

Strategic Value of Sourcing Models

October 16, 2019

Today's Agenda:

- Admin and last class
- Quiz
- Case discussions: P&G, Adidas and Infosys
- Next class

Carnegie Mellon University

Dietrich College

Information Systems

The Boeing Corporation / Information Systems

Leadership Recognition Scholarships

For the Fall 2019 semester

The Information Systems Program and its corporate affiliate The Boeing Corporation is pleased to announce the availability of three scholarship awards of \$5,000 each in this Fall 2019 semester. Each award will go to applicants chosen by the IS Program, and payment of the awards will be applied to the recipients' tuition accounts.

Purpose of the Program

This award is designed specifically to acknowledge and reward academically successful students who have also demonstrated effective campus citizenship and teamwork abilities/characteristics through personal initiative and extracurricular activities. Boeing encourages underrepresented and economically disadvantaged students to apply.

Candidates should also have a genuine strong interest in The Boeing Company, since scholarship recipients are encouraged to apply for Boeing summer internships if positions are available.

Eligibility

Candidates need to be full-time Information Systems majors and can be in their second, third, or fourth year of study. They must also have at least a 3.2 cumulative grade point average.

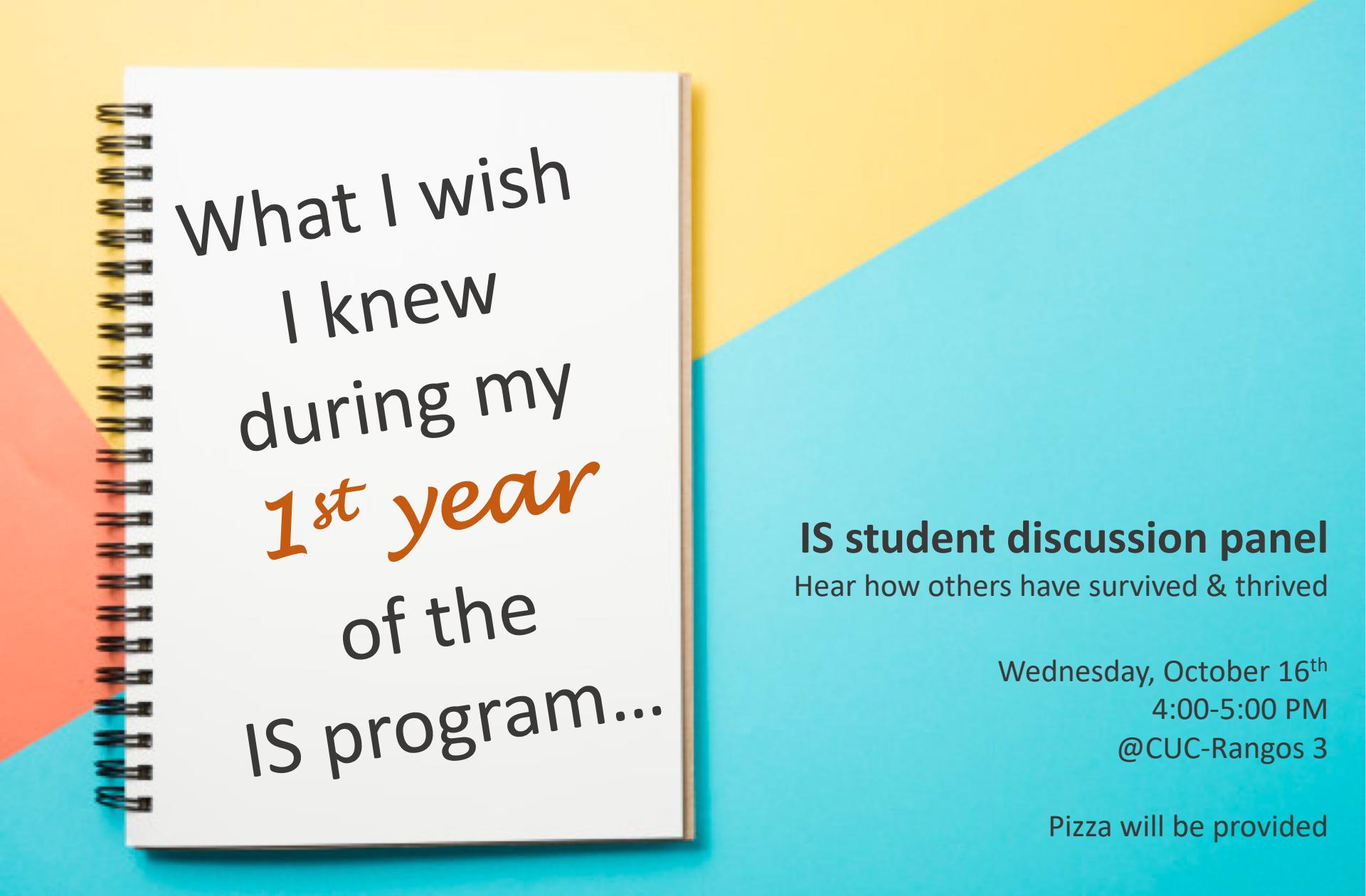
Candidates must have authorization to work in the United States on a full-time basis for other than training purposes (student/temporary visas do not qualify).

Meeting Boeing

Recipients will be invited to participate in Boeing-initiated campus activities during the academic year of the award. Recipients will have the opportunity to meet Boeing employees and to learn about internship and career opportunities.

