Outcome Based Sourcing Model

Approach Paper and Best Practices

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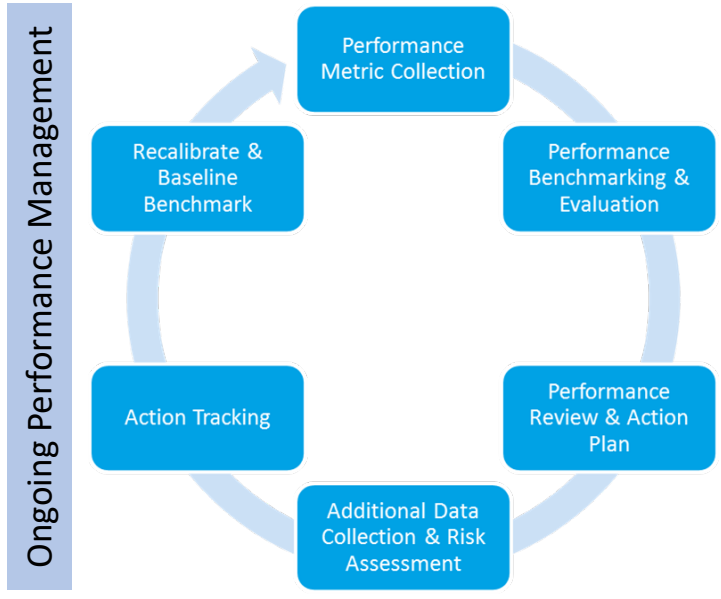
AGENDA

- Typical Sourcing Evolution Journey (What)
- Outcome Based Sourcing (Why)
- Outcome Based Sourcing (When)
- Outcome Based Sourcing (How)
- Examples of Pricing Construct
- Key Pitfalls and Best Practices (Learn)
- Q&A

TYPICAL REASONS TO SETUP A VENDOR MGMT OFFICE

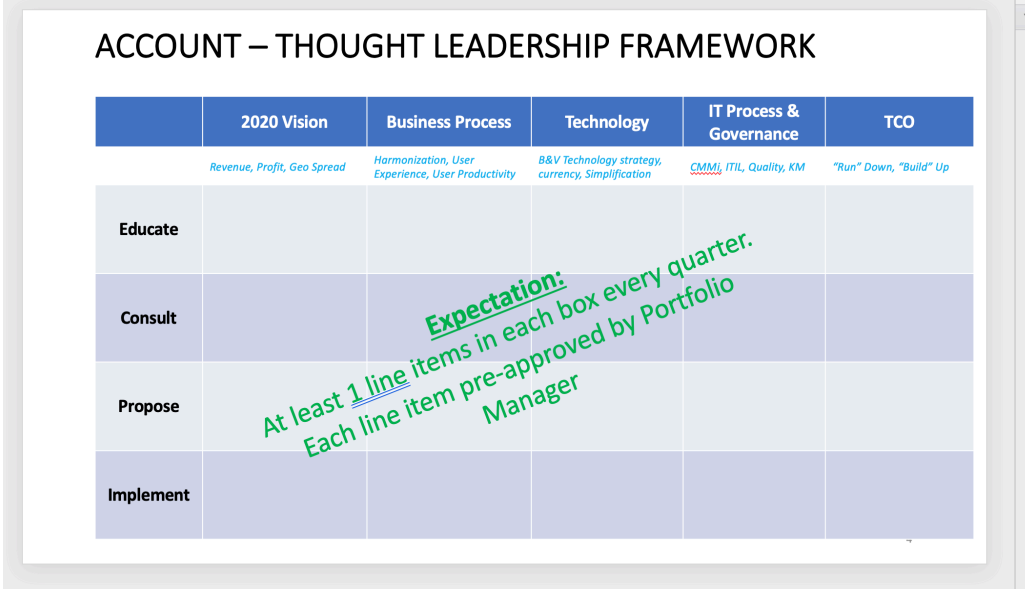
WHY

- Inadequate Process Clarity and Consistency
- Optimize TCO and Reduce Variability
- Drive Excellence in IT Procurement – Source from "Right Vendor" at "Right Price"
- Mitigate Risks for Enhanced Value
- Engagement Agility
- Business Value Focus

