
GLOBAL SOURCING

Pillsbury Global Sourcing 

*Presentation to the
Federal Acquisition Advisory Panel:
Commercial Practices Used in Acquiring
IT and Business Process Services*

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Winthrop
Shaw
Pittman LLP

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- Sourcing evolved: approaches for creating value
- Increasing the probability of success
 - ▶ Focus on objectives
 - ▶ Critical success factors
 - ▶ Term sheet process
- Lessons learned
- Background information about Pillsbury Global Sourcing

- Under pressure to implement change, organizations often equate sourcing success with the execution of a contractual agreement

- When pursuing **value creation** through sourcing, an organization **must**

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

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

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

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

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



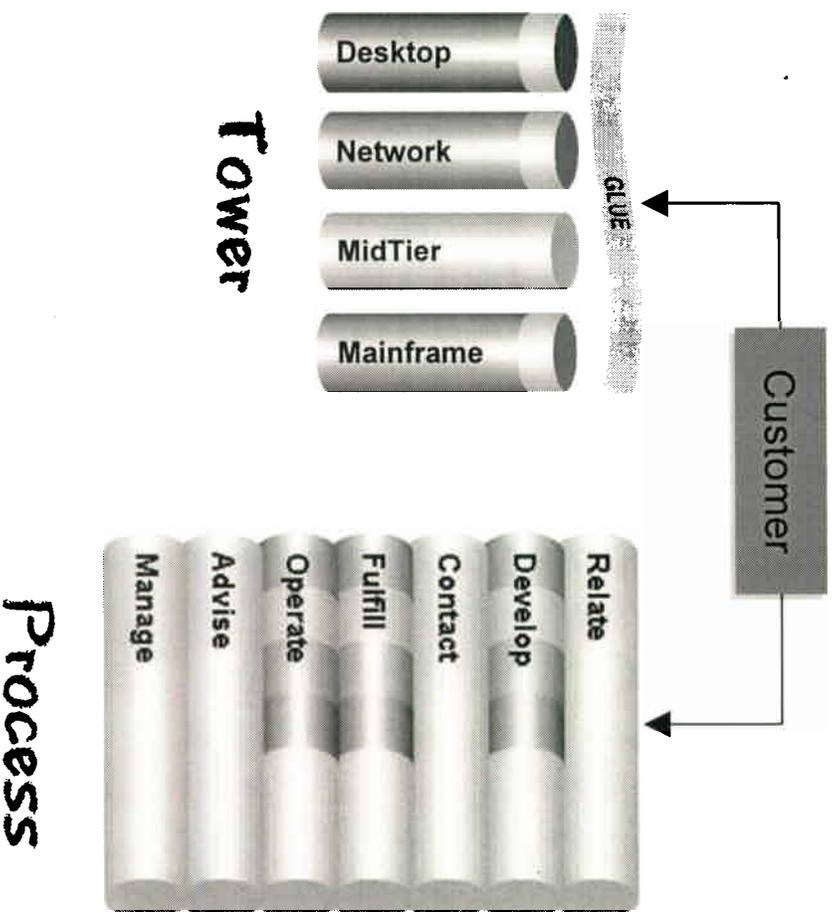
Sourcing evolved

- We recommend **radically shifting** the approach to a diverse set of sourcing functions, to enables the creation of operational **value**

	Classic Approach	Next Generation Approach
Sourcing Answer	Outsource!	Strategy Driven
Expected Benefits	Cost Reduction	Value Creation
Sourcing Perspective	Towers	Processes
Statement of Work	Supplier-directed	In Context
Supplier Solution	Prescribed	Requested
Customer Change	Minimal	Change Management Program
Performance Measurement	Point-specific	End-to-End; Coverage-based
Customer/Supplier Alignment	Governance	Defined Interfaces

- To identify and **capture the value**, you should...