Application Process

Applications must be submitted by 3:00 pm, **Friday, October 18, 2019**. For further details, please contact Susan Miller isinfo@andrew.cmu.edu.



what I wish
I knew
during my
1st year
of the
IS program...

IS student discussion panel

Hear how others have survived & thrived

Wednesday, October 16th

4:00-5:00 PM

@CUC-Rangos 3

Pizza will be provided



Carnegie Mellon
Information Systems

SCS Distinguished Lecture

Thursday, 17 October 2019

4:10 pm - Distinguished Donuts

4:30 pm - Lecture

Rashid Auditorium - Gates Hillman 4401

SUE BLACK

Professor of Computer Science and Technology Evangelist

Durham University, England

and Author, "Saving Bletchley Park"

Did Twitter Save Bletchley Park?

[Bletchley Park](#) is the historic site of secret British codebreaking activities during World War II and birthplace of the modern computer. The work carried out there by codebreakers, including Alan Turing as highlighted in the Oscar winning film "The Imitation Game", is said to have shortened WWII by two years, potentially saving 22 million lives.

After a visit by Sue Black to Bletchley Park in July 2008 she was so appalled at the state of decay of this important site that she started a campaign to get the true historic value of the site recognised and to save it from being lost to the nation. She sent a letter to the UK broadsheet newspaper *The Times* signed by 97 eminent UK computer scientists, it was published and highlighted in BBC television and radio news broadcasts. Following traditional media coverage, a blog was established, and then social media, (particularly Twitter), used to great effect to raise awareness and support for the campaign. Campaign efforts received national and international coverage on television, on radio, and in the press and contributed to the Park receiving £4.6 million funding from the UK Heritage Lottery Fund in 2011.

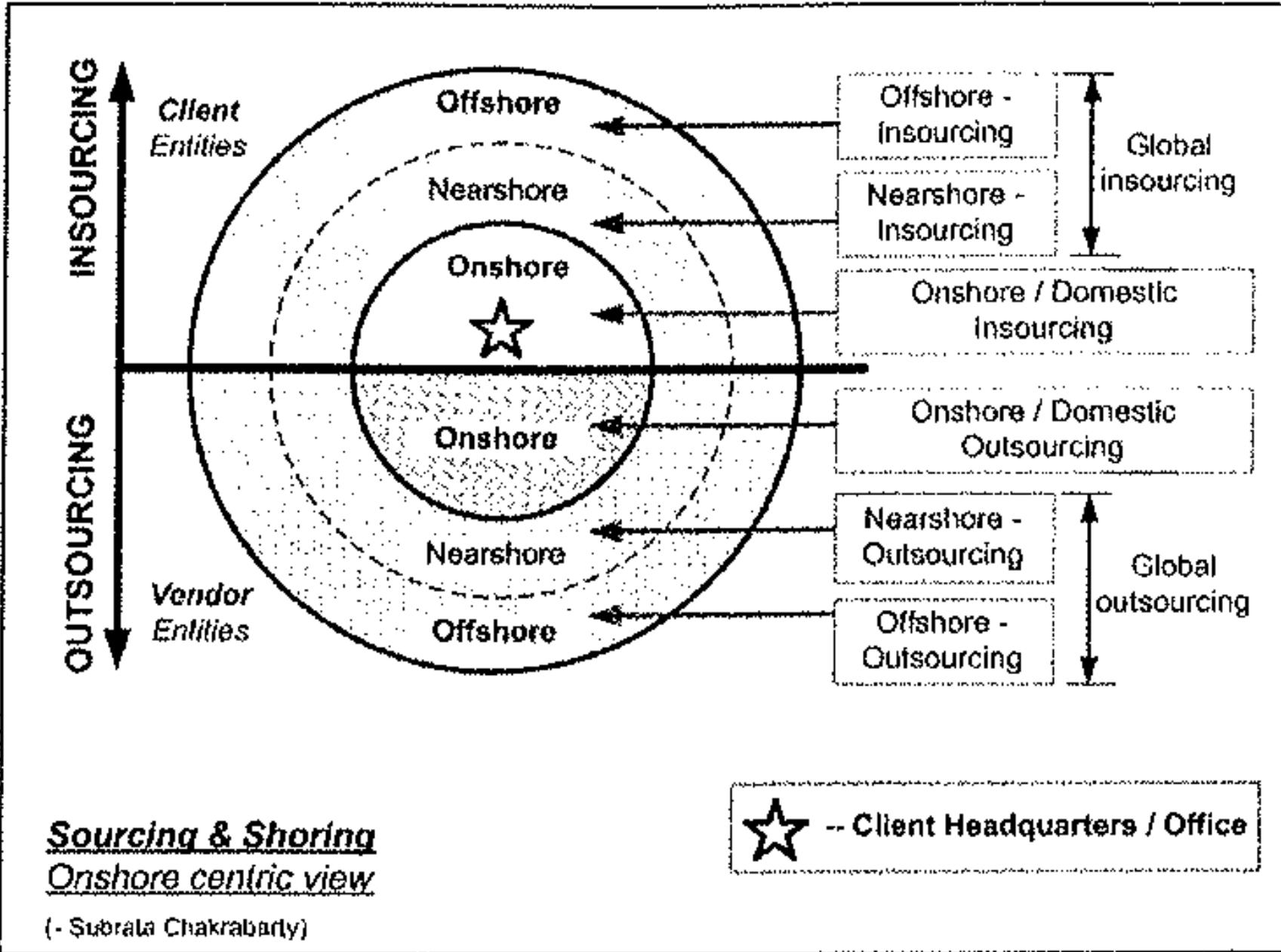
Dr Sue Black describes the highly successful campaign to save Bletchley Park exploring the effectiveness of traditional vs social media, highlighting how the use of social media contributed greatly to campaign success.

