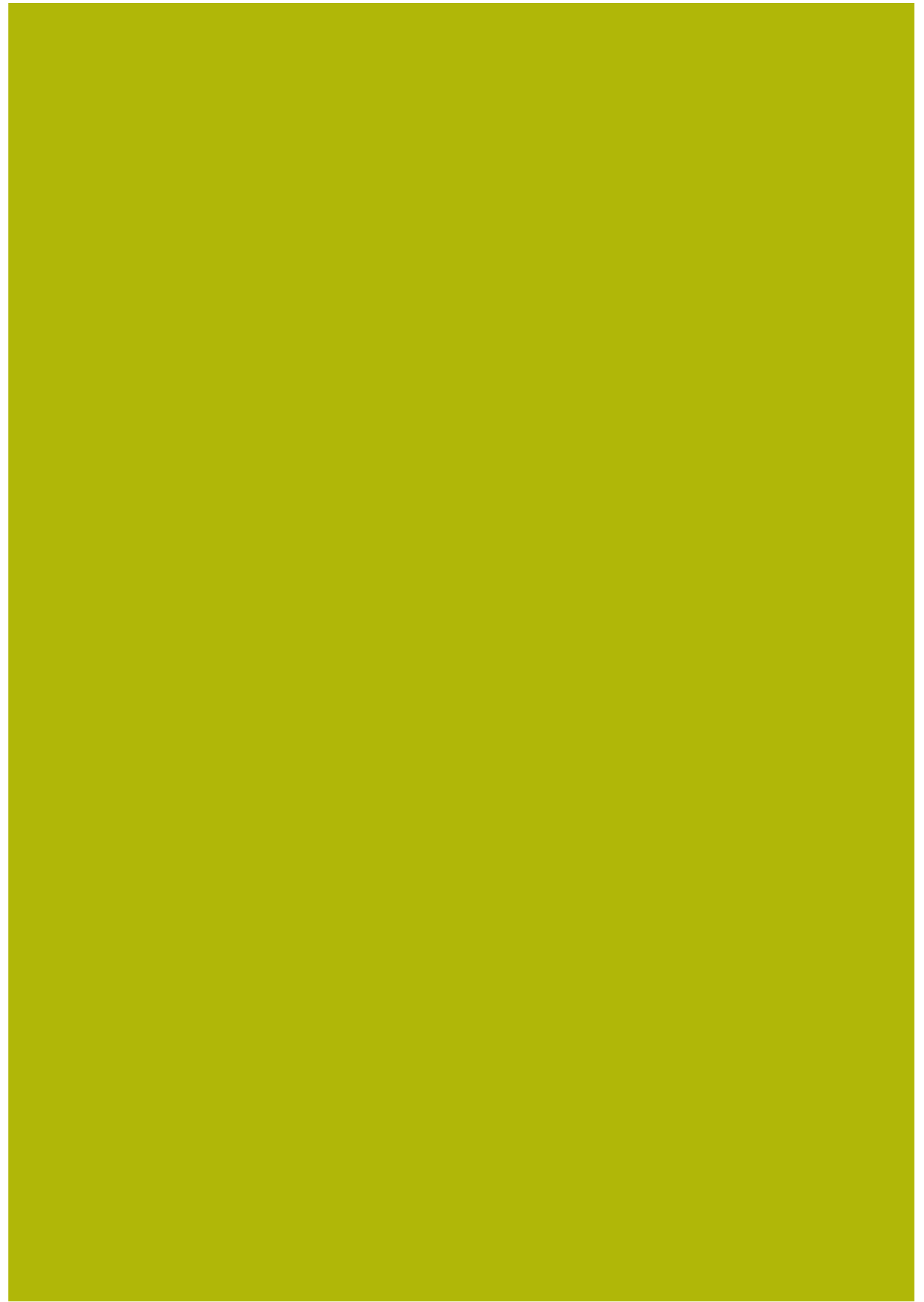


Outsourcing comes of age: The rise of collaborative partnering*



*connectedthinking

PRICEWATERHOUSECOOPERS 



Contents

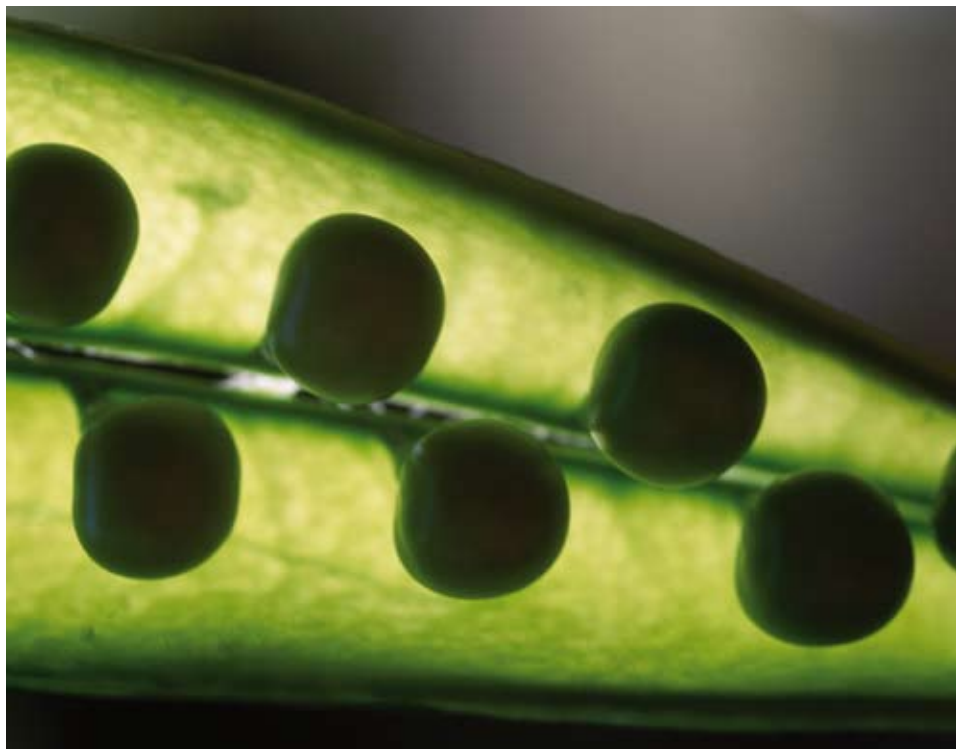
Introduction	2
Executive summary	4
Outsourcing is a maturing success story	6
The challenges	10
The collaboration payoff	14
Rising to the challenge of collaborative partnering	19
The PwC network of resources	20
Our Global Sourcing network	21

Introduction

Recent research indicates many outsourcing deals collapse before the contract ends, citing rising costs and mistrust between service providers and customers, and implying saving money is not a sound reason to outsource. Some industry analysts and media pundits further translate the findings into painful trade-offs: cost savings vs. growth, speed vs. quality, and organisational cohesion vs. knowledge and innovation. Others suggest outsourcing is in a death spiral... a decline fueled by structural risks, questionable cost savings, and multiple complexities. Their bottom line? Organisations will soon become disillusioned with outsourcing¹.

