How to Build a Sourcing Strategy

Pushed by tactical problems, pulled by strategic trends, overwhelmed by sourcing complexity, many enterprises are struggling with their sourcing strategies. This Strategic Analysis Report provides a framework to assess and develop a sourcing strategy.

Management Summary

While the current economic downturn and climate of uncertainty push enterprises toward outsourcing IT services for the tried-and-true need to cut costs and increase IT efficiencies, what is really going on behind sourcing decisions is far more complex than that. Sourcing is moving toward becoming a strategic tool for enterprises to evolve into the connected economy.

Two strong trends are pushing sourcing to be strongly connected to the business strategy: the need for improved business processes and the necessity for strong IT management.

Pushed by market competition, enterprises must become more focused, streamlined and IT-intensive. However, the collection of today’s tactical sourcing decisions will soon become unable to cope with the strategic requirements that enterprises have. Proceeding with a tactical approach to outsourcing will increase the number of unsuccessful sourcing deals that will damage — not streamline or improve — the business.

The Strategic Analysis Report, “Marketplace Realities in Strategic Sourcing,” details Gartner’s view of strategic sourcing, while this Strategic Analysis Report provides practical suggestions on how to develop a sourcing strategy. It also includes a framework to assess an enterprise's sourcing strategies and sourcing strategy capabilities.

To address these topics, the following Key Issues are addressed:

• What are the latest trends and innovations in strategic sourcing and procurement?
• How should enterprises integrate internally provided and externally provided services?
• What are the latest trends, issues and events in the ESP market?
• How should enterprises in Europe integrate internally provided and externally provided services?
• What are the fundamental elements that comprise successful sourcing and procurement strategies?
• How should user organizations be structured to successfully manage the ESP deal and assure that high quality services are delivered?
• What are the fundamental elements that comprise successful sourcing and procurement strategies?
A subsequent Strategic Analysis Report — “Sourcing Strategy: Relationship Models” — will be focused entirely on the numerous relationship models that can be implemented as part of a sourcing strategy and will be published shortly.
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1.0 Introduction

Tons of paper and countless discussions have been used to try to characterize and describe the “business organization of the 2000s,” and many new names have been created: connected business, Net-liberated organization, real-time enterprise, agile enterprise and e-business, to name a few.

Although only time will truly reveal the full characteristics of the business of the 2000s, three traits will be embedded in successful organizations in the next few years:

- **Focus on core business**: The need for an increased focalization is basically driven by an external factor: increasing competitive pressure. Enterprises may resist this pressure, but the overall trend toward excellence and, therefore, specialization is virtually unavoidable.

- **Extensive use of partnerships, sourcing and external services in an increasingly service-driven economy**: Due to the increasing focus on competition, enterprises will employ more external — rather than internal — production factors (e.g., assets, good and services). As in the consumer market, the world is moving from ownership of property toward use of goods and services.

- **IT-intensive focus** — intrabusiness and interbusinesses — toward customers

The first two traits are not really new. They are just the increasing adoption of trends that have been described during the past 20 years. The third is a gentle gift of the IT industry, the Internet era and the dot-com bubble. In the days ahead, enterprises have an opportunity to leverage increasingly ubiquitous IT (e.g., hardware, software, fixed and mobile telecommunication, embedded computing and intelligent products in cars and houses) to streamline business models and processes.

The spread of improved technologies around the world is a strong *enabler* of business success. However, true business success can come only from well-conceived business strategies that leverage new and streamlined business models and processes. The focus must be on excellence and partner ecosystems that are enabled and managed through the connected economy concepts.

Perhaps the major positive impact of the dot-com bubble has been to clearly underline the issue that IT is not a value in itself — it is just a potential enabler for better businesses. In this increasingly IT-enabled and networked business environment, sourcing strategies are becoming a "must" for every organization. Nevertheless, Gartner still perceive a lack of focus and management practices involving strategic sourcing in most organizations, and that may represent a serious threat.

1.1 Strategic Sourcing Defined

*Gartner’s definition of strategic sourcing*: Strategic sourcing is the dynamic delivery of internal and external, business- or IT-oriented resources and services to ensure that business objectives are met.

Strategic sourcing includes four major phases:

- Sourcing strategy
- Providers evaluation and selection
- Contract negotiation
- Sourcing management
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Although in the past 20 years most of the focus has been in phases two and three (i.e., selection and negotiation), currently leading organizations are mostly focusing on the first and fourth phases: continuously aligning and managing sourcing toward the changing business needs.

_Gartner's definition of sourcing strategy:_ The set of scenarios, plans, directives and decisions that dynamically defines and integrates the internal and external resources and services required to continuously fulfill an enterprise's business objectives.

**1.2 Two Strong Drivers Toward Strategic Sourcing**

**Key Issue:** What are the latest trends and innovations in strategic sourcing and procurement?

Two concurrent trends are developing in most businesses that make the evolution to strategic sourcing almost unavoidable but, nonetheless, very difficult to master.

The current economic and political climate is characterized by uncertainty. The most immediate consequence include:

- An increased need for efficiency
- A need to reduce business risk
- Enhanced business focus and efficacy
- The ability to innovate and turn challenges into opportunities

The need for the right trade-off between opposite objectives has never been so strong. In such a scenario, two trends are pushing sourcing from a tactical instrument to a relevant element of a business strategy. This applies not only to IT services, but also — if not more so — to business processes and services.

The first tendency comes from the top down and is driven by the competitive thresholds that continually rise in the global market. This forces enterprise executive management to react to maintain competitive parity in most areas and positioning for leadership in others. That happens by driving core-business focus and virtualization processes into most businesses and, eventually, affecting the entire enterprise's value proposition. This leads to deep changes across the entire organization but particularly on the IT side because IT services and processes are expected to link and streamline internal and external processes, ending in an IT-intensive business ecosystem.

The second tendency comes from the bottom up. It is the result of the increasing inadequacy of traditional contractual vehicles for services to deal with business changes and business relationships that are increasingly IT-enabled and IT-intensive.

These two internal trends will progressively interact with changes in the IT service market, the evolution toward mass-customized services and the progressive fusion of IT and business represented by new kinds of providers of IT-intensive processes and services, e.g., business service providers (BSPs).

**1.2.1 Top-Down Trend: From Competitive Pressure to Strategic Sourcing**

Global market expansion and the growing availability of products and services lead to increased competition, and consumers become accustomed to asking for better products and services. Businesses that were run internally and had direct control over most of their value cycle must be prepared for the threat of competitors with better ability. Sometimes, they can lose business to a competitor that has a better product or service, or a better production cycle and, therefore, a lower price. They can lose
business because a competitor has a better and deeper understanding of client needs or a more-established brand. The world asks for excellence, but it is impossible to excel in every aspect. Businesses must make tough decisions regarding the core value and specialization that will drive the entire business strategy. This key decision will then affect the entire sourcing strategy in the organization.

Success requires that everything that is part of the core business must achieve excellence and become a true competitive weapon and differentiator. Sourcing in this area will be very specific and controlled.

The rest of the enterprise cannot be left aside, as it is part of the value chain and includes unavoidable functions and processes. The objective of noncore processes will be set at a "competitive parity" level. As the IT/business process service market develops, "partners" that have such processes as their core business and will make them available at a "competitive parity" level increasingly will provide these processes. This is where the market for business process outsourcing (BPO), BSP and specialized horizontal and vertical utility providers apply. This is also where some of the most relevant transformations of the service market will occur. Technical convergences and business collisions will develop brand new providers in the market.

This business transformation is not easy, nor is it without problems on two critical sides: internal management of a complex sourcing environment and IT management, as IT is the expected backbone that will keep the internal and the external processes together.

Almost every manager knows how to organize the achievement of objectives through an internal organization (i.e., the best-known "sourcing model"). The current management practices were forged over decades, if not a century, of internal delivery organizations. At present, only very mature industries (e.g., the construction or automotive industry) have the management standards, regulations and professions for managing complex sourcing arrangements. IT services — including IT-intensive processes — do not have this maturity.

1.2.2 Bottom-Up Trend: From Internal IT and Outsourcing to Strategic Sourcing

All enterprises candidly admit that their internal IT capabilities can no longer cope with their changing business needs. The facts demonstrate that long-term traditional outsourcing deals are also unable to cope with the pressure of continuous business change. Changing technologies and competitive pressure are leading to increasing use of external service providers (ESPs). At the same time, change management and process innovation start to go well beyond the enterprise boundaries in terms of interoperability.

This evolution in the IT sourcing area demonstrates that classic contractual vehicles and current capabilities in managing service relationships and providers are not adequate. As a result, for decades the ESP engagement for consulting and implementation projects has been the "elementary school" of sourcing for many reasons, including:

- Engagement of consultants and system integrators is still often seen in terms of staff augmentation.
- Contractual vehicles and management capabilities do not really allow for a risk transfer from the client to the provider.
- The client acquires additional — sometimes truly excellent — capabilities but still needs to manage the risk and complexity of the entire result with internal staff members that are rarely at the same level.
- The ESP engagement normally ends with the project deliverables, leaving the client with the hard tasks like deployment, integration within the organization and service or process management.
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Many enterprises that use a high degree of externalization (e.g., new entrants in the telecommunications market) find their competitive ability limited by their internal management bandwidth, just because they are not able to transfer risk and responsibility to their ESPs; and the problems come back to them. Additionally, the organization schema mostly used (i.e., semi-independent business units that can engage the providers directly) may well create issues at the architecture or management level when going into production.