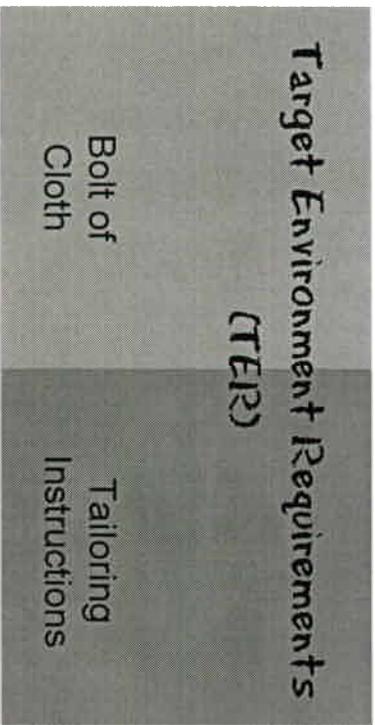
- ... shift to **sourcing by processes** rather than towers to promote the optimal state of **end-to-end design**...



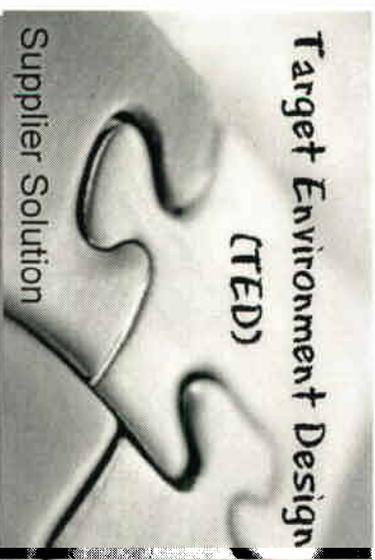
≈	Provides an integrated, seamless view to operation and its customers
∫	Places the integration responsibility with the party most qualified for the role
=	Addresses internal (customer) actors in the same manner as external actors
±	Allows the alignment of service measures with customer expectations

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

What



How



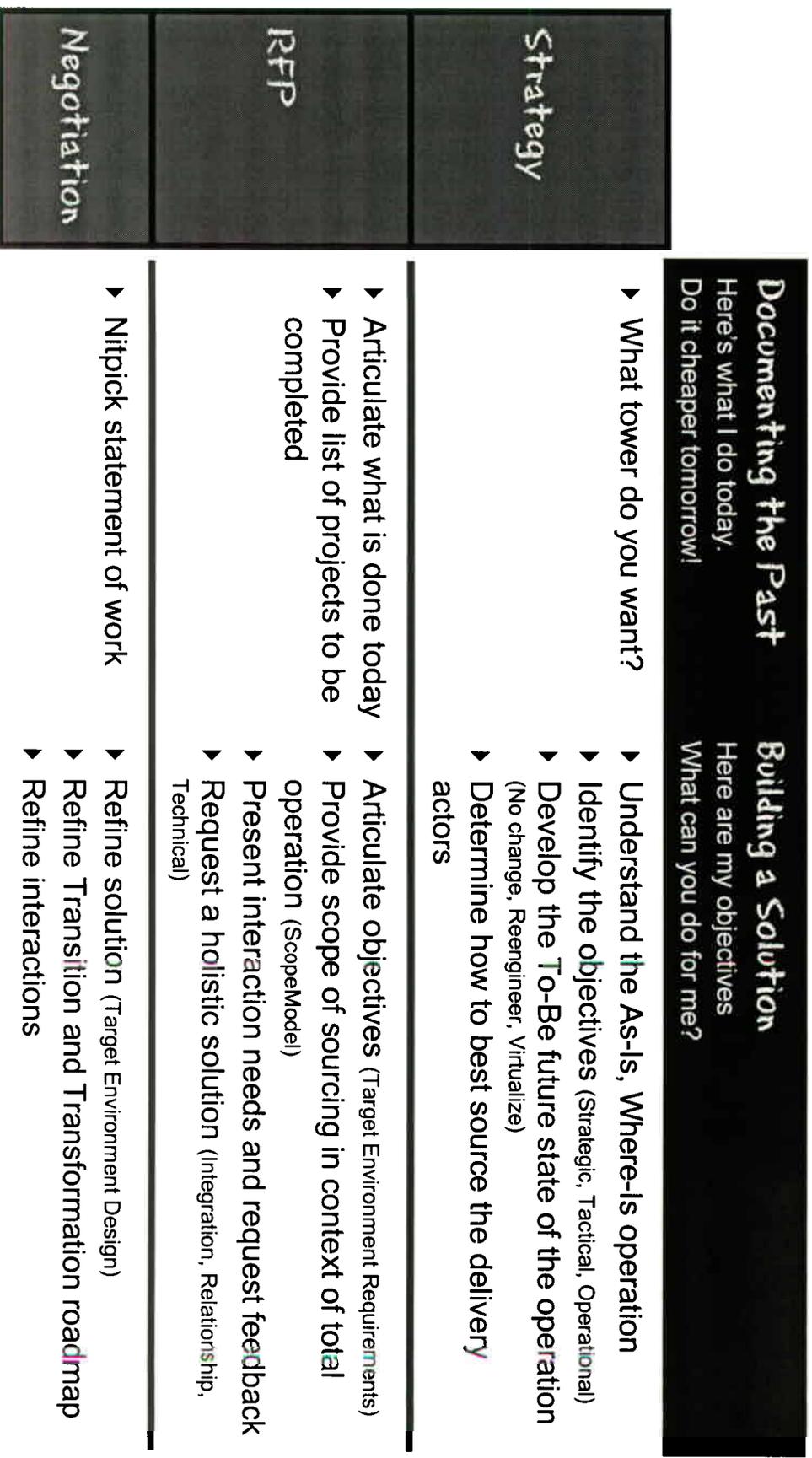
Scope model	Vision
Process definitions	Objectives
Element definitions	Constraints
	Interactions
	Implementation

