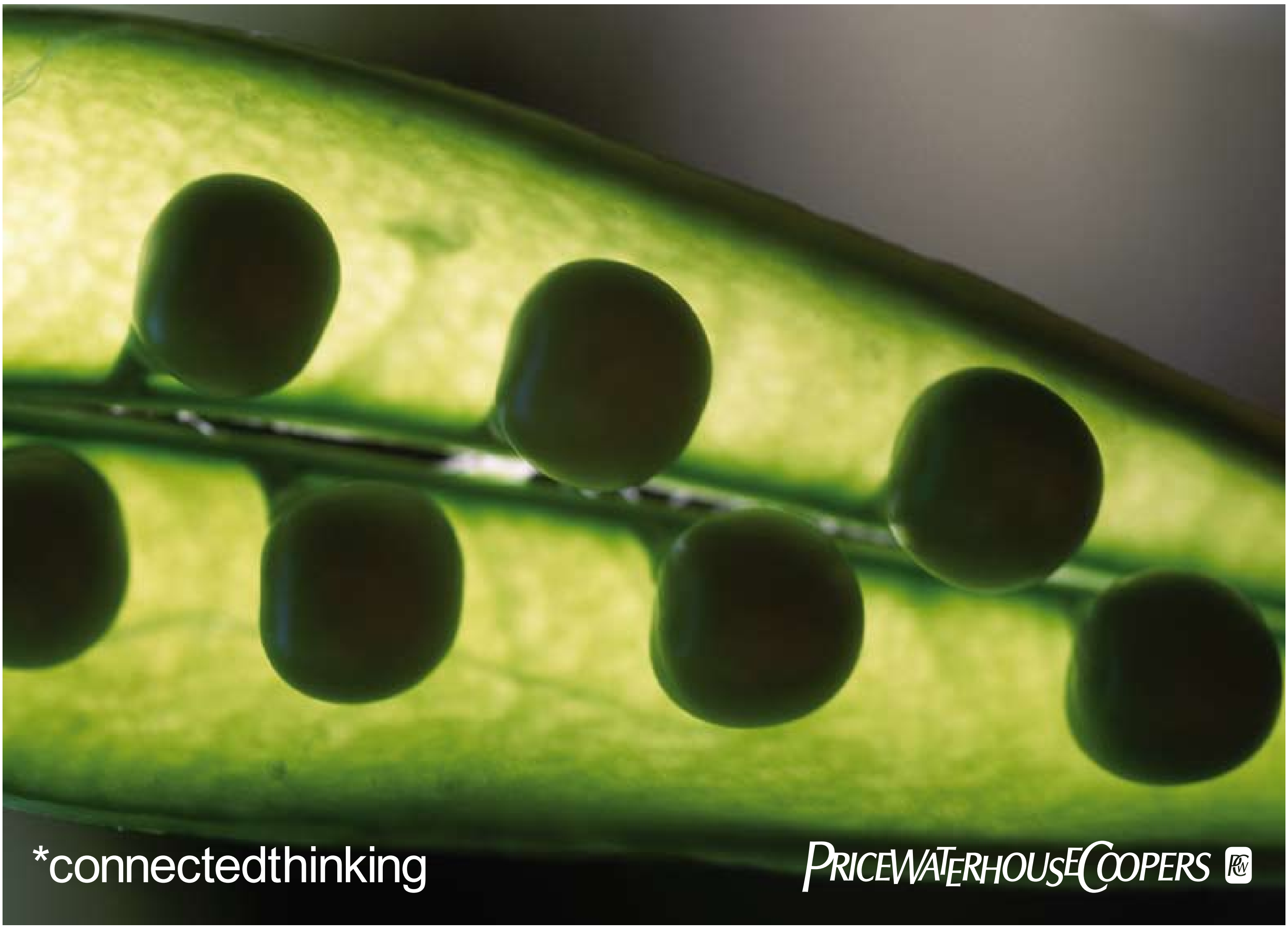
Global Sourcing

Collaborate and Innovate: a new world of sourcing*



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Collaborate and Innovate: a new world of sourcing

Have we been here before?

CEOs' priorities, the experiences of leading organisations and emerging technology trends all suggest that by 2010 the world will be even more global and competitive than it is today. Firms will focus more sharply on what they do best, and they will enlist a growing diversity of specialised suppliers for the rest.

In this world, some outsourced services will become highly commoditised while others will be truly differentiating. Organisations will increasingly look outside their walls not just to reduce costs but for innovation – in processes, product and service differentiation – to free up resources, transform their businesses, and facilitate sustainable competitive advantage. As supply networks become more global and complex, winning will depend on transparency, trustworthiness, and reciprocity. In a word: collaboration.

Collaborative sourcing means more than connecting up systems and writing contracts that align the interests of buyers and sellers. Collaboration entails fundamental changes in how organisations relate to one another – how they achieve and sustain trust, share risks and rewards, and respond when expectations are not met.