The classic outsourcing contract is based on the externalization of an established service area, previously managed internally by the client. This approach, which is quite complex, can be defined as the "secondary school" of sourcing, because:

- A limited area of use exists that cannot be enlarged beyond a certain limit. After outsourcing the classic set of IT options (i.e., data center, network, distributed infrastructures and application management), what else can an enterprise do?
- It is not designed to help with change and innovation — contracts are often obsolete at the signature date.
- A changing need in nature (i.e., IT services) is put in a "contractual cage," often for a long time and often even more tied up by the initial provider investments (e.g., cost-cutting promises and asset transfer).

The intrinsic limitation of those classic sourcing approaches clearly demonstrates that a tactical approach to sourcing can no longer cope with the real problems or the need for a dynamic evolution of the end-to-end services, processes and projects to fulfill the objective of a market-driven and, therefore, continuously evolving business strategy. For example, such an approach could not cope with a BPO move or an application service provider (ASP) delivery, an e-marketplace or an exchange connection.

Clearly, a more mature approach to sourcing is required that needs to be connected and synergistic with the business strategy. It must be related to process sourcing and IT sourcing.

A sourcing strategy represents the first necessary step toward the "high school" of sourcing that will be a requirement for leading and successful business. A few large enterprises will probably go even further than that when building or participating in new service providers to fill business opportunities in the emerging connected services market.

As with any learning progression, the right direction does not mean getting the final results. Although the first step into strategic sourcing is to build a strategy, the real maturation in terms of management practices and "know-how" will occur during the strategy execution. To support this, the strategy must address the key challenge of sourcing governance in the early phases. Sourcing governance is built on skills and processes and represents the way an enterprise will learn through experience and create its own way of managing a multisourced environment.

These two concurrent trends (i.e., top down and bottom up) are pushing a more strategic use of internal and external sources of knowledge, work and services. Because of the complexity of the changes, the amount of sourcing options available and a lack of adequate management practices, many sourcing decisions today are just the most obvious or simple from a tactical perspective and, therefore, not necessarily the right ones. However, sourcing will become strategic, and every enterprise needs to build its own approach and management practices for it. Enterprises must learn how to leverage sourcing, while creating the required abilities to manage it. Building a sourcing strategy and developing the required sourcing competencies are the recommended steps to take in this direction.
1.3 Business, IT and Sourcing Strategy: Which Comes Second?

Key Issue: How should enterprises integrate internally provided and externally provided services?

Key Issue: What are the latest trends, issues and events in the ESP service market?

The business strategy is the first step toward any business evolution. Typically, the IT strategy is derived from the business objectives, and then sourcing is the third step. Will the future be so neat?

Everyone may well agree that to stay in business in the competitive, connected economy of the third millennium, business strategy must drive every decision. In the connected world, where enterprises, consumers and governments are all connected and exchanging information, IT and sourcing decisions must derive directly from, and be connected to, the business or the e-government strategy. Sourced internally or externally, IT is no longer a back-office function supporting administrative, internal tasks: IT is becoming a primary channel for business interaction with the rest of the world.

- **Business strategy** defines a set of objectives, typically associated with a perceived value or a threat on the market (e.g., how to get additional market share, how to better serve and retain clients or how to stand out from competitors). However, during an economic downturn or a revision of internal processes, the strategy also looks into the enterprise, pursuing internal values to exploit (e.g., process optimization, quality improvement, organization streamlining and cost reductions). In both cases, a business strategy defines what to do and drives everything in the enterprise. In this report, business strategy refers to a broad and general concept, including first the broader business approach (i.e., markets, business models, competitive approach, business processes and partnerships). This term also includes another view —business initiatives — defined as a smaller part of a global business strategy, which includes scope and time frame.

- **IT strategy** examines how IT can support the objectives set by the business strategy.

- **Sourcing strategy** mainly defines who will fulfill various parts of certain objectives. The activity may well be a project, a service or a process, in the IT arena and in the business arena (i.e., as in a BPO case). The provider can be internal (i.e., part of the enterprise) or an ESP or workforce provider.

Assuming that a business strategy has been set, what is the next step — IT strategy or sourcing strategy?

### 1.3.1 The Classic, Prescriptive World

In a classic, monolithic enterprise, after a business strategy or initiative has been defined, the next step is to prepare the enterprise to carry out the projects and processes to make it happen. Thus, the next step is to define what is needed with regard to business processes, resources and skills on one hand and IT functions on the other. That makes IT strategy, together with the change-management projects in the business processes, the second step. Architectures, infrastructures, applications and IT processes are evaluated; and IT programs or projects are started to make the business initiative happen. If internal capabilities are not enough, the organization will look — often just tactically — at sourcing to fill the gap. Here, sourcing is the last resort to satisfy an already defined need. That is the classic, monolithic world of command and control, where external collaboration is mostly used to fulfill what has already been defined. In a command and control, prescription world, business strategy comes first, second is IT strategy and third, if necessary, is the sourcing initiative to resolve an internal lack of capabilities.

The traditional business world has been based on the logic of “do that for me, this way,” where the sequence has been business strategy and then what, how and who.
1.3.2 The Emerging, Goal-Based World

In a less monolithic and more dynamic enterprise, after a business strategy or initiative has been defined, the next step is to quickly prepare the enterprise for fulfillment of the objectives. This fulfillment may happen through resources and services that are internal to the enterprise, external or a combination of internal and external, depending on each case. The next step is to quickly define what is needed (e.g., business processes and IT functions), and who will take care of it (see Figure 1).

![Figure 1. Business, IT and Sourcing Strategy: Which Comes Second?](source: Gartner Research)

In this approach, the main focus is on the result, with less emphasis on the means to achieve it. This makes the sourcing strategy the second step — to quickly select the partner or provider that will carry out a project, a service or a process that is part of the global objective. The evaluation of IT architectures, infrastructures, applications and services will be done later, working with the selected service providers. In this situation, IT decisions are the final step, because the scope here is not to prescribe “how to perform that” but to verify that:

- The provider will achieve the objective by implementing IT solutions that comply with the enterprise’s general architecture, standards and rules.
- The final solution has the degrees of completeness and interoperability that are required.

This is an emerging world in which objectives become more important than how to achieve them, and external collaboration is leveraged not only to extend but also mostly to add value to the enterprises’ business capabilities. This move can be synthesized into an evolution from tactical “out-tasking” toward strategic sourcing. Here, sourcing strategy comes just after business strategy. IT strategy is partially implemented through sourcing as part of the rules that are used to define the sourcing strategy and governance. IT strategy is also partially implemented through the provider’s strategy (i.e., one of the reasons the provider was chosen).

1.3.3 The Future, Partnership-Based World

Some businesses will become far more virtual than today and highly dependent on their partner network, making each single organizational value far more related to its partner network than to its own. For this kind of organization, the sourcing strategy — even if this term is substituted by concepts such as co-
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Competition or value-added partnering — is practically fused into the business strategy, which must be highly relationship-based. The business/sourcing strategy is built with the network partners, and those that fail in their sourcing strategy (e.g., fail to leverage and be part of a network) also fail as a business. In a world so highly virtualized, the IT strategy will often be carried out by one of the network partners as its specialty and unique task — the value-added IT partner.

For highly virtualized enterprises, the logic will be “let’s decide and do that together,” and the sequence will be a business strategy that includes what and who, followed by the how decision.

1.3.4 A Possible, IT-Dominated Approach

Another theoretical possibility is apparent from newspaper articles and start-up business plans — where something is done just because the technology allows it. The technology drives or even defines the business strategy, and IT strategy overlaps and fuses with the business strategy. However, if such situations are not treated very carefully, failures occur when the technology enables solutions that have no business sense (e.g., leading to products or services that nobody is willing to pay for).

In a monolithic enterprise, when a business strategy or initiative has been launched, the relevant IT strategy or initiative is set and then executed (i.e., the mandatory way) through a sourcing strategy. For enterprises evolving into a more virtual model, the sourcing strategy will be the primary tool to implement a business strategy, and IT decisions will be validated with the partner or provider. The next step for highly virtualized and connected businesses will be an overlap of business and sourcing strategy, when the network of trusted partners will cooperate to set new business strategies or initiatives that will leverage the partners’ capabilities to add value to the entire business ecosystem.

For any kind of organization, there will be a closer proximity and reciprocal influence between business, sourcing and IT strategies and decisions. However, if something does not make serious business sense, no amount of IT or sourcing can make it work.

During the transition from traditional, four-wall organizations to a more interconnected and virtual organization and value chains, enterprises have to clearly understand that sourcing decisions are moving from being the last-resort, tactical and mandatory approach to an early strategic weapon. From the business perspective, it seems far easier to drive sourcing directly than to use any kind of technical-oriented IT strategy. This underlines a serious opportunity and challenge for any IT manager: a sourcing strategy can be the key to improved business/IT cooperation or simply the end of a failing internal IS organization.

2.0 The Five Dimensions of Strategic Sourcing

Key Issue: How should enterprises in Europe integrate internally provided and externally provided services?

Strategic sourcing is a critical competence that will provide business value and differentiation through 2005 and beyond, when most enterprises will enter the connected economy. However, enterprises that do not enter the connected economy will risk encountering serious failures, depending on their capacity to manage the business competition and the IT innovation challenges. Internal IS organizations alone will be unable to meet all the business needs in this time frame. The IT service market offers innovation, but with immature delivery and high risk. Outsourcing has failed to deliver innovation and flexibility, which are the most-important future needs.