Sue's book "[Saving Bletchley Park](#)" about the campaign has been an Amazon UK bestseller.

—

[Dr. Sue Black](#) is a computer scientist and self-professed evangelist for computing. She is the recipient of numerous awards including being appointed Officer of the Order of the British Empire (OBE) for her services to technology in 2016, and from the USA she received the [Anita Borg Social Impact Abie Award](#) for making a positive impact on women, technology, and society. In 2011, Black won the [PepsiCo](#) Women's Inspiration Award. In 2009, Black was presented the first John Ivinston Award from the [British Computer Society](#) at the [Royal Society](#) in London.

Dr. Black is a leader for gender parity in computing in the United Kingdom. Among her many efforts she started [#techmums](#), a program that offers mothers free training workshops in digital security, social media, and programming with the aim of building confidence and expanding opportunities for women with little exposure to computing. She is also founder of the British Computer Society's Specialist Group [BCSWomen](#).



Sourcing & Shoring

Onshore centric view

(- Subrata Chakrabarty)

Sourcing decision framework

Strategic Logic

Why are they thinking about outsourcing?

- Cost savings
- Market entry
- Early stage development
- Response to competitor move

Customers affected?

- Which segment?
- What are their needs

Decision Economics

Determine costs and savings:

- Current costs (in-house operations)
- Outsourced costs
- Initial investment required?
 - Outsourcing consultants
 - IT/IS investments
- Team coordination costs

Net cost savings

Risks / Others

- Risks - implementation, organizational, political, currency risks?
- IP, legal and security issues
- Partner capabilities - quality of service, lead time, technology
- Stakeholder management
 - Stakeholders – job loss issues, etc.
 - Image, marketing, manage media and community

10/16 :: Strategic Value of Sourcing Models

Read before class:

- [Procter and Gamble: Global Business Services](#)  (Harvard Business Review)
- [Building and Transforming an Emerging Market Global Enterprise: Lessons from the Infosys Journey.](#)  (Kelly School of Business, Indiana University)
- [adidas Group: IT multi-sourcing at Adidas](#)  (Harvard Business Review)

Materials used during class:

- [Quiz 10/16](#)

