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Single and Multi-Sourcing Models

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Once an organisation decides to outsource, one of its biggest decisions concerns which sourcing model to adopt. Organisations often fail to devote sufficient time to this decision, because they focus immediately on how to achieve:

- Increased cost savings.
- Value for money.
- Better service levels.
- Access to best practices.
- Greater innovation.

They also tend to get caught up too quickly in the details of procuring and preparing the tender, selection criteria, contract and service description documentation. Organisations often simply miss the opportunity to stand back and analyse one of the first fundamentals of outsourcing: what type of sourcing model will best suit my organisation?

Since outsourcing has developed as a management tool, industry debate has focused on the respective merits of:

- **Single sourcing.** This is the original sourcing model, used to deliver 'mega-deal' outsourcing transactions. A single prime supplier provides the full scope of the services 'end-to-end' throughout the duration of the outsourcing *(see below, Single or multi-sourcing model?: Single sourcing).*
- **Multi-sourcing.** This is also known as 'best-of-breed' multi-sourcing. The customer allocates the provision of the full scope of services to separate suppliers, either:
  - in parallel *(see below, Single or multi-sourcing model?: Multi-sourcing)*; or
  - as a hierarchy *(see below, Alternative sourcing structures: Supplier supervision sourcing)*.

Five years ago, single sourcing was by far the most common structure. Now, more and more organisations have moved to multi-sourcing.

This chapter:

- Describes the basic single and multi-sourcing structures, outlining their common advantages and disadvantages. Boxes also summarise the key benefits and risks of both structures in brief *(see boxes, Single sourcing - benefits and risks* and *Multi-sourcing - benefits and risks).*
- Outlines possible solutions to sourcing risks, particularly for multi-sourcing arrangements.
- Identifies alternatives to straightforward multi-sourcing, which allow the customer to use multisourcing's advantages while mitigating its inherent risks.

Single or multi-sourcing model?

This section describes the different characteristics of single sourcing and multi-sourcing.

Single sourcing
The customer chooses a single supplier to provide the entire set of services that it wishes to outsource, and relies on that supplier to carry responsibility for the outsourced services throughout the contract term, particularly in relation to service levels.

The single supplier often uses a range of subcontractors to help it deliver the services. This may happen because:

- The customer insists on the supplier using specific co-partners to deliver specific sets of services. This helps the customer control the choice of subcontractors *(see below, Responsibility).*
- The supplier chooses to subcontract. A hybrid approach is sometimes inevitable, if the supplier needs to subcontract some of the services in order to provide them.

However, even if subcontractors are involved, the supplier usually provides the majority of the core services to the customer. This ensures that it obtains the maximum revenue possible, to compensate for taking on all of the risks and responsibilities of the outsourcing.

A single sourcing generally has the following features:

- **Responsibility.** In a single sourcing relationship, the prime supplier has final responsibility for the outsourcing. This means that the customer has a one-stop-shop recourse during the outsourcing, and knows where to turn if something goes wrong.

  However, if the supplier subcontracts the outsourced work, the customer has no guarantee that the subcontractor is best suited or qualifiedto provide the services. To minimise this risk, the customer can insist on the supplier using certain subcontractors *(see above)* or ensure that it controls the number and quality of subcontractors *(see below, De-risking the sourcing model:Governance).*

  The supplier is likely to seek relief from total responsibility where the customer or a third party can impact on its provision of the services, or the customer somehow controls or has retained part of the services. However, the customer can draftthe contract to cover this risk.

(please see the Single Sourcing Model in the pdf article)

- **Long-term contract.** Single sourcing contracts tend to last from five to 15 years. Suppliers seek long-term contracts because this gives them more leverage to deliver cost savings and value for money over time to their customers. However, a long-term contract can be disadvantageous for the customer if, for example, the:
  - supplier's performance is poor;
  - relationship between the customer and supplier is not working;
  - expected innovation is not being delivered; or
  - cost savings and value for money do not materialise.
- **Lock-in.** One of the frequent problems that arises with single sourcing is that the customer can be 'locked in' to its supplier. This can have disadvantages. The supplier controls its subcontractors, and is often more concerned with protecting its own margins than ensuring that new or existing services are tendered or re-tendered competitively among them. Therefore, customersoften find itdifficult to create any sense of competition around the award of new services in a single sourcing.