While the current downturn pushes organizations toward cost-control measures, the need to streamline and interconnect business processes all along the value chain is still there. That will require an increased
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expenditure on IT initiatives and innovation, and this will increase the complexity of projects as well as the nondiscretionary IT spending. The growing use of business process sourcing, as well as the role of IT for the virtual organization, mean that all sourcing decisions are highly interconnected. Strategic sourcing approaches this key challenge in a holistic way to find the best solutions for every enterprise.

Strategic sourcing is a core capability for business and government enterprises. It allows them to manage innovation and deliver processes and services effectively and efficiently to the internal organization, business partners, and clients or constituency, while looking at the enterprise as part of the connected economy.

The response to such an impressive challenge must take into account, analyze and harmonize many different elements (e.g., business decisions and initiatives, internal capabilities, what the service market offers and really delivers, what is needed to manage this mixed world, and how to engage the service providers). This is not only IT-related. The growing trend toward virtual and connected enterprises means an ever-increasing use of outsourcing and partnership concepts in various business disciplines and processes. This is even extending to what were considered core competencies. Thus, strategic sourcing is not only about outsourcing and not only about IT.

The complex, connected world is where interrelated sourcing decisions must be taken and executed, to ensure business objectives are fulfilled. This world contains IT and business sourcing decisions regarding resources, skills, continuous services or business processes that must extend even into those sourcing decisions that affect the entire business (e.g., through partnerships, mergers or acquisitions). Enterprises must enforce to the maximum extent those internal capabilities considered core and strategic, while leveraging innovation ability and better economies of scale from external providers.

All this covers many business initiatives running in parallel, as well as outsourcing deals for continuous service and processes. This must ensure a continuous and efficient management of sourcing through the four phases of its life cycle: strategy, selection, negotiation and contract management. This management continuity must also address the changes that business, organization and technology will cause, as well as the changes related to the progression of the sourcing strategy itself.

This world is definitely not easy. Therefore, it is important that enterprises understand the five main dimensions of the strategic sourcing world (see Figure 2):

- Business goals
- Internal capability
- External market capability
- Sourcing models
- Sourcing governance

Vitruvius’ man from Leonardo da Vinci: Vitruvius in his “De Architectura” described a person as part of the anthropomorphic measurement system of that age, to be inscribed in both a circle and a square. Leonardo da Vinci represented this, around 1490, as part of his studies on geometry, architecture and anthropometrics. Some authors have interpreted it as the person at the center of the scientific comprehension of the world. Gartner has chosen this because it perfectly represents a complex scenario (i.e., the circle and the square), with human capacity at the real core of its comprehension and management.
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It is critically important for enterprises to recognize that any business strategy for the connected economy must increasingly take into account that internal capabilities are inadequate to directly ensure business success through IT innovation. Enterprises must take a holistic approach to minimize and control the execution risks of any new business strategy. This approach goes far beyond what is seen happening today: neither the politically driven partnership approach nor the technically driven outsourcing approach will define the best — or unique — path to success.

Strategic sourcing is not about technology. It is about leadership and superior management capabilities.

2.1 Business Goals

The key elements in identifying a sourcing strategy are the required business results and the overall capacity to compete, cooperate and interrelate in the connected economy. Strategic sourcing is not just about outsourcing current business or IT services. The basis for executing any IT-enabled business strategy is part of the overall business question: How should an enterprise compete in the connected economy? Through 2005 and beyond, sourcing strategies and their execution will encompass a wide range of business and IT initiatives aimed at exploiting a perceived business value identified by the business strategy. This perceived value can be external (i.e., initiatives regarding supply chain, customer relationship management (CRM), new products and markets, and differentiation over the competitors) or internal (e.g., cost reduction, improvements in product and service quality or time-to-market, and systems supporting the virtual organization). Because business value is highly time-dependent, strategic sourcing also depends on time, including the time to prepare and close any sourcing deal.

Sourcing strategy must ensure that business objectives are fulfilled and other relevant dimensions of this subject are understood and evolved accordingly. Every sourcing decision must be reconciled in terms of results and implications between projects, services and processes into a holistic view of the business state as it relates to the connected marketplace. As IT becomes a ubiquitous component of all business processes, business strategy, sourcing and IT strategy tend to be strictly connected, overlapping and sometimes becoming fused. Even without an overall established business strategy, a sourcing strategy can be approached, based on the expected evolution of the marketplace, explicit business objectives and the current status of the internal capability.
2.2 Internal Capability

Internal capabilities (i.e., competencies, business processes, IT processes and services) of traditional enterprises are universally considered inadequate to fulfill the challenge of the connected economy. Internal IS organizations are perceived as related to back-office functions and adding little value to the business — although they are carrying out exactly the task they were asked to do.

Most current business processes are suited to change in the connected economy. Many manual internal processes — which are often bureaucratic and paper-based — will be superseded by the more direct interaction of IT systems (e.g., build-to-order systems connected to a Web business-to-consumer front-end or to a business-to-business marketplace). Typical symptoms of the internal inability to support the expected rate of innovation include:

- Relationship between IS and business organizations: passive or reactive, instead of proactive
- Business perception of IT: a cost center not delivering innovation, with frequent cost reduction campaigns
- Significant use of external consultants without any internal involvement from IS organization
- Poor results from internal or ESP projects, especially innovative or spanning multiple business units
- Bad experiences with outsourcing contracts driven by cost reduction

2.3 External Market Capability

The IT service market is one of the more dynamic and chaotic marketplaces. Most newer IT services (i.e., the ones that should bring innovation and added value) are in their early stages (see “The IT Service Market: The Immature Giant,” M-14-6579). ASP, e-business project and services, CRM and supply chain management integration are in their infancy or early adolescence, while a few offering lines (e.g., data center or desktop services) are entering early maturity (i.e., the commodity stage).

The service market for business processes, e.g., finance and administration, human resources (HR) management, logistics, general services and real estate management, should be considered more static and mature than IT services. In reality, the connected economy is changing even this, including how traditional business services or processes will be delivered (e.g., applications running as part of BPO will need to be Web-based and interconnected with other custom or third-party applications).

As IT becomes more ubiquitous, the low maturity of some e-business services may “contaminate” traditional service areas, which will initially become less stable. This will quickly be overcome by the IT service market maturing as it becomes ubiquitous in all business service lines (see “Service Market: Technical Convergence, Business Collision,” M-14-7355).

2.4 Sourcing Alternatives and Models

Current — or future — capacity (i.e., available internally, in the market or through a partnership) can be engaged and exploited through different sourcing approaches and models. This is mostly a type of make-or-buy decision. In some cases, a partner solution may also be envisaged, ranging from partnering agreements, building joint ventures or building business partnerships for a complete business result, as well as buying capabilities through merger and acquisition. More rarely, a “compete” solution (i.e., building a new market player for a certain service area to compete in the service market instead buying from it) will also be part of a sourcing strategy.
2.5 Sourcing Governance

The sourcing governance model is the sum of management capabilities, methods and processes, organizational roles and responsibilities, and rules and agreements that support the dynamic delivery of services in a mixed (i.e., internal and external) environment. The model must cross traditional enterprise boundaries and be installed as part of the business, the internal IT function and the external providers, including, to some extent, even subcontractors and provider’s partners.

The IS organization side of sourcing governance is strictly related to the evolution toward the role of IT broker (e.g., the evolution of the IS organization from being a direct provider toward being a broker and an integrator of services provided internally and externally), clearly represented by the “IS Lite” model (see Figure 3). The two key element of a sourcing governance are skills and processes.

1. IT leadership
2. Architecture development
3. Business enhancement
4. Technology advancement
5. Sourcing management

Source: Gartner Research

Figure 3. IS Lite: The Sourcing Gearbox

3.0 A Step-by-Step Approach to Sourcing Strategies

Although every sourcing strategy exercise tends to be somewhat unique, common traits and activities have been analyzed and experimented with in different organizations and situations.

An essential step to approaching a sourcing strategy exercise is the scope. One of the main characteristics of the Gartner approach to sourcing is that it addresses IT sourcing and process sourcing. Therefore, the scope and the depth of the analysis can vary widely from IT infrastructures or a single IT system to IT as whole, and from a single and simple process to the overall enterprise sourcing strategy. This is a very relevant decision that is key to building an actionable sourcing strategy approach.

Enterprises should take into account that although it is presented here as a step-by-step approach, this is actually going to become a continuous process as part of the sourcing governance activities. Therefore, it will be applied partially — more often at the sourcing alternative level — as the evolving business strategy will define new objectives to be achieved (see Figure 4).
Unfortunately, a widely perceived gap exists between capabilities and business expectations. However, another gap exists — and it is more subtle — regarding core and noncore areas. Often, the internal capabilities are quite good, but they are doing the wrong things well. Therefore, a sourcing strategy starts with an analysis of the gap.

### 3.1 Strategic Gap Analysis

The process of conducting the sourcing strategy starts with a pragmatic assessment of how strong the change pressure is and how ready the organization is to change. This assessment involves cultural, financial, contractual and statutory factors, and will vary widely between enterprises. On concluding that the organization requires a sufficient degree of change to warrant the exercise — and it is capable of making the change necessary — a strategic gap analysis should be prepared.

The gap analysis should examine in detail the vision of business leadership and the strategies they have enunciated to achieve that vision. The next step is to overlay reviews of business initiatives, IT operations, skills and unique knowledge capital, medium-term plans and the enterprise’s governance model.

This gap analysis cannot be just a comparison between “what is necessary to do” vs. “what we are able to do,” because that would drive to a simplistic strategy that is “we buy because we are not capable at doing.” That is the typical strategy of a nonfocused, follower organization.