Such predictions and assertions seem to fly in the face of an equally prominent group of influencers and media commentators continually heralding lucrative outsourcing deals, impressive benefits and uncapped growth projections. Offshore service providers are delivering 30-40% year-over-year revenue growth every quarter. Meanwhile their Western-based competitors hurriedly expand their operations in emerging economies. Beyond rapid growth and geographic expansion, some service providers are helping outsourcing customers compete in new ways. They provide a level of strategic and operational flexibility unattainable through any other means.

In the 10th Annual PricewaterhouseCoopers² CEO Survey, released in January 2007, we found that many top global executives believe they gain major competitive advantages from outsourcing. They identified functions like logistics, manufacturing, customer support and service, research & development, and human resource management. The CEOs also described the growing importance of collaboration with suppliers and service providers as a way to mitigate complexity, reduce transaction costs, and gain competitive advantages.



¹ We define outsourcing as the transfer of a business activity or function to a third party, usually along with people and/or know how.
² PricewaterhouseCoopers refers to the network of member firms at PricewaterhouseCoopers

So what's really happening here?

Global research recently completed by PricewaterhouseCoopers (PwC) leads us to conclude that both perspectives have merit. Our findings indicate outsourcing is deeply established... an entrenched business strategy maturing and evolving to deliver value beyond just cost savings.

On the other hand, respondents say that not all is perfect. Full benefits often remain unrealised and the outsourcing process itself – in its relentless move toward specialisation, innovation and new models – is not easy.

To bring clarity to these issues, PwC interviewed nearly 300 executives, seeking insight into their outsourcing experience and views. The research, conducted worldwide in March and April 2007, leads us to conclude that outsourcing is alive

and well; in fact it is growing, maturing and evolving to deliver value well beyond cost savings.

This report presents results of our survey of 226 customers and 66 outsourcing service providers. We set out to explore some of the current trends: the growth of multisourcing, changes in customer supplier relationships, the emergence of new stakeholders and new governance models. At its core, our research confirms the growing complexity of outsourcing. However, it also indicates sophisticated leaders don't necessarily fear that complexity. For them, it is the normal path of a maturing business strategy and a manifestation of an increasingly global environment. As the examples of Apple and Airtel illustrate (below) the complexities of innovative partnering yield the benefits of growth and

performance. Outsourcing is now as diverse as business itself, differing by country, sector, and company strategy. It is characterised by smarter suppliers, improved automation and better informed buyers driving toward long-term, sustainable outsourcing arrangements.

Firms that effectively master the new complexities of outsourcing – and the diverse business model innovations they make possible – stand to reap the benefits and lead the way to the rise of collaborative partnering.

Cost savings can be the main driver of an outsourcing project. But as this survey illustrates, every company – indeed, each outsourcing initiative within any one company – has a mix of other drivers, prioritised differently in each case.

Beyond cost savings, a second major theme is access to capabilities – whether human talent, process excellence, or sheer physical resources. Apple designs the iPod in its Cupertino, California offices, but it outsources the manufacturing to select Chinese firms – not just because they can build it cheaply, but also because of their unique intellectual property in materials science and packaging technology. It also outsources, in a manner of speaking, content creation services: to an open community of providers from multibillion dollar music publishers to amateur podcasters.

A third major theme is strategic benefit – freeing up one's own resources, improving flexibility, gaining access to capital, access to new markets, or changing the rules of competition

in an industry. In 2003, Bharti Airtel, an Indian mobile phone company, lacked the capital to respond to a massive growth opportunity in its domestic market. It cut an end to end IT outsourcing deal with IBM. Much of IBM's compensation in this deal depended on Airtel's market growth. Airtel made other shared risk/reward deals with equipment suppliers Ericsson, Nokia and Siemens. Today Airtel has some 40 million customers and is its country's market leader.

Apple and Airtel must manage complexity every day. Their business webs – of which we've only described small corners – are varied and demanding. Each company must achieve an optimal balance of top-down management and collaborative partnering in dealings with suppliers, channel marketers, companies selling complementary services and customers. Each deftly illustrates that a uniquely right kind of collaborative partnering business model makes possible the squaring of many circles: cost savings with growth, speed as well as quality, and organisational cohesion plus knowledge and innovation.

Executive summary

The responses to this survey confirm that outsourcing is high on almost every company's agenda

Just about everybody uses outsourcing today, and for a variety of strategic reasons that extend well beyond cost savings. Factors that support business growth, like access to talent and capabilities – and maximising business model flexibility – are key drivers. For example, 70% of respondents say access to talent is an important or very important reason why they outsource. Customers of outsourcing are gaining maturity and have big expansion plans.

But success and growth are not without their challenges. Customers continue to be held back by cost benefit justification (i.e., the challenge of creating a business case where benefits are measured and delivered) and their own lack of experience – among others. Nearly all feel challenged by one or more aspects of the outsourcing lifecycle; and their first inclination is to

blame service providers when projects fail. Service providers think the main cause of failure is poor collaboration with customers.

Nonetheless, this survey provides evidence that leading outsourcing customers and service providers are shifting from traditional to collaborative business models.

- Customers need to rely increasingly on multisourcing, joint ventures, and open business models. Unlike traditional single-source transactional outsourcing, these approaches – and the complexities they entail – intrinsically require collaboration. When General Motors moved from single-sourced information technology outsourcing (with EDS) to multisourcing, it prepared the ground by bringing service providers together to define standards and processes that would enable them to work together while improving the company's ability to operate globally.

- Successful customers of outsourcing show good collaboration with service providers, and good collaborators tend to be effective outsourcers. Collaboration yields best practices in the capabilities and processes of outsourcing itself. Toyota's supportive and candid collaboration with myriad suppliers, from design through just-in-time logistics, has yielded efficiency, quality, innovation – and now global industry leadership.