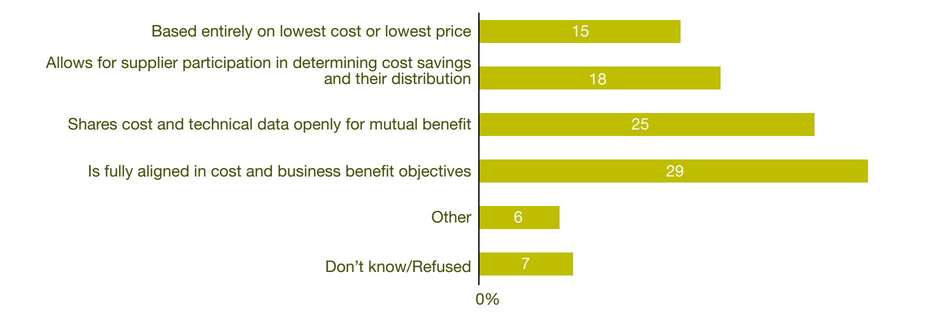
Does this sound familiar? It may, because we learn about collaboration at a young age, as early as nursery school. Remember the phrases 'share your toys' and 'be nice and everyone will have fun'. For millennia, collaboration and trust have been subjects of folk tales. One is the story of Stone Soup (see pg 3). This folk tale emerged in parallel in diverse cultures around the world with a consistent message: collaboration yields benefits for all. It may be heart-warming that collaboration has been fundamental to the human psyche for a long time, but it isn't always easy in a business context.

In its tenth annual CEO survey released at the World Economic Forum in January 2007, PricewaterhouseCoopers found a marked shift in the motivation for using external suppliers – from being simply a mechanism to lower cost to being a means of achieving a more strategic, collaborative framework. CEOs told us of a growing trend to expand from outsourcing traditional component supplies and IT infrastructure to other activities that were previously held sacrosanct – including human resource management and research and development. A new value chain model, in which even core functions are being outsourced, is beginning to appear.

At PwC, we believe that the winners in sourcing will be those who focus on collaborating to achieve innovation and differentiation. We hope to help this by sharing emerging best practices from leading companies and provoking debate and discussion. We have drawn insight from our clients, from leading service providers, and from our network of sourcing and outsourcing experts around the world to share and develop ideas and summarise some of them here.

In the spirit of collaboration, we invite you to share your experiences, We look forward to hearing your views and encourage you to visit us at www.pwc.com/performance

Companies are increasingly in strategic and collaborative relationships with their suppliers, a departure from arrangements based solely on lowest cost



Q: How would you describe your relationship with your current suppliers? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

Organisations rise to a new opportunity

Industry analysts and PwC research suggest that organisations receive mixed results from outsourcing. Whether it involves domestic IT or Finance and Accounting, onshoring or offshoring, the expected benefits often fail to materialise. Nevertheless, most observers predict that outsourcing will continue to accelerate. As organisations expand their ambitions, will they learn from previous challenges and do something different? Can they do more? Can forward-thinking organisations see what outsourcing can and should become, and deliver on the promise?

Leading organisations are already doing something completely different. They are investing in outsourcing, not just for cost saving, but also for innovation: dramatic improvements in flexibility, time to market, and top line growth. Success in such endeavours means adopting more open, flexible business models. Leading organisations are embracing collaboration, and they are leveraging technology to create new sourcing options. PwC calls this new approach 'Connected Sourcing'. We believe that Connected Sourcing represents an important expansion of what outsourcing means.

'If you are a global business, you have to outsource on a global basis.'

Connected Sourcing aims to provide the innovation, agility, and cost-effectiveness that organisations require to compete in the global, networked economy of the 21st century. It is not just about *who* performs the work, or *where* it is performed; it is also about what sourcing is about, *how* work gets done and relationships are governed.

'If you're a global business, you have to outsource on a global basis,' says **Paul Anthony**, Managing Director and CEO of **AGL Energy Ltd.**, Australia's leading integrated energy company. 'Once you take that first step to globalise procurement, then a whole different set of business propositions become apparent. We need to be open-minded on each component and where it's sourced from, and to take advantage of the global market, whether that be in raw materials or in workforce extension.'

'The large businesses of tomorrow will not be based in a specific country.'

'In the years to come, you're going to see each sector of the global economy dominated by a few very large international players, and you're going to see a continuance of the outsourcing phenomenon,' says **Antoni Brufau**, President and CEO of **Grupo Repsol**, an international oil and gas giant that operates in Spain, Argentina and 28 other countries. 'The large businesses of tomorrow will not be based in a specific country – they will be active in numerous countries, among which intra-industrial trade will grow. Many so-called transnational companies will be from emerging countries.'

'We are facing a world that is becoming increasingly borderless.'

Global sourcing will have a profound impact in our 'increasingly borderless' world, notes **Fred Kindle**, President and CEO of **ABB Group**, a leader in environmentally sensitive power and automation technologies.

