Sourcing Trends for 2016 and Beyond

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TECHLAW HONG KONG 2015
ISG’s Perspective on Asian Sourcing Markets

DLA Piper – TECHLAW Hong Kong 2015

ISG - Information Services Group
Andrew Walker, Director Singapore
Why Asia Matters for Outsourcing...

Access to Global Companies

- More than 90% of the world’s global Fortune 500 companies operate in the region.
- The top 10 global automotive, pharmaceutical, and consumer electronic companies have a strong presence in Asia.

Key Aspects of Asia

- Compared to Europe & Americas, Asia is not affected regionally so much by recessions, reflecting the true nature of business ecosystem.
- With pro-business policies, Asian countries are attracting global investments across industry verticals, hence the demand for Infrastructure, Software, and BPO services are set to grow

Favourable Business Environment

As we look into 2016-20, Asia is expected to see heightened outsourcing activity.

Opportunistic Asia

- Asia has two-third of global population, with a home to about 50+ companies with revenue of $1B+
- Has many first generation outsourcers, with preference to adopt new-generation of technologies.
- With 90% mobile and 60% internet penetration and continuously evolving Infra support, Asia provides long term growth opportunities for investors.
- India is set to spend an estimated value of US$15 billion on Smart Cities Mission in the next five years.

Source: ISG Research

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The Evolution of Asian Sourcing

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<tbody>
<tr>
<td><strong>The Evolution of Asian Sourcing Strategy</strong></td>
<td><strong>Software-Centric</strong></td>
<td><strong>Process Transformation</strong></td>
</tr>
<tr>
<td>Evolving focus on ITO, Software led</td>
<td>Dominant focus on ITO, Infra led</td>
<td>Manged Services and XaaS</td>
</tr>
<tr>
<td>Off Shore becomes mainstream</td>
<td>Emergence of Near-Shore</td>
<td>Analytics becomes integral</td>
</tr>
<tr>
<td>Indian Suppliers emerge</td>
<td>Rise of niche &amp; local providers with language capability emerge</td>
<td>More deliver locations emerge</td>
</tr>
<tr>
<td>BPO begins</td>
<td>Process improvements through use of technology; Maturing governance processes.</td>
<td>Automation &amp; new tech. providers emerge</td>
</tr>
<tr>
<td>Companies built in-house capabilities; Inertia to outsource</td>
<td>Clients explore process transformation sourcing.</td>
<td>SIAM</td>
</tr>
<tr>
<td>By 2005, 18% of Forbes G2000 companies were sourcing</td>
<td></td>
<td>Digital transformation is a core strategy</td>
</tr>
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<table>
<thead>
<tr>
<th>Technology &amp; Innovation</th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Pagers</td>
<td>GPS, PayPal</td>
<td>Tablets Explosion</td>
</tr>
<tr>
<td>Cassette Tapes</td>
<td>Google, Kindle</td>
<td>XaaS and brokerage</td>
</tr>
<tr>
<td>Internet (WWW)</td>
<td>WiFi, Digitalization</td>
<td>3D Printing, Robots, Droids</td>
</tr>
<tr>
<td>Email</td>
<td>Cloud 1.0, Web 2.0</td>
<td>Full Scale Automation,</td>
</tr>
<tr>
<td>Cellphones</td>
<td>Virtualization</td>
<td>Artificial Intelligence</td>
</tr>
<tr>
<td>CD Players</td>
<td>Facebook, Twitter</td>
<td>Smart Networks</td>
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</table>
Cost continues to be a key driver in Asia Sourcing market

**Key Sourcing Drivers in Asia**

- **Business & IT Transformation**
  To transform business critical IT applications into a cost effective and efficient infrastructure, which will enable business transformation.

- **Scalability & Agility**
  Enterprise clients bank on Suppliers to scale their businesses into new verticals and new markets.

- **Skills & Technology Know-How**
  It is expensive as well as time consuming to identify, train, and retain skilled people, which pushes the sourcing decision towards outsourcing.

- **Digitization**
  Digital revolution forcing companies to adopt and adapt to new ways of doing business, beyond just transformation.

"One team works on run the business and the other team works on transform the business. There is a lot of focus on evaluating newer technologies for their use in the business."

-Kalpana Maniar, President & CIO, Edelweiss

Source: ISG Research

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6 Big Trends and Disruptive Services

We are seeing unprecedented change in the evolution of new services and the speed of adoption.

1. Mobility
   - Self service based processes - Banking, Insurance and Financial Services vertical, reducing process time, with seamless user experience.
   - Adoption of mobile applications for banking, and other financial transaction are increasing

2. Robotics & Automation
   - BFSI verticals quick to adopt automation in application and claim processing.
   - Manufacturing vertical is embracing robotics, mainly in automotive assembly lines, product segregation, and packaging.

3. Everything As A Service (XaaS): BPaaS, IaaS, PaaS, SaaS
   - XaaS considered integral part of IT strategy to offset investment risk in owned assets;
   - Telecos spinning off their tower business to share the infrastructure with competitors - symbiosis.
   - Asset optimization becoming main stream to stay profitable.

4. Internet of Things, Big-Data & Analytics
   - High number of ‘always logged in’ devices in the Asian markets with massive amounts if data being generated, drives takeup of advanced analytics.
   - With IoT manufacturing, city planning, marketing and media verticals are changing the way they used to operate a decade ago.
   - Growing digitisation...

5. New Pricing Models
   - Pricing pressure is high in Asia.
   - Buyers have less concern hosting their data in a shared infrastructure.
   - Pay for the drink.
   - Shared risk – asset buy-back.

