

# **Multisourcing Service Integration**

## **New Roles, New Rules, *New Results***

Co-authored by Shaun Daly and Michael Brito

May 2012

# Multisourcing Service Integration: New Roles, New Rules, *New Results*

Co-authored by:

Shaun Daly, Partner  
Integrus Applied

Michael Brito, Partner  
Akin Gump Strauss Hauer & Feld LLP



## Executive Summary

The move to a multisourcing environment has already happened. Now is the time to focus on integration to take advantage of its full potential.

Akin Gump and Integrus Applied have a market-proven approach to accelerate adoption and implementation of this model. Our team and solution have accounted for the operational, financial, and legal elements of every stage of the process, from strategy to execution to governance.

This document provides a brief description of the Multisourcing Service Integrator (MSI) model as well as an introduction to several of the key elements of the deal structure and frequently asked questions. Please contact us to discuss these and other related topics that are particular to your environment and sourcing strategy.

## Table of Contents

1. A New Approach to Multisourcing.....	3
2. Overview of Deal Elements.....	8
3. Frequently Asked Questions.....	13
4. Contacts.....	18

## A New Approach to Multisourcing

### Introduction

Organizations continue to diversify their sourcing portfolio to optimize delivery of service: internal or external. This selective, multisourcing approach requires coordinated service integration to fully realize the expected benefits. Two of the top professional firms in the industry, Integrus Applied and Akin Gump, have structured an end-to-end integrated process and framework to take advantage of all the benefits Multisourcing Service Integration (MSI) can provide to an organization. This strategic approach to sourcing offers improved cost control and performance management with greater flexibility to adapt to changing business strategies. The use of a third-party service provider as an integrator provides many compelling advantages but is not a requirement to implement and benefit from the MSI structure.

### What is an MSI?

An MSI is an agent to coordinate and integrate service delivery in an environment that uses multiple internal and external service providers for the delivery of IT and business process services.

The role of the MSI has emerged over the last several years due to three primary reasons:

#### 1. Growth of Multisourcing

The growing trend toward multisourced service environments has created a need for a coordination and integration agent. Gartner reports that in North America, client organizations on average engage 4.8 infrastructure service providers and 13.5 providers overall. Clients have adopted a best-of-breed strategy when going to market to procure these services but continue to struggle with integration of these silo services provided by multiple service providers.