  Therefore, in a single sourcing model, it is crucial that the customer carefully select a supplier that will, over the outsourcing term:

  - meet its aspirations, expectations and objectives;
  - deliver the particular set of services in a competitive manner; and
  - create cost savings, value for money, innovation, and so on.

For a summary of the benefits and risks of single sourcing, see box, *Single sourcing - benefits and risks.*

Multi-sourcing

In multi-sourcing, the customer enters into separate, parallel agreements with different suppliers for different parts of the services to be outsourced. The separate agreements should ideally be interconnected *(see below, De-risking the sourcing model: Allocation of responsibility),* but often they are not. The customer takes on the role of project manager of the outsourcing, and cannot demand that the suppliers co-operate with each other unless it builds this co-operation into the contract. Contractual multi-sourcing vehicles are far more diverse than for single sourcing *(see below, Alternative sourcing structures).*

(please see the Multi-Sourcing Model in the pdf article)

A multi-sourcing generally has the following features:

- **Choice and flexibility.** In contrast to single sourcing, multi-sourcing involves competition between suppliers, and avoids lock-in to a single supplier for a broad range of services for a long period of time *(see above, Single sourcing: Lock-in).* It allows the customer to market test other projects and services than those originally contracted for on a case-by-case basis. The customer can also take a 'mix and match' approach to outsourcing, that is, building on suppliers' different strengths to obtain better overall service quality. In addition, contracts tend to be shorter than in single sourcings.

  A disadvantage to having multiple suppliers is that suppliers from similar sectors may be wary of entering into contracts for fear of making their confidential information or intellectual property available to a competitor.

- **Responsibility.** The customer's legal risk is higher than in a single sourcing *(see above, Single sourcing: Responsibility),* because it delegates responsibility to several suppliers. This interaction with different parties makes it harder to strike the right deal and ensure that the separate contracts are properly implemented. The customer is responsible for any gaps in the services' scope:
  - that it has not fully or properly allocated to the various suppliers; and
  - around any interactions or handovers between the suppliers, because there is no contractual relationship between them.

If a gap occurs, the customer must pick up any activities that are not clearly in-scope for the suppliers, or pay more to a supplier to do so. Oversights may not always be evident until a problem arises. Responsibilities also tend to be duplicated within one organisation and across suppliers in multi-sourcing environments.

The customer can address such issues by clearly allocating responsibility among the suppliers *(see below, De-risking the sourcing model: Allocation of responsibility).*

In addition, the customer often cannot state which supplier is ultimately responsible for a given failure, or cannot prove it to a sufficient standard to enable the customer to enforce its rights and remedies under the contract.

For a summary of the benefits and risks of multi-sourcing, see box, *Multi-sourcing - benefits and risks.*

De-risking the sourcing model

A customer can take steps to manage the risks of a single or multi-sourcing.

Retention of control

One of the most basic, but key, steps that a customer can take to manage its risks is to ensure it has the right level of control over the outsourcing. Irrespective of the customer's attempt to create the best possible contract, an outsourcing arrangement (particularly a multi-sourcing) is likely to fail if the post-signature contract management activities are understaffed or poorly performed.

Customers often underestimate the level of management required during an outsourcing, particularly during its initial transition phases.

To retain control, the customer should consider:

- Retaining enough staff to manage the outsourcing.
- Taking on additional staff with appropriate contract management experience.

This is a small price to pay to ensure that the:

- Contract is performed as required.
- Customer's risks and liabilities during the life of the contract are reduced.