Quiz

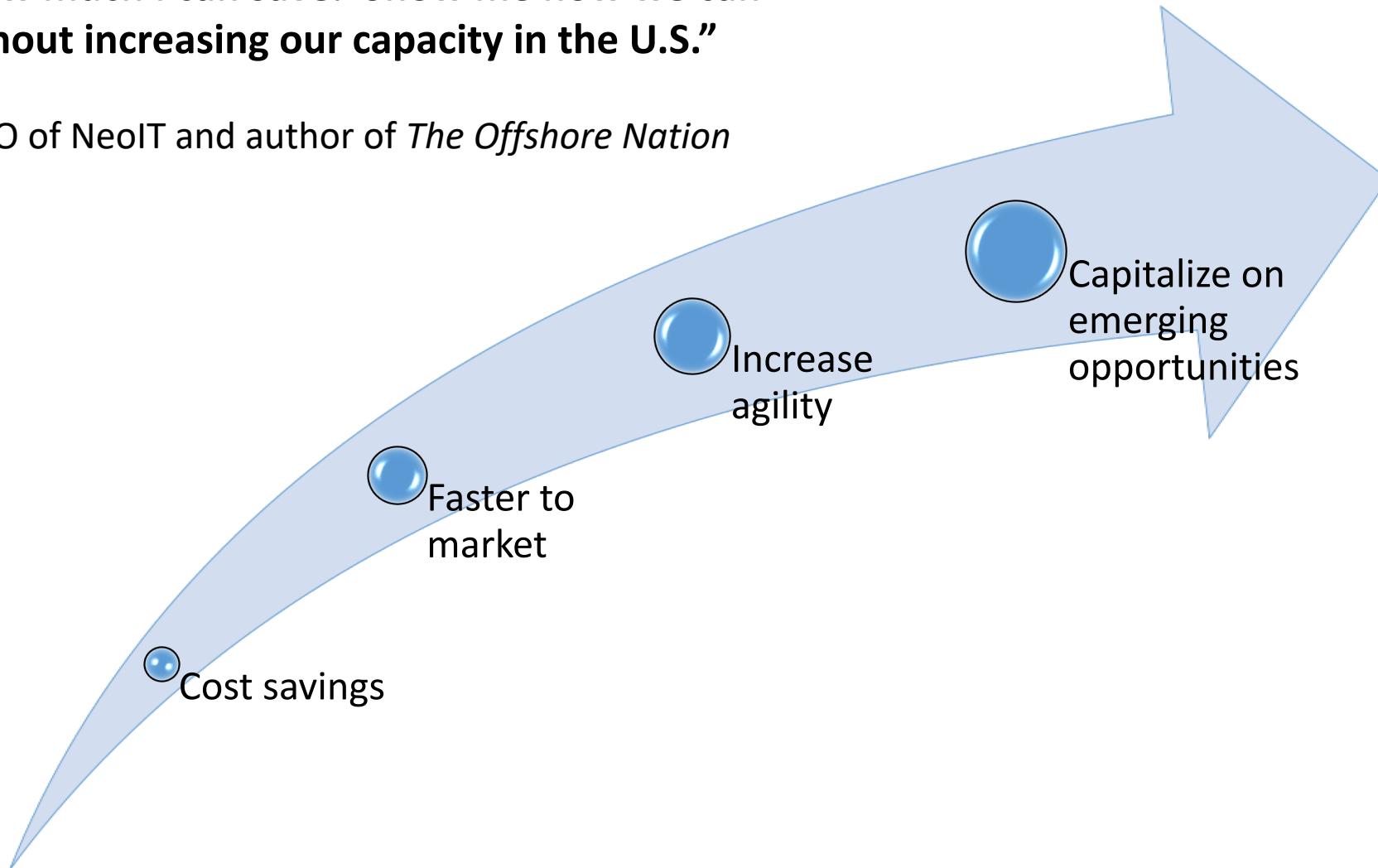
In Canvas under today's session

Access code: outsourcing

Strategic value of outsourcing

“Don’t tell me how much I can save. Show me how we can grow by 40% without increasing our capacity in the U.S.”

- Atul Vashistha, CEO of NeoIT and author of *The Offshore Nation*



P&G

Procter & Gamble





“Procter & Gamble: Global Business Services”

- What is the challenge facing P&G?
- What are the four options facing P&G executives?

Four Options for P&G GBS

1. Spin off GBS as a separate entity
2. Contract with an outside company for the services GBS currently provides
3. Outsource the GBS divisions separately to best-of-breed companies
4. Keep GBS in-house

Four Options for P&G GBS

1. Spin off GBS as a separate entity
2. Contract with an outside company for the services GBS currently provides
3. Outsource the GBS divisions separately to best-of-breed companies
4. Keep GBS in-house

Individually consider:

- Review the positive and negative aspects of the options?
- How do the options relate to the purpose, values and principles?
- ***Which option do you recommend and why???***

Sourcing decision framework ("Feed R&D or Farm it Out")

Strategic Logic

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Discussion Questions

- What do you think of P&G's approach to communicate the GBS outsourcing considerations to employees before a final decision was made?
- What do you think about the human-capital consideration? Should this be a requirement of an outsourcing firm that takes over GBS services?

3 Initial Partnerships

... and now

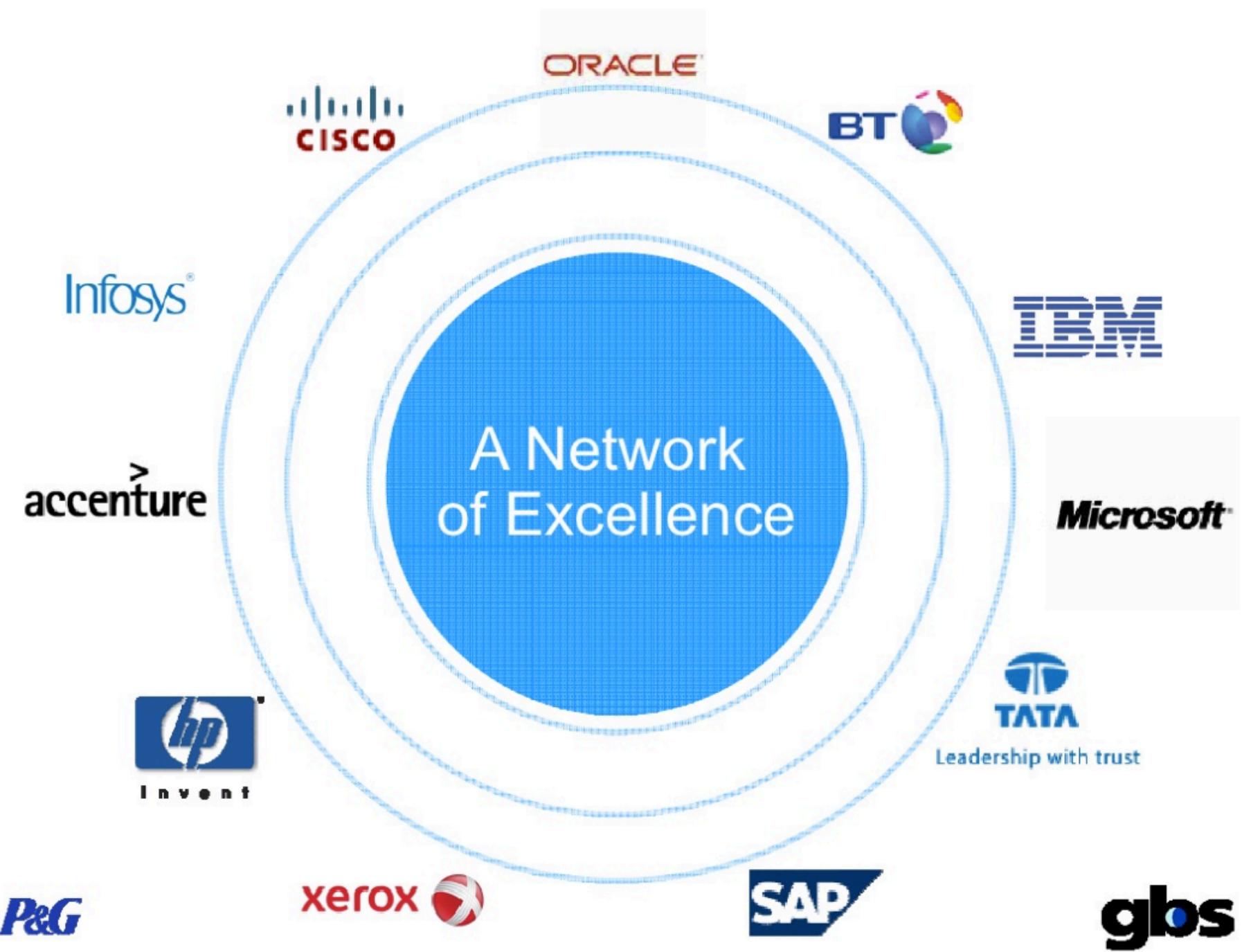
- \$4.2 billion agreements
- 11 months start-to-finish
- Quality **AND** speed execution
- Shared measures for success