The gap analysis must take into account the driving concept of core vs. noncore (i.e., process, skills and know-how) to base every sourcing decision on what is — and what will be — the most important aspects of the business strategy. Which processes, systems and skills will be key to the future business success? What area can be acquired at a market parity level without negatively affecting the business? What are the main competitive differentiators of the business? How can the business and IT investment insure excellence?

Therefore, a relevant part of this analysis is asking: “Am I doing the right things?” The point of view for this is from the business strategy side. This analysis is far easier in organizations that have already decided to
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concentrate and focus on a value discipline. In other, less-focused organizations, the potential core areas are characterized by one or more of the following attributes, depending also on the degree of focus already achieved:

- It is part of the direct value chain of the business (i.e., remove this and the business would not make sense anymore).
- It is essential for the creation of the value added that the business develops.
- It is clearly part of the business competitive strategy (i.e., damage this and the top line will quickly suffer).
- It is an area in which the business performs nicely, already excels or where the better potential for developing more business value added appears to be.
- It includes areas in which distinct competencies have been developed. Those key competencies are vertical and enterprise-specific, value-linked and should have a value for any direct competitor.
- The owners of those competencies are jealous of their intellectual property and consider this an enterprise asset (this is not always true, nor recognized).
- The business strategy emphasizes — or, in other cases, just admits — that this process is key for the business.

In some cases, core processes are not so well recognized because they are still camouflaged by other relevant but not core processes. Sometimes a business transformation strategy may require a dynamic definition of which processes are core. For example, during a global expansion strategy, the ability to grow by merger and acquisition can constitute the core process (i.e., involving market intelligence, finance and administration, and multination legal teams), and, for the following consolidation phase, other processes will become core (i.e., those that will stay far longer).

Therefore, the four core questions of the strategic gap analysis are:

- Am I doing the right things?
- Am I doing those things well?
- Am I able to achieve the short to medium term business objectives?
- Am I able to react quickly enough to unexpected business changes?

As part of the first two questions, the most important internal elements that need to be analyzed are:

- Current service provision (i.e., in term of financials, efficiency, effectiveness, and market availability of equivalent or better services or resources) and business implications
- Current sourcing management capability (i.e., projects, services and processes)
- Ability of the enterprise to change (i.e., entrepreneurship, management, staff, culture and unions)
- Relationship between business and IS organizations

Usually each organization already has in place a set of documents or information that include some or most of those elements (e.g., business baseline, strategies, governance and processes, IT baseline, IT strategic plans, skills and knowledge maps). This capability baseline needs to be compared with the expected rate of innovation, business strategy and goals, as well as with the expected vertical
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marketplace competition issues. The results of the gap analysis should then be analyzed at a level of granularity appropriate to the severity of the strategic shortfall and then mapped into an implementation plan that can be executed easily by the IS organization and the business units.

This analysis describes the challenge defined by the strategic goals and the continuous rate of change that is typical of the competitive marketplace and compares this challenge with the current organization capabilities. This gap must be addressed, and the market may contain the answer.

3.2 Market and Risk Analysis

Enterprises facing an internal inability — as defined by the strategic gap analysis — must understand what the local, relevant service market (i.e., IT or business processes) can provide today and in the expected time frame. This understanding must include the market availability of a service to cover such aspects as service maturity, quality and stability.

Therefore, a sourcing strategist must recognize that what a provider’s marketing people — and some pilot clients — may claim is very different from what is delivered, every day, to the average client. The same level of cynicism that is adopted regarding the ability of the internal IS organization to provide innovative systems must be applied to external providers. They spend far more than the internal IS organization on research, but also in marketing and advertising; they have experience with many clients, but through different people within the enterprise. The mandatory (i.e., no choice) use of external market sources has a greater chance of success when filtered by a critical and independent market analysis.

3.2.1 Strategies for Employing New Delivery Models

In a turbulent and changing European service marketplace, new offerings are coming that can provide new opportunities for clients but will stretch the client’s sourcing management capabilities. They include infrastructure on-demand, offshore providers, newcomers and established BPO providers, software as a service, ASP and BSP, and services delivered by partnerships between providers (i.e., the IT services value chain). All those are concurrent signals of the tectonic transformation that Gartner started forecasting more than two years ago in Europe. Today, client organizations look at the service marketplace with some skepticism. Will the immature giant really mature in the near future? (See “IT Service Market: Will the Giant Mature?” M-15-0529.) In the meantime, how can enterprises survive and even thrive?

New services opportunities are associated with a higher value for clients for many reasons. Providers are more eager to apply favorable conditions to pilot clients or in the first wave of commercial activity. The new wave of services industrialization will provide more stable and less expensive services than the previous high-customization ones. New form of deals (see “Buying Commodity/Access Services Instead of Outsourcing,” SPA-13-0073) can be applied to increase success chances. Nevertheless, new service opportunities are typically associated with a higher risk (i.e., the offering is often immature, not well understood by clients and even by providers; not enough client references; the provider may go out of business or leave this offering if enough business is not achieved). The balance between client objectives, risk and benefits must be evaluated in the single case, but client organizations must be able to put in place better sourcing management practices to transform those new opportunities into real value for the business.

3.2.2 Standardized Infrastructure Offerings

Aggressive advertising campaigns for "IT as the next utility" or about "computing on demand" are bringing to everyone’s attention a trend that was forecast by Gartner some years ago: the standardization and
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industrialization of IT infrastructure services. These offerings have a solid basis on the most mature IT service offering (i.e., infrastructure management or outsourcing), but most of it is still marketing. The real stage is still an evolving service relationship created by mixing a traditional outsourcing deal plus on-demand options and mechanisms. The on-demand side will develop (i.e., the offering, service processes and tools) because most of the technology required is already there. Instances of one-to-many infrastructure access services will be available and deployed, then standardized infrastructure will become an appealing part of clients sourcing strategies and the underpinnings for the development of more focused ASP and BSP. Enterprises looking for infrastructure services are encouraged to actively investigate utility, on-demand infrastructure services while keeping high control on the deal development. The utility will come, but it is not there yet.

3.2.3 Software as a Service

It is very important to understand the different approaches and who offers those approaches. The software-as-a-service concept can range from an independent software vendor (ISV) proposal for a new creative billing mechanisms, to an evolution of the application management outsourcing or full outsourcing model, to a true one-to-many ASP offering. In some cases, this approach is in the ISV "life cycle cost" realm; and the software is run at the client premises and under the client control. Enterprises should treat this for what it is: a new billing mechanism to be compared to the classical ones (e.g., licensing plus maintenance) as part of a software asset purchase and management agreement. In some cases, the offering includes management service provision, or the operations are outsourced (i.e., the software is run at the vendor site). Then the proposal must to be evaluated according to the kind of service to be provided. If it is a true one-to-many ASP offering, the enterprise should skip to the next point.

3.2.4 ASP/BSP Offerings

The ASP realm is extremely wide, ranging from simple horizontal solutions (e.g., e-mail outsourcing) to complex vertical-focused solutions. The basic ASP characteristics (i.e., one-to-many solutions, pre-engineered by the service provider and provided under a "rental" approach with limited or no client investment and customization) must directly drive the evaluation during the client strategy phase.

Although business value can certainly be provided through this delivery model, differentiation is not really achievable through it. The ASP model is best suited for horizontal (e.g., non-vertical dependent) or vertical (e.g., highly vertical specific, for a niche market) utilities that are not expected to have a direct link with core and differentiating processes and applications. Therefore, those main characteristics must constitute the core of the evaluation during the sourcing strategy phase:

- The fit of the ASP offering with the client organization’s key needs (e.g., when selecting a product). During the evaluation, the client approach is based on evaluating if the client process can be adapted to the standard offering. An ASP, extensive customization and business differentiation do not fit together
- The viability of the ASP, which needs to be evaluated carefully based on the financial landscape as well in terms of the ASP’s business and commercial strategy.

3.2.5 BPO Offerings

BPO is currently the fastest growing segment in the United Kingdom with significant interest developing in Central Europe and especially Germany. Gartner expects IT-intensive BPO to increase all around in Europe depending on each geography market stage, maturity and cultural/legal framework, as well as the returns from early adopters. Enterprises must be aware that IT-intensive BPO needs to be part of a whole
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sourcing strategy and should not be seen as a separate move. Best practices learned in the difficult IT sourcing world can be extremely useful for BPO, BSP models will progressively develop, reducing the barrier between IT outsourcing and BPO; however, the application integration issue is a key challenge for all kinds of vertical sourcing, including ASP, BSP and BPO. Additionally, BPO offerings and vendors present a variable degree of maturity. Some have already developed a sound level of service, while others have not. In addition, the extension from one country to another — or even by vertical market — can be extremely difficult due to language, culture and legislation differences. Enterprises seeking to revise and improve noncore yet critical processes (e.g., HR, finance and administration or vertical-specific functions) are encouraged to actively investigate the BPO offerings relevant to their geography or vertical market. This approach can become a valuable part of their sourcing strategy as an alternative to traditional business process re-engineering (BPR) or enterprise resource planning (ERP)-based, in-house efforts.

3.2.6 Offshore Offerings

Pushed by the U.S. IT market downturn and their increased capability and experience, offshore service providers are now expanding their coverage in Europe. Dealing with offshore providers requires the ability to manage differentiated relationship models (i.e., direct or indirect; simple off-shore up to in-house/inshore/offshore models; or development vs. application management outsourcing) and generally puts significant stress on relationship management. The potential benefits (e.g., lower cost, better quality and fastest time-to-market due to potential 24-hour operations) can be easily offset by management failures. Indian vendors, especially, have some of the best methods to managing multinational application delivery and management. Large enterprises evaluating application management services are encouraged to actively investigate how direct or indirect offshore offerings could become part of their sourcing strategy.