Technical solution
Implementation plan
Interaction models
Performance model
Pricing

- ✳ ***Produces a diversity of sourcing solutions – based on a common scope of operations***
- ✳ ***Leverages supplier know-how, strengths and best practices***
- ✳ ***Reduces supplier delivery impediments***

Sourcing evolved

- ... change the **focus** of the major sourcing **processes**...



Sourcing evolved

- ... deploy **straight through processing** techniques to minimize documentation re-work from **strategy to contract and beyond**...

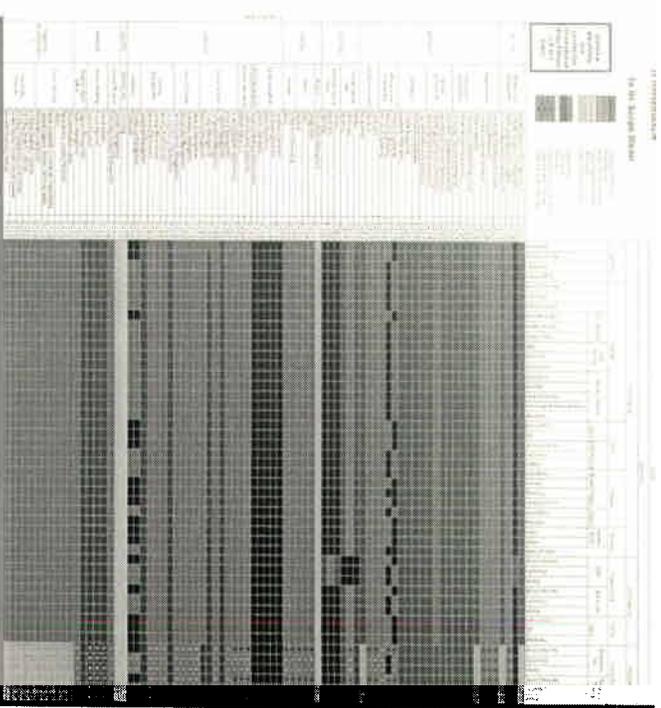
- ▶ Supplier Proposal Presentation
- ▶ Proposal Review
- ▶ Q&A
- ▶ Customer Due Diligence
- ▶ Down-Select (N : 2)
- ▶ Discussion / Negotiations
- ▶ Supplier Due Diligence
- ▶ Down-Select (2 : 1)

	Term Sheet	Yes, No + Comments	Terms and Conditions
Scope Model	Scope Model	Yes, Recommendations	Statement of Work
TER (high level)	TER (detailed)	TED	Statement of Work
Performance Model	Service Measure Model	Yes, No + Comments	Service Measures / Levels
Business Case	Pricing Instructions	Pricing	Pricing
Operating Model	Interaction Models	Yes, No, Recommendations	Statement of Work
Data Models	Due Diligence Data	Due Diligence Requirements	Miscellaneous Schedules
	Questions	Answers	
Sourcing Strategy	Requirements Package	Supplier Response	Contract Documents