This report describes two of the many possible approaches to multisourcing. In a lead supplier model, one service provider functions as a general contractor who orchestrates other suppliers. In a collaborative partnering model, a collection of master partners governs relationships and deliverables for the benefit of end-customers or consumers.

Important details about this survey

This report provides key findings of the PricewaterhouseCoopers 2007 Global Outsourcing Survey. It directly compares the experiences and opinions of customers and service providers of outsourcing, on a global scale – 292 respondents in total. This survey was further informed by in-depth interviews with 23 senior executives at major outsourcing customers and service provider firms in Belgium, China, India, Netherlands, Philippines, Poland, Singapore, UK and US.

Customer survey

PricewaterhouseCoopers conducted telephone interviews with 226 senior operating executives of private sector corporations that are 'customers' of outsourcing services in 19 countries during March and April 2007.

51% of respondents are in customer firms with revenues greater than \$1 billion US, including 16% with revenues greater than \$10 billion.

We have classified the customer responses into three groups, based on our analysis of the maturity of the outsourcing market in various countries and similarities of responses to the survey:

- **Large mature market:** United Kingdom and United States (78 respondents, of which 63% have revenues greater than \$1 billion).
- **Medium mature market:** Australia, Canada, New Zealand (31 respondents, of which 84% have revenues greater than \$1 billion).
- **Rising market:** Bahrain, Belgium, Brazil, China, Germany, India, Italy, Japan, Kuwait, Mexico, Russia, South Africa, Sweden and the United Arab Emirates (117 respondents, of which 35% have revenues greater than \$1 billion). Each of the listed rising market countries provided at least 5, and as many as 21 responses. Three other countries provided a total of four responses.

Service provider survey

Of the 66 service providers we surveyed, 43 are in four countries: US (20), China (9), India (9), and UK (5). The remaining 23 service provider respondents are in 15 different countries on every continent.

Outsourcing is a maturing success story

Outsourcing is becoming new again.

There was a time when businesses even delivered their own mail. Then they 'outsourced' it – first to the post office, then commercial couriers, and now the Internet. What's new is the explosive outsourcing of services, increasingly defined down to precise functions that can each be performed in the most optimal location anywhere in the world.

Outsourcing is delivering results.

A large majority of customers (87%) say that today's outsourcing delivers the benefits projected in the original business case, whether partly or completely. 31% say they got the benefits 'completely' – which is remarkable, considering the complexities and unknowns that are involved. In financial services, 46% completely met their goals.

And 91% of respondents, whether happy or not, say they will outsource again.

Saving money is important, but so is access to talent, capabilities – and business flexibility

Top reasons firms outsource are to:

- Lower costs (important or very important for 76% of respondents).
- Gain access to talent (70%).
- Farm out activities that others can do better (63%).
- Increase business model flexibility (56%).

Other reasons are also important:

- Improving customer relationships (42%).
- Developing new products or services/ market segment expansion (37% each).
- Geographic expansion (33%).

A move towards core activities

Many respondents (53%) indicated they outsource activities that they consider to be 'core'. The definition of 'core' activities was left to the respondents' interpretation, and could mean different things to different respondents (depending on what they define as 'core' to their business). It is clear that companies are moving from the outer 'ring' of non-core non-essential

activities towards the second ring of non-essential business activities. For example, in the finance function, this could be a move from outsourcing payroll and accounts payable towards seeking assistance with budgeting, forecasting and management reporting.

Information technology services remain the most widely outsourced activity, reported by 57% of respondents. But overall, 70% outsource one or more inherently strategic activities:

- 53% outsource production or delivery of core products or services.
- 33% outsource sales & marketing (including third party distribution channels).
- 32% outsource innovation/R&D.

Key markets are embracing core

outsourcing. Financial services firms, at 40%, are especially likely to outsource sales and marketing (e.g., to insurance brokers and financial planners). Because many are in infrastructure businesses, media/telecommunications/IT companies are less inclined to outsource core work. But even

‘Increasingly we are moving away from looking at cost alone. People are going to put more emphasis on how well the risk is managed, and how well the outsourcing company cater to our needs or to the needs of the industry.’

Ian Brown, Director, NCS Group Marketing and Corporate Communications

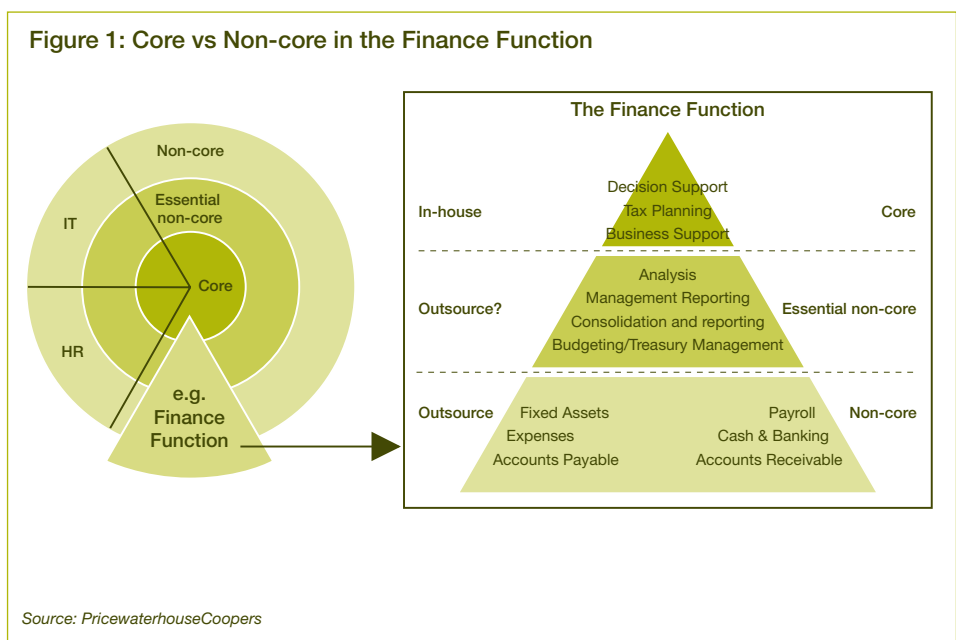
39% of these companies do it. And nearly 40% of firms in rising markets are likely to outsource innovation/R&D.

Firms in medium mature markets (Australia, Canada and New Zealand) are especially aggressive at outsourcing strategic functions. 71% of them outsource core products/services, and 48% outsource sales and marketing (vs. 53% and 33% respectively for the total sample). Growing firms based in these countries have small domestic markets; this may create pressure to go outside the company for strategic capabilities that facilitate growth.

