

Sourcing Models Primer

October 14, 2019

Today's Agenda:

- Quiz
- Lecture: Sourcing models primer
- Case discussion: 'Feed R&D or Farm it Out'
- Next class

10/14 :: Sourcing Models Primer

Read before class:

- [Feed R&D – or Farm it Out? !\[\]\(95b42f0077faf7439a26242a54e021ec_img.jpg\)](#) (Harvard Business Review)
- [Trust in Client-Vendor Relations !\[\]\(e097ab4c08b8186dd0908330bbc2dc28_img.jpg\)](#) by Thomas Toth
- [Making Sense of the Sourcing and Shoring Maze !\[\]\(1e9d865c5de095f8e3304757c49e79d7_img.jpg\)](#) by Subrata Chakrabarty - (up to page 28) -- *optional reading*

Materials used during class:

- [Quiz 10/14](#)

Quiz

In Canvas under today's session

Access code: RLKMedia

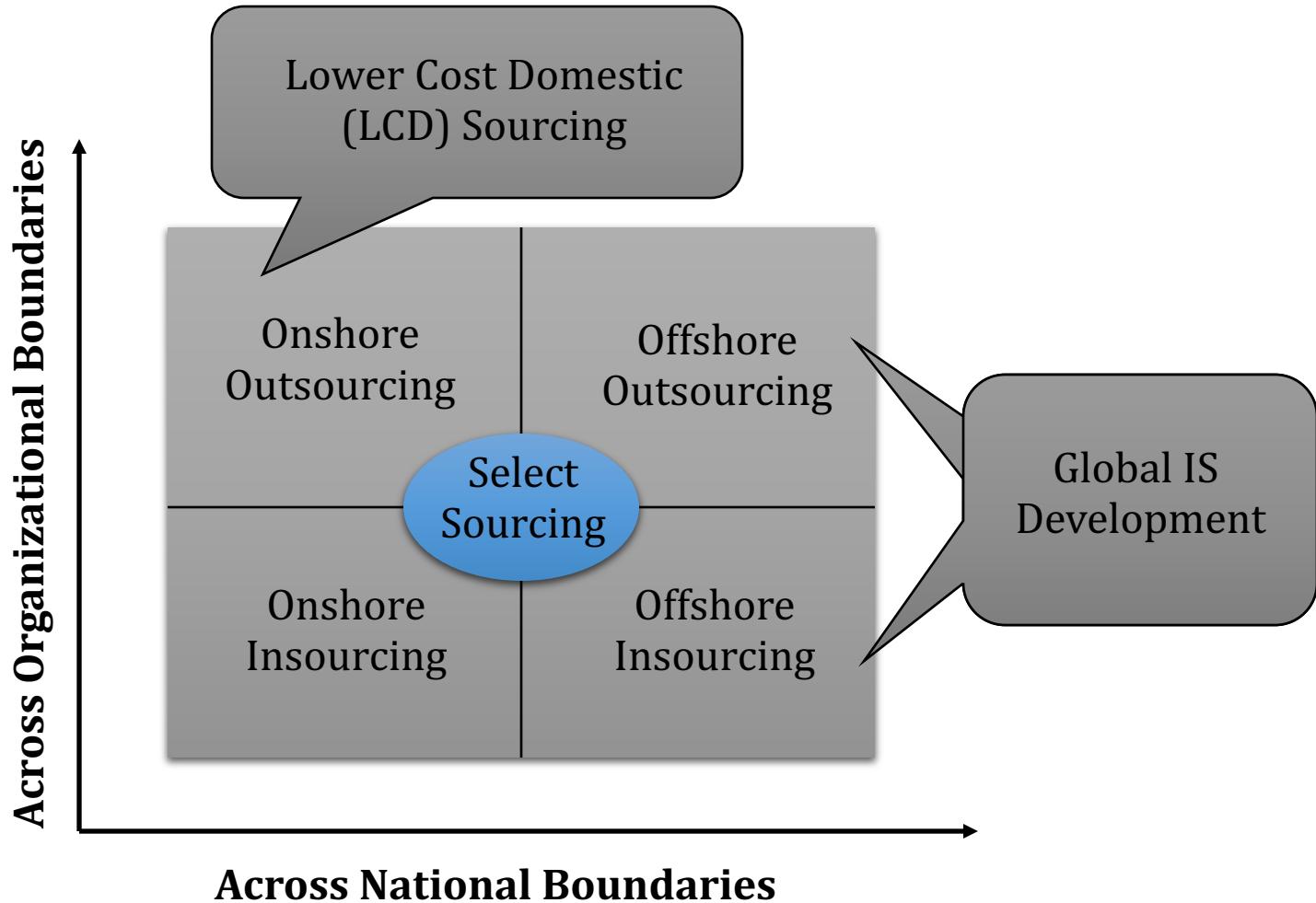
Outsourcing vs. Offshoring: What's the Difference?