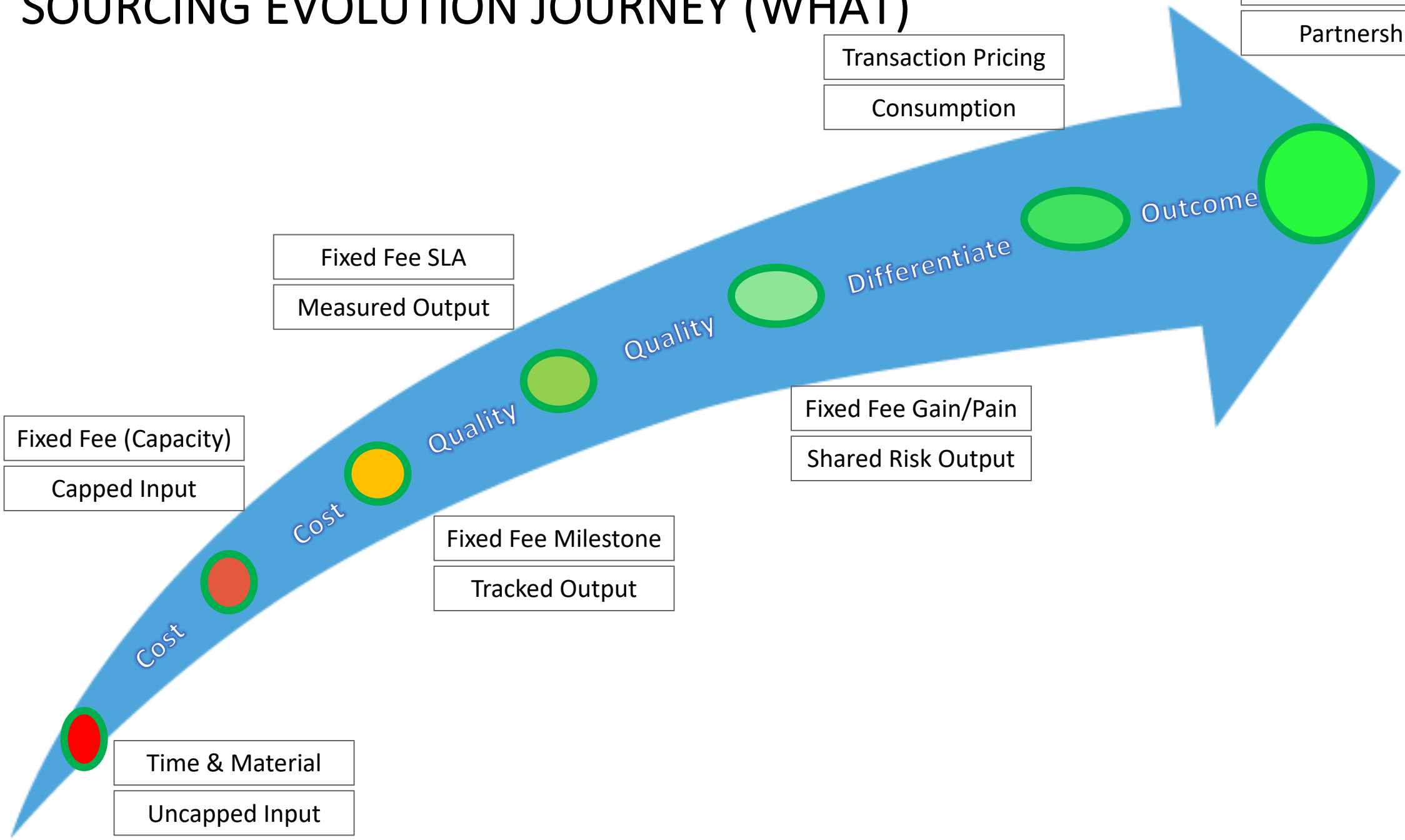


HOW

- VMO Process Discipline
- Value / Outcome focused Sourcing
- Enhanced and De-risked Partner Landscape
- Contractual Detailing and Agility
- Commercial Alternatives
- Partner Enablement and Performance Management
- Negotiate for Mutual Win
- Service Delivery Measurement – SLAs, KPIs, XLAs