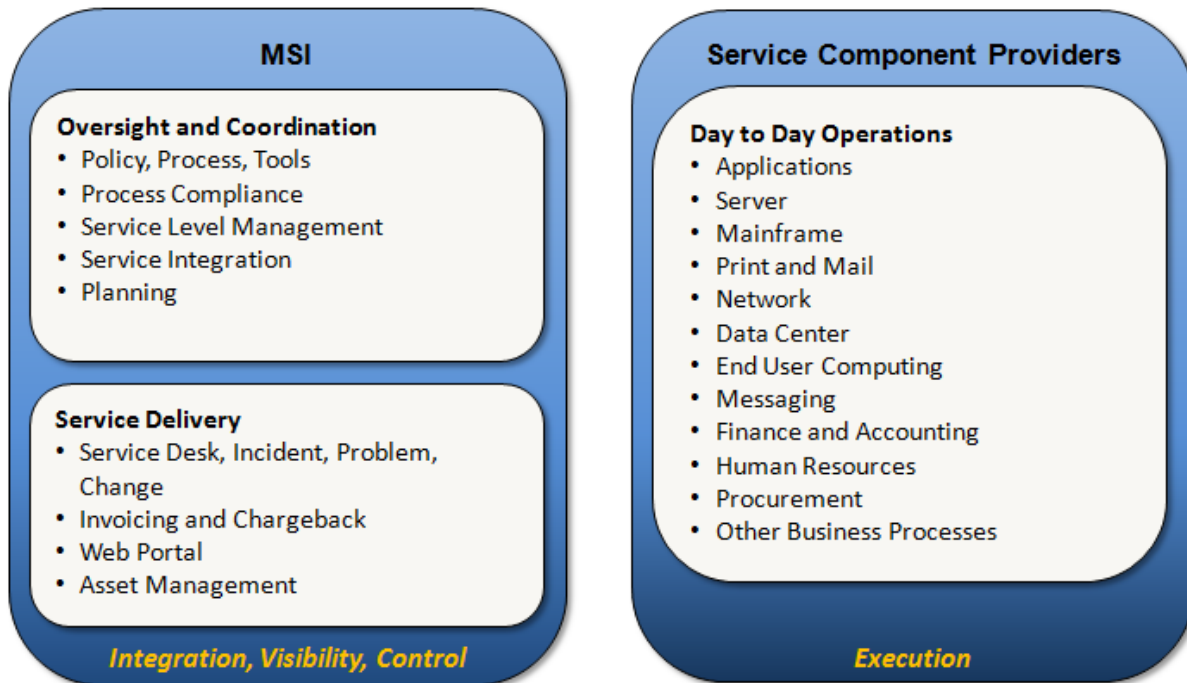
#### 2. Value Leakage

Traditional models with the cross-functional and integration services buried in the solution with single or multiple service providers have underperformed. Client loss of visibility, control, and accountability with the underlying processes used to deliver services is no longer acceptable.

#### 3. ITIL

The adoption of ITIL across industry has established a common set of delivery processes and nomenclature that allows a third-party MSI to provide coordination and control to enhance the integrated service provided to the end user.

The MSI provides services that have historically been provided either internally by the client or more traditionally by the external service provider as a part of the day-to-day operations and delivery of functional services (e.g. application development, server management, finance and accounting). At a high level, the diagram below illustrates how the delivery chain has been segmented between the service component providers performing day-to-day operational functions and the MSI providing oversight and coordination as well as select service delivery functions such as the service desk.



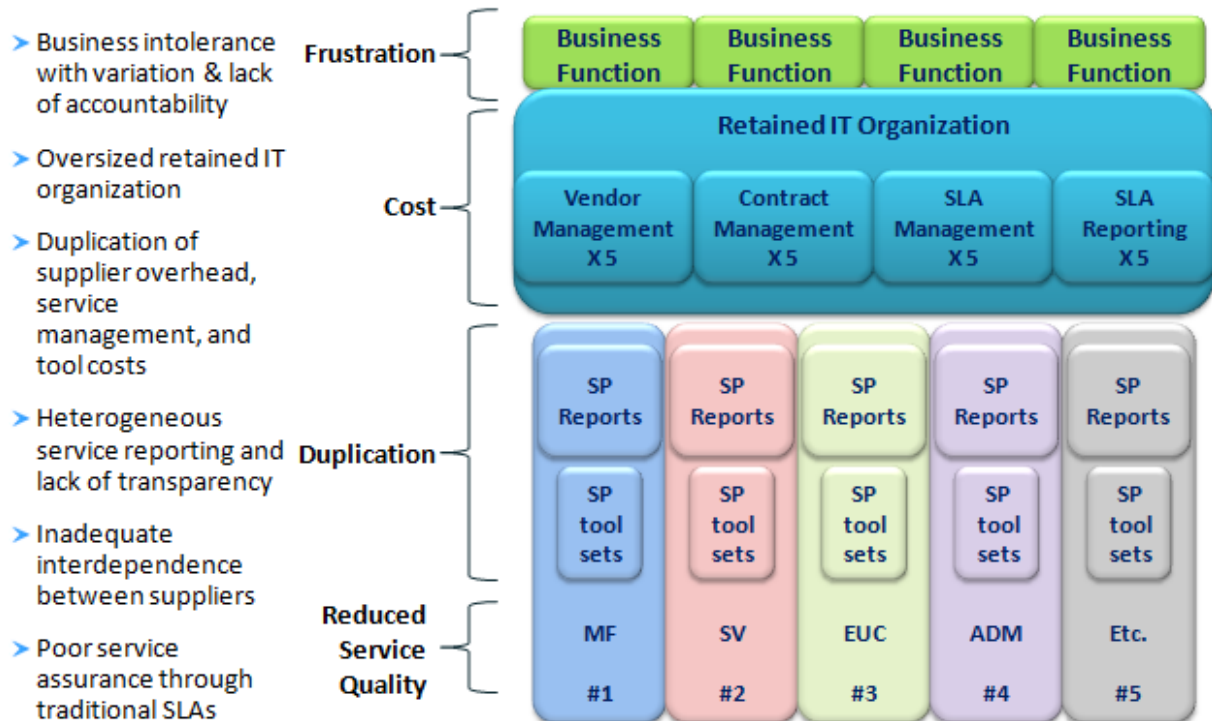
Each client environment is unique and specific demarcation can be adjusted based on client capabilities and goals. We do believe it is optimal to have the service desk and associated incident, problem, and change coordination responsibilities with the MSI when possible.