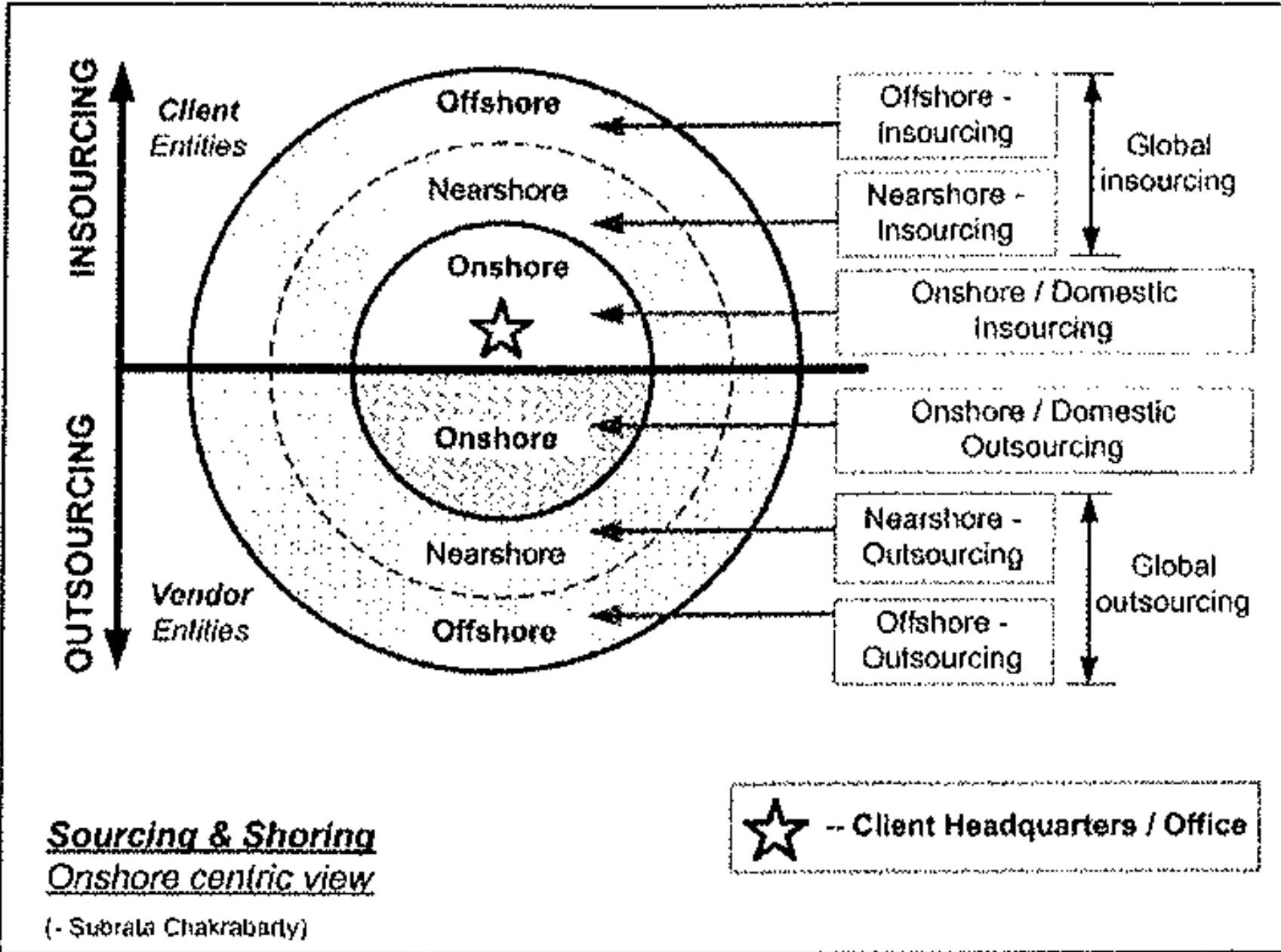
Sourcing models refers to
the arrangement of IS
products or services in a
given organization

both how and where ...