IT Infrastructure +
Applications +
Transactional Accounts
Payable



gbs



Overall Results

- Reduce GBS cost as a % of sales by 33%
- Service levels up 17 points (from 80 to 97)
- Speed to market 2x faster
 - Delivering 75% more service scope than 7 years ago

P&G

gbs

Keys to Success – Planning the Project

- Understand goals and objectives
- Have a plan and communicate it
 - Keep a multi-phase model and an in-house solution as options
- Define requirements in detail
- Obtain a sufficient budget and resources
- Develop a RFP that includes cost and schedule information





“adidas Group: IT Multi-Sourcing at adidas”

- What is the challenge facing adidas?

IT multi-sourcing refers to a sourcing model where a firm contracts with multiple vendors for IT projects and services.

Captive centers are client-owned-and-operated service delivery **centers**, typically in a nondomestic, low-cost location, that provide service resources directly to their organization. The personnel in a **captive facility** are legal employees of the organization, not the vendor.

Discussion Question #1

Pros and cons of IT multi-sourcing:

- a. What are the potential **benefits** of adidas' multi-sourcing strategy?
- b. What are the potential **risks** of adidas' multi-sourcing strategy?
- c. How do the three multi-sourced vendors appear to be reacting to adidas' multi-sourcing strategy? How would you anticipate they would react to such a strategy? Support your response.

Discussion Question #1

Pros and cons of IT multi-sourcing:

- a. What are the potential **benefits** of adidas' multi-sourcing strategy?

Table 1: IT Multisourcing Benefits and Risks

Benefits
<ul style="list-style-type: none">• Increased vendor competition in terms of price, quality, reliability, innovativeness, etc.• Best-of-breed services• Reduced operational and strategic risk (lower vendor dependency)• Increased ability to find the best-fitting vendor (in terms of cost, quality, innovativeness, etc.)

Discussion Question #1

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Table 1: IT Multisourcing Benefits and Risks⁵

Benefits	Risks
<ul style="list-style-type: none">• Increased vendor competition in terms of price, quality, reliability, innovativeness, etc.• Best-of-breed services• Reduced operational and strategic risk (lower vendor dependency)• Increased ability to find the best-fitting vendor (in terms of cost, quality, innovativeness, etc.)	<ul style="list-style-type: none">• Decreased incentive for vendors to make client-specific investments (relationship building, knowledge, technology, etc.)• Decreased incentive for client to make vendor-specific investments (see above)• Increased management overhead/transaction costs (vendor contracting, coordination, etc.)

Discussion Question #1

Pros and cons of IT multi-sourcing:

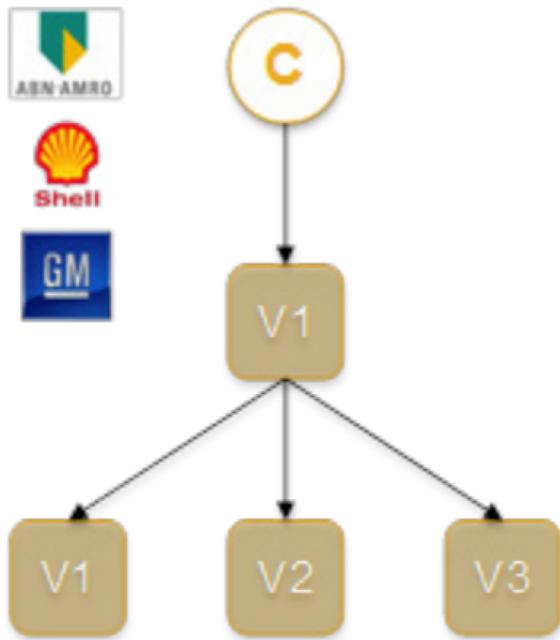
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Discussion Question #2

Strategies to make multi-sourcing more successful:

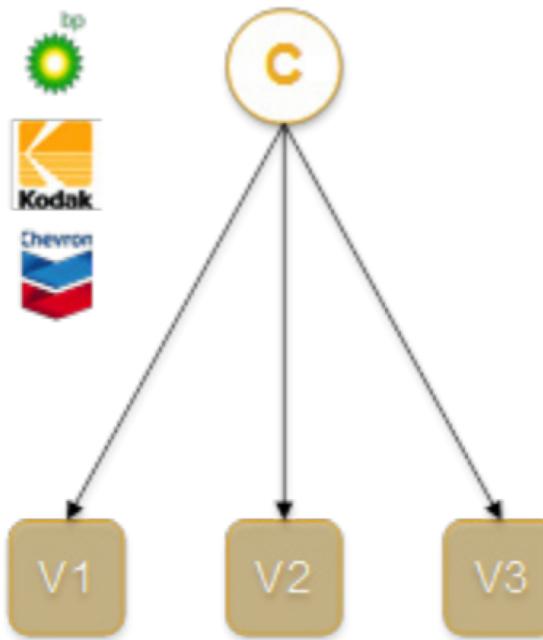
- a. What are some of the key actions that were taken by adidas to increase the odds of success for its multi-sourcing implementation?
- b. How does adidas' IT multi-sourcing model differ from the models used by other multi-sourcing clients (e.g., BP and Shell)?
- c. What do you think adidas' management ought to do to increase the likelihood of having long-term success with their multi-sourcing strategy?

Multisourcing Modular Arrangements vs. Vendor Overlaps



Vendor
Modularity

C = Client; V = Vendor



Vendor
Modularity



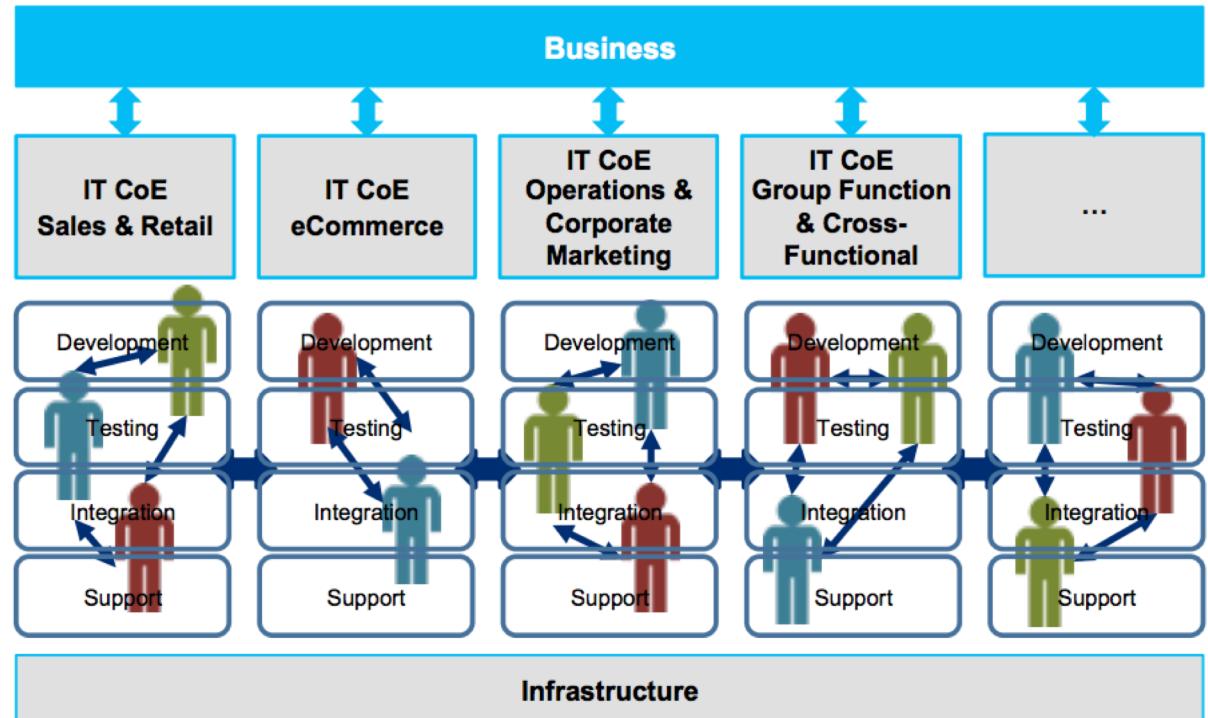
Vendor
Overlaps

Discussion Question #2

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- c. What do you think adidas' management ought to do to increase the likelihood of having long-term success with their multi-sourcing strategy?

"So, who takes the responsibility if the project goes wrong? Who takes the responsibility of ensuring responsibility that the timelines are met? Who takes the responsibility of mitigating risks in a project? The answer is adidas." Regional Director, India2

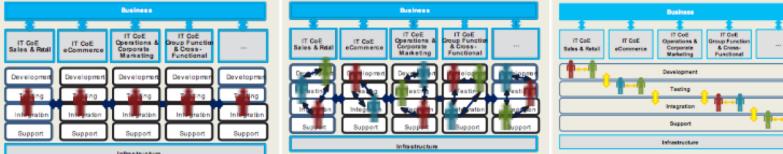


Discussion Question #3

Sourcing model structures:

- a. Does it make sense for adidas to establish a captive IT service center? Why or why not?
- b. What are the pros and cons of nearshore (e.g., Spain) and farshore / offshore (e.g., India)?
- c. Describe what CIO Brecht means by vertical and horizontal structuring. What are the advantages and disadvantages of each?
- d. How might horizontal structuring help the adidas' IT group? In what ways would it be an improvement over vertical structuring? In what ways would it be worse than a vertical structure?