3.2.7 IT Service Supply Chain

Enterprises are starting to discover that new offerings are often coming from more than a single provider. As part of a market that at the same time broadens and specializes, the IT service value chain is starting to develop. Since the overall maturity of the market, its providers and its processes is still not there, enterprises should:

• Not discard offerings just because of the multiple-provider structure
• Prefer simple chains to complex ones
• Evaluate not only the service offered but also the partners’ ability to work together
• Evaluate the operative processes between service providers and all the client-facing processes (see “Outsourcing? Think In Terms of Processes or Suffer,” SPA-08-2203)
• Enforce contractual terms and conditions and best practices to support a single end-to-end responsibility

The scenario planning exercise that leads to a sourcing strategy should include new offerings becoming available to meet the needs of a changing marketplace. A superior sourcing management capability also needs to be developed and put in place to transform the potential value into real business advantage.

New offering appearing presently in the European market are signaling a shift and creating turmoil. The maturity of those solutions is still variable and sometimes very low. Therefore, risk is relevant, and new offerings must be put in the context of a well sorted out and single-case sourcing strategy. After choosing
the best strategy, the entire sourcing life cycle must then managed strongly down through selection, negotiation and management. Enterprises should note that the newer the offering, the higher the risk. Thus, strong management capabilities are needed to successfully leverage benefits.

### 3.3 Market Engagement: Alternatives and Models

Sourcing decisions may seem to be simple make-or-buy alternatives, but the spectrum of alternatives and models is impressive. Sourcing decisions are far more complex than just a make-or-buy decision, and the right sourcing decision is not always evident. It may remain obscure until it is placed in the context of the business strategy and all alternative options are evaluated carefully.

An organization should not use external capabilities just because it cannot reach an objective with its internal capabilities. The more difficult and business-critical the objective is, the more likely it is that the result will be reached (or not) by exploiting internal and external capabilities simultaneously. Using only external capabilities when the internal ones are unable to reach an objective is a high-risk approach that is often associated with "follower" organizations that lack a clear business strategy. The risk is that organizations use external providers to carry out important business initiatives without building enough internal capabilities. This results in systems and solutions that are suboptimal or even disconnected from the current organization and business needs. Through 2005, enterprises increasingly will need to leverage internal and external capabilities to manage a complex transition toward a more streamlined, agile and connected organization. This transformation simply cannot be bought.

Sourcing alternatives apply at the level of a single business objective; and once the objective has been defined, six potential alternatives exist for sourcing this objective. However, the sourcing decision related to a single business initiative is still not a sourcing strategy. The overall sourcing strategy is better described by the overall relationship the enterprise is building for a certain area (e.g., IT or process). That is where sourcing models apply.

#### 3.3.1 Sourcing Alternatives

**Key Issue: What are the fundamental elements that comprise successful sourcing and procurement strategies?**

**Key Issue: How should user organizations be structured to successfully manage the ESP deal and assure that high quality services are delivered?**

Six main sourcing alternatives exist for a given strategic objective, and they are divided into two broad areas:

- Sourcing of skills or deliverables (i.e., typically as part of a change project or business initiative)
- Sourcing of services or solutions (i.e., typically as part of an ongoing service delivery) (see Figure 5)

Figure 5 provides a general evaluation of the risk and management responsibility transfer outside the client organization. However, it is important to note that the evaluation provided is general and cannot substitute for a careful evaluation of client-side and vendor-side risk for each individual case.

To understand the risks, assume that an organization has set the strategic objective of improving and professionalizing its relationship with — and management of — its client base. From the IT perspective, that means starting a CRM initiative. How can this initiative be sourced?
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Business or technical skills: A CRM initiative requires the implementation of one or more software packages, and usually the internal IS organization does not have the right technical skills. A first sourcing alternative is to source those skills from the market, usually through the engagement of external consultants (i.e., "body rental" is the typical form of contractual vehicle, often from staff augmentation agencies, freelancers, consultants and system integrator firms or the service arm of the software vendor).

Implementing a CRM initiative may require the organization of a call center, which requires specific knowledge in terms of organization, processes and staff management. Therefore, business skills can also be sourced externally by hiring or engaging as a consultant one or more experts on building and running a call center in the relevant industry or region.

This staff augmentation approach tends to be very technically oriented and does not imply risk transfer outside the client organization. The enterprise does not receive significant relief from project management duties — that onus may even be increased because of the additional people, different cultures and methods.

Management capability or skills: A CRM initiative is not composed only of building a call center and installing a suite of packages. A single-customer view requires the integration and interoperability of most — if not all — organization processes and applications, as well as changes to them all. This means that the project is complex and requires precise coordination of many areas with different needs, opinions, processes and applications. All that requires a serious management effort to drive the initiative toward success. Because the internal management bandwidth is always limited, the second level of sourcing is about management capabilities. These can be sourced from the market through a body rental approach or even through a program management engagement, typically from a consulting firm.
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This staff augmentation approach still does not imply risk transfer outside the client organization, but it can partially relieve some of the client project management duties. Depending on the contractual form, the program management approach starts by transferring a small part of the risk from the client to an external provider. Note that with the first two sourcing alternatives (or levels), clients are essentially sourcing capabilities (i.e., skills and knowledge) and not services. Therefore, the transfer of risk or duties is very low, and reaching the objective is still more than 90 percent reliant on the client organization.

Entire project or phases; entire change or phases: Organizing a complex project or a set of concurrent projects (i.e., a program) to reach a successful CRM implementation is a daunting task, especially because client organizations tend to do it only once (hopefully) and, therefore, "for the first and last time." Why not rely more on organizations that do this every day, in parallel, for many client organizations? So, the next sourcing alternative is to contract a phase of the IT project, the entire project or even the entire change program, including the IT project and the organization change management.

Starting from this level of sourcing, a significant amount of the management work is transferred to the provider. In addition, risk could be transferred to the provider through best practices in selection, negotiation, project and deliverables management, and risk-sharing mechanisms. Although the risk transfer potential can be lost entirely because of client weaknesses in these practices, engaging a provider for a project is the first significant step outside the "body shopping" approach and, therefore, may lead to risk and management workload transfer up to 50 percent usually, and even more in special arrangements.

Continuous IT service (i.e., outsourcing, ASP or xSP): Is it always necessary to develop a custom project and a single-case service?

A growing possibility in the market is to buy an IT application that is already "up and running," as delivered by specialized service providers. The ASP model is based on the delivery of one-to-many business applications with low levels of single-client customization and a pay-per-use approach (i.e., typically a per-user-per-month rate). Outsourcers and other service providers can also deliver these kinds of capabilities. This is a very compelling proposition for the client and includes:

- No significant investments
- Limited or no acquisition of hardware and software,
- Limited customization
- Short time-to-solution

However, project and organization changes are still required; but these are limited and mostly oriented toward application integration, training and organization readiness. In this case, up to 90 percent of the IT risk and management workload is transferred to the provider. The disadvantage of this approach is the reduced level of customization and direct control that a user organization may have on this process, as well as the increasing role of internal risks (e.g., difficulty in or resistance to adapting to the service or weak relationship or contract management). In a broader sense, depending on the business scope, this sourcing alternative includes many different kinds of service provided through traditional outsourcing deals (e.g., infrastructure, network or application management outsourcing) and new commodity services relationships, where clients will increasingly access standard infrastructures or application services provided by a network service provider, ASP or BSP.

Going back to our CRM sample, the service provider makes the application available, and the organization puts the staff (i.e., call center and support staff) in front of the desk-side application.
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Business process (i.e., BPO or BSP): Do the enterprise really need to put its staff in front of the application? Managing a call center or a support team can be difficult (e.g., training, turnover, shift management and peak times). Could the enterprise simply buy the entire business process (or a part of it) from a call center, help desk or CRM BPO specialist?

With the fifth sourcing option, the degree of externalization goes well beyond the IT sphere and enters the process realm. The enterprise no longer worries about the applications, architectures and technologies that are fully embedded in the process that it buys as a service. IT risk and management duties are externalized up to 100 percent, and a certain amount of business risk and business management are also externalized at the same time. The disadvantage is that it relies on a reduced level of process customization and differentiation, and the loss of direct control over the process. Accordingly, internal risk and relationship management grow in importance. However, another very important issue applies here: the application integration with other parts of the information system.

Business result (i.e., create, buy, partner, merge and acquire): A final sourcing alternative exists for more-complex, challenging and business-oriented objectives: the organization sources the entire business result it is looking for. Assume that an enterprise is willing to open operations (e.g., sales) in a new area (e.g., Eastern Europe or the Far East). Of course, the enterprise could send people there, look for an office, start hiring a manager and salespeople, start an IT project to acquire PCs, buy network connections, and so on. However, it is highly probable that trying to do so with the internal sourcing approach will be unacceptably long and encounter business culture or legislation obstacles.

In most cases, the objective will be sourced by:

- Creating a new company in the new region
- Acquiring an established sales organization in the new region
- Partnering with a local player
- Leveraging mergers and acquisitions to achieve the desired objective and capabilities

There will be additional activities and projects to be managed after the first sourcing decision (e.g., integration projects), but the first decision is clearly the most important.

Some of these sourcing levels might not be applicable to some objectives (e.g., where a lack of offering in the market exists, or where the objective is part of the core business and, therefore, requires high differentiation). Thus, at least three alternatives will be viable for most objectives and up to five for many. Therefore, enterprises should carry out a factual evaluation of the viable alternatives as part of their sourcing strategy and strategic sourcing management practices.