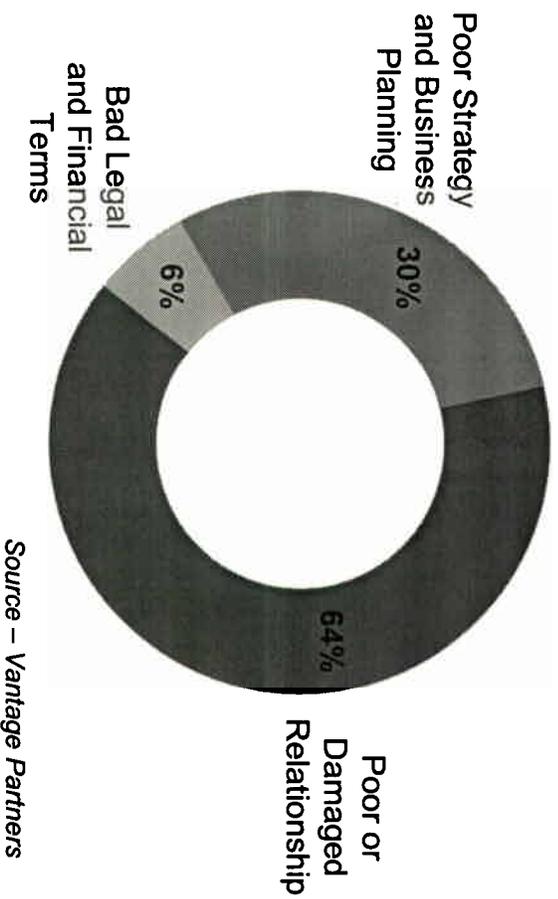
- ... and implement the ability to work visually – **VisualSourcing**
 - ▶ Vastly **improved paradigm** for architecting deal structures and implementing commercial arrangements
 - ▶ Applicable to any fee-for-service arrangement where the elements serviced already exist or can be readily defined
 - ▶ Based on applicable **best practices**

Operationally Focused	<ul style="list-style-type: none"> ▶ Developed for and with operational delivery actors ▶ Reflects the current and desired future states ▶ Accurate reference during service delivery
Accurate	<ul style="list-style-type: none"> ▶ Highly detailed and non-ambiguous ▶ Consistent description of processes
Leveraged	<ul style="list-style-type: none"> ▶ Straight through processing ▶ Culminates in a VisualContract



Increase the probability of success

Foremost Causes of Partnership Failure



What Does this Mean?

- ▶ “We’re still waiting for the transformation to occur”
- ▶ “We’re spending all of our time dealing with disputes”
- ▶ “Our service levels are being met, but we don’t like the service”
- ▶ “Our integration responsibilities are more than we bargained for”
- ▶ “We have a poor relationship with the supplier”



i.e., scope and objectives must be aligned

Increase the probability of success

Objectives:

Strategic

Tactical

Operational

Constraints:

Legal / Regulatory

Cultural

Geographic

Pinciples:

Strategy

Transaction

Sourcing:

Processes

Responsibility	Clear understanding of who does what
Interactions	Exchanges between customer and supplier
Measures	What to measure; what levels are required

Increase the probability of success

- Before scope can be defined, a wide range of **objectives** need to be identified...

A. Strategic Relationship Expectations	B. Tactical Sourcing Expectations	C. Operational Delivery Expectations
<ul style="list-style-type: none"> ▶ Leverage tolerance ▶ Integration capabilities ▶ Operational involvement 	<ul style="list-style-type: none"> ▶ Enable an acceleration in the pace of change ▶ Identify solutions to achieve lower costs ▶ Provide continuous access to leading edge processes, products, services, etc. 	<ul style="list-style-type: none"> ▶ Improve capacity management of CPUs and storage ▶ Reduce expense and/or need for software licenses ▶ Improve performance levels on client-facing activities ▶ Bring best practices to the operation ▶ Simplify and strengthen the security perimeters