Table 2: Summary of Main Characteristics and Consequences of Single Sourcing and Multisourcing Phases

	Single Sourcing	Phase 1: Introducing Multisourcing	Phase 2: Leveraging Multisourcing
Time interval	1998-2011	2011-2013	2013-2015
Number of IT vendors	1	3	3
Organizational Structure Characteristics			
Graphical illustration			
Dominant IT structure	Business-centric (verticals)	Business-centric (verticals)	Process-centric (horizontals)
Control of sourcing process	Individual CoE	Individual CoE	IT organization
Contract Structure Characteristics			
RfP size	Large	Very small	Medium
Bidding frequency	Low	High	Medium
Overlaps in vendor skills	None	High	Medium to high
Overlaps in vendor areas	None	Task level (many overlaps)	Function level (fewer overlaps)
Number of interfaces between parties	Low	High	Medium
Level of standardization	Medium	Medium	High
Consequences			
Vendor competition	Low (to none)	High	Medium to high
Vendor cooperation	Low (to none)	High	Medium to high
Transaction costs (coordination, etc.)	Low to medium	High	Medium
Client dependency on vendors	High	Low	Low
Vendor economies of scale and scope	High	Low	Medium to high

"Everybody's measuring the efficiency of every horizontal, and every vendor in that horizontal is required [to perform] on a very competitive basis. So there is competition between the horizontals and also within the horizontals." Regional Director, India²



Building and Transforming an Emerging
Market Global Enterprise: Lessons from the
Infosys Journey

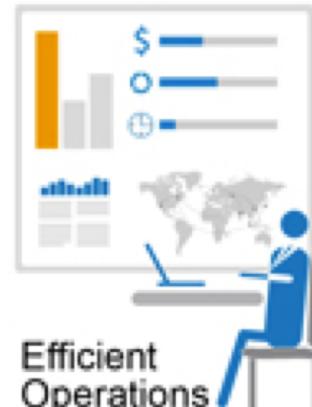




Business Transformation



Accelerating Innovation



Efficient Operations



Get measurable business value

We integrate business and IT strategy with implementation to unlock transformational opportunities and create value for diverse stakeholders

<http://www.infosys.com/management-consulting-services/pages/index.aspx>

We combine expertise in packaged product offerings with deep vertical industry experience to help create innovative business models and processes

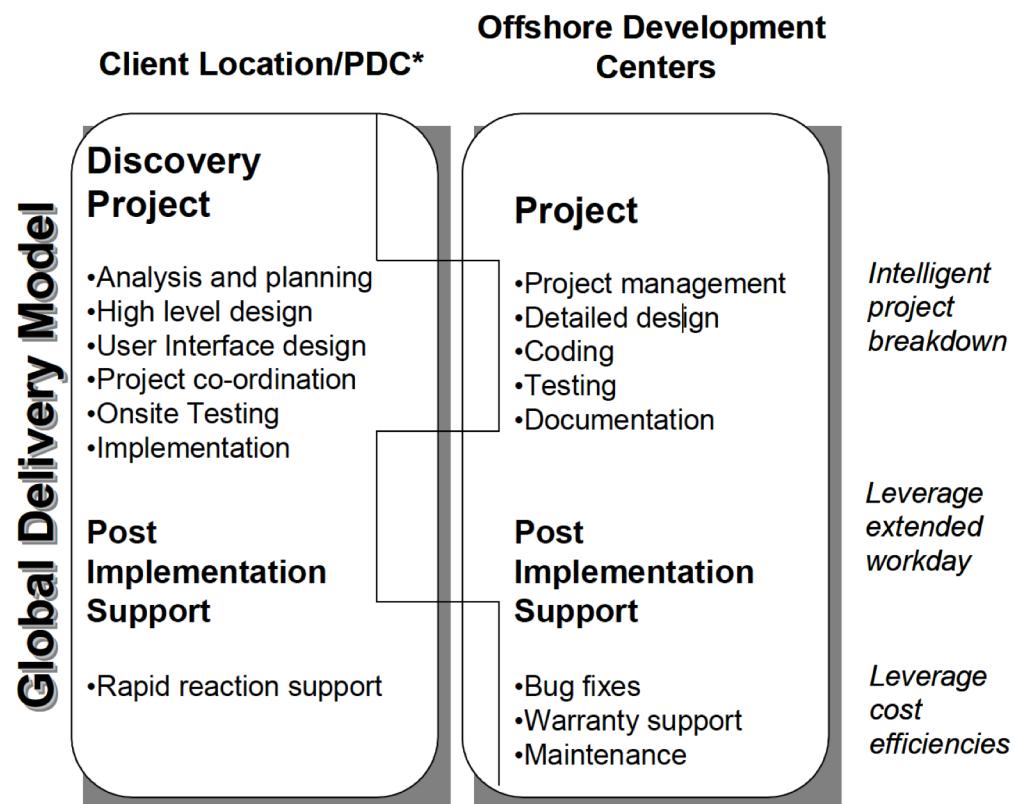
Our global delivery model reduces program lifecycles and enables clients to achieve operational efficiency faster and with measurable results

Former CEO of Infosys Technologies Limited, Nandan Nilekani (left), and Co-Founder of Infosys Consulting Incorporation, Stephen Pratt



Global Delivery Model

Infosys Technologies' Global Delivery Model



* PDC = Proximity development centers

Value Chain of Consulting and Implementation Services ICI Extending Infosys Technologies' Global Delivery Model



Source: Infosys Consulting company website.

Infosys Consulting is rich in history, deep in experience and broad in its global reach.