'Globalisation is a fashionable buzzword but it carries a lot of economic substance,' he says. 'To me and to our company, it means we are facing a world that is becoming increasingly borderless, where the flow of goods, information, people and capital are pervasive around the clock. As a company, we have to ask ourselves questions like, 'Where do we source? Where do we manufacture? Where is the engineering? How do we get access to markets?'

"It is not a question of 'When does outsourcing in the value chain start and when does it stop?' It is a question of 'How far does it go and how quickly do you add to this development?'

The need to innovate, combined with globalisation, competition, convergence, complexity, declining collaboration costs and growing business maturity make Connected Sourcing an imperative for organisations around the world.

'It is not a question of 'When does outsourcing in the value chain start and when does it stop?'

It is a question of 'How far does it go and how quickly do you add to this development?' We are looking at ways of taking even greater advantage of global supply chain management, pushing the classic sourcing model and putting more engineering into places like Bangalore or Shanghai.'

Most outsourcing arrangements are based on contracts, transactions, and highly specified service level agreements. But 'transactional', command-control outsourcing is just one way to access resources outside your firm. At the other end of the spectrum is a more collaborative and agile 'open business model', where you form relationships dynamically using market-type disciplines. Open business models can engage many, even millions, of contributors, using a variety of exchange mechanisms and incentives. These might include fun and fulfilment for a hobbyist, a million dollar reward in a contest for a breakthrough idea, branding that derives from high ratings in an online marketplace – or something as simple as license fees for a previously dormant patent.

The Tale of Stone Soup

Once upon a time, in a small village in a sad war-torn land, there was a great famine in which people jealously hoarded whatever food they could find, hiding it even from friends and neighbours. One day a wandering soldier came into the village and asked to stay for the night. 'There's not a bite to eat in the whole province,' he was told. 'Better keep moving on.'

'Oh, I have everything I need,' he said. 'In fact, I was thinking of making some stone soup to share with all of you.'

He pulled an iron cauldron from his wagon, filled it with water, and built a fire under it. Then, with great ceremony, he drew an ordinary-looking stone from a velvet bag and dropped it into the water. Hearing a rumour of food, many villagers came to the square or watched from their windows. As the soldier sniffed the 'broth' and licked his lips in anticipation, hunger began to overcome their doubts.

'Ahh,' the soldier said to himself rather loudly, 'I do like a tasty stone soup. Of course, stone soup with cabbage – that's hard to beat.'

Soon a villager approached hesitantly, holding a cabbage he'd retrieved from its hiding place, and added it to the pot. 'Capital!' cried the soldier. 'You know, I once had stone soup with cabbage and a bit of salt beef as well, and it was fit for a king.'

The village butcher managed to deliver up some salt beef... and so it went, as one villager after another offered up potatoes, onions, carrots, mushrooms, and so on, until there was indeed a delicious meal for all.

The moral of the tale is simple enough. By collaborating and co-contributing the villagers could all enjoy a far tastier soup than each might have done alone.

By 2010, the outsourcing market will be significantly different from today. Indications are that it will:

- Be significantly larger as companies expand the range and quantity of activities they are prepared to outsource. This will be driven in part by new options made possible through collaboration and open business models.
- Be served by a more integrated collection of service providers, large and small. While we may see consolidation of the existing IT outsourcing vendors in search of market share, there will be a plethora of new providers – many of them non-traditional.
- Demand new models of governance, contracting and advisory support to address innovative, open collaborative business models based upon alignment of interests.

Steven Stubitz, who leads HP's BPO business in the Americas, says 'Initially outsourcing was a cost-saving strategy. Now I see it being more of an innovation speed-to-market strategy.'

'Instead of straight cost-displacement, where I take over an operation and the people that I use are cheaper and the people that you have go somewhere else, outsourcing is going to look more like M&A. You will have to think carefully about how you will transition, how you will transform, what pieces of intellectual capital should the customer retain, what pieces might you as a service provider acquire, how to deploy your intellectual capital to drive value for customers.'

'Outsourcing is going to look more like M&A.'

Organisations are becoming increasingly frustrated with traditional sourcing models and outsourcing services vendors. They say that suppliers try to tie them down with contracts and service level agreements and then often fail to deliver innovative ideas and solutions. Meanwhile, suppliers respond that customers won't get much innovation as long as they focus on price and hold a sense of mistrust.[1] All this suggests some fundamental problems with today's approach to outsourcing. A new approach is clearly needed.

Many sourcing discussions fail to fully consider the opportunities presented by open, collaborative sourcing. This is because they presume no dramatic changes to what the business model is all about. Instead, the discussion focuses on outsourcing existing functions – but without thinking about changing them. The organisation retains 'strategic' activities, but may be perpetuating the fundamentals of an uncompetitive status quo.

In response, deep changes are afoot, even in some highly traditional businesses. Increasingly, the rules of the game are changing, as organisations turn to new approaches based on open, collaborative business models. And mastering the art of collaboration will be among the keys to success.