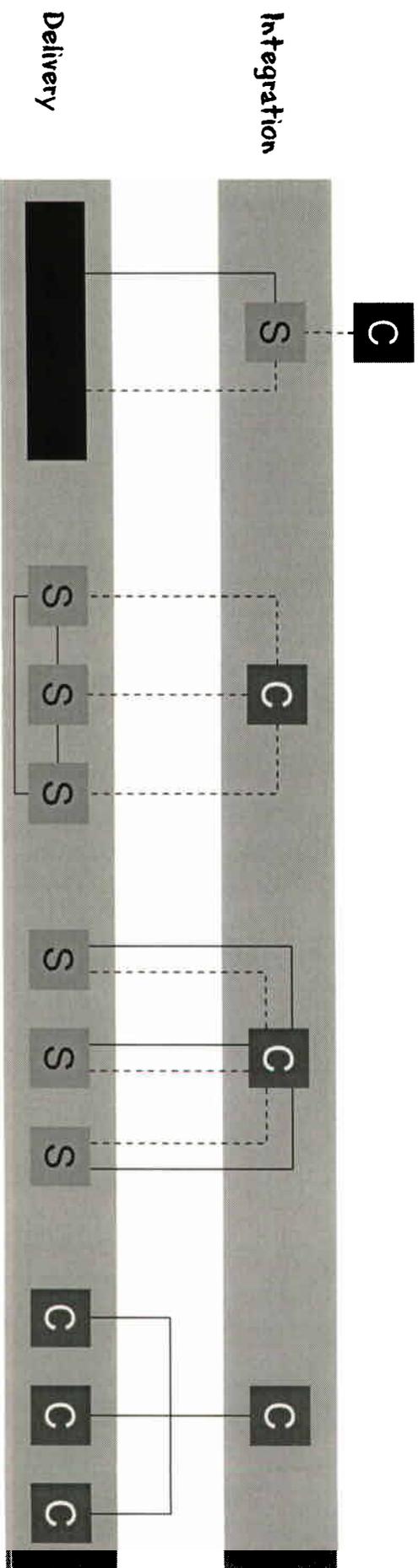
Examples

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

Operational Legal / Regulatory etc.	Financial Cultural	Audit Geographic
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Increase the probability of success

- Identify the appropriate **sourcing management structure** to help determine the
 - ▶ Sourcing strategy to achieve the desired outcome
 - ▶ Change management activities
 - ▶ Procurement and contract documents



Increase the probability of success

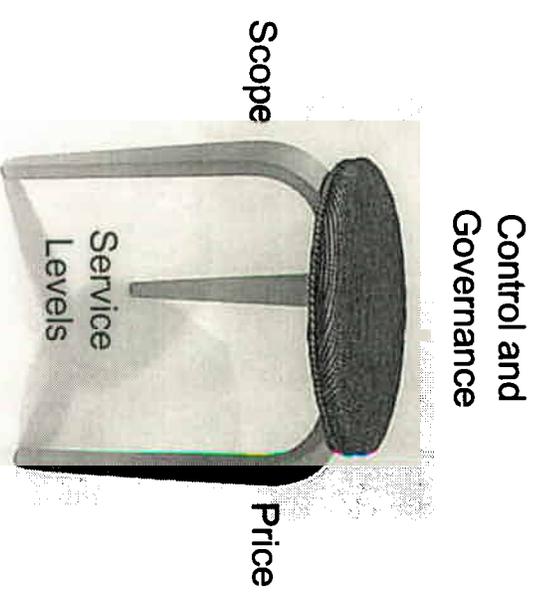
- Apply best practice **guiding principles** to temper or filter sourcing options...