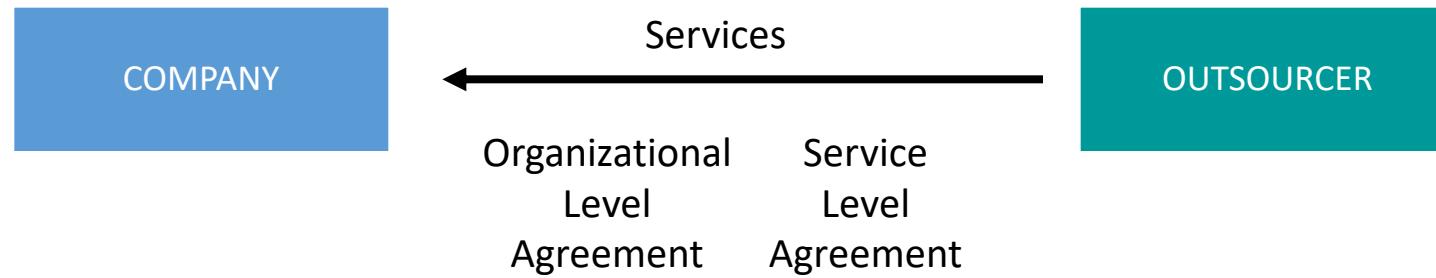


Sourcing Models





A working definition of outsourcing



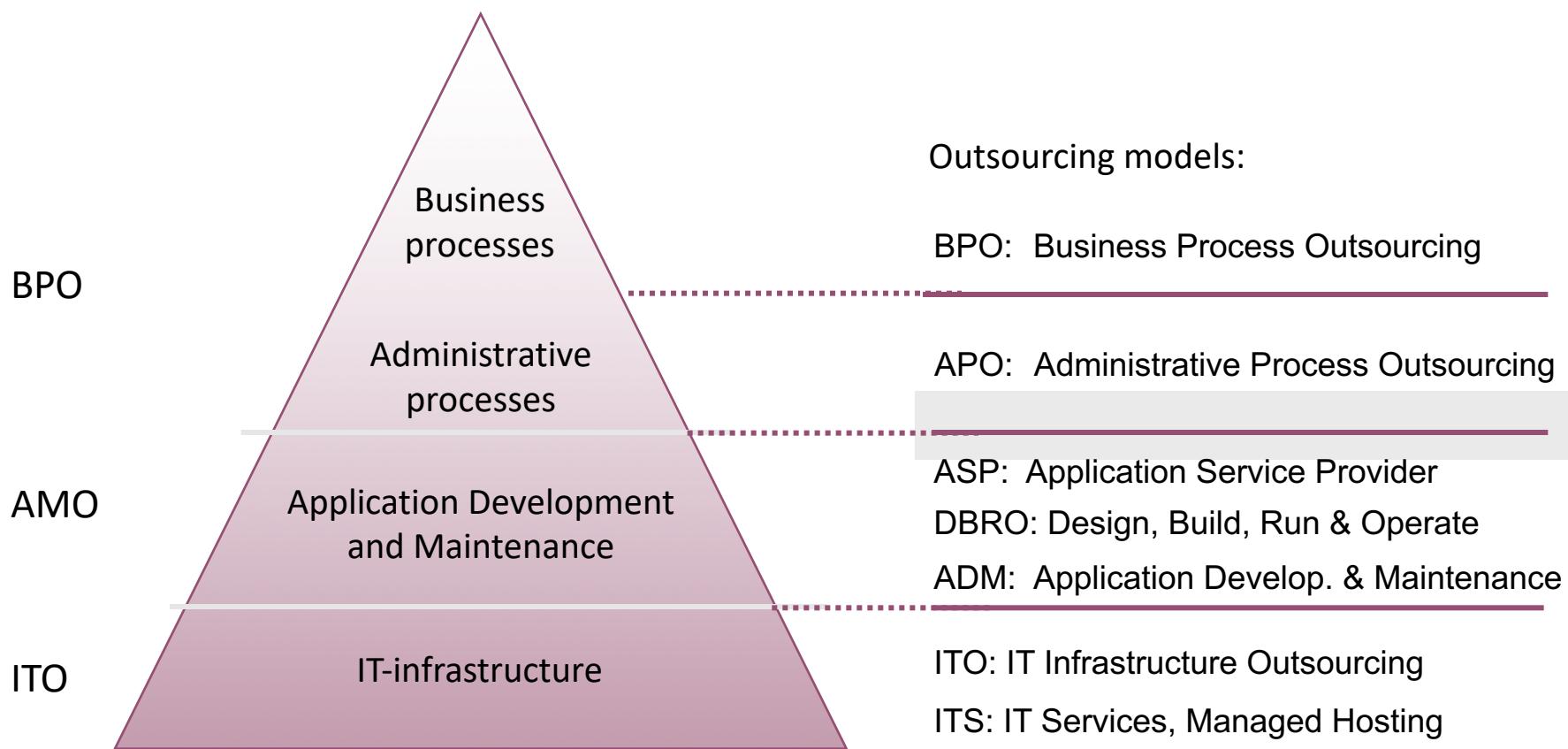
Outsourcing denotes the continuous procurement of services from a third party, making use of highly integrated processes, organization models and information systems.