In a multi-sourcing, the customer deals with many parties, so these considerations become more important.

The customer should combine retaining control of management with a good governance structure *(see below, Governance).*

Governance
A governance structure ensures effective management of the outsourcing. Governance structures can vary significantly:

- **Single sourcing.** Governance is primarily used to manage the:
    - relationship between the customer, supplier and subcontractors; and
    - number and quality of subcontractors that the supplier can use.

(See above, Single or multi-sourcing model?: Single sourcing: Responsibility.)

- **Multi-sourcing.** Governance is used (along with, for example, operating level agreements *(see below))* to bring together the various suppliers, so that everyone works together to minimise gaps and risks *(see above, Single or multi-sourcing model?: Multi-sourcing: Responsibility).*

A typical governance structure involves many layers of interaction between the customer and the various suppliers. For example, it could follow this pattern:

At the top level, a partnership board, attended by senior management from both the customer and each of the suppliers or subcontractors.

- At the intermediate level, sub-structures (for each supplier in the case of a multi-sourcing) that consist of:
    - project executive committees (attended by senior executives of the customer and supplier (s)); and
    - national executives or committees (attended by region- or country-specific executives of the customer and supplier(s)).
- At the lower level, a project manager to organise meetings (attended by the customer and supplier(s)).

The governance regime should also set out, among other things:

- The frequency of meetings.
- Quarterly and annual reviews.
- Reports that the parties must produce.
- Informal and formal escalation and dispute resolution procedures.

Allocation and definition of services
To minimise its risks and liabilities as much as possible, a key part of the customer's preparatory work is to correctly define:

- The services that must be supplied.
- The set of services allocated to each supplier.
- How the different sets of services relate to and depend on each other.

Combining these definitions and allocations together to form a workable outsourcing can be difficult, especially in multi-sourcing. The customer should invest time in ensuring that statements of work (which allocate responsibility between suppliers) are in place and collectively agreed. In a multi-sourcing, it is helpful if the customer agrees different supplier contracts at the same time rather than consecutively, because entering into one contract may require any earlier contract to be amended, which often results in the earlier supplier demanding a renegotiation in price *(see also below, Allocation of responsibility).*

(please see the Contract Manager Sourcing Model in the pdf article)

Value for money mechanism
In a single sourcing, it is advisable to have in place a value for money mechanism, which comes into play when the outsourcing does not deliver the required services. This consists of:

- Benchmarking.
- Market testing.
- A mechanism that allows the customer to take the services back in-house.

Allocation of responsibility
In a single sourcing, it is relatively easy to ensure that the supplier is contractually responsible for the services throughout the outsourcing term (see above, Single or multi-sourcing model?: Single sourcing: Responsibility).

In a multi-sourcing arrangement, it is harder to avoid and allocate responsibility *(see above, Single or multi-sourcing model?: Multi-sourcing: Responsibility).* The customer has two main methods to reduce this risk:

- **Contractual provisions.** When drafting an outsourcing agreement, the customer should evaluate risks and carry out due diligence across the outsourced services, processes and systems to ensure that:
  - all the interactions and handovers between suppliers, and responsibilities, have been clearly identified;
  - the contracts state exactly who is responsible at any particular time for failures that arise.

  In addition, if the customer splits the same service across a number of suppliers, it should ensure that the contracts are as interdependent as possible, requiring the suppliers to co-operate with each other. The customer should seek to have a balance between incentives and penalties in the contract to encourage co-operation and interaction between suppliers.

- **Operating level agreements (OLAs).** OLAs are a key underpinning element of a successful multi-sourcing. An OLA creates relationships between otherwise distinct suppliers, and imposes a degree of shared responsibility on them for service continuity. The OLA should be set up so that if a problem arises, each party's immediate focus is on fixing it, leaving arguments over responsibility for and payment of remedial costs until later. An OLA's strength depends on how well the customer polices it.