## ITO, BPO, or Cloud: Services Integration is Key to Success

### Challenges of a Multisourcing Model

From applications and infrastructure to HR and accounting, organizations have adopted the best-of-breed approach to sourcing. This optimization of service delivery at the functional level requires defined responsibilities and demarcation points to provide an integrated end-to-end delivery of services to the user. Many organizations that have organically transformed to this multisourcing model now are facing the following challenges:

### Multisourcing without Service Integration



### Key Features of the MSI

The MSI role allows an organization to drive service delivery around a common set of processes with a single party responsible for providing integration, visibility, and control back to the client. Key features of this model include:

- Creates a unified view of services
- Allows effective accountability and control
- Removes inefficiencies and overlaps, reducing cost
- Improves reliability and quality of service to end user
- Provides compelling risk mitigation strategy
- Ensures flexibility for change / modular / plug and play

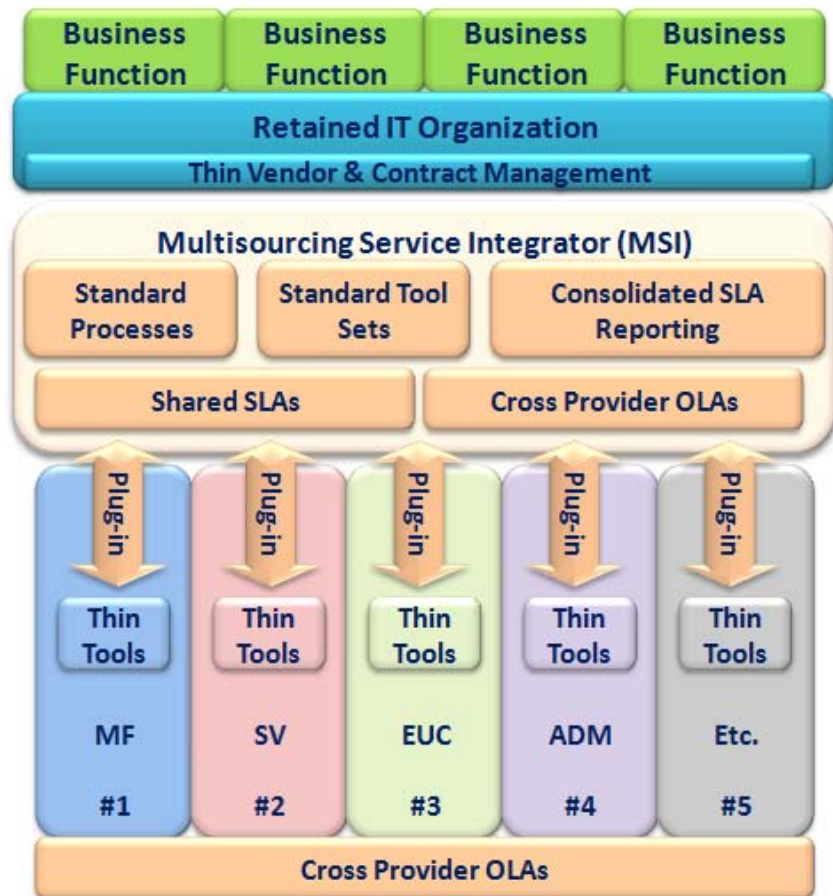
The MSI becomes an extension of the client governance team, an objective partner to manage services. The client benefits from this integration expertise by having an independent party enforce compliance of policies, processes, and procedures.

### Multisourcing with a Mature Service Integration Layer

The challenges of the legacy silo approach to managing multisourcing environments can be overcome with the use of an MSI. This "professionalization" of integrating services provided by multiple parties under unique contracts through the use of a third-party specialist allows the retained governance team to focus on issues critical to the business rather than trying to interpret contracts and referee disputes among service providers.