Terminology	Definitive feature	Basic sourcing strategy:	Shoring strategy focus:
Application Service Provision / Application Service Providing / Net-sourcing / On-Demand	Accessing remotely hosted IS applications	Outsourcing	Anywhere
Backsourcing	Insourcing what was outsourced	Insourcing	Anywhere
Benefit based relationships / Business benefit contracting	Linking payments to realization of benefits	Outsourcing	Anywhere
Body Shop Outsourcing	Using contract personnel	Outsourcing	Anywhere
Business Process Outsourcing	Vendor performs client's entire business processes	Outsourcing	Anywhere
Complex sourcing	Multiple clients and multiple vendors in a single contract or alliance	Outsourcing	Anywhere
Cooperative Sourcing	Client's internal IS department and the vendor perform IS activity cooperatively	Both	Anywhere
Co-sourcing	Client's performance determines vendor's revenue	Outsourcing	Anywhere
	Helping the client's IS department mature		
	Multiple clients jointly seek services from vendor		
Creative Contracting	Innovative contracts for better deals	Outsourcing	Anywhere
Distributed Consulting	Vendor has teams both at onshore and offshore	Outsourcing	Offshore
Dyadic outsourcing arrangement	Independent client dealing with independent vendor	Outsourcing	Anywhere
Facilities Management	Vendor maintains the client's assets	Outsourcing	Anywhere
Facilities Sharing	Sharing ownership of facilities needed by each	Both	Anywhere
General outsourcing	Selective, value-added and cooperative outsourcing	Outsourcing / Both	Anywhere
Global Delivery	Large vendor delivering services from various global locations to clients at various global locations	Outsourcing	Offshore
Managed Offshore Facilities	Outsourcing the process of setting up facilities for offshore-insourcing	Outsourcing	Offshore
Multi-sourcing	One contract with multiple vendors	Outsourcing	Anywhere
	multiple sourcing strategies in a continuum	Both	
Multi-vendor outsourcing / Multiple-supplier sourcing / Dual sourcing	Client dealing with multiple interdependent vendors	Outsourcing	Anywhere
Project Management Outsourcing	Vendor manages a project	Outsourcing	Anywhere

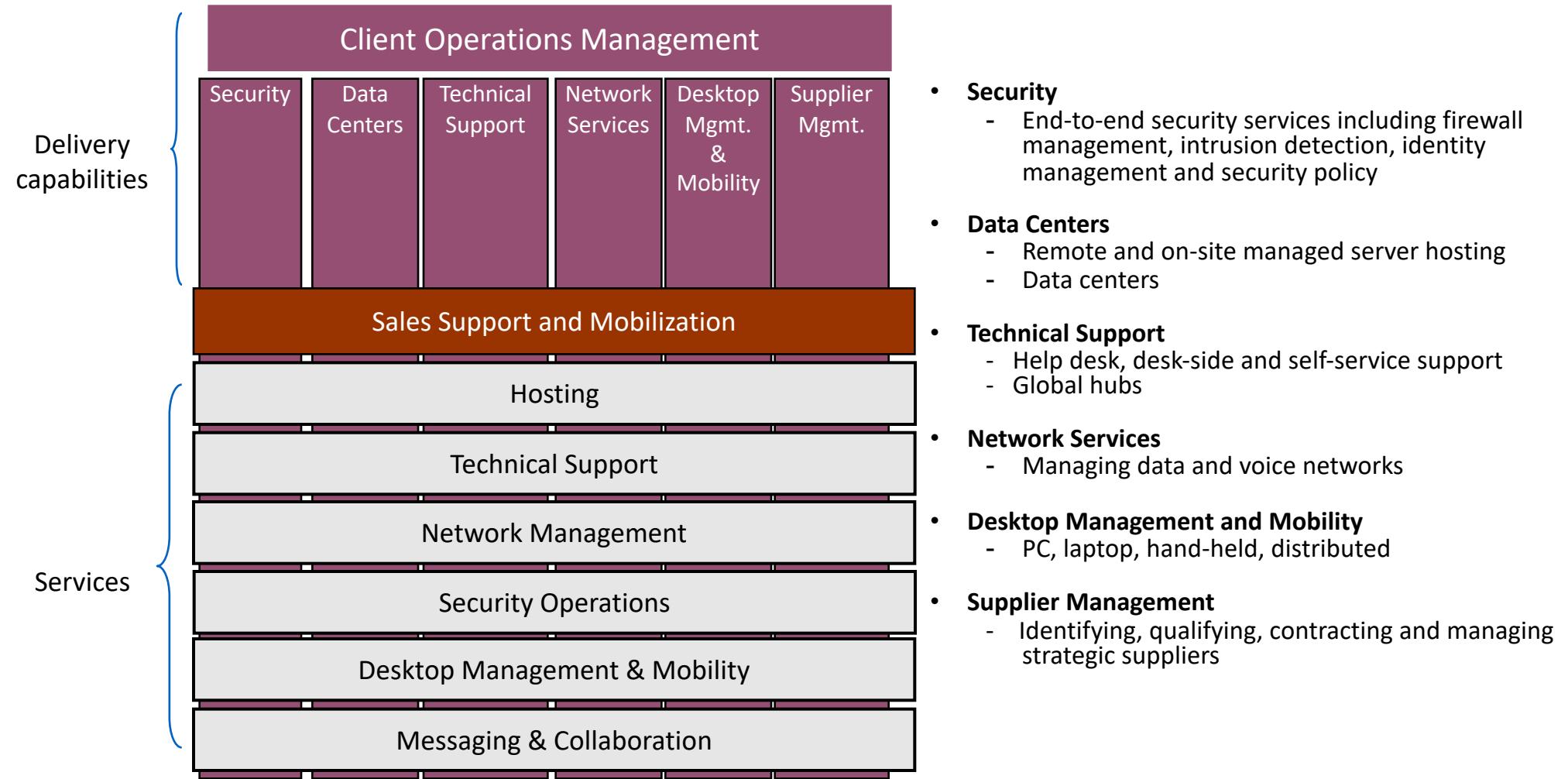
Table 7. CONT.