HP's Stubitz notes:

'The notion that you can come in, take over a customer's work and then it goes from there is an obsolete notion. It is very much a collaboration, and the notion of partnership is very important. There are going to be many zigs and zags, and you've got to have a partner that you can trust, that you can work collaboratively with, to get you over those hurdles.'

An 'evolutionary process' is unfolding, says Michael Corbett, Chairman and Founder of the International Association of Outsourcing Professionals (IAOP). 'Organisations today are based on having unique capabilities, unique positions in the marketplace, and they surround themselves with a network of relationships that enable them to get everything done that they need to get done. It began in manufacturing. It hit IT big time in the early 1990s. It hit business processes in the late 1990s. And now it's into areas that companies would maybe not have thought of originally, things like research and development and other knowledge-based areas.'

Infosys Vice President **Subrahmanyam Goparaju** notes that as companies pursue business process outsourcing, they go beyond 'instituting a process.' They seek to 'transform the process' to improve their business model and drive performance.

'If anybody is doing outsourcing only to reduce cost as an end in itself, then in my opinion that's the wrong thinking.'

'How will you very effectively redesign your process? And if anybody is doing outsourcing only to reduce cost as an end in itself, then in my opinion that's the wrong thinking. You choose a partner

1 See, for example, 'Clients Speak Out On The Best And Worst Of Implementing Outsourcing Deals', Forrester Research, Inc., August 24, 2006.

‘If 17-year-old kids can collaborate over the Internet, build open-source software, basically run companies, design things, don’t tell me that the best IT companies in the world can’t collaborate.

Ralph Szygenda, CIO and Group Vice President, General Motors[2]

who will be there with you in time, for the innovation of your technology and business process.’

Michael K.M. Leung, SVP & CIO of **China Construction Bank** (Asia) formerly Bank of America (Asia), cites ‘three key pillars’ to outsourcing success.

The first pillar is cost saving. The second is redundancy – the immediate benefit that comes from outsourcing to providers that have deeper resources or infrastructure than you have. The third pillar is best practices.

‘Despite the fact that we are a huge bank globally, we do things in an old-fashioned way in some areas,’ he notes. ‘So as we introduce outsourcing arrangements, we often discover there are better ways of doing things. Instead of going from A to B to C, there are ways to go directly from A to C, or perhaps even D where you find new opportunities.’

‘So as we introduce outsourcing arrangements, we often discover there are better ways of doing things.’

Thanks to the Internet and other technologies, the costs of collaboration and interaction are plummeting. Such costs – many of them non-value-adding – are a big drain on productivity and performance. These are the costs of finding what you need, conferring, contracting, managing and coordinating, ensuring quality, and so on.

Today, what once required costly and time consuming travel, personal contact, paperwork and oversight, can now happen better, faster and cheaper (sometimes nearly for free) thanks to telephone and Internet technologies. And these technologies will drive greater collaboration among organisations.

‘One drives the other and vice versa,’ says **Peter Van Laer** MD, Business Development of Telindus, a Belgium-based IT services provider. ‘You need to focus on the methodology and tools, and if you have these collaborative tools, they are going to drive the way we overcome barriers and increase collaboration.’

‘Collaborative tools, are going to drive the way we overcome barriers.’

Successful collaboration means understanding a client’s requirements and being flexible enough to meet them, says **Darren Owens** General Manager of **Cap Gemini in Poland**.

‘Our Collaborative Business approach means that we work closely with our clients, being flexible, understanding their real concerns. We work together towards their success. It brings more complexity into the relationship, but we are used to it. A good relationship is key – if you don’t have it, you find that this is where people generally struggle with BPO.’

It is now far easier and cheaper to source innovation and solutions globally, whether inside or outside the firm. It’s also easier to get useful things done – because today’s network infrastructure includes sophisticated software that can be tailored to business needs.

Another enabler of openness and collaboration is modularisation and standardisation. In many industries (like parts of health care and retail distribution), participants have modularised work processes and adopted standards (like the patient health record and the UPC bar code) that facilitate inter-organisational collaboration. And today’s young, educated workers are adept at collaborative technologies because they use them every day in their personal lives.

Pressures to open up and collaborate are growing:

- **Multimillion-dollar, long term sourcing deals are in decline, and multisourcing is on the rise.** Organisations are engaging with a variety of best-of-breed specialists – and expecting them to work together to deliver seamless, cost-effective, and innovative solutions.

- **Hyper-competition pushes innovation, cost, and time-to-market for everything that an organisation does.** Sourcing that focuses on beating down suppliers for the lowest price misses a big bet: the true payoffs are in building solid relationships that focus on joint value creation for end-customers and meaningful competitive benefits.

- **Globalisation means that organisations must cease thinking about themselves as nationally rooted.** They must be adept at thinking about how to draw in expertise and experience internationally which means getting the best out of different cultures.

2 ‘GM’s Ralph Szygenda has the biggest stick in IT’, CIO *Insight*, April 6, 2006. http://www.cioinsight.com/article2/0,1540,1949246,00.asp

- **Industry convergence is everywhere – not just in the media business.** For example, innovation in textiles and fashion draws on materials science, nanotechnology, electronics, and health sciences.