### Multisourcing with an MSI Layer

- > Business interface to the IT organization is standardized through consistent processes, tools and reporting
- > Retained IT organization is reduced with primary role of vendor management utilizing a consistent contract and SLA structure
- > Service Providers “plug & play” into a defined set of processes and tools reducing cost
- > Shared SLAs and a set of OLAs govern and incent cooperation between suppliers resulting in increased quality of service
- > Replacing service providers becomes less disruptive and creates less risk



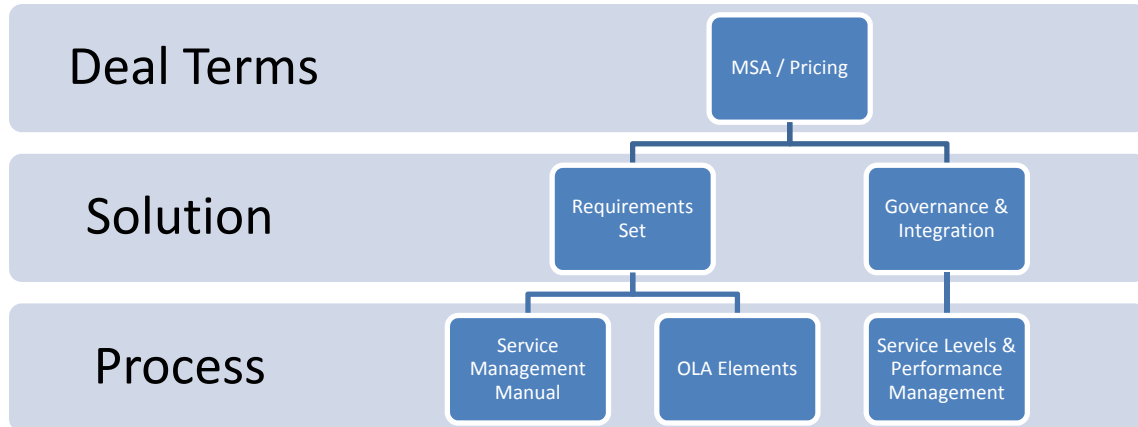
The strategy to use an MSI can be executed in new sourcing initiatives or in a renegotiation scenario. In a greenfield setting, the procurements for both MSI and service component provider (SCP) can run in parallel or an MSI may be selected first, then the SCP(s) phased in over time. When restructuring existing agreements, an opportunity analysis should be performed with the existing service providers and related contracts. Additionally, the MSI market should be tested through a request for information (RFI) process and integration testing sessions.

## Deal Structure – How it Works

### The Building Blocks

The introduction of the MSI allows an organization to shift document focus from requirements to solution. This is a fundamental shift in transaction approach that centers attention on the true elements of success (or causes of failure). By moving beyond the historical negotiations of statements of work, staffing models, and tools and technologies to an exploration and documentation of process, integration, and operations, the real risk elements are exposed and dealt with prior to executing a contract.

Our approach to constructing this more successful model is based on a set of “building blocks” to structure the contract:



All of these document families are structured to accommodate change in the environment and contemplate the potential for termination and substitution.

The process documents have been designed to incent continual improvement in service delivery with the appropriate levers to deal with non-compliance. Some of the key elements of the MSI deal structure are:

**1. Operating Level Agreements (OLAs)**

OLAs create a contractual bond between service providers and are a component of the services each provider is obligated to deliver to the client. The OLAs clarify integration roles and responsibilities of each provider and support enterprise service management processes and contracted service levels.

**2. Shared Service Levels**

With successful delivery of service to the end user contingent upon multiple providers, attainment of certain service levels is a joint responsibility, and the service level methodology must recognize this dynamic.

These concepts are further described in the Deal Elements section that follows. Additionally, the financial issues and factors to consider when converting to the MSI model are covered in the next section.

# Overview of Deal Elements

This section provides a brief description of four major elements of the MSI deal structure as an introduction to the topics:

1. Operating Level Agreements (OLAs)
2. Shared Service Levels
3. Converting to MSI Model
4. MSI Financial Considerations



## Operating Level Agreements (OLAs)

OLAs create a contractual bond between service providers and are enforced by each contract between the service provider and client. The OLAs are a component of the services each service provider is obligated to deliver to the client and are intended to clarify integration roles and responsibilities of each provider. OLAs support enterprise service management processes and contracted service levels and include the following elements:

- Contractual linkage and obligation
- Governance framework and escalation approach
- Process descriptions with focus on roles and responsibilities
- Quantitative measures as applicable

### OLA Structure

There are three parts of the OLA structure. Part A consists of the obligations between service providers and client. Parts B and C provide the detail of the OLAs between the service providers.