Terminology	Definitive feature	Basic sourcing strategy:	Shoring strategy focus:
Selective / Smart / Right / Flexible / Modular Sourcing	Outsourcing and insourcing optimally	Both	Anywhere
Spin-offs	An IS department that now sells to the market	Any	Anywhere
Strategic alliances / Partnerships / Joint Ventures / Equity holdings / Strategic sourcing	Sharing risks and rewards	Outsourcing	Anywhere
Tactical Outsourcing / Contracting-out / Out-tasking	Outsourcing for rapid solution to problems	Outsourcing	Anywhere
Total Insourcing	Insourcing maximum % of IS budget	Insourcing	Anywhere
Total Outsourcing / Traditional Outsourcing	Outsourcing maximum % of IS budget	Outsourcing	Anywhere
	Vendor having complete charge of significant IS work		
Transformational Outsourcing	Streamlining of client's internal organization alongside outsourcing	Outsourcing	Anywhere
Transitional Outsourcing	Outsourcing during a major changeover	Outsourcing	Anywhere
Value-added outsourcing	Combined strengths for the market	Both	Anywhere
	Vendor adding value to IS activity	Outsourcing	Anywhere

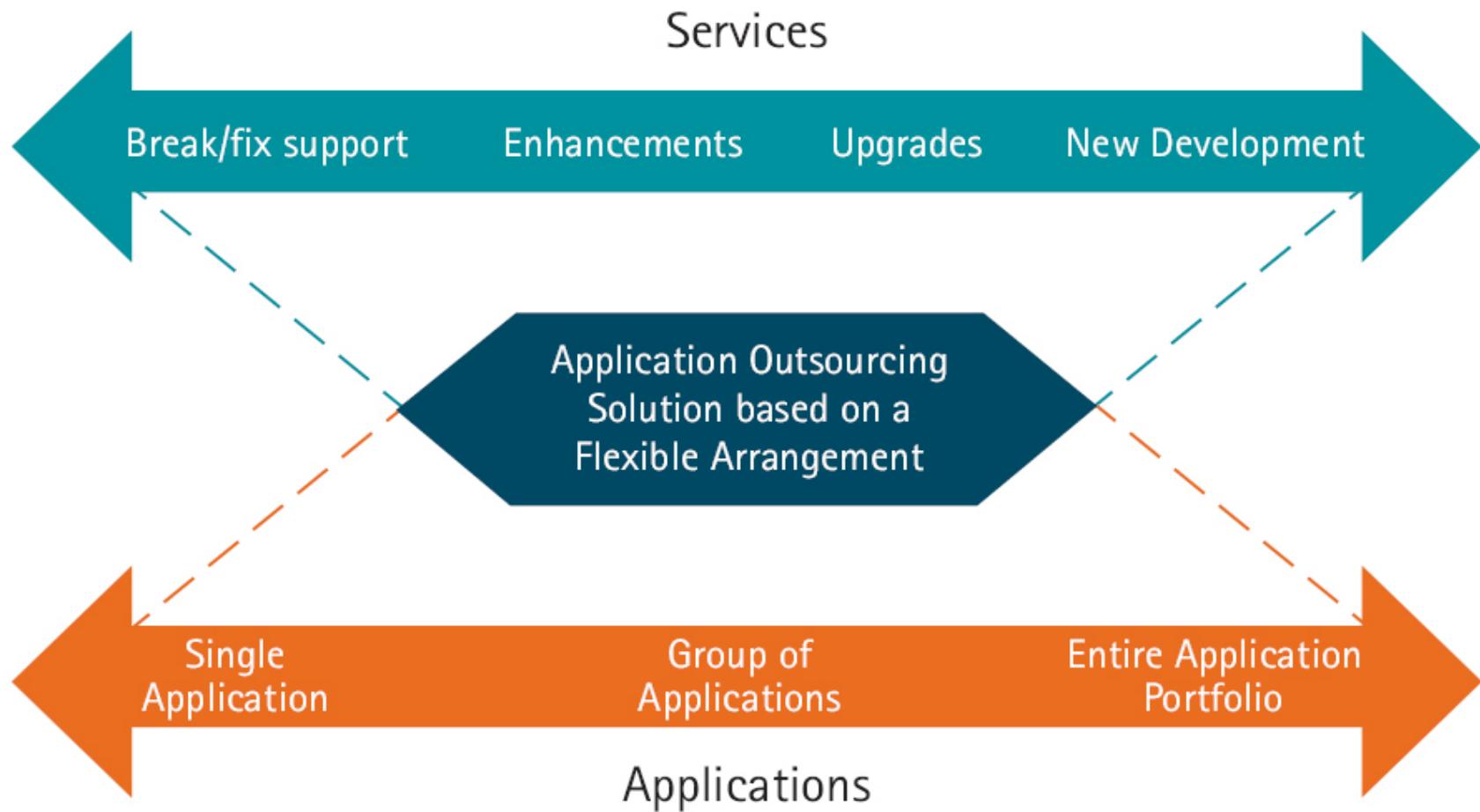
Types of outsourcing



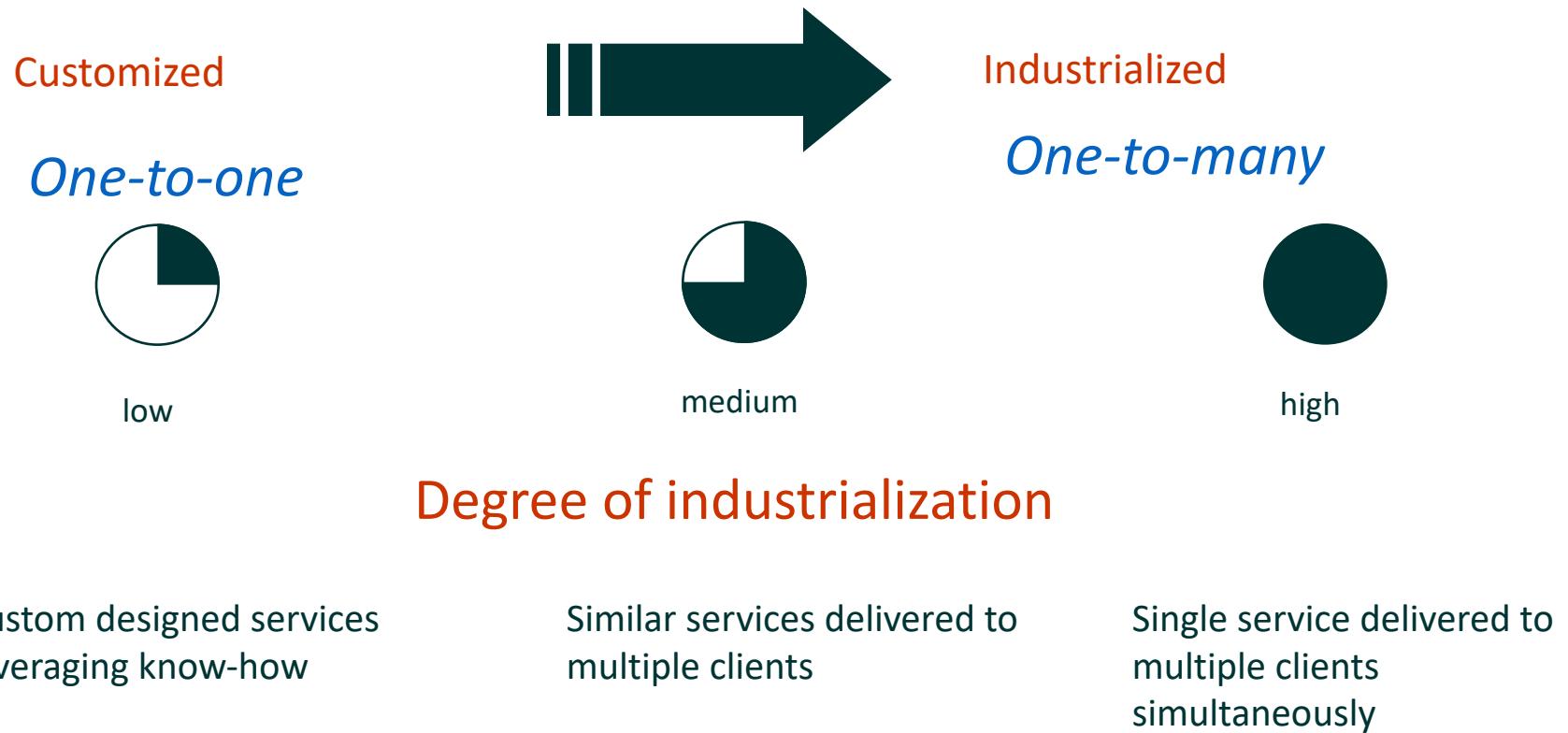
Information technology outsourcing (ITO)



Application management outsourcing (AMO)



Business process outsourcing (BPO)



Feed R&D or Farm it Out?