3000+

Consultants around the world



Global hubs in Atlanta, Dallas, Houston, London, New York, San Francisco, Seattle, Singapore, Sydney, Zurich

100

Partners running our consulting practice



In 19 countries around the world

96 %

Hold a master's degree



5 Eastern Europe near-shore delivery centers

500

Attend specialized training courses every quarter



200+ active clients globally

100s

Featured annually as keynote speakers at industry events

These words embody the essence of what we do – help top organizations stay competitive, win new markets and increase shareholder value by leveraging the full potential of the latest disruptive technologies.

Service Offerings

Our passionate consultants go beyond being traditional advisors and aggregators of past knowledge. They help develop bold innovations and new partnerships that empower their clients to disrupt their markets. They view business challenges differently and reimagine solutions leveraging design thinking; combine new and existing technologies to transcend the limitations of traditional software and accelerate the response of complex technology landscapes.

We have successfully defined, designed and delivered business value to global corporations across industries such as financial services, insurance, retail, CPG, logistics, healthcare, life sciences, energy, utilities, manufacturing, telecommunications and services such as airlines and hospitality across the US, Latin America, Europe and Asia Pacific.

Strategy and Architecture

- [IT Strategy](#)
- [Application and Infrastructure Optimization](#)
- [IT Operations](#)
- [Technical Architectures](#)

Business Transformation

- [Transformation Strategy](#)
- [Transformation Program Management](#)
- [Transformation Program QA](#)

Enterprise Processes

- [Business Process Optimization](#)
- [Supply Chain and Operations Processes](#)
- [Finance and Controlling Processes](#)
- [HR Processes](#)

Enterprise Applications

- [HANA](#)
- [SAP Template Design and Implementation](#)
- [SAP Operational Excellence](#)
- [SAP Technical Services](#)
- [SAP \(and associated applications\) Implementation](#)
- [Oracle-enabled Business Transformation](#)

Digital Transformation

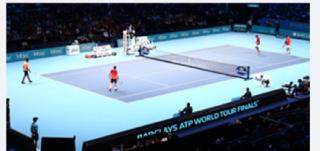
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- [Information Strategy and Governance](#)
- [Master Data Management](#)
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Zero Distance at Infosys

Learn about how Infosys innovates through Design Thinking



Stories

Infosys-ATP Partnership: Delivering a new experience to tennis fans globally

Levels of strategic value

Transformational

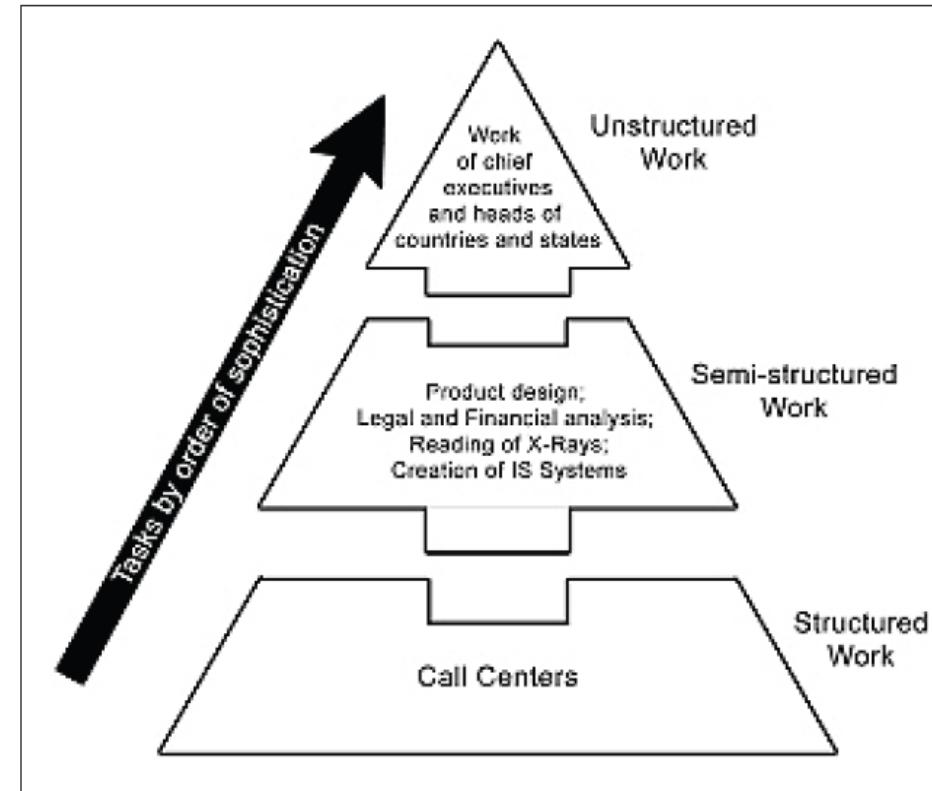
Outsourcing with the purpose of redefining the business.

Strategic

Moving the relationship from “buyer-supplier” to business partners with longer term partnerships. Allows companies to focus on core activities.

Tactical

The company is experiencing some “problems” and sees outsourcing as a direct way to address them.



Next class – Monday, 10/21

Managing Risk and Lessons Learned

Due / read before class:

- Homework #5
- When Outsourcing Goes Awry (Harvard Business Review)
- Building Innovation into the Outsourcing Relationship: A Case Study (Journal of IT)

Reminder: Exam 1 is on Wednesday, 10/23