Outsourcing of both ‘core’ and support activities is intensifying.

Respondents rate themselves as outsourcing to a significant extent (4 or 5 on a scale of 1 to 5, where 1 means ‘outsource hardly at all’ and 5 means ‘to a great extent’) across a broad cross section of activities. Functions most widely and deeply outsourced are information technology services, core products and services, and logistics and distribution. Functions with fewer outsourcing customers, but where the outsourcing is extensive, are procurement and customer call centres.

Figure 1: Core vs Non-core in the Finance Function



Outsourcing is expanding into second wave areas like innovation/R&D

The first wave of IT and business process outsourcing depended on long term, exclusive one-on-one contracts. These were largely zero sum games between customer and service provider; certainly the customer was locked in, and in many respects so was the service provider.

Today, as we move into the second wave of outsourcing, with many initial IT contracts coming to maturity, customers recognise that new approaches present a rich array of opportunities, if done right.

Today, tight, disciplined management must be seasoned with the culture, structures, and processes of collaborative partnering – and an openness to business model innovation. These become even more important as customers start to look at another type of ‘second wave’ outsourcing of other functions, many of which are in the process of being streamlined within shared service centres, such as HR and finance and accounting functions.

Depending on the business function, anywhere from 27% to 55% of respondents intend to expand their current outsourcing over the next five years. There is still growth to come in information technology

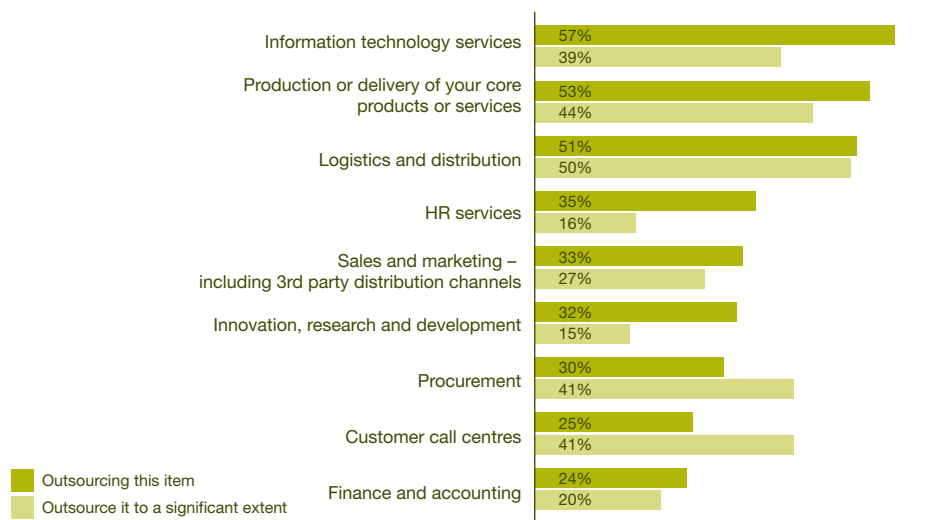
(where 55% of current customers plan to expand) and what we called ‘core products or services’ (42% will expand).

On the rise. A smaller number of companies currently outsource innovation/R&D and customer call centres. In these areas over 40% of current outsourcing customers plan to expand.

Hot spots for growth:

- Large mature markets: for procurement services (53% with expansion plans), customer call centres (45%) and, notably, finance/accounting (44%).

Figure 2: Outsourcing is intensifying



Q: Which of the following products or services does your company currently source from external suppliers?

Q: To what extent does your company currently source each of the following from external suppliers?

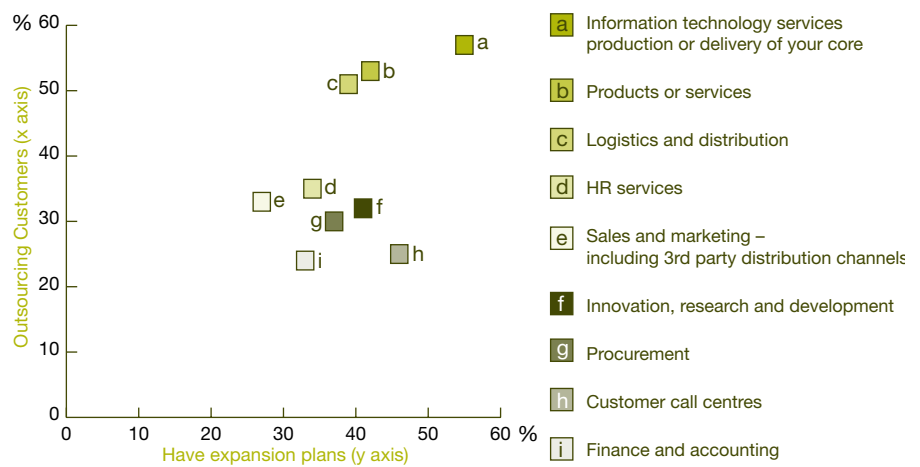
Source: PricewaterhouseCoopers Global Outsourcing Survey 2007

‘Outsourcing is growing in scale... but becoming more complex to manage and requiring a new set of skills.’

Eric Sorensen, President & CEO of Sun Rype Products Ltd

- Rising markets: globally, the lion’s share of outsourcing growth in customer call centres (56%), core products & services (54%) and logistics/distribution (53%). The shift of manufacturing to emerging economies accounts for part of this growth.
- Financial services: core products & services (56%), customer call centres (46%), sales & marketing (40%).
- Media/telecommunications/IT: innovation/R&D (64%), customer call centres (73%), and finance/accounting (50%). In these highly competitive industries, firms are especially pressured to find innovation from whatever sources they can muster.

Figure 3: What organisations outsource and plan to expand



Q: Which of the following products or services does your company currently source from external suppliers?

Q: Broadly speaking, over the next five years, do you think your use of external suppliers for each of the following activities will increase, decrease, or stay about the same within your business?

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007

The challenges – and varying user-provider perspectives – are revealing

Success and growth are not without challenges. Customers of outsourcing face barriers of cost benefit justification (i.e. producing a business case that stands up to scrutiny), and their own lack of experience – among others. Nearly all feel challenged by one or more aspects of the outsourcing lifecycle. And their first inclination is to blame service providers when projects fail. For their part, many service providers think the issue is the customer’s inability to manage outsourcing projects.

