Outsourcing comes of age: The rise of collaborative partnering*
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Executive summary</td>
<td>4</td>
</tr>
<tr>
<td>Outsourcing is a maturing success story</td>
<td>6</td>
</tr>
<tr>
<td>The challenges</td>
<td>10</td>
</tr>
<tr>
<td>The collaboration payoff</td>
<td>14</td>
</tr>
<tr>
<td>Rising to the challenge of collaborative partnering</td>
<td>19</td>
</tr>
<tr>
<td>The PwC network of resources</td>
<td>20</td>
</tr>
<tr>
<td>Our Global Sourcing network</td>
<td>21</td>
</tr>
</tbody>
</table>
Introduction

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

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

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

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¹ We define outsourcing as the transfer of a business activity or function to a third party, usually along with people and/or know how.
² PricewaterhouseCoopers refers to the network of member firms at PricewaterhouseCoopers
Cost savings can be the main driver of an outsourcing project. But as this survey illustrates, every company – indeed, each outsourcing initiative within any one company – has a mix of other drivers, prioritised differently in each case.

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

A third major theme is strategic benefit – freeing up one’s own resources, improving flexibility, gaining access to capital, access to new markets, or changing the rules of competition and well; in fact it is growing, maturing and evolving to deliver value well beyond cost savings.

This report presents results of our survey of 226 customers and 66 outsourcing service providers. We set out to explore some of the current trends: the growth of multisourcing, changes in customer supplier relationships, the emergence of new stakeholders and new governance models. At its core, our research confirms the growing complexity of outsourcing. However, it also indicates sophisticated leaders don’t necessarily fear that complexity. For them, it is the normal path of a maturing business strategy and a manifestation of an increasingly global environment. As the examples of Apple and Airtel illustrate (below) the complexities of innovative partnering yield the benefits of growth and performance. Outsourcing is now as diverse as business itself, differing by country, sector, and company strategy. It is characterised by smarter suppliers, improved automation and better informed buyers driving toward long-term, sustainable outsourcing arrangements.

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

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

But success and growth are not without their challenges. Customers continue to be held back by cost benefit justification (i.e., the challenge of creating a business case where benefits are measured and delivered) and their own lack of experience – among others. Nearly all feel challenged by one or more aspects of the outsourcing lifecycle; and their first inclination is to blame service providers when projects fail. Service providers think the main cause of failure is poor collaboration with customers.

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

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

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

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

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

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

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

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

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

- **Large mature market**: United Kingdom and United States (78 respondents, of which 63% have revenues greater than $1 billion).

- **Medium mature market**: Australia, Canada, New Zealand (31 respondents, of which 84% have revenues greater than $1 billion).

- **Rising market**: Bahrain, Belgium, Brazil, China, Germany, India, Italy, Japan, Kuwait, Mexico, Russia, South Africa, Sweden and the United Arab Emirates (117 respondents, of which 35% have revenues greater than $1 billion). Each of the listed rising market countries provided at least 5, and as many as 21 responses. Three other countries provided a total of four responses.
Outsourcing is becoming new again.

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

Outsourcing is delivering results.

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

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

Outsourcing is a maturing success story

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

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

Other reasons are also important:
- Improving customer relationships (42%).
- Developing new products or services/market segment expansion (37% each).
- Geographic expansion (33%).

A move towards core activities

Many respondents (53%) indicated they outsource activities that they consider to be ‘core’. The definition of ‘core’ activities was left to the respondents’ interpretation, and could mean different things to different respondents (depending on what they define as ‘core’ to their business). It is clear that companies are moving from the outer ‘ring’ of non-core non-essential activities towards the second ring of non-essential business activities. For example, in the finance function, this could be a move from outsourcing payroll and accounts payable towards seeking assistance with budgeting, forecasting and management reporting.

Information technology services remain the most widely outsourced activity, reported by 57% of respondents. But overall, 70% outsource one or more inherently strategic activities:
- 53% outsource production or delivery of core products or services.
- 33% outsource sales & marketing (including third party distribution channels).
- 32% outsource innovation/R&D.

Key markets are embracing core outsourcing. Financial services firms, at 40%, are especially likely to outsource sales and marketing (e.g., to insurance brokers and financial planners). Because many are in infrastructure businesses, media/telecommunications/IT companies are less inclined to outsource core work. But even
‘Increasingly we are moving away from looking at cost alone. People are going to put more emphasis on how well the risk is managed, and how well the outsourcing company cater to our needs or to the needs of the industry.’

Ian Brown, Director, NCS Group Marketing and Corporate Communications

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

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

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

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

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

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

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

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

Depending on the business function, anywhere from 27% to 55% of respondents intend to expand their current outsourcing over the next five years. There is still growth to come in information technology (where 55% of current customers plan to expand) and what we called ‘core products or services’ (42% will expand).