SOURCING EVOLUTION JOURNEY (WHAT)



Input vs output vs outcome

Resources used to deliver outputs

INPUT

- Traditional
- Resources
- Time & Material
- Instructional
- FTEs, $$, Devices

Measurable functionality delivered to achieve outcomes

OUTPUT

- Matured
- Provision to execute business function
- Fixed Fee
- Milestone driven
- Predefined; Tracked
- Order entry, Pay

Objectively measurable impacts delivered by Partner

OUTCOME

- Modern
- Deliver efficiency and outcome of business function
- IT Outcome
- Partnership / Risk & Reward
- # orders processed, # payments made

Examples of outcome based sourcing

Examples	Type of Outcome (Business / IT)
% of Orders successfully booked at 1st attempt	Business
Number of AP Invoices paid on Due Date	Business
Cost of maintaining an Employee record	Business
Cost of a customer Dispute successfully resolved	Business
Cost of each qualified Lead from a marketing campaign	Business
Application Upgraded to Current-1 version within 3 months	IT
Cost of Tech Support per employee	IT
% Application Availability	IT
Count of P1 and P2 issues experienced	IT

Outcome Based Sourcing (Why)

- 360° Tri-party (Business, IT, Partner) expectations aligned
- Shared risk and success
- Predictable cost
- Engagement agility for fluctuation in Business performance
- Drives innovation
- Motivates Partner to maximize business outcome to maximize its financial gain
- Motivates Partner to adopt innovation, better practices, technology advances to drive efficiencies

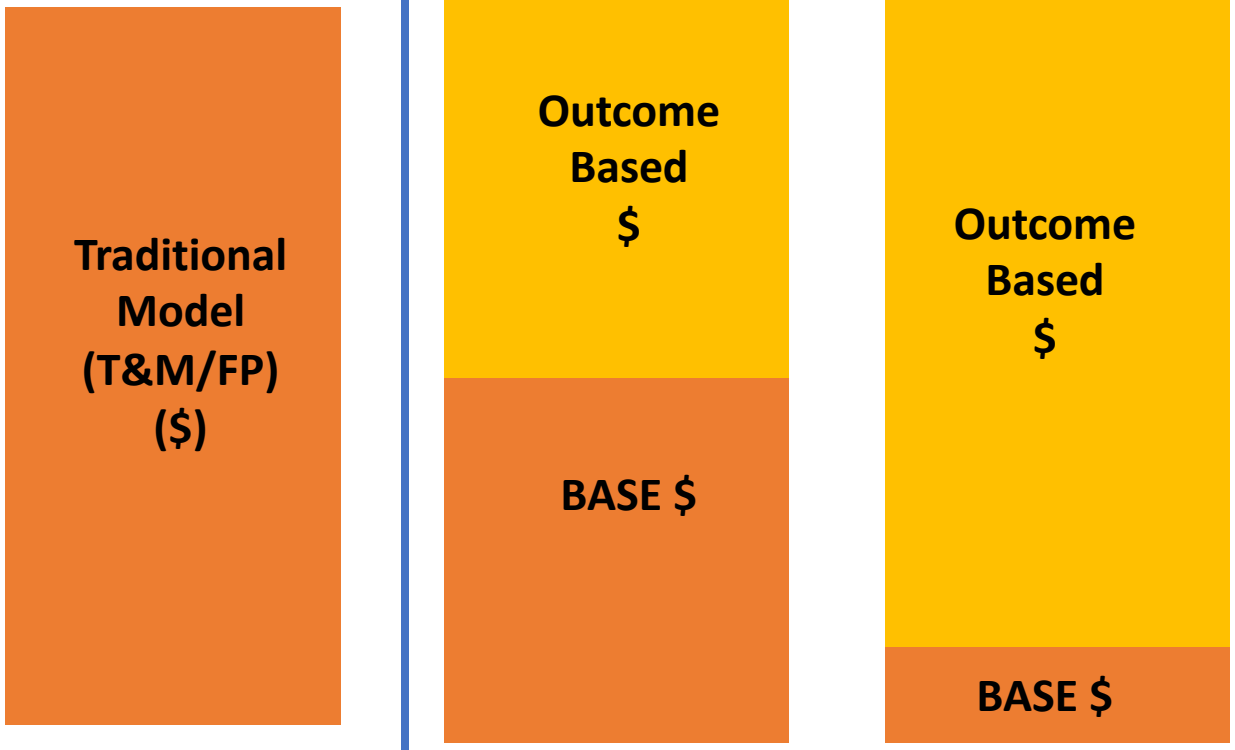
Outcome Based Sourcing – Prerequisite (When)