Sorting the barriers

We asked outsourcing customers which, if any, in a list of issues they considered to be barriers to outsourcing. On average, each person identified 3 to 4 barriers: for most companies, the barriers to outsourcing are many and varied.

The main barriers that customers face are difficulties with proving the cost benefit and lack of experience (each selected by 48%). Others are:

- Company values favour using in-house employees (45%).
- Lack of skills to manage outsourcing (37%).
- Need to clean up operations before outsourcing them (37%).

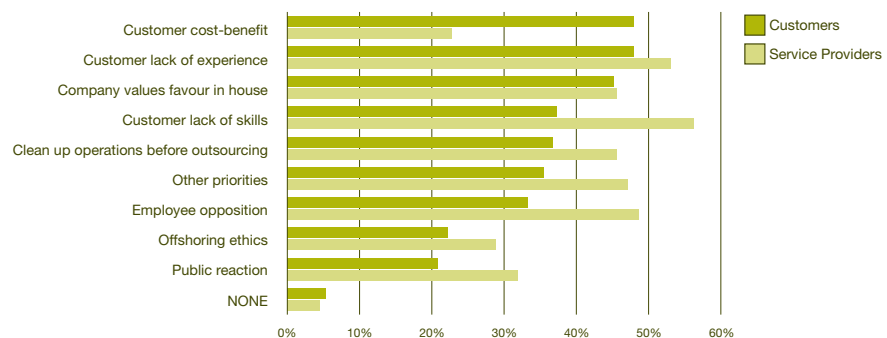
Least picked were ‘ethics of moving jobs offshore’ (22%) and ‘concerns about public reaction’ (21%). Outsourcing customers are most challenged by their own outsourcing skills (including business casing) and internal employee issues; they are least concerned about public perceptions.

We also posed this question to outsourcing service providers. They have similar views on many issues, but significantly different views from customers on some important ones.

- For customers, cost-benefit is the number one challenge. For service providers, cost-benefit is much less of an issue; though perhaps no surprise, this may reflect lack of sensitivity to a real issue that customers face.
- Nearly half the service providers see employee opposition as a barrier to outsourcing, but two thirds of customers don’t see it that way. The question is, who’s right? Are vendors blaming employee opposition when the real issue is the business case? Or is this a problem that customers are insensitive to – or believe they can manage?
- In general, service providers tend to see customers as blocked by a diverse array of internal barriers to outsourcing.

Customers need more help on the business case – and implicitly with obtaining proof that benefits will be realised. They also need to look in the mirror and consider the true impact of employee opposition.

Figure 4: Customers and providers differ on the obstacles



Q: Which, if any, of these issues do you consider to be barriers to outsourcing?

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007

‘I’d like to think that we are looking toward deeper partnerships with our clients. Do I see it happening? Definitely. When we were just starting, customers were not very open.’

Marianne Fullon, Partner, Payroll Service Providers Inc.

Outsourcing lifecycle is a difficult challenge

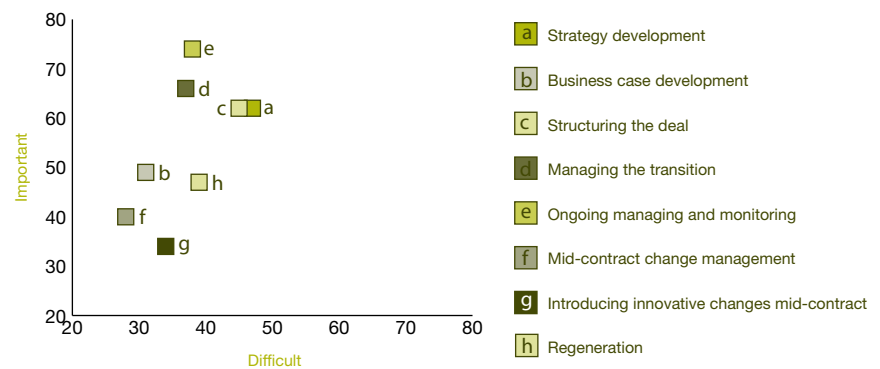
Customers see challenges – and need help – throughout the outsourcing lifecycle. We asked them to rate the importance and difficulty of each lifecycle steps on a scale of 1 to 5 where 5 is ‘very important’ or ‘very difficult’.

Every phase is seen as difficult by a third to half of respondents. In reviewing all the responses we find that nearly every outsourcing customer encounters difficulties with one or more phases of the outsourcing lifecycle. This speaks to the need for a better approach to conducting the relationships between customers and service providers.

Growing complexities

Customers and service providers hold differing views on some important issues. They tend to differ on how contracts should be structured, where work ought to be performed, margins, and some key ethical issues. Taken together, these differences underline the growing complexities that outsourcing decision makers face, and the need for better alignment between customers and service providers.

Figure 5: Pressure points in the outsourcing lifecycle



Q: How important is this phase of the outsourcing lifecycle? How difficult is it? (Customer responses only)

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007

What works best?

We asked both customers and service providers to select what works best for them in real life outsourcing. Differences between the two groups reflect that each side wants to tilt the outsourcing balance in its favour. Consensus on industry best practices remains to be built.

- Customers tend to prefer ‘detailed highly specific contracts’ (54%) whereas service providers (not surprisingly) like ‘flexible business terms’ (61%).
- A quarter of customers think ‘many suppliers/providers’ work better than ‘few suppliers/providers’, vs. only 10% of service providers.
- While 52% of service providers recommend offshore outsourcing, only 20% of customers believe this works best in real-life outsourcing.

This finding reflects PwC’s conversations with clients on the issue of nearshoring versus offshoring. Offshoring raises more issues for customers than the benefits of cost savings. They increasingly consider cultural mismatches in offshore-domestic communications, offshore labour and employment standards, brand impacts of job mobility, and environmental sustainability issues. This raises the need to understand and manage a complex web of stakeholders in a context of growing transparency.

How much money should service providers make?

More than half of customers believe that service providers should reasonably expect to achieve an after tax margin in the range of 5 – 12%, whilst the target sought by over half the service providers surveyed was in a range of 15% – 25%. Surprisingly, nearly half (46%) of the buyers of outsourcing services have had sight of

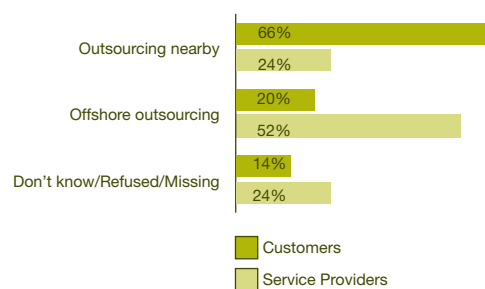
service provider margins during contract negotiations. Service providers and customers agree that both sides benefited equally from this visibility. This may be an indication of more transparency to come.