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

Hot spots for growth:

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

| Figure 2: Outsourcing is intensifying |
|-------------------------------|----------------|
| Information technology services | 37% |
| Production or delivery of your core products or services | 39% |
| Logistics and distribution | 33% |
| HR services | 16% |
| Sales and marketing – including 3rd party distribution channels | 11% |
| Innovation, research and development | 7% |
| Procurement | 15% |
| Customer call centres | 16% |
| Finance and accounting | 15% |

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

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

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007
‘Outsourcing is growing in scale... but becoming more complex to manage and requiring a new set of skills.’

Eric Sorensen, President & CEO of Sun Rype Products Ltd

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

Figure 3: What organisations outsource and plan to expand

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

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007
The challenges – and varying user-provider perspectives – are revealing

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

Sorting the barriers

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

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

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

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

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

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

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

Figure 4: Customers and providers differ on the obstacles

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

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007
Outsourcing lifecycle is a difficult challenge

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

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

Growing complexities

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

Figure 5: Pressure points in the outsourcing lifecycle

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

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007

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

Marianne Fullon, Partner, Payroll Service Providers Inc.
12 Outsourcing comes of age: The rise of collaborative partnering

What works best?

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

- Customers tend to prefer ‘detailed highly specific contracts’ (54%) whereas service providers (not surprisingly) like ‘flexible business terms’ (61%).

- A quarter of customers think ‘many suppliers/providers’ work better than ‘few suppliers/providers’, vs. only 10% of service providers.

- While 52% of service providers recommend offshore outsourcing, only 20% of customers believe this works best in real-life outsourcing.

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

How much money should service providers make?

More than half of customers believe that service providers should reasonably expect to achieve an after tax margin in the range of 5 – 12%, whilst the target sought by over half the service providers surveyed was in a range of 15% – 25%. Surprisingly, nearly half (46%) of the buyers of outsourcing services have had sight of service provider margins during contract negotiations. Service providers and customers agree that both sides benefited equally from this visibility. This may be an indication of more transparency to come.

Offshoring and responsible business practices

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

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

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![Figure 6: There is still a preference amongst users for near-shoring versus offshoring](source: PricewaterhouseCoopers Global Outsourcing Survey 2007)
offshoring locations decisions. Service providers agree that this is a key issue for customers. The second most important concern for both customers (61%) and service providers (52%) is the ethical issues perceived in the customer’s home market related to moving jobs offshore.

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

**Figure 7: Mapping priorities for responsible offshoring**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Customers (%)</th>
<th>Service Providers (%)</th>
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<tbody>
<tr>
<td>Labour and employment standards in offshore locations</td>
<td>61</td>
<td>65</td>
</tr>
<tr>
<td>Domestic ethical issues around moving jobs offshore</td>
<td>47</td>
<td>52</td>
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<tr>
<td>Bribery and related business ethics in offshore locations</td>
<td>45</td>
<td>32</td>
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<tr>
<td>Environmental impact of offshore facilities</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>Negative impact on offshore local communities</td>
<td>25</td>
<td>39</td>
</tr>
</tbody>
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Q: Talking briefly about outsourcing to offshore locations, which of the following do you expect to have the biggest impact on your clients’ future outsourcing decisions?

Source: PricewaterhouseCoopers Global Outsourcing Survey 2007
The collaboration payoff

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

- Traditional long-term exclusive outsourcing arrangements work very well for a near commoditised service (such as IT infrastructure services). They do not work as well with ‘second-wave’ outsourcing arrangements that are generally less commoditised.

- Both customers and providers are employing more multisourcing, joint ventures, and open business models. Unlike traditional single-source transactional outsourcing, these more complex approaches intrinsically require collaboration. At a minimum, multisourcing requires that customers and their service providers get together for the sake of coordination. At best, multisourcing incents suppliers to take the initiative, proactively work together, and devise new initiatives in the interests of the outsourcing customer.

- Emerging open business models allow firms to engage networks of partners and customers to generate high value at low costs.

- Successful customers of outsourcing show good collaboration with service providers, and good collaborators tend to be effective outsourcers. Collaboration yields best practices in the capabilities and processes of outsourcing itself.

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

Customer respondents seem to believe that emerging business models deliver tangible benefits. Given a set of potential reasons to
use open, collaborative sourcing approaches, respondents’ top choices are reduced costs (68%) and better quality results (66%). This is a strong endorsement of the view that transparent – as opposed to secretive – styles of business engagement make it easier to innovate and improve performance.

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

Expert outsourcers rely increasingly on collaboration

To measure collaboration, we asked respondents to rate their company’s experience of dealing with outsourcing service providers on each of several items, using a scale of 1 to 5, where 1 means ‘never true’ and 5 means ‘always true’. Listed here are the percentages of respondents who selected a 4 or 5 for each item:

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

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

That, for example, nearly 40% of customers feel their service providers are less than honest and transparent is quite problematic. The outsourcing community needs to explicitly undertake a best practices approach to collaboration and candour. The performance challenge is clear.