Approaching and developing a successful sourcing strategy requires the evaluation of complex, time-dependent scenarios regarding processes, initiatives, projects, sourcing alternatives, sourcing models and governance issues. The six main sourcing alternatives for reaching an objective represent different paths toward the same objective. The alternatives range from very technical to very business-oriented, and only the right mix of technical and business aspects, and a factual evaluation of time, cost, risk and implications, will reveal the right sourcing decision for an enterprise and its objective.
3.3.2 Sourcing Relationship Models

Key Issue: What are the fundamental elements that comprise successful sourcing and procurement strategies?

Key Issue: How should enterprises integrate internally provided and externally provided services?

Having selected the right sourcing alternative to fulfil a business objective is still not a strategy. A strategy requires a whole vision of the overall balance between internal and external capabilities toward a certain business objective and a certain scope (i.e., the process or service area that is the sourcing strategy scope). This is where sourcing models apply.

Current — or future — capacity (i.e., available internally, in the market or through a partnership) can be engaged and exploited through different sourcing approaches and models. Again, this seems to be just the case of a make-or-buy decision. But, in some cases, a partner solution may also be envisaged, ranging from partnering agreements, building joint ventures or business partnerships for a complete business result, as well as buying capabilities through merger and acquisition. It other cases —although it is less frequent — a “compete” solution (e.g., building a new market player for a certain service area to compete in the service market instead buying from it) will also be part of a sourcing strategy.

Based on different levels of leverage on multiple partners, these decisions can be realized through different sourcing models (see Figure 6). These models can be suitable only for a certain level of organizational maturity or used at different stages of implementation of a sourcing strategy. Time is always important, since some of these models are unstable and must be evolved as a part of the overall sourcing strategy.

As part of their externalization strategies, European organizations are using, and will continue to use, not only outsourcing but also different intermediate models. In the past, most enterprises’ concept of IT outsourcing has been centered on full outsourcing. In reality, the model that enterprises most often adopt today is the selective outsourcing approach (i.e., multisourcing). In Europe, due to the relative immaturity of the outsourcing market and the limits imposed by strict labor regulation and powerful unions, other models have often been used by enterprises.

Gartner has plotted the different sourcing models against two important organization characteristics:

**Figure 6. Sourcing Strategy Models**

As part of their externalization strategies, European organizations are using, and will continue to use, not only outsourcing but also different intermediate models. In the past, most enterprises’ concept of IT outsourcing has been centered on full outsourcing. In reality, the model that enterprises most often adopt today is the selective outsourcing approach (i.e., multisourcing). In Europe, due to the relative immaturity of the outsourcing market and the limits imposed by strict labor regulation and powerful unions, other models have often been used by enterprises.
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- **Build vs. buy axis**: represents the enterprise’s will to leverage (buy) or not (build) on the providers capabilities to satisfy the IT or business needs.

- **Competition-level axis**: represents the enterprise’s will to have mainly a single provider (i.e., minimizing management overhead but with a risk of becoming a captive market) or to fully leverage competition (i.e., managing different providers and accepting the overhead and complexity of a multiprovider or multicontract situation).

The most relevant sourcing models that are in use in many, different organizations in Europe and around the world include:

- **Internal delivery**: This is the current status of most enterprises’ IT or business process operations as well as the delivery model that every manager knows. The internal organization provides services to the enterprise, and implements new services and architectures through internal projects; everything is managed through the direct relationship between an organization and its associates. It is the most elastic model, because the unit manager may change the rules and the processes as much and as often it is needed.

- **Insourcing**: Insourcing is the process of separating the IS or process organization from the enterprise as a business unit, usually measured by its own profit and loss. The insourced organization provides the enterprise with services on a business-rules basis (e.g., semiformal contracts, service-level agreements and definition of tariffs for services). IT insourcing has been used quite often by large European enterprises that also have the scope to sell IT services to the market. In the case of business process, the insourcing model is also known as “shared services.”

- **Joint venture**: To exit from the internal IT or insourcing model limitations (e.g., economies of scale or knowledge), the enterprise builds a separate service company and shares it with a market provider. Normally, the ESP gets the majority of the joint-venture shares (i.e., typically 50 percent to 80 percent) and manages the joint-venture operations.

- **Full outsourcing**: This is the most classical outsourcing model. It is based on a single contract with a single ESP, for all the in-scope services. The main characteristics of the full outsourcing model include:
  - Single provider and single contract approach
  - Covers a large part of the enterprise’s IT or process needs
  - Often includes a top-management strategic partnership with the provider
  - Often is a long-duration contract (i.e., five to 10 years)

- **Best-of-breed consortia**: This model appeared in the market as an evolution of the full outsourcing model for very large deals of major multinational companies or for government deals. It happens when the client requirements exceed the capabilities of a single, large provider. Based on a customer request, or on an ESP’s decision, a consortium is built up, and one of the providers takes the role of prime contractor.

- **Brand services company**: Similar to the insourcing model, a company is built to provide services to a large organization or a group of business-oriented companies. Services provided — which may include non-IT services and business processes — are carefully compared against the market, and
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the services company leverages ESPs, selectively outsourcing part of their services. The services company can be allowed — or is even intended — to serve the external market.

- **Prime Contractor:** An organization providing the ability of managing and integrating multiple providers (e.g., products, projects and services) to derive a single or global solution or service for the client. General, prime or main contractor, management contracting and contract management are different flavors of the same role: the ability to manage and integrate multiple providers. These roles and their related costs to the enterprise are quite well defined and accepted in many mature industries (e.g., civil engineering, energy and manufacturing) while the overall IT service industry (i.e., the Immature Giant) has not been sufficiently mature for this. The decade from 2000 to 2010 will be a period of intense and turbulent maturation for the market; and, as part of it, this sourcing model will emerge in terms of market offering (i.e., external prime contractor) and internally (i.e., as an evolution of large clients’ sourcing strategy, especially out of joint ventures, brand service companies and best-of-breed consortia).

3.4 **Scenario Planning and Evaluation**

The key step in building a sourcing strategy is based on creating alternative scenarios (i.e., based on relationship models and sourcing alternatives) that address the relevant business objectives as represented by the gap analysis though the skills and services that are available in the relevant market.

Depending on the kind of sourcing strategy exercise (e.g., first time, renegotiating a sourcing relationship, more focused on established processes or on a new innovative business initiative), two or more sourcing scenarios will be built at the model-level (e.g., evolution from internal delivery to another suitable model) or at the alternatives-level (e.g., sourcing of a project or of a continuous process). It is quite typical to identify two to four major scenarios that may apply.

Those different scenarios need to be evaluated from those main perspectives (i.e., some will be absolute measures, but most will be relative, between the different scenarios):

- **Alignment with the business objectives:** Since the achievement of business objectives is the reason to run this complex exercise, the first element to be judged is how a given scenario provides a better ability to achieve the objectives

- **Time-to-solution:** Different scenarios may well require different elapsed time to achieve the objectives. Running a complex outsourcing deal may take nine to 12 months, while a contract for standard, commodity-like services can be done in three to four months or less. Running complex customized project can take 18 months, while subscribing for an ASP service can take four to six months, including application integration.

- **Deals scope and shape:** A sourcing strategy is composed of internal and external actions. External actions are deals, to be executed on the marketplace in several sourcing phases (e.g., providers’ evaluation and selection, and contract negotiation). While during the strategy phase, it is not advised to enter into many details that will be deployed and managed afterward, the scope and shape of each deal must be clarified at this step.

The scope of a deal is “what the enterprise is going to buy” as a service or solution or skill set. It can be a data center management, an ERP implementation, a consulting activity or a complete business process.

The shape of the deal is “how the enterprise is going to buy it.” Although in some cases of scope the shape is almost given; in other cases, the how is almost as important as the what.
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For example, an organization may be planning for an infrastructure management deal, which can be done as a traditional outsourcing deal (i.e., the client is selling its own infrastructure to the vendor and the vendor manages it), buying external services (i.e., a management service provider approach) or as a transition into a provider’s standardized offering (i.e., a growing opportunity). (See “Buying Commodity/Access Services Instead of Outsourcing,” SPA-13-0073.)

Another example is an organization that is facing the need for a significant restructuring of a business process. The enterprise may buy this through a traditional consulting engagement (e.g., BPR or a time-and-material contract), through an enhancement deal that may well include a change management engagement and a shared risk/reward contract, or even via a frontier relationship that can be built around a BPO contract or joint venture arrangement). (See “Sourcing Relationships: One Size Does Not Fit All,” COM-12-8563.)

Therefore, enterprises must pay careful attention to:

- Implications on other processes or initiatives, internal activities and competencies: Scenarios will have very different implications for current processes and current and future projects, the skills that can be phased out or need to be created and activities to be carried out internally. At the core of the scenario planning exercise is the ability to forecast as much as possible the future negative and positive implications of different scenarios. Some of the most important implications that must be evaluated relate to the increase of focalization on core processes, sourcing governance capability, business and IT integration, standardization of nondifferentiating processes as well as improvements on the organization reactivity and agility.

Risk analysis: Different scenario will have different level of risk, and the best sourcing scenario is the one that achieve the objectives at the lowest level risk. Risk can come from different aspects and issues, and choosing a different model of service delivery poses a considerable challenge on a number of fronts, including planning, operational, financial and political. In particular, the following risks should be taken into account in analyzing individual sourcing scenarios:

- What is the potential for costs to exceed forecasts, and by how much?
- How likely is, and what are the consequences of, a failure to deliver the envisaged business value from this scenario?
- What are the financial and business consequences of an operational failure in this scenario, and can they be mitigated?
- How rapidly can this scenario yield the required operational results in a reliable way?
- What political barriers may exist to compromise the viability of this scenario, and can they be mitigated?
- Does this scenario compromise the enterprise’s future flexibility, and will it irrevocably remove future business options?
- How is the level of management complexity affected by this scenario, and could that complexity become unmanageable?
- If skills or knowledge are excised or transferred to another party, are they irrecoverable?