Offshoring and responsible business practices

66% of customers say that social and environmental issues will have a significant impact on their offshoring decisions. As suggested earlier, service providers are somewhat sceptical: 52% believe these issues will not be significant for their clients. Service providers need to listen more to meet their customers needs on such issues.

Turning to specific topics of ethical sourcing, the top issue is labour and employment standards: 61% of customers say that they pay attention to labour and employment standards when making

Figure 6: There is still a preference amongst users for near-shoring versus offshoring



Q: Which one of the following pairs works best in real life outsourcing?

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007

offshoring locations decisions. Service providers agree that this is a key issue for customers. The second most important concern for both customers (61%) and service providers (52%) is the ethical issues perceived in the customer's home market related to moving jobs offshore.

This is consistent with other PwC research, including our annual CEO Survey, which shows growing executive focus on responsible business practices.

Figure 7: Mapping priorities for responsible offshoring

	Customers	Service Providers
Labour and employment standards in offshore locations	61%	65%
Domestic ethical issues around moving jobs offshore	47%	52%
Bribery and related business ethics in offshore locations	45%	32%
Environmental impact of offshore facilities	35%	18%
Negative impact on offshore local communities	25%	39%

Q: Talking briefly about outsourcing to offshore locations, which of the following do you expect to have the biggest impact on your clients' future outsourcing decisions?

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007



The collaboration payoff

Leading customers and service providers are shifting from more traditional buyer/seller relationships to collaborative business models.

- Traditional long-term exclusive outsourcing arrangements work very well for a near commoditised service (such as IT infrastructure services). They do not work as well with 'second-wave' outsourcing arrangements that are generally less commoditised.
 - Both customers and providers are employing more multisourcing, joint ventures, and open business models. Unlike traditional single-source transactional outsourcing, these more complex approaches intrinsically require collaboration. At a minimum, multisourcing requires that customers and their service providers get together for the sake of coordination. At best, multisourcing incents suppliers to take the initiative, proactively work together, and devise new initiatives in the interests of the outsourcing customer.
 - Emerging open business models allow firms to engage networks of partners and customers to generate high value at low costs.
- Successful customers of outsourcing show good collaboration with service providers, and good collaborators tend to be effective outsourcers. Collaboration yields best practices in the capabilities and processes of outsourcing itself.

Respondents believe the traditional approach to outsourcing – using a single service provider – is not about to disappear (in fact 39% plan to increase use of this approach). But other models have more momentum. 50% expect to increase multisourcing and 45% plan to increase their use of joint ventures. The even newer approach – open, public and collaborative business models – is on the rise for a surprising 35% of respondents. Meanwhile, the traditional 'retail' business to business model – frequently changing supply networks – is in retreat, with only 14% planning to grow this approach.

Customer respondents seem to believe that emerging business models deliver tangible benefits. Given a set of potential reasons to

‘There is increasing experience with structuring relationships – where there is sharing of risks, benefits and information. Business is becoming more global while at the same time becoming more collaborative.’

Brian Hayward, CEO, Agricores United

use open, collaborative sourcing approaches, respondents’ top choices are reduced costs (68%) and better quality results (66%). This is a strong endorsement of the view that transparent – as opposed to secretive – styles of business engagement make it easier to innovate and improve performance.

Multisourcing, joint ventures, and open business models depend on brokering several relationships at once; complex operational and performance management challenges; innovative approaches to allocating incentives; and a growing focus on intangibles like intellectual property. The response is a proliferation of new approaches to governing and managing such relationships: they all require more transparency, better communication, greater trust, and genuine reciprocity. In a word, collaboration.

Expert outsourcers rely increasingly on collaboration

To measure collaboration, we asked respondents to rate their company’s experience of dealing with outsourcing service providers on each of several items, using a scale of 1 to 5, where 1 means

‘never true’ and 5 means ‘always true’. Listed here are the percentages of respondents who selected a 4 or 5 for each item:

- Business dealings being honest and transparent – 61%.
- Matters of mutual interest being decided jointly – 56%.
- Joint governance structures working effectively – 40%.
- Competing suppliers working together well to meet your needs – 35%.
- Risks and rewards being shared – 31%.
- Suppliers being proactively innovative – 27%.

That the first two items achieved majority ratings surprised us. On the other hand, these – not to mention the other numbers – really ought to be much higher.

That, for example, nearly 40% of customers feel their service providers are less than honest and transparent is quite problematic. The outsourcing community needs to

explicitly undertake a best practices approach to collaboration and candour. The performance challenge is clear.

To understand the collaboration issue a bit better, we compared the experience of two groups of respondents:

- ‘Expert outsourcers’ – who indicated, in response to a question in the survey, that their outsourcing has ‘completely’ met its business plan goals (31% of the sample).
- ‘Learners’ – for whom outsourcing has partly met the business goals (56%).

On four of the six measures listed above, expert outsourcers measure their vendors as better collaborators than do learners. The sharpest difference is on a foundational measure of collaboration – honest and transparent business dealings. Small differences also arise on the ability of competing suppliers to work well together and the sharing of risks and rewards.

Other insights about expert outsourcers:

- 66% prefer trust-based supplier management to aggressive supplier management, vs. 59% of learners.
- 51% of experts believe that flexible business terms work better than detailed, highly specific contracts, vs. 38% of learners.
- Regarding their overall experience, 34% of experts say most of their supplier relationships are truly collaborative; only 25% of learners agree.

The reverse is also true: collaborators do better at outsourcing

We've just seen that expert outsourcers get lots of collaboration from service providers. But expert outsourcer or not, how does collaboration help an outsourcing customer to succeed?

To answer this question we examine 61 high collaborators, whether expert outsourcers or not. (In fact 41% of high collaborators are experts and 59% are not).

