Sourcing Trend Management
Evaluating and Optimizing the Sourcing Operating Model
Executive Summary

The sourcing ecosystem across all organizations has grown significantly in recent years. More and more outsourcing projects have been initiated and realized, creating significant complexity alongside the requirement for agility and flexibility. In parallel, governance and regulatory costs in financial institutions have increased. In consequence, the sourcing operating models used in organizations are no longer fit for purpose.

Today, organizations face many diverse and ever-changing trends and moves in sourcing, which have a high impact on the sourcing operating model. Instead of implementing all actions, organizations need to focus and prioritize so that they can achieve effective transformations and benefits\(^1\) for their business.

To realize and maximize the potential benefits of the sourcing trends and moves available, the Deloitte “Sourcing Trend Management” approach provides proven methods and tools to target actions and provide the greatest benefit to organizations. Our approach leads organizations towards a more efficient, less complex and less cost-intensive sourcing operating model.

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\(^1\) Next Generation Vendor Management, Deloitte.
Sourcing landscape today
Successive cost reductions, the need for significant efficiency increases and a demand for state-of-art services has led to a massive increase in the outsourcing of infrastructure, activities and processes.

In the wake of this evolution, organizations currently face three major challenges with respect to their individual sourcing operating model:

1. **Poor sourcing experience**
   Example: Negative outsourcing ROI due to higher vendor management costs than planned, transition failures or loss of intellectual property, eroding outsourcing value

2. **Complex sourcing ecosystem**
   Example: Diversity and quantity of outsourced services has led to high vendor risk

3. **Inadequate sourcing governance**
   Example: Inadequate contractual specification and lack of fitness for business need have led to poor quality of services

Market view
The number of sourcing trends and moves in the market is increasing at present. The spectrum ranges from traditional and well-known actions, like vendor consolidation, to innovative, cutting-edge actions like cloud integration or agile contracting (see figure 1).

As it is not feasible or advisable to implement all trends and moves at once, organizations need to answer the question of how they can benefit from current sourcing trends and moves, and which actions make sense to implement within their organization because they meet sourcing needs.

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2 The Sourcing Operating Model (SOOM) includes structural, organizational and operational components related to the sourcing lifecycle (e.g. processes, people, infrastructure, locations, service provider and sub-provider, contracts, pricing).

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Fig. 1 – Selected sourcing trends
How can you benefit from sourcing trends and moves?

Deloitte has developed an innovative approach to understanding which of the diverse sourcing trends and moves are most relevant for an organization, so that limited resources can be put into those actions that are the most beneficial and effective for that organization.

Based on pre-defined and proven criteria, our approach guides organizations through improving the sourcing journey, and consists of four phases:

**Phase 1: ALIGN STRATEGY**
Before evaluating sourcing operating models, the key task is to understand the organization’s business, IT and sourcing strategies. It is essential for project success to align and harmonize the organization’s mission and vision at the start. Considering the ‘big picture’ also requires an overview of running procurement projects and any sourcing-related audit findings.
**Phase 2: SOOM-in ANALYSIS**

The goal of phase 2 is to understand the sourcing operating model and define specific actions. Phase 2 is divided into two steps:

**Step 1: Quick Scan**

The sourcing operating model is evaluated in a three-dimensional framework that considers the following dimensions (see figure 2):

- Vendor Ecosystem Complexity
- Degree of Outsourcing
- Vendor Management Organization Maturity

Based on these three dimensions, the organization can be mapped to one of the cubes 01 to 08 in figure 2. Given the cube position, the result of step 1 is an initial and quick down-selection of potential sourcing trends, moves and actions.

The characteristic highs and lows of each criterion depend on the individual sourcing operating model journey. To determine the characteristics, Deloitte provides guidance based on market best practice.

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1 The cube number is for analysis purpose only and does not indicate a ranking e.g. cube 08 is not automatically better than cube 04 or vice versa.
Step 2: Detailed scan:
The sourcing operating model is evaluated in more detail. In figure 3 below, cube 02 is highlighted as example, and it means that the organization has the following characteristics:

- **Vendor Ecosystem Complexity** is high
- **Degree of Outsourcing** is high
- **Vendor Management Organisation Maturity** is low

The detailed analysis is based on a list of pre-defined criteria related to cube 02. Criteria in this example could be as follows:

- Current outsourcing contract structure (e.g. degree of managed service vs. time and material contracts)
- Current sourcing structure (e.g. degree of onshore vs. offshore delivery)
- Vendor landscape analysis in detail (e.g. vendor categories, spend analysis)
- Integration and interaction of supplier management, procurement and sourcing unit
- Vendor governance check in detail (e.g. service management, contract management)
Phase 3: SOURCING TENDENCY RADAR

The goal of phase 3 is to create the sourcing trend radar tailored to the client organization, which enables iterative planning for sourcing trends and SOOM review. This improves the client’s market position or reduces disadvantages in comparison to competitors.