OLA Category	Purpose	Description
<b>Part A</b> <i>Contractual Framework</i>	<ul style="list-style-type: none"> <li>• Obligations of service provider to client</li> </ul>	<ul style="list-style-type: none"> <li>• Codified in contract</li> <li>• Address procedural rules related to management and cooperation</li> <li>• Address changes and approval processes for OLA</li> <li>• Address inter/intra provider dispute management and escalation</li> </ul>
<b>Part B</b> <i>Between Providers</i>	<ul style="list-style-type: none"> <li>• Describes agreement between the parties</li> <li>• Recital language</li> <li>• Fundamental assumptions and interdependencies</li> </ul>	<ul style="list-style-type: none"> <li>• Acknowledgements of cooperation and reliance between providers (e.g., tool sharing)</li> <li>• Acknowledgement of mutual obligations to the client</li> <li>• Procedural rules established between service providers (including for the development of additional OLA elements in Part C)</li> </ul>
<b>Part C</b> <i>Between Components</i>	<ul style="list-style-type: none"> <li>• Specific OLA elements</li> <li>• Solution component specific</li> </ul>	<ul style="list-style-type: none"> <li>• Elements align with components of Service Management Manual (SMM) and are solution-specific</li> <li>• Process descriptions / parameters / targets established between service providers</li> <li>• Role descriptions and operations management protocols established between service providers</li> <li>• MSI drives process development, including development and changes to OLA elements</li> </ul>

## Shared Service Levels

In an environment where successful delivery of service to the end user is contingent upon multiple providers, the service level methodology must recognize that attainment is a joint responsibility.

## Service Level Overview

The fundamentals of the service level management methodology are not altered with the MSI deal structure. Service level management objectives continue to be:

- Focusing on incenting service delivery and continuous improvement
- Providing the client with levers to prioritize focus without reopening contract negotiations
- Supporting multisourcing environment through shared and related metrics

## Service Level Categories

It is important to note that not all service levels in the MSI-SCP deal structure are subject to being shared among service providers. There are three categories of service levels, and only the fully shared category includes a single measurement that affects two providers.

- **Fully shared**
  - Identical metric descriptions and targets for each provider
  - Single measurement affects two providers
  - Measurement approach and targets must remain identical through the term; however, crediting is distinct and based on individual provider's allocation, etc.
- **Related**
  - Address areas where MSI has enterprise responsibility
  - Measurements are based on similar pools of events but occur separately for each provider
  - Targets may fluctuate over the term
- **Unique**
  - Measure services specific to a provider

For fully shared service levels, both providers are impacted in the event of a failure and will incur service level credits. However, the governance model allows a service provider to demonstrate the extent of its response to the event (both proactive and reactive) in an effort to highlight to the client that appropriate measures and remedies have been implemented to offset the need for a credit.

## Converting to the MSI Model

Most clients considering the introduction of the MSI will be confronted with a mixed environment – possibly a varied list of suppliers under different terms and conditions, varied work orders and performance guarantees, discrete and incomplete views of reporting, and inconsistent application of poorly documented or undocumented processes.

While the core tenets of what makes an MSI strategy successful will remain the same, there are different strategic and tactical considerations that will guide the approach to planning, vetting, and implementing the MSI model. An understanding of the unique business drivers, relative operating maturity, and capabilities in each client's environment are as important in guiding the approach as are considerations of the capabilities and competitive positioning of potential service providers.

Listed below are the basic factors that will guide recommendations:

### Strategic options:

- Corporate-wide, division, or region as proof of concept
- Lines of service in scope – infrastructure / applications / business processes
- Parallel or sequential – MSI and the selection of Service Components
- Green field / contract term or re-negotiation / modify relationship in place

### Structural considerations:

- Status of existing contracts and relationships in play
  - Replace, retro-fit existing, or re-work supporting documents (e.g. SMM)
- Document Structure
  - Modular plug and play / cross references / planning for a progressive series of procurements
  - Common and bespoke components with dynamic maintenance features
- Deal Structure
  - Demarcation and delegation
  - Governance and change agents
  - Transition and transformation goals