Strategy	Transaction
<ul style="list-style-type: none">▶ Any required change initiative must be of manageable size and capable of being completed within an acceptable time frame▶ Services provided must be aligned with the ultimate users' needs▶ Operational risk of change initiatives must be acceptable (end-to-end)▶ Benefit stream must outweigh the cost of change and the level of risk	<ul style="list-style-type: none">▶ Services must be commercially available▶ Services must be negotiable in a competitive process▶ Sufficient scope must be provided for service delivery success▶ Scope of service must be designed to reduce the "sole source" effect▶ Price performance must be acceptable

- ... with attributes that have historically generated **successful** strategies and transactions

Critical success factors (scope, price, SLA's)

- **Scope**
 - ▶ proper scope definition is critical to an effective long-term relationship
 - ▶ the scope definition must be based on “constitutional,” procedural-type provisions to address change
- **Service Levels**
 - ▶ customize metrics that measure what's important to you
 - end to end
 - ◆ measure outputs, not inputs
 - ◆ don't develop too many metrics
 - ◆ don't rely too heavily on benchmarking
- **Price**
 - ▶ ensure a competitive process and high-level price validation
- **Control and governance**
 - ▶ involve the supplier and your project executives in the transaction structuring process



Start preparations to manage the supplier immediately; don't wait for the contract to be signed.

Term sheet process

To identify all important issues and keep track of the negotiations

- Describes all of your important requirements (technical, financial, legal and business) for the arrangement
- Send a copy to short list of suppliers with instructions to respond to each separate requirement in writing:
 - ▶ Do allow simple “Agreed” or “Not Agreed” responses
 - ▶ Seek substantive comment on each issue
- Compare the responses:
 - ▶ Negotiate in parallel the areas of non-agreement
 - ▶ Keep track of the results of those negotiations
- Develop the final negotiated terms with the selected supplier(s) and put them into the contract(s)

Base your supplier selection decision on an analysis of all relevant factors

Client challenges

- Limitations facing clients
 - ▶ failure to understand the “product”
 - ▶ chaotic process
 - ▶ inability to evaluate price
 - ▶ time consuming decision making
 - ▶ piecemeal negotiation; the issue “du jour”
 - ▶ conflicting time demands; need to perform the “day job”
- Risks in the process
 - ▶ top-down selling by suppliers
 - ▶ imposing unnecessary secrecy
 - ▶ failing to follow a disciplined process
 - ▶ setting unrealistic goals
 - ▶ ignoring all aspects of the relationship
 - ◆ inadequate scope definition
 - ◆ evaluating and negotiating piecemeal
 - ◆ delaying due diligence
 - ▶ lack of comprehensive information about current operations
 - ▶ not understanding pricing

“Lessons Learned” • Key elements

- Acquiring services is all about shifting risks from client to supplier
 - ▶ Performance/delivery risks
 - ▶ Pricing risks
 - ▶ Business risks
- An understandable product
 - ▶ Comprehensive scope descriptions
 - ▶ Meaningful service level commitments
 - ▶ Simple but variable pricing
- Flexible terms and conditions
- Commitment to client success and customer’s success
- Demonstrable supplier capabilities
 - ▶ Corporate track record
 - ▶ Management; especially project management skills
 - ▶ A willingness to “partner”
 - ▶ IT capabilities and experience
 - ▶ Where relevant, global extent
 - ▶ Bench strength; not just more people
 - ▶ “Consulting” capabilities; a mechanism to efficiently deliver value
- ▶ A governance structure that is:
 - ◆ Understandable
 - ◆ Relates to the client’s organization
 - ◆ Produces results within the supplier organization

“Lessons Learned” • Process

- Effective use of competition creates the optimum environment to select from each supplier's best offering to yield the best value package
- Emphasize value in the selection process, not just price
- Various suppliers have the capacity to meet your needs
- Time driven processes may not yield the best value
- Start with an appropriate supplier-base; down select when there is sufficient information to differentiate the top two competitors
- Emphasize early and frequent communications with suppliers; bring them in regularly for updates and to ensure they are responding at the best of their ability
- Kick-off the process as soon as scope is reasonably defined; conduct a supplier meeting to review scope and process and set the calendar
- Manage to the announced calendar

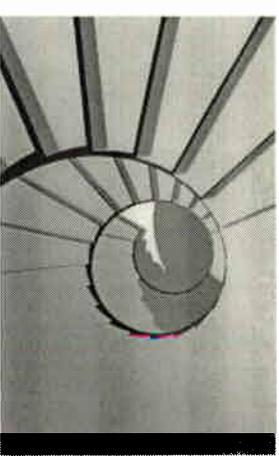
“Lessons Learned” • Substance

- Select a supplier with the values and rapport needed to maintain and enhance an effective relationship over time
- These deals are about technology and delivery capability and capacity
- Prepare, circulate and gain acceptance of the goals and objectives desired by the business; align the transaction with those goals and objectives
- Focus on the supplier’s technical/commercial solution (how does the supplier intend to deliver the services?); document that solution and not some generic view of the services
- Identify the small handful of key metrics that characterize good service and use those as the core for service level agreements
- Keep the pricing simple; ensure that the pricing algorithms properly align your objectives and the supplier’s incentives