- **A key innovation may be buried in a tiny, highly specialised company, a customer, or the brain of an independent expert.** The entity in which this gem is buried may not even be aware of its own potential.

- **The business world is in the midst of a global explosion of education, knowledge and entrepreneurialism.** Organisations need all the help they can get from customers, employees, partners, suppliers, and even competitors.

- **Educated, Internet-empowered, social networking consumers are increasingly taking the initiative in defining and taking what they want.** Those that fail to respond (like the music industry) do so at their peril. Those that figure out a consumer-friendly, collaborative response (like the Apple iPod/iTunes) will win.

- **All stakeholders – including partners and customers – increasingly expect you to treat them as peers with reciprocity, integrity, and transparency.**

These changes mean exponential growth in complexity: more differentiated and unpredictable relationships, competitors, products and services, technologies, decisions, and activities ‘Command-control’ management becomes hard to sustain. It’s becoming ever more challenging to control everything that matters.

The alternative is to collaborate and share control – in effect, to have some sort of joint governance. Collaboration is not always feasible, and it can fail. But when it works, it provides distinct advantages. Instead of working narrowly in their own apparent self-interest, collaborators share information and seek solutions that produce the best possible outcomes for the entire business network.

The benefits of openness and collaboration may seem self-evident, but they are worth a review:

Competitive strategy

- Collaborative networks can change the basis of competition in an industry. IBM teamed with the Open Source movement to a certain extent, as a competitive gambit against Microsoft. Thanks in part to customer-written reviews and recommendations, Amazon transformed retailing and put thousands of booksellers large and small out of business.

Quality

- **The whole is greater than the sum of the parts.** By cooperating and sharing information, collaborating partners can better solve problems and get things done.

- **Enlightened self-interest can be more sustainable and competitive.** Through learning about and gaining an appreciation for the needs, interests and capabilities of their collaborators, participants can optimise a solution that works for the network as a whole.

- **Collaborative models foster contributions from most suitable and motivated talent.** Where mechanisms exist to reward contributions on the basis of merit, the best is more likely to rise to the top. This often means that the more participants in a network, the better.

Cost

- **Governance is cheaper and productivity goes up.** When interests are aligned, participants often work smarter and harder, and police themselves properly both individually and collectively.

- **Engaged participants (customers, partners, suppliers) are more loyal.** Budgets for participant retention and replacement can be reduced.

All stakeholders – including partners and customers – increasingly expect you to treat them as peers with reciprocity, integrity, and transparency.

Connected sourcing is a reality

Millions of individuals go online every day to participate in social networks, write – or comment on – blogs, seek and share advice.[3]

GM Vice Chairman Robert Lutz is one of many Fortune 500 executives to have engaged in very public blogging. In October 2006, Lutz's blog contained 17 articles that garnered a total of 466 reader comments. His most commented-on article laid out a vision for the GM turnaround. It garnered 102 customer responses, many of which contained highly pointed advice.

Some might say this exercise, and others like it, are fringe Internet technology examples. What about 'real' organisations that need to solve more predictable everyday business problems?

Consider how some mainstream organisations are adopting open, collaborative models in that focus on innovation, customer engagement, and operational effectiveness:

- **They systematically go outside their walls to source innovation.** CEO A.G. Lafley has mandated that Procter & Gamble move from a 20% rate of externally-sourced innovation to over 50%. Known as 'Connect & Develop', the program entails a portfolio of collaborative techniques such as customer co-creation, 'open' innovation brokers, and even scattershot email campaigns to broadly defined networks of potential problem solvers. Thanks to Connect & Develop, the company created billion dollar brands like the SpinBrush and the Swiffer.

- **By collaborating with customers, they gain loyalty, insight, new revenues, and market share.** Lego, the Danish toy company, engages customers of all ages. The youngest join the free online Lego Club, where they participate in discussion forums, share photos of their homemade models, submit product ideas – and, in some cases, pay money to join the 'ultimate' Brickmaster club. Older aficionados were handpicked to join the design team for a next generation robot toy, called Lego Mindstorms.

- **They have suppliers collaborate in order to improve operations, cut costs, innovate and standardise, and increase choice.** General Motors was once the poster child for command-and-control, arms length procurement. No more. Two years before its 'third wave' $15 billion information technology outsourcing procurement of 2006, the company brought in its top service providers (like EDS, Hewlett-Packard and IBM) and technology vendors (like Microsoft) to work together for 18 months.[4] This collection of competitors collaborated to produce a collection of 44 standardised processes, of which 27 apply to the outsourcers themselves. They range from contracts, to asset management, to requirement definitions for systems. When GM launched its new outsourcing deal in June 2006, it went from one (EDS) to six primary suppliers and 22 overall – and it held back a reserve fund for new suppliers large and small. Now, for the first time, GM is rolling out worldwide standards for IT programs and processes; its suppliers collaborate on day to day operations and future strategy; it can swap out suppliers at will; and it expects to save billions of dollars.

