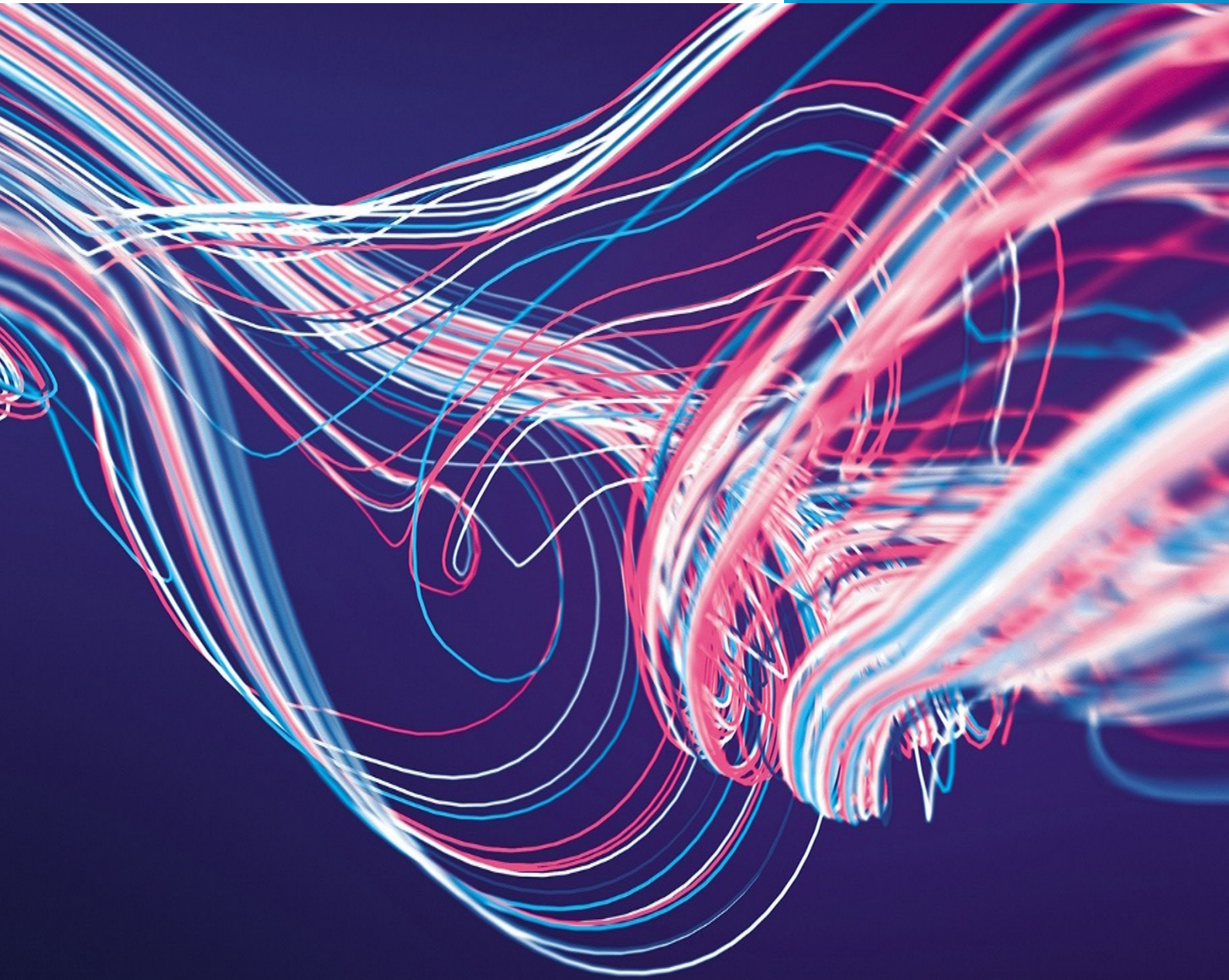


Sourcing for Success

March 2023



Sourcing for Business

Speed and efficiency to contract has always been an important factor in enterprise sourcing, and we've been working with our clients for a number of years to drive the right behaviours when it comes to closing the deal. So why are we talking about it now?

Sourcing is a live issue

We live in uncertain times. At times like this, many businesses will be looking at internal and external services and functions and considering whether they are still structured appropriately to support the business' strategic drivers. Can improvements or cost-savings be made? Do they present exposure to risk in terms of supply chain resilience and potential for business disruption?

There are a number of technological, geo-political, and social drivers that are particularly disruptive right now causing business leaders to consider the need for transformation. Consequently, we see projects being kicked-off to outsource or bring previously outsourced services back in-house, move services to lower cost centres, or to introduce assistive technology such as automation—the ultimate goal being to reduce risk and drive efficiency and an improved user experience.