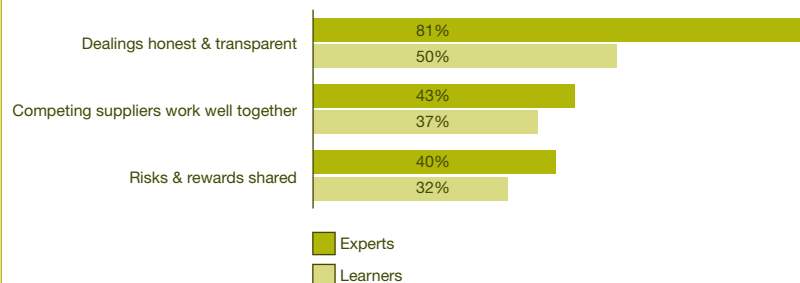
High collaborators are defined by the fact that they rate their service providers the highest overall on the key indicators of collaboration such as 'business dealings being honest and transparent' (See Figure 8 below). Representing 27% of the total sample, they experience the most mutual engagement with their outsourcing service providers. High collaborators:

- Are least likely to select any given barrier to outsourcing, and 10% see no barriers to outsourcing.
- Support the use of multisourcing (many suppliers/providers) over limited sourcing (few suppliers/providers) far more than other respondents.
- Support shared risk and reward over traditional commercial terms.
- Are disproportionately from rising markets (66% vs 52% for the total sample). This may reflect the power of social ties in the business cultures of Asia and continental Europe, as compared with the UK, North America and Australia/New Zealand.

High collaborators pay a lot of attention to the challenges of the outsourcing lifecycle. Yet they are less likely to believe the challenges are difficult. Their perspective on the lifecycle illustrates the benefits of collaboration. Some examples:

- High collaborators are much more likely to view strategy development as important, but less likely to find it hard to do, perhaps because they get trustworthy support from service providers.
- They tend to have less difficulty structuring the deal and managing the transition.
- Nearly all high collaborators consider ongoing managing and monitoring to be important; nevertheless, they are less inclined than others to see it as difficult.

Figure 8: Open suppliers have happy customers



Q: Please rate your company's experience of dealing with outsourcing services suppliers in each of the following areas. Use a scale of 1 to 5, where 1 means 'never true' and 5 means 'always true' (table indicates % who scored 4 or 5 on each measure).

Source: PricewaterhouseCoopers Global Survey 2006

‘The one thing that’s starting to happen now is that collaboration is increasingly meaning that we help our clients grow and not just help our clients become more profitable.’

Ashish Gupta, India Country Head & COO, Evalueserve

High collaborators embrace innovative outsourcing business models.

- 51% of high collaborators will increase their joint ventures (vs. 44% of other respondents).
- 46% expect their use of open, collaborative business models to grow, vs. 32% of other respondents.
- High collaborators are more inclined to cut back on single provider deals and frequently changing supply networks.

High collaborators have significantly greater outsourcing growth plans in the most strategic areas: Core products and services, innovation/R&D, customer call centres, IT and HR services. For example, 56% of high collaborators plan to increase their outsourcing of innovation/R&D, vs. 37% of remaining respondents.

Figure 9: High Collaborators and the outsourcing lifecycle: focus and expertise

	Total sample		High collaborators	
	Important	Difficult	Important	Difficult
Strategy development	62	47	77	34
Business case development	49	31	57	28
Structuring the deal	62	45	69	36
Managing the transition	66	37	71	34
Ongoing managing and monitoring	74	38	82	35
Mid-contract change management	40	28	39	25
Introducing innovative changes mid-contract	34	34	48	28
Renegotiation	47	39	51	38
Average score	54	37	62	32

Q1: How important to your business is each of the following aspects of outsourcing?

Q2: What is the usual level of difficulty of achieving success with each of these?

Source: PricewaterhouseCoopers Global Survey 2006

‘Outsourcing is a tectonic, structural change in the marketplace that will significantly change the competitive outlines of companies. It is the mainstream of the global business ecosystem. It’s here today and will continue to expand and touch our lives, both as providers and consumers, in many ways.’

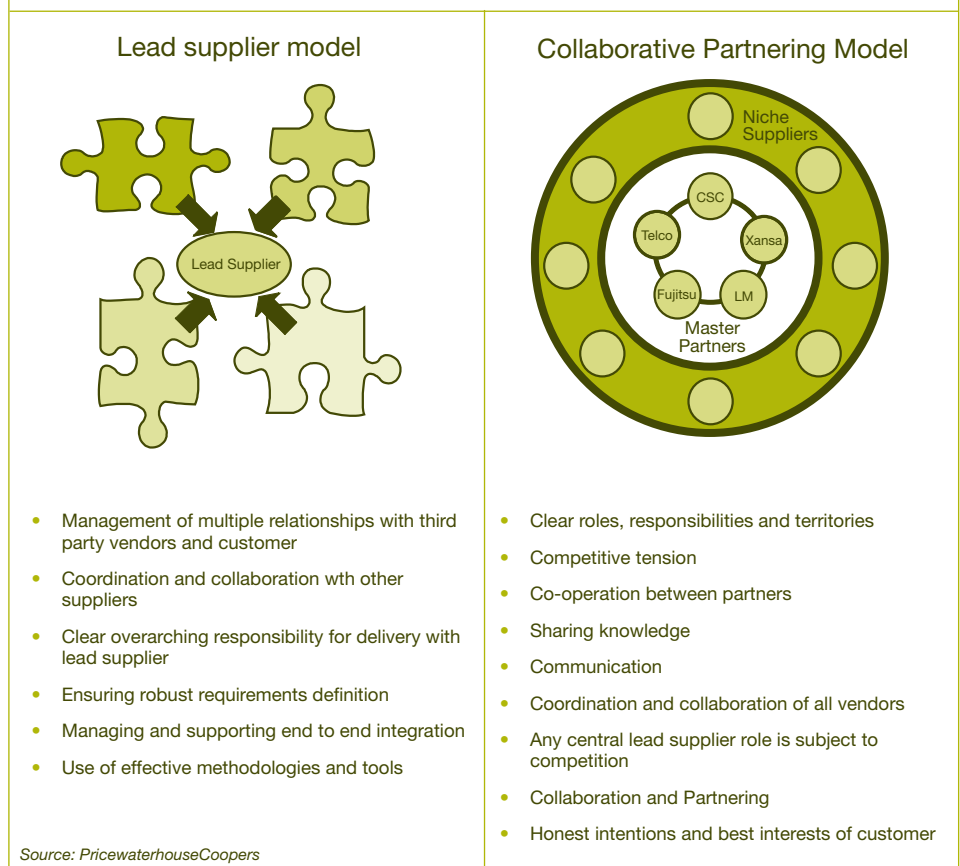
Sachdev Ramakrishna, VP Strategic Marketing, Mphasis (an EDS Company)

Two possible multisourcing models are illustrated in Figure 10.