### Implementation – tactical choices:

- Procurement sequencing – parallel or series / competitive or sole source for the MSI / Service Component Providers in batches / awarding multiple components to a single provider
- Building the requirements as a unified set for multiple players – negotiating the agreed processes
- Negotiating through forums – for selective collaboration on requirements and design / solution alignment / end-to-end integration / coordinated transitions
- Due diligence in stages – removing the risk premium

## MSI Financial Considerations

One of the key reasons the MSI role has emerged over the last several years is the structure provides visibility to the origins of value leakage and allows for more rapid response and remediation of the underlying issues. Traditional models with cross-functional and integration services buried in the solution with single or multiple service providers have underperformed and degraded the anticipated return on investment. Client loss of visibility, control, and accountability with the underlying processes used to deliver services is no longer acceptable.

## The Business Case for the MSI Model

A common myth of utilizing an MSI deal structure is that it will increase the overall total cost of sourcing. The assumption is the integration is an additional service with another provider that will add incremental cost to an existing budget. Our experience indicates this is not true. In some cases, when evaluating a fully burdened business case that includes the retained governance team budget, the MSI role can produce cost savings. The costs of MSI account team overhead and increased focus on process and tools are offset by delivery cost reductions realized through process efficiencies and reduced risk premiums. These efficiencies are generated through detailed solution design and integration sessions prior to contract signing. In addition, the segmented delivery structure increases competition by expanding the service component provider (SCP) market (e.g., server, EUC, ADM) to Tier 2 providers. Also, the contractual flexibility built into the modular plug and play deal structure encourages a focus on competitive market rates through the term of the contract.

## Structure Preserves Investment

Many of the same reasons that drove clients away from mega deals with single providers and toward best-of-breed multisourcing are relevant to the separation of integration services strategy. In the legacy model, service providers with a multi-tower contract often work within a fixed budget for the overall account. This can lead to a “rob Peter to pay Paul” cycle of management that ultimately can create an unhealthy cross-subsidization steady state. In this scenario, the provider account team will repurpose budget and staff to address isolated problems within discrete service towers at the expense of others, often taking resources out of core cross-functional services. The MSI deal structure separates these cross-functional integration services as a stand-alone service, preserving vital process investments and reducing the opportunity for cross-subsidization. Oversight and process compliance staff and funding are not jeopardized when other functional towers are under pressure. The service delivery eco-system is preserved while focus remains on remediating the root cause of the issue.

# Frequently Asked Questions

This section provides responses to a collection of frequently asked questions related to the Multisourcing Service Integration (MSI). Please contact us to discuss these and other related topics that are particular to your environment and sourcing strategy.

- 1. How do you extract the necessary integration service functions built into existing contracts to prepare for an MSI?**
  - a. The first step is to identify the scope of service to be extracted and bundled as an integration service. The second step is to decide what scope of services (service components) will come under the supervision of an integrator. With in-flight services impacted, the third step is a contract review and assessment of impacted service elements including the MSAs, SOWs, SLAs, and Pricing provisions. The contract(s) should be assessed to determine the rights and levers that facilitate service change and substitution. Many outsourcing agreements contain these provisions and will include an “equitable adjustment” to pricing to reflect the changed service profile. SAS recommends a series of controlled solution integration sessions with the service providers to determine and document the demarcation points and associated people, process and technology changes required to introduce the integration services.
  
- 2. Can integration services be retained by the client?**
  - a. Yes, if the client has developed the expertise in-house to provide Multisourcing Integration Services. Similar to the services that are being outsourced, service integration is not typically a core competency of the client. It is challenging for clients to access and retain the skills required to provide integration services, and service providers are generally able to better leverage process and technology to maximize the efficiency of the delivery model. It is more likely that, on a case-by-case basis, clients are able to provide certain elements of the integration service such as chargeback, asset management, or software license management, rather than the full suite of integration services. The interplay between the role of the MSI and the retained governance functions of the client will be a key planning factor in shaping the scope of services for the MSI.
  
- 3. How do you force cooperation among the service providers?**
  - a. The key to establishing the right level of detail and securing effective acceptance of shared responsibilities and accountabilities is in the agenda and structure of the forums established during the negotiation process. The process of constructing the solution builds and the focus on the inter-dependencies, interconnects, and interfaces between the parties establishes a knowledge-based buy-in to the proposed approach of each service provider. The document structure and key terms provide incentives to cooperate and focus on service delivery to the customer. A methodical approach to building the solution and identifying and documenting the proper demarcation points through client-driven solution integration sessions builds confidence in the solution and reduces the unknowns that otherwise lead to friction and finger pointing. Two key design elements of this structure include: (1) operating level agreements (OLAs) that document responsibilities and dependencies between the providers in a unified environment and (2) shared service levels to acknowledge interdependencies and provide incentives to ensure client objectives are met. Cooperation among the providers can be an inherent component of meeting these objectives.
  