These examples are the essence of Connected Sourcing. Collaboration and open business models play a formidable role in the strategies of leading industry incumbents. Organisations are creatively integrating these approaches with traditional hierarchical and 'closed' ways of operating. Today's innovative and successful organisations are adept at both the collaboration game and the hierarchy game – and are smart about which game is the winning one.

3 Online social networks are a category of Internet applications that help connect friends, business associates, or other individuals together using a variety of tools; examples include LinkedIn and mySpace.com. (Source: Wikipedia, http://en.wikipedia.org/wiki/Social_Network) A blog is a Web site where entries are made in journal style and displayed in reverse chronological order. Blogs often provide commentary or news on a particular subject, such as food, politics, or local news; some function as more personal online diaries. A typical blog combines text, images, and links to other blogs, web pages, and other media related to its topic. (Source: Wikipedia, http://en.wikipedia.org/wiki/Blogs)

4 'GM's Ralph Szygenda has the biggest stick in IT', CIO Insight, April 6, 2006, http://www.cioinsight.com/article2/0,1540,1949246,00.asp

Connected Sourcing means orchestrating an integrated portfolio of arrangements that probably includes both traditional hierarchical transactions and open collaboration.

For many organisations this will mean adopting an open business model that eliminates internal walls between business units and external ones between the company, its partners and other strategic business allies. Doing this will stimulate interplay among formerly isolated and siloed enterprise units as well as external stakeholders, and will sharpen the focus on performance. An open organisation is also strategically flexible. Its managers are vigilant in monitoring, anticipating, and responding to relevant changes in the marketplace. It is organisationally and operationally fluid, and functions as a holistic entity in which communication is real, not just perceived.

IT and business process outsourcing practitioners often focus on two issues: who does the work (a firm or an outsourcer) and where the work is performed (high or low cost geography). They work on the design and management of transactions which result in a contract between an outsourcer and a service provider. To IT and business process outsourcers, a multi-supplier deal can be the pinnacle of creativity.

Rethinking the *governance* – in essence, the business model – of the value chain network that delivers work products changes this equation. A traditional contract is just one of many governance models for sourcing. A Connected Sourcing governance strategy includes a variety of business models.

The traditional approach to governance is hierarchical, whether within the firm or between a firm and tightly managed suppliers. At the other end of the sourcing spectrum are open marketplaces: shopping for packaged offerings, as a customer would for nuts and bolts or commercial software. But other options exist, like modular, loosely coupled networks of suppliers that often operate under the guidance of a turnkey ‘orchestrator.’ Here, new governance norms arise: ‘connect and collaborate’ supplants the traditional ‘command and control’ mindset.

In some industries, such as manufacturing and media/entertainment, portfolio sourcing has been the norm for a long time. Media/entertainment displays mature sourcing techniques that effectively combine collaboration and hierarchy – and now this industry is in the vanguard of mass customer co-creation, as evidenced by phenomena like music sampling, YouTube, and the engagement of consumers by leading brands such as the British Broadcasting Corporation and the *New York Times*. Manufacturers, along with retailers, have been improving supply chain collaboration for two decades, and have made modest but significant progress. Yet the market for IT and business services is relatively new, and its models remain relatively simplistic.

Companies have four sets of choices when they think about how to put together a plan for this market:

- WHAT is the objective? Cost savings or business innovation – commoditisation or differentiation?
- WHO does the work? Do it internally or open up by sourcing external help?
- HOW should the work be organised? What is the balance between hierarchy and collaboration?
- WHERE will the work be performed? – domestically or offshore?

The rise of collaboration technologies

Information technology lets us connect and collaborate like never before. The Internet and the proliferation of network technologies gives people access to information – and to one another – at the time and place of need. It has produced a tidal wave of popular, globally pervasive, cheap, easy to use, powerful – and collaboration-enabling – applications. These new media include email, workflow applications, mobile devices, personal portals and dashboards, shared electronic workspaces, blogs, wikis, and many more.[5] Collaboration across space, time, organisational and cultural boundaries has never been easier.

Service Oriented Architecture (SOA) is a technology infrastructure that may be less visible than email, blogs and wikis, but it facilitates a quantum leap in productivity, flexibility, and our ability to collaborate. It's a sort of technology 'plumbing' that changes how things are done because it facilitates the execution of business processes among far-flung participants (local and remote, within one organisation or across many organisations). While targeted efforts have let tightly coupled members of a predefined supply chain work together, SOA lets loosely affiliated participants from around the world combine and recombine on the fly.

As a result of these and other emerging technological enablers, people are increasingly active participants in the decisions that affect them. PwC believes that we will see many more changes in how organisations source products, services and knowledge, because it takes time to replace the technical infrastructure that powers business, and even more time to change the ways that people work and interact.