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

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

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

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

Brian Hayward, CEO, Agricore United
Other insights about expert outsourcers:

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

The reverse is also true: collaborators do better at outsourcing

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

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

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

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

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

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

![Figure 8: Open suppliers have happy customers](image-url)

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

Source: PricewaterhouseCoopers Global Survey 2006
High collaborators embrace innovative outsourcing business models.

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Total sample</th>
<th>High collaborators</th>
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<tr>
<td></td>
<td>Important</td>
<td>Difficult</td>
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<td>Strategy development</td>
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<td>47</td>
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<tr>
<td>Business case development</td>
<td>49</td>
<td>31</td>
</tr>
<tr>
<td>Structuring the deal</td>
<td>62</td>
<td>45</td>
</tr>
<tr>
<td>Managing the transition</td>
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<td>37</td>
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<tr>
<td>Ongoing managing and monitoring</td>
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</tr>
<tr>
<td>Mid-contract change management</td>
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<tr>
<td>Introducing innovative changes mid-contract</td>
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<td>34</td>
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<tr>
<td>Renegotiation</td>
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<td>39</td>
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<tr>
<td>Average score</td>
<td>54</td>
<td>37</td>
</tr>
</tbody>
</table>

Q1: How important to your business is each of the following aspects of outsourcing?
Q2: What is the usual level of difficulty of achieving success with each of these?

Source: PricewaterhouseCoopers Global Survey 2006

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

[Quote: Ashish Gupta, India Country Head & COO, Evalueserve]
‘Outsourcing is a tectonic, structural change in the marketplace that will significantly change the competitive outlines of companies. It is the mainstream of the global business ecosystem. It’s here today and will continue to expand and touch our lives, both as providers and consumers, in many ways.’

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

Two possible multisourcing models are illustrated in Figure 10.

- In the lead supplier model, one service provider functions as a general contractor who orchestrates other suppliers. The outsourcing customer may or may not be involved in the economics and governance of the subcontractor relationships. However at the end of the day, the general contractor retains accountability for the results.

- In a collaborative partnering model, a collection of master partners governs relationships and deliverables for the benefit of end-customers or consumers. Master providers provide the strategic and significant deliverables, and they are supplemented by a collection of specialist providers. In a best practice approach, transparent mechanisms provide explicit rules of governance, engagement, alignment of incentives and penalties, and collaborative/competitive processes.

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

Figure 10: Innovative business models

<table>
<thead>
<tr>
<th>Lead supplier model</th>
<th>Collaborative Partnering Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Management of multiple relationships with third party vendors and customer</td>
<td>- Clear roles, responsibilities and territories</td>
</tr>
<tr>
<td>- Coordination and collaboration with other suppliers</td>
<td>- Competitive tension</td>
</tr>
<tr>
<td>- Clear overarching responsibility for delivery with lead supplier</td>
<td>- Co-operation between partners</td>
</tr>
<tr>
<td>- Ensuring robust requirements definition</td>
<td>- Sharing knowledge</td>
</tr>
<tr>
<td>- Managing and supporting end to end integration</td>
<td>- Communication</td>
</tr>
<tr>
<td>- Use of effective methodologies and tools</td>
<td>- Coordination and collaboration of all vendors</td>
</tr>
<tr>
<td></td>
<td>- Any central lead supplier role is subject to competition</td>
</tr>
<tr>
<td></td>
<td>- Collaboration and Partnering</td>
</tr>
<tr>
<td></td>
<td>- Honest intentions and best interests of customer</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers
Rising to the challenge of collaborative partnering

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

Arrangements are increasingly complex, with all parties increasingly motivated to acknowledge the needs of a wide network of stakeholders outside their own four walls, beyond themselves. Successful outsourcing no longer simply entails a buyer and a supplier – it needs partners. Many buyers feel their outsourcing efforts fail because they lack experience and skills to achieve the benefits envisaged in the original business case. The 31% who are succeeding are most likely to have honest and transparent business dealings with service providers (including transparency on margins); decide matters of mutual interest jointly; have effective joint governance structures; and share risks and rewards.

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

At PwC we are not interested in driving down costs in an inappropriate manner. We are committed to helping clients and service provider partners achieve productive, sustainable outsourcing arrangements such that each achieve their specific business objectives.

As buyers increasingly seek to outsource core products and services, and suppliers rise to the challenge to deliver the skills and capabilities required, a new model of outsourcing is required: collaboration. Having an experienced, independent partner to help orchestrate new partnerships can give you the confidence to succeed.
Increasingly, value is created across a connected network of partners, suppliers, customers, regulators and stakeholders, and success depends on collaboration amongst them. This means most business issues can no longer be resolved within your own four walls. The best solutions must capture opportunities and navigate risk across an extended business network. But do you have the insight, skills and resources to ensure success?

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

When it comes to sourcing, the challenge for organisations lies in finding the time and skilled resources needed to manage complex and often risky global arrangements. Implementation of these programs is a major undertaking and must be accompanied by attention to detail and accountability for results. Our collaboration experts help leading organisations around the world to:

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

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

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

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