Geo-political Drivers

The US, UK, and EU have moved into a phase of increased protectionism in international trade. This may decrease the availability of visas and increase the potential for tariffs to be imposed on overseas service delivery. There are also measures taken against specific companies or countries, for example, there are concerns over China's involvement in certain sectors. If cross-border service provision becomes more difficult or expensive, offshoring becomes less attractive and some organisations are looking at moving functions back onshore.

This has been further exacerbated by COVID-19 and the war in Ukraine, which has increased scrutiny on global supply chains. With variation in government responses around the world, and with new sanctions being imposed, supply chains have been substantially interrupted. Supply chain resilience has become a real concern for businesses, and restructuring certain functions is one option for reducing exposure to certain markets.

Technological Drivers

The rise of disruptive technologies is changing the way business processes are engineered. GPT and large language models are grabbing the headlines, whilst behind closed doors robotic process automation and artificial intelligence are driving efficiency and improving user experience. Even for those not yet deploying AI, businesses are moving systems to the cloud to take better advantage of economies of scale and innovative services, and to leverage their own data. Outsourcing originally gained popularity largely due to its cost savings, however technology is now providing even greater efficiencies and we've been helping many of our clients transition away from pure outsourcing into hybrid cyber-sourcing models.

COVID-19 further incentivised this technological drive—technology doesn't get sick, or need to socially distance. Shifting the reliance away from human employees and towards technology can make companies more robust against similar external threats.

Organisations are not getting the best from Sourcing

We're still seeing some organisations taking approaches to sourcing which don't best serve their overall strategic objectives. For example:

- An insufficient focus on business drivers, or deficiency in commerciality and pragmatism when it comes to negotiation, can lead to a war of attrition on contractual terms with each party seeking to 'win' every point. The unnecessary friction introduced into the contracting process leads to these deals taking too long to close, and going over budget.

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- Instructing legal professionals to advise piecemeal on discrete elements of a transformation programme, without engaging at the strategic level, can lead to failure to identify potential integration issues, as well as duplication of effort and other inefficiencies.
- A failure to project manage deals effectively can mean that key activities happen out of order. This means necessary information isn't available at the right time, leading to the late identification of risks which then have to be absorbed by one party or the other, or the re-opening of notionally 'closed' issues.
- A lack of early stakeholder engagement, and a failure to consider organisational change management, can lead to dissenting voices and a challenge in driving vendor performance to meet operational goals.
- Not assembling a suitably empowered project team containing subject-matter experts with the time and energy to dedicate that the strategically important project requires and deserves, can leave the project understaffed and lead to an over-reliance on external legal resource to fill in the gaps.

We hear from our clients that strategic sourcing is a key priority, whilst the ever increasing volume and complexity of transactions is seldom matched by an increased budget. In an uncertain world, there's a huge amount of pressure on sourcing and legal teams to do more with less.

It's for that reason that we come back to speed and efficiency to contract.

Improving Sourcing efficiency

Some tips for success:

- Engage all key stakeholders at the beginning, ensuring all requirements are captured and all perspectives considered. Consider organisational change management from the outset.
- Make realistic plans. Some projects can fail to deliver on their initial promise if transaction timetables are too tight (leading to rushed negotiations and missed opportunities to deliver value) or too loose (leading to over-complication and inefficiency).

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- Establish a core deal team, incorporating or co-ordinating with empowered and engaged subject matter experts. Your team members—and your subject matter experts in particular—need to have bandwidth to dedicate sufficient time to supporting transaction document preparation and negotiation. Set up a clear reporting line between the deal team and leadership to ensure that negotiations are fully aligned to your internal directives and processes.
- Identify the intended benefits of the project and develop a clear business case up front. This needs to be continually referenced throughout vendor evaluation, down-selection, and negotiation of the contract.
- Document all key requirements (whether functional or non-functional) for the project in advance. Once the requirements are developed and before discussions with vendors, engage legal and procurement to assess what further considerations may have an impact on the successful delivery of the project.
- Prepare draft service description documentation in advance, to the extent possible, which can further be developed once a vendor is selected. Service descriptions should be prepared by personnel experienced in drafting contractual documents whilst fully understanding the service. We often find that this is most readily accomplished by subject matter experts working closely with procurement and legal.
- Put projects out to tender to assess what is available in the market, to benchmark vendor proposals, and introduce competitive tension. Perform due diligence to validate all aspects of the business case (to the extent possible), in advance of negotiations to ensure all relevant information is available.
- Consider using 'rules of engagement' with your vendors to agree process, which can help to streamline negotiation when adhered to. This includes aspects such as a single channel for exchange of drafts, version control and naming conventions, and coming to meetings with authority to agree.
- Get the right legal team on board. If you'd like to talk to us about your plans, we'd be delighted to share our insights.



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