Once appropriate scenarios are compiled for consideration, the enterprise should use a risk evaluation framework to develop a financial and operational case for each. Although it is perfectly valid to use
whatever risk framework exists within the organization, Gartner recommends the use of the Real Options Analysis technique (see “Strategy as a Portfolio of Real Options,” Harvard Business Review, September/October 1998). Executing a strategy almost always involves making a sequence of major decisions rather than one “set and forget” decision. Some actions are taken immediately, while others are deliberately deferred so that managers can optimize their choices as circumstances evolve. In financial terms, making strategic decisions is much more like a series of options than like a single projected cash flow. Real Options Analysis allows this series of strategic and financial “go/no go” decisions to be intuitively modeled in terms familiar to strategists, CFOs and IT leaders.

Finally, sourcing scenarios should be evaluated and ranked in terms of risk, taking into account strategic imperatives (e.g., objective fulfillment, time-to-solution, cost/value, positive implications and overall long-term impact. A complete strengths, weaknesses, opportunities and threats (SWOT) analysis may be used as a tool to represent the final scenario analysis; and the final decision should be taken at the strategy level (i.e., board or sourcing strategy committee) before entering the final stage of planning for governance development and strategy execution (see Figure 7). Figure 7 provides a view of possible detailed steps of a strategy analysis as well as some of the main output expected from it.

### Figure 7. Sourcing Strategy Outputs

Source: Gartner Research

![Sourcing Strategy Outputs Diagram]
3.5 Sourcing Governance

A sourcing strategy does not make sense without a business strategy that drives the organization. But a sourcing strategy cannot be executed without the right governance and execution capability. Because, today, that is a major limitation for the average organization, it is necessary to take into account the governance and management issue at the very early stage of the strategy.

A leading-edge sourcing strategy (e.g., a prime contractor-based or a joint venture-based strategy) is not advised for an enterprise that does not have enough competencies — and cannot invest to create them — for sourcing governance and management. In such cases, the inclusion of the sourcing governance analysis as part of a sourcing strategy ensures that the sourcing journey is designed for — and is compatible with — the enterprise’s ability to successfully travel all along the sourcing strategy execution.

The transition toward strategic sourcing is a necessity, but it is not easy and therefore the sourcing strategy must leverage every opportunity to positively influence workforce composition and know-how regarding this new core competence.

Enterprises must ensure that rewarding business initiatives, complex projects with business units and ESPs, and outsourcing deals are leveraged. In addition, enterprises must have the more traditional HR tools (i.e., hire, train and retain) to build, enhance and retain a governance capability that is composed of capable people. The main tasks to be attained by the governance model include:

- Being the active repository, as well as the execution engine for the sourcing strategy, including reapplying the methods and decision models when new initiatives will start or when significant changes or problems arise
- Being responsible for the financial impacts and cost-benefit analysis (i.e., business case), which is part of any sourcing move
- Managing the program and projects running as part of business initiatives toward business goals
- Managing the service relationship with internal and external providers (i.e., sourcing deals and day-to-day management)
- Evolving and marketing internally — and externally, if appropriate — the innovation capabilities and sourcing strategy

To be successful in the connected-business era, enterprises need to fuse a short-term need for results and a long-term growing ability to master sourcing and innovation.

This Strategic Analysis Report’s objective does not include sourcing governance models nor approaches. Therefore, enterprises should refer to the current Gartner research on this area.

4.0 How Good Is the Sourcing Strategy?

Key Issue: What are the fundamental elements that comprise successful sourcing and procurement strategies?

The purpose of a sourcing strategy is to achieve the optimal balance between internal and external capabilities, activities, processes and services to ensure the achievement of strategic business objectives at the lowest risk. Most enterprises recognize that they do not have all of the IT capabilities they need to achieve their business objectives. They will increasingly look to fill the gap by using ESPs for IT-intensive
business processes and services. However, relationships with ESPs are difficult to form and manage, and sourcing risk increases in a multisourced environment.

The sourcing strategy must be "woven" into the enterprise's "fabric" if it going to enable the achievement of continuously evolving business objectives. Most enterprises claim to have a sourcing strategy, but they make all or most sourcing decisions tactically without an overarching framework. Consequently, Gartner provides a simple, six-question framework to evaluate an enterprise's sourcing strategy and its real value.

1. Do you really have a sourcing strategy?

A sourcing strategy is much wider than making a few decisions about things (e.g., whether to outsource infrastructure management or application services). A proper sourcing strategy requires all sourcing decisions to be evaluated on five dimensions:

- The *strategic objectives* of the enterprise in a given time frame (i.e., typically, two to four years)
- *Internal capabilities* assessed by analyzing the current situation. The analysis will include benchmarks, evaluation of core vs. noncore specializations, the gaps to be filled to meet the strategic objectives, and plans to transform and enhance the core activities.
- *External market capabilities* assessed by identifying the skills, projects and services that are available or expected from ESPs, and that are sufficiently mature to offer value to the enterprise at acceptable risk
- *Sourcing alternatives and models*, including an evaluation of the most appropriate sourcing model for each service area, as well as the best sourcing alternative for major objectives
- *Sourcing governance*, including any change management, hiring and reskilling activities needed to enhance or build the governance capability.

If an enterprise does not have a proper sourcing strategy, it must assess its current situation and then revise the sourcing strategy using the framework in this report.

*Strategic Imperative: Persisting with a tactical approach to sourcing will only increase the risks of failing to achieve strategic business objectives and of suboptimal — or even failed — sourcing relationships.*

2. Does the strategy provide a simple road map?

A sourcing strategy should be simple enough to be explained to the board in 15 minutes. Ensure that the inevitable tough questions can be answered:

- Is this too risky and complex?
- How do you know this will work?
- Why should we make all these changes?
- Why can we not carry on as at present?

The strategy needs to be simple because sourcing management is extremely complex. A complex or unclear strategy will fail. A simple and clear strategy allows all the complexity to be managed during the subsequent stages of the sourcing life cycle (e.g., ESP selection, contract negotiation, and continuing sourcing management and governance).
How to Build a Sourcing Strategy

If an enterprise’s sourcing strategy does not provide a simple road map, the strategy should be reviewed (see "The Five Dimensions of Strategic Sourcing," TU-12-6745). An over-complex or weak strategy may result in long or failed negotiations, or — even worse — in confused contracts with limited or no risk transfer.

Strategic Imperative: A complex and unclear strategy will increase the risk of failure at every stage of the sourcing process. It will also make it extremely difficult to govern the sourcing process and recover when difficulties arise.

3. Does the strategy achieve the business objectives at the lowest risk?

Every sourcing strategy and decision involves risk. Nevertheless, different sourcing alternatives, models, decisions and ESPs may present very different levels of risk for achieving the same business objectives. Therefore, the best sourcing strategy is the one that achieves the business objectives at the lowest risk. Therefore, ask the following questions:

• Does the sourcing strategy address the actual business challenges?
• Does it enable the achievement of the strategic objectives at the lowest risk?
• Can your enterprise manage this level of risk?
• Do you know the cost if the risks materialize?

If the enterprise strategy fails to achieve the business objectives at the lowest risk, analyze the different kinds of risk that it may incur (e.g., business, organization, technology, providers and financial) and identify alternative sourcing scenarios that may reduce those risks.

Strategic Imperative: Proceeding with a sourcing strategy that does not pass this test means that the enterprise will likely incur more risk than is necessary.

4. Does the strategy define the scope and shape of deals for ESPs?

A sourcing strategy will involve setting up deals with ESPs. Ask the following questions:

• Are the requirements for deals understandable and clearly defined?
• Will the deals be attractive to prospective ESPs?
• Is it possible to contract out the required services?
• Will the deals allow appropriate risks to be transferred to ESPs?
• How long will it take to negotiate the deals?
• How long will it then take for the ESPs to fully implement delivery of the services?
• Do you have the right people to run and manage the deals, and are they available full-time?

If the enterprise strategy does not define the scope and shape of deals, it will probably select inappropriate ESPs, and the ensuing deals will likely be confusing and difficult to manage.

Strategic Imperative: Without a clearly defined strategy for deals with ESPs, enterprises risk lengthy negotiations that may come to nothing, selecting the wrong ESP or buying highly customized services when utility services would suffice. The result will be higher costs and unsatisfactory deals.
How to Build a Sourcing Strategy

5. Does the strategy define how to build a sourcing governance capability?

Even the best sourcing strategy can fail if inadequate governance and management exist. Ultimately, these are the most critical success factors for sourcing. Ask the following questions:

- Does the strategy include actions for building a sourcing governance capability?
- What organizational changes will be required?
- Will different relationship models be in place for continuous services and discrete projects?
- Who will manage all the changes necessary to implement the governance structure?
- Do you have the necessary capabilities in place?
- Does the strategy include hiring, reskilling and transition plans?
- Have you defined the metrics for measuring progress and success?

If the enterprise strategy does not define how to build a governance capability, relationship management among the mix of internal and ESPs will be troublesome at best. Enterprises need to specify the actions and plans to build the new skills, roles and sourcing management processes that are required.

Strategic Imperative: A major cause of sourcing dissatisfaction and failure is the assumption that a few people acting just as “liaison officers” can manage complex sourcing relationships.