Should Lars outsource R&D?

Class vote by show of hands...

YES

NO

UNSURE

Should Lars outsource R&D?

Break into small teams (2-3 people)

Take 5-7 minutes to:

- Remind your team of your vote (yes, no or unsure)
- Develop a decision framework - what factors should be considered when making a decision? (e.g., 'cost savings')

Take 1-2 minutes to decide:

- Apply the framework. Does this change your original position? Why or why not

Share with the class

Sourcing decision framework

- Strategic value - Giving up control
- Schedule – time to market and onboarding
- Company culture (internal concerns)
- Cost structure / savings
- Opportunity costs
- Aligned incentives
- Vendor experience
- IP considerations (or not)
- (no legal considerations)
- External culture (media, image, brand)

Sourcing decision framework

- Strategic value / mission of the firm
- Cost savings
- Time to market / increase agility / capture market share
- Subject matter expertise / quality of product
- Image and marketing
- Team dynamics / coordination
- Organizational culture
- IP, legal and security issues
- Win-win arrangement
- Select-sourcing approach
- ...

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

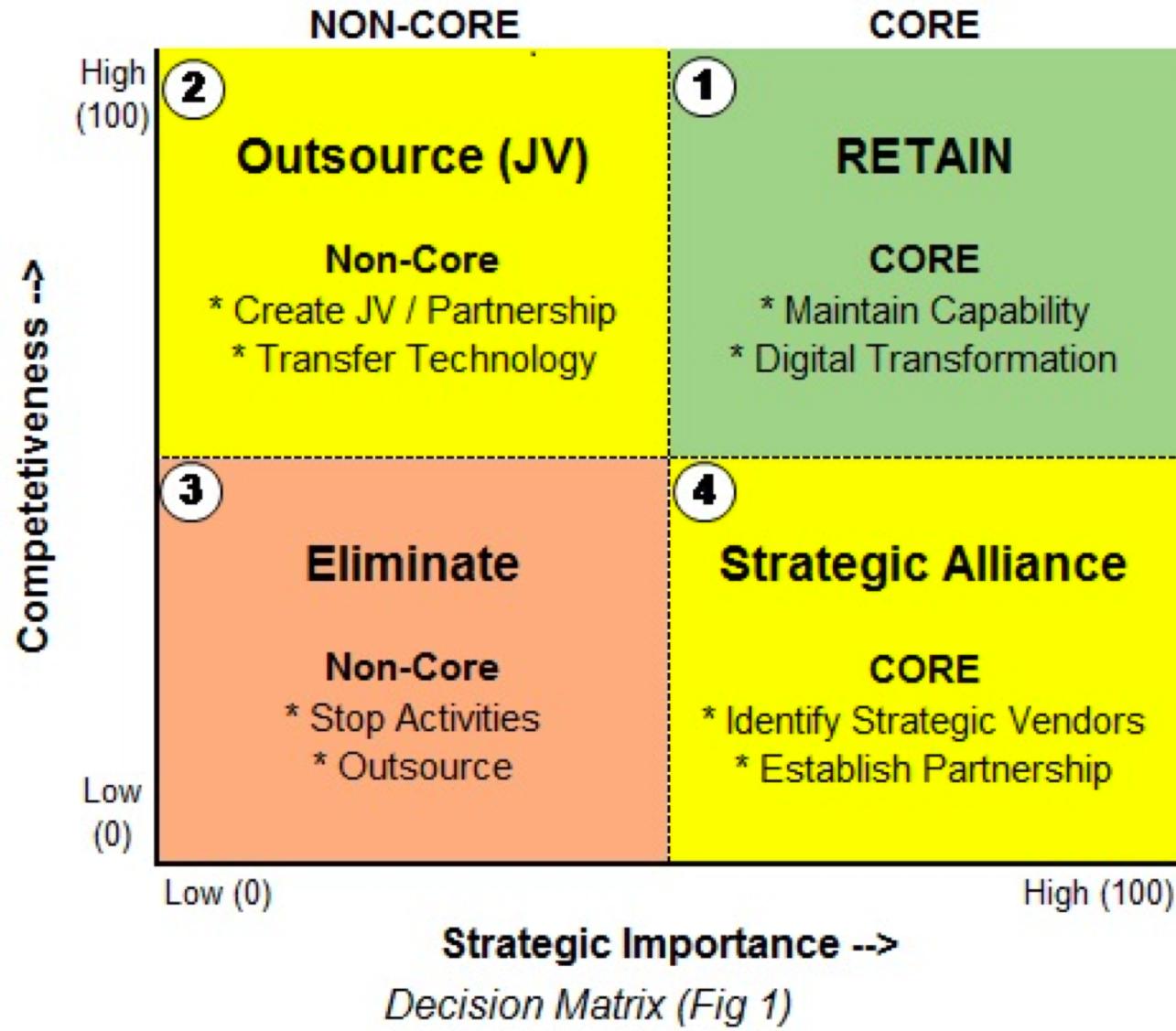
Determine costs and savings:

- 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



1. What will save the company?

- Innovation! (according to RLK's CEO Lars Inman)
- Discovering customers' needs (according to Chairman Keith Herrington)

Who is right?