'I think in many cases, businesses are still too cluttered by the past and I think one the biggest restrictions is the inability of an organisation to embrace the culture of technology change,' says **Bill Payne**, Vice President, Strategy and Development, Managed Business Process Services, **IBM** Europe. 'Is technology changing? Yes. Will it continue to change? Yes. Will people embrace it? I think yes, but it's the pace of change and the pace of availability. Lots of companies still don't use half of the functions within their mail systems – at the end of the day it comes down to how humans interact.'

Yang Yuanqing, Chairman of **Lenovo Group**, a leader in the global PC market with principal operations in China and the U.S., says the global economy is pushing more firms to closely examine their business processes, with an eye to improving competitiveness in ways that are unprecedented.

'You must always take account of what will be best for the company's competitiveness.'

'You may set up manufacturing in China, your call centre might be in India, your sales support in Brazil, the Czech Republic or Slovakia. But you have to consider carefully the purpose of each operation,' comments Yuanqing. 'How will each function? Who will make them happen – your own people or contractors? You must always take account of what will be best for the company's competitiveness.'

5 A wiki is a type of Web site that allows the visitors themselves to easily add, remove, and otherwise edit and change some available content, sometimes without the need for registration. This ease of interaction and operation makes a wiki an effective tool for collaborative authoring. (Source: Wikipedia, http://en.wikipedia.org/wiki/Wiki.)

Collaboration across space, time, organisational and cultural boundaries has never been easier.

Getting it right

Connected Sourcing is a growing reality for every high performance organisation. In the 21st century, the only way to operate is to focus on what you do best and orchestrate a portfolio of relationships for the rest. How can you plan and execute for success.

PwC helps organisations around the world to address the six core issues of Connected Sourcing effectiveness.

1 **What are the objectives of your Connected Sourcing initiative, and which business model decisions regarding 'whos', 'hows' and 'wheres' will get you there?** Beyond cost savings, you might need to increase process effectiveness, enter new markets, expand fast with minimal capital investment, innovate better, even change the rules of industry competition – or maybe all of the above. Getting it right means balancing what's vitally urgent for today with what's keenly important for tomorrow.

2 **How do you leverage emerging technologies and next generation business practices for productive collaboration and customer co-creation?** Leveraging new technologies means using them to improve the performance of your entire business network – not just for fun. Failure to do so effectively exposes you to end runs by agile competitors who are not shackled by past investments. Connected Sourcing is driven by ever faster, better and cheaper technologies like service oriented architecture.

3 **How do you orchestrate and govern the complex networks of relationships in a Connected Sourcing world?** Contracts may be a necessary evil, but success depends on confidence among parties that they will rarely need to refer to them. But informality doesn't work either. Creating and sustaining effective collaboration depends on intentional, trustworthy behaviours, structures, and processes. Call it 'program management for an open world', Good Connected Sourcing governance makes all the difference.

4 **How do you account for and assure the value of assets produced by multiple independent collaborators?** Recognising revenues from a joint investment is one thing, but how do you carve up intellectual property rights? What about goodwill from a joint industry initiative? Or the work of consumers who co-create value with your business? Some of this is uncharted territory, and requires new thinking about interest-based assignments of intangibles.

5 **What kinds of leaders perform effectively in Connected Sourcing?** Command and control are out. Connect and collaborate are in. Today's leaders must be inclusive, humble, first rate communicators, and environmentally sensitive in the broadest sense. They must also be hard nosed, analytical – oh, and have solid subject matter expertise.

6 **How to identify and address the risks associated with intellectual property, data integrity, security, business recovery, reputation, operating in multiple jurisdictions – and so on?** The complexities of a global, connected sourcing business system are not just multiplied – they are compounded. It may seem that the risks outweigh the potential rewards, but a better strategy is typically to get on top of them. What's critical is to make risk identification and management a central feature of your Connected Sourcing strategy.

We invite you to join us and share your ideas and experiences in co-creating industry knowledge about these exciting changes. To learn more about PwC services, please contact your PwC representative or visit our website at www.pwc.com/performance

Command and control are out.
Connect and collaborate are in.