  OLAs have other uses, such as:

  - avoiding arguments about confidentiality (see above, Single or multi-sourcing model?: Multi-sourcing, Choice and flexibility);
  - preventing data sharing;
  - imposing common IT standards on suppliers (see below, Standard processes or platforms); and
  - ensuring that suppliers have a unified approach towards dealing with IP rights.

  In practice, an OLA can be very difficult to negotiate unless the customer designs its multi-sourcing model around it. Previously independent suppliers are unlikely to accept an OLA that the customer imposes on them retrospectively, in particular if the OLA contains any meaningful penalties, service credits or rights for the customer to claim damages or terminate the main multi-sourcing agreement.

An additional method of dealing with fault attribution is a good governance structure *(see above, Governance).*

Standard processes or platforms

An issue in any outsourcing, and particularly a multi-sourcing, is ensuring that all suppliers are equally up to date in terms of processes. For example, in successful IT outsourcings, customers spend a lot of time and effort standardising common IT processes, so that suppliers are interchangeable or can effectively work together. The use of standard templates, such as IT Infrastructure Library (ITIL), as a basis for operations monitoring, service desk management, capacity management and other IT processes is becoming fundamental to success in multi-sourcing.

(please see the Supplier Supervision Sourcing Model in the pdf article)

Alternative sourcing structures

Various outsourcing models address some of the inherent drawbacks of multi-sourcing *(see above, Single or multi-sourcing model?: Multi-sourcing* and *box, Multi-sourcing - benefits and risks).*

The legal structures employed in different sourcing models tend to involve a balance between two approaches:

- Employing a project management or systems integration supplier to act as a middleman between the customer and supplier and, therefore, take responsibility for performance and delivery.
- Cutting out the middleman, with the customer retaining greater control, risk and responsibility.

A summary of some of the main alternative contractual outsourcing structures is set out below.

Contract manager sourcing

The customer negotiates and enters into direct individual contracts with suppliers, as in a multi-sourcing (see above, Single or multi-sourcing model?: Multi-sourcing). The customer also enters into a contract with an independent contract manager, who manages the relationship between the customer and suppliers. The contract manager becomes liable for the integration and management of the multi-sourcing, and the suppliers remain directly liable to the customer for their services.

One of the benefits of this model is that the contract manager can put pressure on suppliers without hindering or damaging their relationship with the customer. In addition, the customer's risk is reduced because the contract manager is independent, and has specialist skill and knowledge in managing complex outsourcing arrangements.

The main disadvantage for the customer is that it no longer has day-to-day contact with the suppliers and it must fully rely on the contract manager for the services' integration and delivery. In addition, this model can be more expensive than a traditional multi-sourcing because the customer pays for the independent contractor (effectively paying to reduce the risk of managing the contract).

A strong governance structure *(see above, De-risking the sourcing model:Governance)* is key to successful contract manager sourcing, particularly if this governs the scope and manner of the interaction between the customer, contract manager and suppliers.

Supplier supervision sourcing

The customer negotiates and enters into direct individual contracts with suppliers, as in a multi-sourcing (see above, Single or multi-sourcing model?: Multi-sourcing). The suppliers enter into OLAs (*see above, De-risking the sourcing model: Allocation of responsibility: Operational level agreements (OLAs)*) in which they agree to work with each other, but only remain liable to the customer. In this model, one of the suppliers (usually the largest) usually supervises the outsourcing and takes on some level of responsibility for integration.

One of the benefits of this model is that the customer can choose each supplier, unlike other models it may have to rely on another party to choose them *(see above, Single or multi-sourcing?: Single sourcing).* Another advantage is that the customer can receive integration assistance and service support for a lower cost, as the suppliers are directly responsible to the customer. In addition, there may be long-term cost savings, because:

- The customer does not have to retain a third party to manage the outsourcing.
- Competition between suppliers helps keep them focused on delivering value for money to the customer.