“Lessons Learned” • Post contract

- As much as possible, the individual who will manage delivery for you should be involved in the negotiations
- Improperly crafted control and governance model implemented
- Insufficient, unempowered and improperly trained management of the supplier by the customer
- Unwillingness to hold the supplier accountable to the provisions of the agreement
- Lack of alignment between the supplier and customer goals and objectives
 - ▶ “Too good” a deal on either side
- Customer inability to maintain surrogates for competition post implementation

Producing the milestone transactions in the outsourcing industry



1988	FIRST Large-Scale ITO First City Bank	1999	FIRST Large-Scale Procurement BPO ANZ Bank	2003	LARGEST European Policy Administration BPO Royal & Sun Alliance
1991	FIRST Multi-Billion Dollar ITO Continental Airlines	1999	LARGEST Networking and ITO (\$12B) MCI	2003	FIRST ValueChain-based Large-Scale ITO Toronto-Dominion Bank
1994	FIRST Networking Joint Venture and ITO Air Canada	1999	FIRST Global HR BPO Exult (BP Amoco)	2004	LARGEST European "Second Generation" Outsourcing Inland Revenue (UK)
1995	FIRST Whole-of-Government ITO State of South Australia	2000	LARGEST Public Sector Outsourcing Program Commonwealth of Australia		
1996	WATERSHED Alliance-Based ITO J.P. Morgan (Pinnacle Alliance)	2001	LARGEST Managed Services Network Equant		
1998	LANDMARK Sale of Outsourcing Business to IBM GE Capital	2002	TWO LARGEST Financial Services "Utility-Type" ITO American Express (\$4B) / JPMorgan Chase (\$5B)		

Global Sourcing



*The most experienced firm
in the business –
architecting the largest
outsourcing projects and
strategic alliances*

*Over 500 transactions
across a premier customer
base*

*20 years' experience in
complex sourcing
transactions*

*More than US\$400 billion
in completed transactions*

Financial Services

American Express
ANZ Bank
Capital One
Citibank
CNA Insurance
Continental Bank
Deutsche Bank
Dun & Bradstreet
Equifax
Fannie Mae
Fireman's Fund Insurance
GE Capital
HSBC
JPMorgan Chase
Key Corporation
Lloyds TSB
Merrill Lynch
Morgan Stanley
Old Mutual Life Insurance
Royal and Sun Alliance
Toronto-Dominion Bank
UBS

Transportation / Hospitality

Amtrak
Air Canada
Continental Airlines
CSX Transportation
Delta Airlines
ITT Sheraton
Marriott International
Norwegian Cruise Lines
Starwood Hotels & Resorts

Retail / Distribution

Ann Taylor
Canadian Tire
Federated Department Stores
Gap
Goodyear Tire & Rubber
J Crew
Nike
Pathmark Stores
SUPERVALU
Thrifty Drug Stores

Health & Life Sciences

Astrazeneca
Aventis Pharmaceuticals
BlueCross & BlueShield of MD.
BlueCross & BlueShield of MA.
Bristol-Myers Squibb
Children's Hospital of L.A.
Eli Lilly
Faulding
Georgetown Univ. Medical Ctr.
GlaxoSmithKline
Howard Hughes Medical Center
NASCO
Northwestern Memorial
Oshner Health Plan
Oxford Health Plan
Tufts Health Plan
WellChoice

Energy / Utilities

Exelon
NISource
Florida Power & Light
PEPCO
Pacific Gas & Electric

Manufacturing

Apple Computer
BASF
Bethlehem Steel
BHP Billiton
Borden Foods
BorgWarner
Eastman Kodak
Ford Motor Company
General Electric
Great Lakes Corporation
lomega
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