Sponsorship	• Business Unit Head, CFO, CIO
Drivers	• Core Team (Process Owner, System Owner, Vendor Manager, Change Manager)
Cultural Readiness	• Mutual respect; intent to partner; Relinquish Control; Give up Prescriptive Approach; Risk Appetite; Learn and Evolve
Internal Maturity	• Outsourcing Maturity (Fixed Fee Pain/Gain or Transaction Pricing); IT Process Maturity
Outcome Use Case(s) Identification and Qualification	• Fully Documented Process; SMART Outcomes - Specific, Measurable, Attainable, Realistic and Time Bound
Identified Partner(s)	• One of Current Partners preferred
High Level Action Plan	• Incremental Approach
Risk Assessment	• Business Continuity; Compliance; Financial; Brand

Outcome Based Sourcing (How)

Prepare	Source	Transition	Run
• Form Internal Core Team • Document Process • Identify Outcomes and its Mutually Exclusive and Collectively Exhaustive Metrices • Identify Stretch Goals • Assess Key Risks	• Run RFI to Learn • RFP with phased and incremental scope to 2 Partners • Process and Systems Access to Partners; Deep Dive • Review & Decide – RACI, Financial, Risk, Contingencies • Prepare – Worst Case, Likely Case, Best Case • Negotiate & Contract	• Additional Discovery • “Try-Out” Phase • Governance Structure – Operational, Commercial • Outcome Measurement, Reporting and Pricing • Internal Change Management • Update Operational Manuals • Transition to Partner	• Process Execution • Performance Mgmt • Governance Review • Continuous Improvement • Invoicing and Payment • Risk Management
1-2 Months	3-4 Months	3-6 Months	2-5 Years

Examples of pricing construct



Variants:

1. Capped Outcome Fee (e.g. lower of 15% or $1M)
2. Min-Max Outcome Fee Threshold (e.g. 3% to 12%)
3. Capped Duration (e.g. 24 months)
4. Capped Occurrences of Outcome (e.g. first 200 occurrences / year)

Key Pitfalls / Challenges

Potential Pitfall	Consequences	Best Practice
Inadequate Sponsorship	Lost Purpose	Seek Top-down Sponsorship Upfront. Governance.
Lack of Cultural Alignment / Readiness	Outcome Not Delivered.	Mutual Respect. Intent to Partner with Win-Win Mindset. Relinquish Control with Checks and Balances. Give up Prescriptive Approach to Innovate.
Improper Outcomes	Outcome Not Delivered. Financial Impact.	Define Outcomes are SMART and MECE.
Lack of RACI Clarity	Outcome Not Delivered. Financial Impact.	Contractually Bound Detailed RACI.
Lack of Trust on Partner for Outcome	Outcome not Maximized.	Collaborate; Communicate. Innovation Board; Governance.
Risk (Business Continuity, Financial) Not Assessed	Outcome not Delivered. Financial Impact.	Define Business Continuity Plan (BCP). Contractually Bound Liabilities.
Over-Ambitious, Aggressive Timing	Lost Purpose.	Transition and Try-out; Phased Approach; Governance.