In other words, should RLK do the iVid project at all?

Consideration:

Bringing innovation from outside P&G with the

Connect + Develop initiative helped boost

R&D productivity by 40% in 5 years

(<http://www.pgconnectdevelop.com/>)



Partnering to Revolutionize the Laundry Category: Tide Pods®

MonoSol helped put the crowning touch on P&G's new laundry breakthrough by partnering to develop a patented film technology that wraps cleaning fluids in a clear casing that's tough enough to hold up against wet hands, but dissolves readily even in cold water. A highly complex technology and manufacturing process, delivered over years of collaboration.

[read more »](#)

Could your innovation be the next game-changer?

This site has been created to help external innovators and companies learn how Connect + Develop works. Here you can read about our past successes, our current needs, and what we look for in an innovation partnership. And if you are the owner or representative of an innovation that might help improve the lives of consumers, this site can help you submit your innovation for review by our Connect + Develop Team.

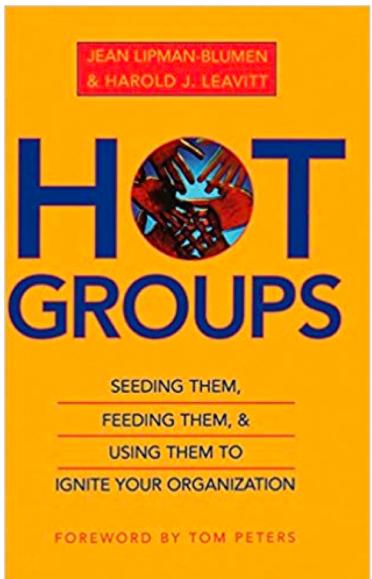
Why Choose P&G

Q2: Can members be added to Ray Kelner's team?

- Why or why not?
- If your answer is 'no' or 'maybe' then explain the risks.

Consideration :

Ray's team is a "hot group" of members who are smart, creative, impassioned individuals totally dedicated to their tasks
(Leavitt and Lipman-Blumen)



They are:

- Fragile, new members are better introduced by a group member
- If unsuccessful the introduction can destroy the group's morale and enthusiasm

Q3: How different are RLK and Inova's organizational cultures?

- How would this impact the teams while working together?
- Does Lars understand his company's culture?
- RLK's brand is based on high-quality products designed and produced in the United States. Will outsourcing impact customers' perception of RLK's brand?

Q4: Will RLK and Inova teams work well together?

- If your answer is ‘no’ or ‘maybe’ then what can be done to reduce harmful friction and lead to “productive friction?”
- What should Ray’s role be if Lars decides to outsource to Inova?

Consideration: Turn the potential destructive friction of learning how to collaborate into a force that drives innovation

Attributes of teams that succeed in doing so are:

- A clear common goal
- Aggressive performance targets
- ‘Action points’ or junctures where actions must be taken and disagreements resolved
- A prototype or device as a common basis for communication and problem solving
- Relevant skill sets
- Mutual respect among members

What is next for Lars???

Top 5 Mistakes

1. Throw it over the wall!
2. Lacks vision of the end game and outcomes
3. Lacks oversight and sponsorship
4. Lacks baselines
5. Overselling benefits internally with aggressive expectations

Top 5 Traits to Cultivate

1. Strategic alignment with business priorities
2. Baselines and data about processes
3. Clear requirements in the RFPs
4. Sense of sharing problems
5. Patience

Key take-aways

- Should a company insource or outsource... it depends!
- At the core the decision should support critical business function or provide competitive advantage without jeopardizing the key strengths.
- The evaluation should be based on specific criteria.

Trust in Client-Vendor Relations

(Toth, 2014)

“Collocation and face-to-face interaction are catalysts for building trust among the actors.”

Challenges of communicating at a distance:

1. Going directly
2. Knowledge gaps
3. Lack of transparency

Establishing trust requires an assessment of:

1. Benevolence

“When positive assessments of benevolence is missing, the actors act as if they had assessed benevolence negatively.”
2. Ability
3. Integrity

Next class - Wednesday 10/16

Strategic Value of Sourcing Models

Read before class – expect a quiz:

- 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)