6. Does the strategy define the activities to be performed in-house?

A sourcing strategy should define the activities that will remain in-house and how they should be aligned and synchronized with those that will be performed by ESPs. Ask the following questions:

- Does the strategy include actions for evolving the internal activities — whether established or new — to ensure they are aligned with strategic objectives, core competencies and external services?
- Who will manage the necessary changes?
- Will there be common processes (e.g., service management and change management) for internal and external services?

Internal resources risk being misapplied if the strategy fails to define the activities that will be performed in-house.

Strategic Imperative: If the sourcing strategy does not encompass in-house activities, the ability to dynamically extract business value from internal and external resources and services will be impaired. Although the issues covered by this question can be fine-tuned at the later stages of the sourcing cycle, they should be addressed in the sourcing strategy.

If an enterprise can answer "yes" to all of the six questions, it is in good shape to concentrate on the execution of the sourcing strategy. If an enterprise answered "no" to any of them, it should revisit its sourcing strategy. A weak sourcing strategy will adversely affect everyone in the enterprise as well as the health of the business.

5.0 Evaluate the Enterprise’s Ability Before Moving

A good strategy may fail if it is not properly executed. A good management team may fail without the right strategy to address future objectives. From this perspective, the sourcing strategy should build a bridge
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between the enterprise’s current status and capabilities and the desired future ability to fulfill business objectives. Strategy includes the vision (i.e., where to go), concrete goals (i.e., what to achieve) and execution steps (i.e., how to get there). The sourcing governance capability built into the enterprise will then periodically revise the strategy and continuously enhance its execution.

The Magic Quadrant is a Gartner tool that is mostly used to represent the market for a certain product or service and the capabilities of players. Two dimensions are used: completeness of vision and ability to execute. Here, a similar representation is used to position enterprises’ maturity according to their ability to build and execute a successful sourcing strategy (see Figure 8).

![Figure 8. Sourcing Strategy Maturity Quadrant](image)

**Figure 8. Sourcing Strategy Maturity Quadrant**

The horizontal axis in Figure 8 refers to the enterprise’s awareness of sourcing as a competitive weapon and its future vision. The vertical axis refers to the enterprise’s ability to deliver results and prepare to deliver more challenging results in the future through sourcing management.

A single organization may be in one of the four quadrants that represents a profile of a certain kind and state of organization: beginner, visionary, challenger or master.

**Beginner organizations** do not have much experience at sourcing and outsourcing. Experience is often limited to highly fragmented engagement of ESPs (e.g., “body rental” or out-tasking) or characterized by failures (e.g., outsourcing relationship with low satisfaction and limited ability to manage or renegotiate). At the same time, limited expectations exist regarding sourcing, market evolution, plans for company virtualization, partnerships and service externalization. Most enterprises (i.e., 40 percent) are at various levels within this stage, in low-virtualized vertical markets (e.g., insurance), in certain geographies (e.g., Southern Europe or emerging countries) or in conservative, efficiency-focused enterprises.
Visionary organizations have a strong vision regarding the need to do business through partnerships and build a partner and allies network, including IT providers. This vision is normally positioned at the board level or at senior executive level but then a clear gap exists with the execution capability of the rest of the organization. Often, sourcing strategies are initiated by executives, sometimes by chance, during a conference, a golf game or a gala dinner. After this chance meeting with a providers' executive, a partnership idea is brought home to be executed by internal managers. Whether these partnerships make good business sense or not, a high risk of failure always exists (i.e., during preparation or, even worse, during execution) because of execution or management deficiencies. Another reason for failure is that problems and implications were not evaluated before the decision. Approximately 30 percent of enterprises are in this quadrant, and some of the worst sourcing results come from here. The high level of joint venture failures is a typical example of visionary approaches.

Challengers have practical experience with engaging ESPs for single projects or service areas, transferring risk and responsibility to providers. Managers in such organizations have a good insight into the difficulties of dealing with providers and a critical view of what the market may or may not provide. They often demonstrate a good attitude toward measurement and comparison, and they may articulate reasons for and approaches to sourcing decisions. What these enterprises and managers usually lack are vision and the ability to make sourcing decisions on a more-strategic, business-oriented level. These managers risk executing sourcing decisions that are wrong or sub-optimal from a business perspective. Challengers (i.e., about 25 percent of the total) often present a gap of cooperation and understanding between business and IT — this will become a serious issue in the next few years. These enterprises also run another risk — managers able to handle sourcing are scarce and may find better jobs in other companies.

Relatively few enterprises (i.e., approximately 5 percent) have mastered strategic sourcing, and they are expected to enjoy a competitive advantage because of it. Enterprises in this quadrant already understand the importance of strategic sourcing and the difficulty of internal and external management to achieve business results. These enterprises are often very business driven, oriented toward a strong distribution of risks, power and rewards. They are already organized in semi-independent or independent business units that often rely on external partnerships to differentiate and innovate in their market.

Ultimately, building a successful sourcing strategy is strongly dependent on the starting point:

- Beginner organizations cannot change everything in a day. They should carefully select a few high-impact, low-risk sourcing decisions and build on these to gather business consensus and create room for investments in sourcing management and governance.
- Visionary organizations must enforce or build a solid sourcing execution capability. The board vision of building every kind of relationship from the top may have produced sourcing relationships that need to be re-engineered — this is often the starting point for a strategy revision.
- Challenger organizations are in relatively good shape. They mostly need to stress the growing importance of a sourcing strategy at the board level. Sourcing strategies are a good point of contact between business and the IS organization (i.e., certainly better than discussing technical issues around the need to upgrade hardware or software) and should be leveraged to enhance the business/IT relationship and the IS organization's participation in business decisions.
- Master organizations should make the most of their potential competitive differentiation and keep ahead of competitors that are probably going to enhance their sourcing capabilities.
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To evaluate the strategic sourcing maturity, organizations may use the concept reported in this report as a quick self-check. Some of the most relevant criteria to assess for the vision axis include:

- **Vision for delivering IT-enabled competitive advantages**: Ability to understand and articulate the relevant market challenges and how the organization will compete through IT, IT-enabled services and sourcing.
- **Strategic plan**: Ability to understand and articulate the likely future of the enterprise in terms of virtualization, internal capabilities vs. core capabilities, external relationship management, key challenges and strengths, and major actions.
- **Methodologies**: Enterprise definition of a framework of methods, approaches, blueprints and information systems supporting sourcing decisions and management, often in an increasingly virtualized and decentralized business.
- **Market awareness**: Understanding of the current market capabilities for IT services and IT-enabled business processes and expected evolutions. Understanding of providers' business and point of view during negotiation and relationship.
- **Business and management acumen**: Should be evident at all levels of the enterprise because strategic sourcing requires high continuity between business and sourcing/IT strategy and management.
- **Change readiness and innovation**: Understanding, communication and ongoing preparation of business changes to enhance readiness to change and evolve.
- **Sourcing innovation**: Understanding of the different sourcing options and models; attempts to define and build new value-added relationships.
- **Marketing capability**: Ability to prepare and present sourcing decisions, making them appealing internally (e.g., the board or other business units) and externally (e.g., bidders or external partners). Ability to attract and retain the best partners.

Some of the most relevant criteria to assess for the execution axis include:

- **Measurement system and culture**: Attitude toward reporting, "history" evaluation, future expectations and real returns. Such measurement attitudes must exist and be shared, accessible and publicized among all relevant business and IT managers.
- **Program and projects results**: Business-oriented evaluation of recent programs and projects — the ability to manage internal and external programs and projects is key.
- **Outsourcing deal results**: Business-oriented evaluation of experiences with outsourcing deals.
- **Business relationship and internal references**: Effectiveness of the internal IS organization as a broker of IT solutions for business innovation. Initiatives that fail due to weak cooperation between business and IT indicate critical areas to invest in.
- **Governance and management model**: Management structure and processes covering the entire sourcing spectrum, from strategy to management.
- **Effective resourcing**: Skilled business/IT managers are scarce. Effective resourcing and resource management must be in place.
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- **Innovative employee management**: Innovative deployment of IT through strategic sourcing requires the ability to manage the internal/external workforce in a more dynamic way.

- **Investment to expand competencies**: Measured and managed investments on internal core competencies (i.e., management and technical)

- **Partnerships**: Established partnerships and business attitude toward creating new strategic or contractual relationships

Directions on how to score an enterprise’s abilities include using the following definitions for an “auto” check. Enterprises should consider a scale from 1 to 5 for each of the items listed in the definitions.

- 1. Scarce, absent or bad
- 2. Informal, limited and variable
- 3. Formalized, acceptable results and areas of improvement are identified
- 4. Tested, good results and improvement plans are running
- 5. Well-established, excellent results and proactive enhancements

Consider the final average of the scores for the two axes. A score less than 3 is positioned in the left-hand or bottom quadrant. A score higher than 3 goes into the right-hand or top quadrant.
## Appendix A: Acronym Key

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASP</td>
<td>Application service provider</td>
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<tr>
<td>BPO</td>
<td>Business process outsourcing</td>
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<tr>
<td>BSP</td>
<td>Business service provider</td>
</tr>
<tr>
<td>CRM</td>
<td>Customer relationship management</td>
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<tr>
<td>ERP</td>
<td>Enterprise resource planning</td>
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<tr>
<td>ESP</td>
<td>External service provider</td>
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<tr>
<td>HR</td>
<td>Human resources</td>
</tr>
<tr>
<td>ISV</td>
<td>Independent software vendor</td>
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<tr>
<td>SLA</td>
<td>Service-level agreement</td>
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