At the beginning of this phase, the desired state is defined, taking into account the business, sourcing and IT strategies, along with a target cube 01 to 08 from phase 1 (see figure 2).

The radar sets out the sourcing trends based on how soon they will impact the organization and sourcing operating model. The trend proximity, shown as short, mid or long term, determines the priority of initiatives and actions to implement the appropriate response.

Newly identified trends are assessed and agreed with stakeholders, with reference to the target cube. A value case is created for the organization, which considers use cases where the trend can be applied. Figure 4 below shows a sample sourcing trend radar with upcoming and actioned trends and their proximity:
- Short-term: immediate relevance, high impact, positive business case
- Mid-term: pending relevance, technology trends with concrete and proven use cases in other areas, benefits fulfilled later
- Long-term: currently far off, new technologies undergoing testing, use cases being defined and tested

Fig. 4 – Sample Sourcing Trend Radar
Phase 4: PREPARE FOR THE FUTURE
The goal of phase 4 is to plan and commit the identified actions and operationalize sourcing trend management.

Selected benefits of actions executed in previous projects are as follows:

- Repatriation of IP and reduction of vendor risk due to insourcing measures
- Close locations to reduce costs and complexity
- Definition of strategic partners to increase buying power and innovation level
- Build up near-shore or off-shore center to reduce labor costs and increase flexibility
- Transfer of T&M to Managed Service contracts to increase vendor responsibility and reduce governance costs

Alongside the planning and execution of actions, ongoing sourcing trend management can be applied to evaluate up-and-coming trends, their fit to the sourcing operation model, and impact on the organization. This is achieved by leveraging the Deloitte sourcing trend managed service, which includes:

1. Quick progress review of actioned trends and moves by Deloitte
2. Update of the long-list of sourcing trends and moves based on Deloitte market view
3. Update of the sourcing trend radar by Deloitte, including value case of new relevant trends or moves
Case study I: Financial Services

Background
Historic focus on cost-driven and opportunistic application development and maintenance sourcing decisions, within the private and commercial banking unit, resulted in a complex sourcing operating model and a highly fragmented vendor base.

Sourcing Trend Management
To determine the right sourcing trends and actions, we evaluated the client’s three SOOM dimensions (step 1):

- Vendor Ecosystem Complexity: high
- Degree of Outsourcing: high
- Vendor Management Organization Maturity: high

Given these characteristics, we discussed with the client the following four key questions as part of the detailed analysis and to identify the relevant actions (step 2):

- What is your desired sourcing mix of services (internal, external, onshore, offshore)?
- Where are your major locations?
- Who are your preferred vendors (strategic vs. non-strategic vendors)?
- How do you want to procure services in the future (T&M vs. Managed Service)?

Based on the results of the SOOM-in analysis, three major actions were executed immediately:

1. Right-sourcing of outsourced services
2. Vendor consolidation
3. Strategic partnership program

In addition, relevant future sourcing trends are in the pipeline, such as agile contracting and vendor management digitalization.

Benefits
The transformation of the sourcing operating model and execution of defined actions (1-3) led to a cost reduction of about 10% of the overall outsourcing spend volume. In addition, the strategic partnership program in combination with vendor consolidation led to a higher innovation rate and reduced complexity.

Case study II: Manufacturing

Background
Independently-run international industrial products divisions had developed diverging IT sourcing operating models. Initial total outsourcing deals were too restrictive to deliver service quality or keep up with business needs. Later fragmented IT service sourcing approaches responded to acute business crises, without having a coherent sourcing strategy able to respond to sourcing trends or stay in step with changing business requirements.

Sourcing Trend Management
A single integrated IT sourcing operating model for the divisions was initiated to meet upcoming business needs and trends. To determine which sourcing strategy and approach would best apply to the target sourcing model, a critical assessment and prioritization of these trends and influences was necessary. We evaluated the client’s three SOOM dimensions as follows (step 1):

- Vendor Ecosystem Complexity is high
- Degree of Outsourcing is high
- Vendor Management Organization Maturity is high

Our evaluation of the sourcing operating model for trend prioritization resulted in the following trends to be actioned (step 1):

1. Optimize cost per service
2. Service Integration and Management (SIAM)
3. Cloud Services Integration

To discover the most appropriate solution that met the target sourcing operating model and therefore the prioritized sourcing trends and moves, service benchmarking and business case assessment were conducted.

Benefits
The sourcing transformation program was steered using sourcing operating model optimization and sourcing trend management to achieve an overall 20% saving on IT outsourcing spend during the 5-year time frame.
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