One of the disadvantages of this model is that it depends on the suppliers' willingness and ability to work with each other. The customer is limited in its ability to make suppliers co-operate, particularly if it tries to bring in a new supplier to manage existing suppliers. In practice, the customer must provide suppliers with incentives to co-operate, such as a joint bonus pool, together with a clear protocol for co-operation.

(please see the Geographic Sourcing Model in the pdf article)

Geographic sourcing
In a multi-sourcing (see above, Single or multi-sourcing model?: Multi-sourcing), the customer sometimes enters into separate contracts for the same sets of services but in different geographical areas.

This increases competition between suppliers, because if one supplier fails to perform, the customer can easily call in another supplier in a different region to replace it. The customer has good business continuity and reduced risk, because it has several suppliers providing the same services. In addition, the customer can allocate responsibility for failures with certainty, because the services are geographically self-contained, making it generally clear which supplier has created a problem or performed poorly. For similar reasons, some customers award specific self-contained service lines to different suppliers under separate contracts.

Key considerations in an outsourcing

In any outsourcing, it is important that the customer invest the right degree of time andeffort into planning the sourcing arrangement. In particular, an outsourcing's early focus should be on identifying the appropriate sourcing model and retaining or recruiting individuals to manage it.

'To single or multi-source?' remains the question for many customers. The answer is likely to be individually tailored to each customer, depending on:

- The customer's circumstances and type of organisation.
- The nature of the services.
- What the customer is trying to achieve.

Current trends point at significant growth in the size and scale of multi-sourcing transactions, although given outsourcing's cyclical nature, and the fact that both models have their own inherent benefits and drawbacks, this may only be a temporary trend.

Whatever the sourcing model, the customer should ensure that the supplier relationships are planned clearly, with interactions, handovers, responsibilities and governance clearly defined.

Single sourcing – benefits and risks

Benefits

- The customer is released from most of the day-to-day monitoring and operating of the outsourcing.
- The customer has only one agreement and one line of contact.
- The supplier is responsible for the outsourcing and its integration, throughout the term of the contract.

- The supplier is responsible for ensuring that subcontractors provide the agreed level of service to the agreed schedule.

Risks

- The customer must rely fully on the supplier for integration and quality of service.
- The customer has no direct contract with any subcontractors, and must negotiate with the supplier even if another party will carry out the work.
- It is harder to obtain the best price for the services and require the subcontractors to engage in a competitive bidding process.
- A weak governance regime undermines the benefits of single sourcing.
- If there are problems with the supplier, the overall process is likely to become more costly and risky.
- The customer will have to meet the supplier's costs of managing its subcontractors.
- The supplier is likely to put its own interests before the customer's. Therefore, it can be difficult to engage the supplier's subcontractors in a competitive bidding process, or encourage the supplier to be innovative during the term of the contract.

Multi-sourcing – benefits and risks

Benefits

- The customer benefits from flexibility, as it is not locked in to one supplier.
- Contracts tend to be shorter than in single sourcings.
- The customer can tender competitive offers to various suppliers on an open market, on the basis of service as well as price.
- The customer is free to choose the best supplier for each outsourced service.
- The customer has a direct contact line with each supplier.
- Each supplier is contractually directly responsible to the customer.
- The customer can replace a supplier without this affecting its contracts with other parties.

Risks

- The customer must take on the role of project manager.
- The customer can only persuade, rather than order, suppliers to co-operate with one another.
- Responsibilities tend to be duplicated with one organisation and across suppliers.
- There are often unknown interdependencies between suppliers that can delay or complicate scheduling.
- Process information flow between different parties can be complicated and convoluted.
- The customer must spend resources and management time on resolving issues across different suppliers.
- Suppliers from similar sectors may be wary of entering into contracts for fear of making their confidential information or intellectual property available to a competitor.
- If services fail or are poorly performed, the customer must take up claims separately with each supplier.
- A supplier is not responsible for another supplier's failure