- In the lead supplier model, one service provider functions as a general contractor who orchestrates other suppliers. The outsourcing customer may or may not be involved in the economics and governance of the subcontractor relationships. However at the end of the day, the general contractor retains accountability for the results.
- In a collaborative partnering model, a collection of master partners governs relationships and deliverables for the benefit of end-customers or consumers. Master providers provide the strategic and significant deliverables, and they are supplemented by a collection of specialist providers. In a best practice approach, transparent mechanisms provide explicit rules of governance, engagement, alignment of incentives and penalties, and collaborative/ competitive processes.

The lead supplier model is typically an extension of traditional transactional outsourcing, and is most appropriate when desired outcomes are highly predictable. Where deliverables are hard to specify and require the creative engagement of multiple contributors, collaborative partnering is more effective.

Figure 10: Innovative business models



Reasons to consider using an advisor

‘Planning’, ‘more detailed research’ and ‘better advice before hand’ are considered by customers to be the top 3 reasons for making outsourcing a success. Getting things right in the planning stages is critical. We asked what role an advisor can play to help companies achieve their outsourcing objectives. Over a quarter identified their lack of sufficient resources or time to properly assess, plan or implement transactions as the main reason they would consider using an advisor. Having insufficient knowledge of outsourcing was second most important; service providers ranked it their most important reason to call on advisors. The third factor was access to real resources on the ground in key supply markets.

Rising to the challenge of collaborative partnering

Outsourcing is growing fast and delivering results. More people than ever are outsourcing with no indication that growth will slow. Our findings confirm that outsourcing has matured beyond cost reduction to become a way for organisations to better access talent and capabilities, gain more flexibility, reinvent their business model and drive innovation.

Arrangements are increasingly complex, with all parties increasingly motivated to acknowledge the needs of a wide network of stakeholders outside their own four walls, beyond themselves. Successful outsourcing no longer simply entails a buyer and a supplier – it needs partners. Many buyers feel their outsourcing efforts fail because they lack experience and skills to achieve the benefits envisaged in the original

business case. The 31% who are succeeding are most likely to have honest and transparent business dealings with service providers (including transparency on margins); decide matters of mutual interest jointly; have effective joint governance structures; and share risks and rewards.

A few companies have developed internal centres of excellence to manage outsourcing arrangements in this increasingly complex environment. Most have not. Success for many requires increasingly objective and non-partisan advice on what and how to outsource.

At PwC we are not interested in driving down costs in an inappropriate manner. We are committed to helping clients and service provider partners achieve

productive, sustainable outsourcing arrangements such that each achieve their specific business objectives.

As buyers increasingly seek to outsource core products and services, and suppliers rise to the challenge to deliver the skills and capabilities required, a new model of outsourcing is required: collaboration. Having an experienced, independent partner to help orchestrate new partnerships can give you the confidence to succeed.

PwC can help

Increasingly, value is created across a connected network of partners, suppliers, customers, regulators and stakeholders, and success depends on collaboration amongst them. This means most business issues can no longer be resolved within your own four walls. The best solutions must capture opportunities and navigate risk across an extended business network. But do you have the insight, skills and resources to ensure success?

PricewaterhouseCoopers' Advisory team can help you to execute your business strategy. We advise and we implement – locally and globally. We help organisations capture opportunities, navigate risk and deliver lasting change across business networks.

When it comes to sourcing, the challenge for organisations lies in finding the time and skilled resources needed to manage

complex and often risky global arrangements. Implementation of these programs is a major undertaking and must be accompanied by attention to detail and accountability for results. Our collaboration experts help leading organisations around the world to:

- Orchestrate outsourcing and shared service arrangements to reduce costs, become more efficient, drive innovation and access talent by outsourcing business processes or consolidating them in shared services centres.
- Procure materials and products in a borderless world by helping our clients to manage sourcing with suppliers in developing economies so they reap the full competitive and strategic benefits and minimise the risks to their supply chain.

As trusted advisors across the entire sourcing arrangement, we bring rigor and discipline to decision making, and drive value by fixing distressed deals, removing risk from complex contracts, and forming the partnership bridge between buyers and providers. We help our clients to formulate and implement strategies, reduce costs, increase efficiency, drive innovation and expand into new markets.

We take the time to listen and have the courage to debate different points of view – based on independent and challenging insights, supported by facts and industry benchmarks. We give you the confidence to succeed in a connected world.

For more information please visit www.pwc.com/sourcing

Our Global Sourcing network

Pat McArdle
Global Sourcing
Lead Partner
PricewaterhouseCoopers (UK)
pat.mcardle@uk.pwc.com
+44 (0) 20 780 42024

Paul Horowitz
PricewaterhouseCoopers
(United States)
paul.j.horowitz@us.pwc.com
+1 (646) 471 2401

Paul Zanker
PricewaterhouseCoopers
(Singapore/Asia Pacific)
paul.j.zanker@sg.pwc.com
+65 (0) 6236 3353

Eric Wesselman
PricewaterhouseCoopers
(Netherlands/Europe)
eric.wesselman@nl.pwc.com
+31 (0) 205687421

Romek Lubaczewski
PricewaterhouseCoopers
(Poland)
romek.lubaczewski@pl.pwc.com
+48 502 184 319

John Y. Chang
PricewaterhouseCoopers
(Canada)
john.y.chang@ca.pwc.com
+1 (416) 869-2606

Ricardo Neves
PricewaterhouseCoopers
(Brazil & South America)
ricardo.neves@br.pwc.com
+55 (11) 3674 3250

Luis Garrido
PricewaterhouseCoopers
(Costa Rica & Central America)
Luis.garrido@cr.pwc.com
+506 224 1555 ext 102

Jeff Herrmann
PricewaterhouseCoopers
(China)
jeff.herrmann@cn.pwc.com
+86 10 6533 2355

Mike Roy
PricewaterhouseCoopers
(South Africa)
mike.roy@za.pwc.com
+27 (11) 797 4437

Hari Rajagopalachari
PricewaterhouseCoopers
(India)
hari.rajagopalachari@in.pwc.com
+91 80 4079 4002

Steve Kranes
PricewaterhouseCoopers
(Australia)
steve.kranes@au.pwc.com
+61 (2) 8266 8465

Alberto Kuri Monterrubio
PricewaterhouseCoopers
(Mexico)
alberto.kuri.monterrubio@mx.pwc.com
+52 (0) 55 5263 6000 ext 6137

PricewaterhouseCoopers provides industry-focused assurance, tax, and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

© 2009 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Designed by studioec4 19215 (03/09).

www.pwc.com/consulting