- 4. Will adding an MSI add cost?**
  - a. No, a multisourcing model using an MSI should not add extra cost, and, in some cases, can produce cost savings. There will likely be some incremental costs associated with account team overheads and an increased focus on process and tools. However, these costs are offset by delivery cost reductions realized through process efficiencies and reduced risk premiums as a result of detailed solution design and integration sessions prior to contract signing. In addition, the segmented delivery structure

increases competition by expanding the service component provider (SCP) market (e.g. server, EUC, ADM) to Tier 2 providers. Also, the contractual flexibility built into the modular plug and play deal structure encourages a focus on competitive market rates through the term of the contract.

**5. What will the impact be on the retained client governance organization?**

a. In most cases the MSI will allow the client to reduce the size of the retained governance organization and sharpen focus on critical issues to the business. Many organizations in multisourcing environments today have difficulty leveraging governance resources due to the uniqueness of the individual contracts and inability to standardize processes. Often for each service provider, a client will have a dedicated team to provide vendor management, contract management, performance management, and financial management. The MSI deal structure drives to a standardized contract, service level methodology, and pricing structure that allows the retained governance team to focus on vendor management and customer satisfaction.

**6. What types of governance activities can the MSI provide to reduce my governance team?**

a. The MSI provides oversight and coordination functions to ensure integration of service delivery across the service providers and to the end customer. Some of these activities that may currently reside in the client governance organization include SCP compliance with client organization policy, delivery model process, and adherence with approved architecture and tools. The MSI takes the lead in short- and long-term planning, ensuring the providers' plans are aligned with the client as well as coordinated among each other. The MSI also coordinates service level management and ensures accuracy of measurements and reporting. In addition, the MSI plays a key role in financial integration by not only vetting the accuracy of billable volumes and rates but also providing chargeback systems and services.

**7. Will the MSI model work on BPO deals? Across both BPO and ITO towers?**

a. Yes, the MSI model can be used in BPO environments and across BPO and ITO service delivery functions. Although the MSI role is grounded in ITIL-based processes that originated for IT service delivery purposes, these same foundational principals can be extended to provide oversight and coordination to BPO service delivery models as well. The use of the MSI deal structure can help drive commonality in contract, finance, and performance management governance across all back office sourcing initiatives.

**8. Can MSI services be provided by offshore resources?**

a. Yes, the MSI can leverage offshore resources to provide components of the service at a reduced cost. There are some core services such as relationship management, facilitation of governance meetings, strategy and planning development, and process compliance that are better served as an onsite service. However, elements of functions such as service desk, web portal, documentation, and asset management can be provided by offshore resources where appropriate.

**9. Who has primary interface with the client, the MSI or SCP?**

a. In general, the MSI is responsible for delivery of end-to-end services to the client and thus owns the day-to-day client management interface role. The SCPs play a critical role in the provider-client relationship as they have direct touch with the end users on a daily basis and participate with the MSI as



needed in management meetings. In most cases the SCP was selected as the best of breed for a particular set of functions, and the client intends to leverage that knowledge base. The balance of roles and responsibilities is key. Both the MSI and SCPs participate in various governance committees and have active client relationship management responsibilities with dedicated staff to ensure customer satisfaction.

**10. Does the Service Desk have to be part of the MSI solution?**

a. As the hub of service delivery operations leveraging the IT service management suite of tools (e.g. BMC Remedy), the Service Desk is core to the MSI service integration solution. The MSI can begin providing integration services without the Service Desk, but it is recommended over time that the Level 1 desk function becomes part of the MSI scope. The SCPs play a critical role in Service Desk support services by providing a sound knowledge base and providing direct support for problem resolution beyond Level 1-type contacts.