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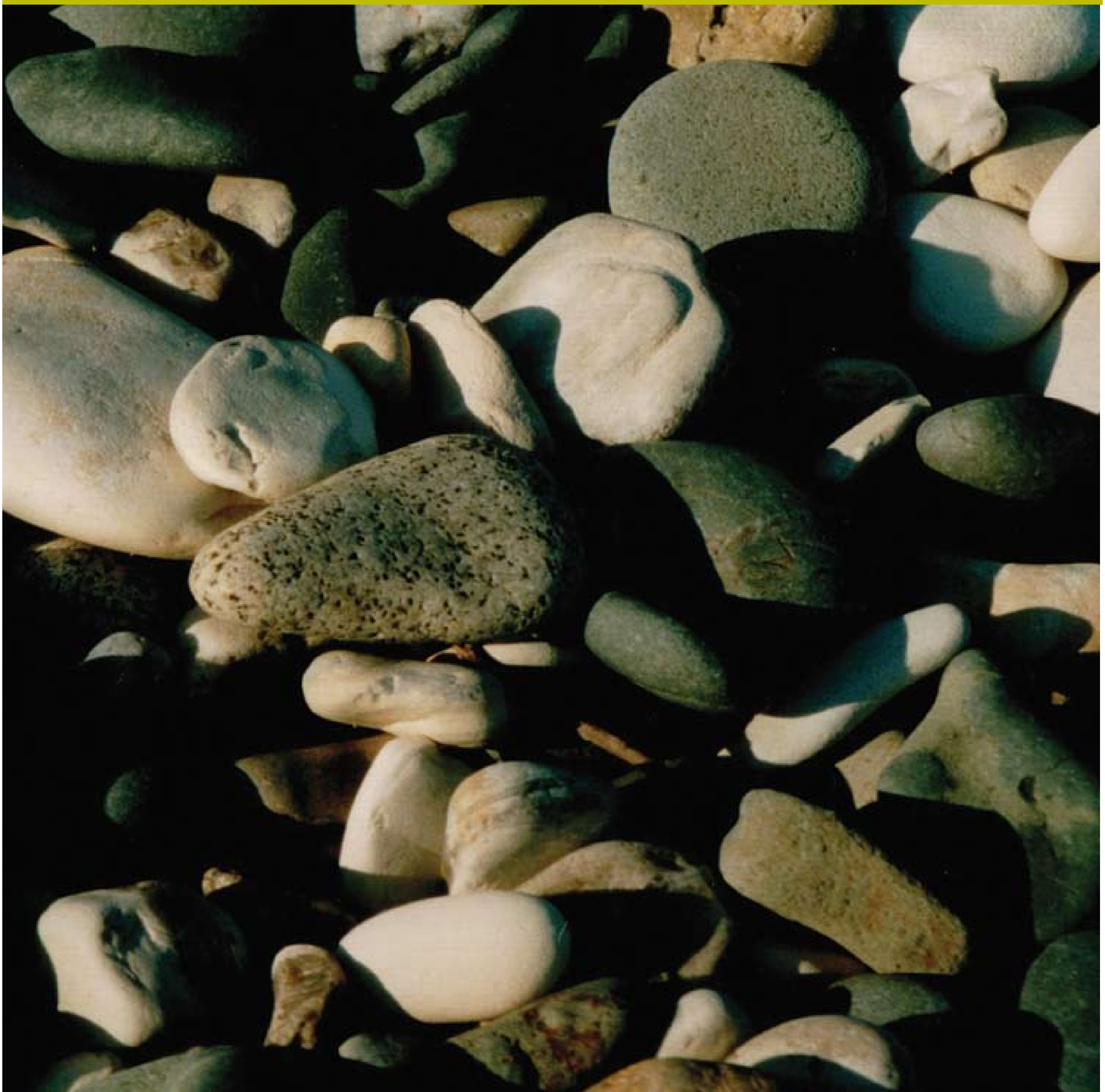
Robert Scott

Rob Scott is a PricewaterhouseCoopers partner. He leads the firm's global IT Network, and its Information Technology Advisory Practice in Canada. He has over 20 years of experience advising clients in the fields of IT strategy, architecture, IT sourcing, project management, and IT operations effectiveness. Rob's experience spans various industries and client segments, including financial services, utilities, manufacturing, retail, distribution, telecom, media, and government. He has worked in Canada and the U.S., and held a variety of roles with a global mandate.

He co-authored (with David Ticoll) the widely quoted PwC white papers, *A Fine Balance: the impact of offshore IT services on Canada's IT Industry* and *A Fine Balance: the buying and selling of Canada*.



The PwC network of resources

At PricewaterhouseCoopers, we work with you to help you implement your business strategy and meet your objectives. At times of opportunity, change or crisis we:

- Listen to your situation and then offer a range of smart choices for you to consider – based on independent and challenging insights, supported by facts and industry benchmarks.
- Use expertise in people, processes, finance and technology to help deliver and embed lasting change.

We do this in an objective manner to help you enhance value, build trust and communicate with the market place. We also get involved with your organisation, because we know that effective change needs a relationship with engagement, passion and sensitivity. We don't simply advise, we also help you implement.

We have 700 partners and 13,000 consultants in total, in over 50 countries, who assist large and small organisations in both the private and public sector. They have deep industry expertise, and they connect internationally to deliver consistently where you need it – which is locally. They can draw on our full network of accountants, tax specialists and other experts in over 140 countries to make sure that solutions are practical and efficient, not only operational but also in financial terms. We realise that effective solutions must address the connections between customers, employees, investors, partners, suppliers, regulators and other stakeholders on which the success of your business depends.

We have worked on all the major issues that organisations face today and helped them to:

- Grow revenue
- Capture deal value
- Reduce costs
- Manage performance
- Get the right compliance culture
- Minimise risk

For more information on what PwC is doing and how we can help your organisation, please visit www.pwc.com.

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