**11. Are OLAs contractually binding?**

a. Yes. The OLA will include various contractual obligations between the counter-parties, including the development of governance, account management, and issue escalation and resolution processes as well as reporting obligations. The OLA will also include "interdependency commitments", which are obligations that a counter-party is relying on so that it can satisfy its obligations to the customer. The obligations set forth in an OLA are not intended to modify or amend any obligations that an MSI or SCP has to the customer under the MSA.

**12. Are there OLAs between the client and the service providers?**

a. No. In many instances there will be a blend of sourced and retained functions under the supervision of an integrator. While not at the level of the OLAs, there will be key prescriptions and descriptions of these interplays detailed in the Service Management Manual. The OLA structure is deliberately kept separate to avoid the risk of the client losing leverage in relation to the assigned risks of solution fitness for purpose.

**13. What terms and conditions must be identical across the providers?**

a. Ideally, the terms and conditions for each service provider would be identical. Due to different service provider sensitivities and the business deal, some variance among the terms and conditions is expected. All defined terms (Exhibit 1), description of services (inclusive/exclusive), remedies (including interim/stair-step remedies), obligations related to account management (including the Service Management Manual), audit rights, invoicing/payment terms, treatment of confidential information, and escalation/dispute resolution provisions should be the same for all service providers.

**14. Should I down-select the MSI first or the SCP first or run in parallel?**

a. While strategic circumstances will vary, there are two primary approaches to introducing this deal structure. In the first approach, the MSI is selected first or in parallel with a single SCP as a demarcation test case. Subsequent selections are for the remaining SCPs with the MSI performing a role on the client team. In the second approach, usually chosen in situations where a multi-tower prime is being removed, the procurements of both the MSI and the SCPs are conducted in parallel.



**15. With shared service levels, does the root cause of the problem determine who “pays”?**

a. It is important to note that not all service levels in this MSI-SCP deal structure are subject to being shared among service providers. There are three categories of service levels (fully shared, related, and unique), and only the fully shared category includes a single measurement that affects two providers. For fully shared service levels, both providers are impacted in the event of a failure and will incur service level credits. However, the governance model allows a service provider to demonstrate the extent of its response to the event (both proactive and reactive) in an effort to highlight to the client that appropriate measures and remedies have been implemented to offset the need for a credit.

**16. Can the MSI also be one of the SCPs? Doesn't that dilute the “independent auditor” model?**

a. The MSI can be one of the SCPs; however, to optimize the model and benefits of the third-party “independent auditor”, in the end state it is recommended that the MSI only provide the integration services. Clients may start the process of utilizing an MSI deal structure to take advantage of the flexibility of the model by restructuring existing agreements to carve out the MSI role and still have the incumbent provider provide MSI and SCP services. However, over time, it is recommended to have the MSI provider be independent of the SCPs. For performing oversight functions such as process compliance and service level management as well as ensuring the accuracy of billing and the CMDB, it is ideal to have a separate provider dedicated to ensure the accuracy of the process and data.

## Contacts

Akin Gump Strauss Hauer & Feld LLP is a frequent recipient of industry recognition for its strength in litigation and high-stakes appellate work, its leadership in groundbreaking transactions, and its depth in public policy. Akin Gump provides a comprehensive suite of services for global companies and local individuals.

Contact Information:

Michael Brito, Partner  
mbrito@akingump.com

Integrus Applied is an experienced advisory firm dedicated to facilitating complex service relationships where each of the parties' competing and collaborative business objectives are identified, honored, and achieved – both in the short-term and long-term. We expand on traditional sourcing advisory services frameworks as we work with both buyers and sellers by providing mediation support, coaching, and mentoring of executive and operational leaders as well as assisting in the development of sustainable healthy relationship governance competencies.

Contact Information:

Les Druitt, Founding Principal  
les.druitt@integrisapplied.com

*Document Revision 2013-10-21: Update to company name and contact info.*

**Integrus Applied** is an experienced advisory firm dedicated to facilitating complex service relationships where each of the parties' competing and collaborative business objectives are identified, honored, and achieved – both in the short-term and long-term. We expand on traditional sourcing advisory services frameworks as we work with both buyers and sellers by providing mediation support, coaching, and mentoring of executive and operational leaders as well as assisting in the development of sustainable healthy relationship governance competencies.

For more information or to schedule a consultation with our experienced facilitators, please contact:

Les Druitt  
Founding Principal  
+1 281 705 4895  
les.druitt@integrisapplied.com

*Facilitating Healthy Service Relationships* 