6. New Delivery Models
   - Multisourcing and SIAM – the de facto model.
   - Brokerage.
   - Federated models.
   - Pop-up sourcing.
What’s the Impact of these Trends?

Multi-sourcing of **Everything as a Service (XaaS)**, **Cloud Delivery Models** (Private, Virtual Private, Public, Hybrid), and **Service Integration** are the imperatives. Sourcing continues to disaggregate enabled by the application of new emerging technologies.
How do we engage the market in this new world? The RFX.....

To address the changes in the market, the new RFX is based on **three core paradigms**: service orientation, outcome orientation, and process orientation.

<table>
<thead>
<tr>
<th>Paradigms</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service orientation</td>
<td>▶ <strong>Functionality is Key.</strong> XaaS is about IT functionality rather than activities performed by service providers</td>
</tr>
<tr>
<td></td>
<td>▶ <strong>The Tower based is Dead.</strong> More providers delivering more fine-grained IT Services (e.g., microservices)</td>
</tr>
<tr>
<td></td>
<td>▶ <strong>It’s a Hybrid World.</strong> SaaS, PaaS, and IaaS delivered in Hybrid Cloud model, often retaining some Traditional IT</td>
</tr>
<tr>
<td></td>
<td>▶ <strong>It’s the Mindset.</strong> Can and should apply service-oriented mindset consistently to be able to mix and plug-and-play</td>
</tr>
<tr>
<td>Outcome orientation</td>
<td>▶ <strong>Think About What You Get.</strong> Services produce results, e.g., by keeping service objects in a good state (“WHAT”)</td>
</tr>
<tr>
<td></td>
<td>▶ <strong>Observe and Control State.</strong> Focus on “good state” rather than activities (“HOW”) required to maintain that state</td>
</tr>
<tr>
<td></td>
<td>▶ <strong>Define Acceptance Criteria.</strong> Define and test SMART acceptance criteria for “good state”</td>
</tr>
<tr>
<td></td>
<td>▶ <strong>The Only Way for the Cloud.</strong> Can’t observe and control what Cloud providers do, so you must control results</td>
</tr>
<tr>
<td>Process orientation</td>
<td>▶ <strong>Know “HOW”.</strong> Processes are the means to produce (intermediate) results, i.e., deliver services</td>
</tr>
<tr>
<td></td>
<td>▶ <strong>Integrate.</strong> In multi-sourced environments, processes must be integrated to deliver end-to-end services</td>
</tr>
<tr>
<td></td>
<td>▶ <strong>Focus on Interfaces.</strong> Contracts should focus on the results delivered at the process interfaces</td>
</tr>
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</table>

Source: ISG
### New Generation RFX vs. Traditional RFP

In today’s world, RFX is better suited than old style RFPs – and will lead to better contracts.

#### Comparison: New Generation vs. Traditional Outsourcing Approach

<table>
<thead>
<tr>
<th>New Generation Outsourcing: RFX</th>
<th>Traditional Outsourcing: RFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supports <strong>Service Integration</strong></td>
<td>No focus on Service Integration</td>
</tr>
<tr>
<td><strong>Services Catalog</strong> as pivotal element</td>
<td>Not easy to integrate Service Catalog</td>
</tr>
<tr>
<td>Geared towards fully Managed Services <strong>XaaS</strong>,</td>
<td>Originates from an outtasking not services mindset</td>
</tr>
<tr>
<td>► Obligations based on outcomes or outputs “WHAT” not “HOW”</td>
<td>► Activity-oriented with a focus on the “HOW”)</td>
</tr>
<tr>
<td>► Non technical outcome based SLAs</td>
<td>► Outcome not necessarily contracted.</td>
</tr>
<tr>
<td>► Obligations uniformly structured along industry standards process framework</td>
<td>► Mix of process and functional perspectives</td>
</tr>
<tr>
<td>► Full coverage of service delivery without incurring overlaps due to complete set of processes</td>
<td>► Significant overlap between Cross-Functional Services SOW (based on ITIL v3) and Tower SOWs</td>
</tr>
<tr>
<td>► New, lean design with clear, top-down structure</td>
<td>► Developed 20 years ago (and best practice at the time)</td>
</tr>
<tr>
<td>► Significantly reduced number of contract documents</td>
<td>► Grown over time, leading to complex structure with significant number of documents</td>
</tr>
<tr>
<td>► Modern document templates following best practices in contract drafting</td>
<td>► Outdated document templates with complex style set</td>
</tr>
</tbody>
</table>

Source: ISG

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So what are the Suppliers doing in Asia?

- American & Indian providers are actively involved in strategic/technology partnerships (global level) to strengthen their capabilities.
- Capgemini acquired iGATE, which was a significant move to expand its services to SME segment.
- Suppliers are willing to share the financial risk with the customers.
- Noteworthy partnerships: HCL-CSC*, IBM-Cognizant*.

- Accenture Analytics Apps Platform* (AAAP) is a scalable platform that enables the agile development of advanced analytics applications.
- HPE Datacenter Care – Infrastructure Automation* (DC-IA), provides advice, support, and tools to help customers create an agile IT environment.

- Indian Providers are very aggressive in expanding their footprint across Asia.
- Barring Infosys, almost all the other Indian providers have opened up a delivery center/new facility/CoE etc. in the last two years.
- Capgemini (European provider) also expanding its presence rapidly, mainly in India.

*Refer Notes Section

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Wrap Up

Outsourcing in Asia is highly dynamic - this is only going to increase.

- Asia is a significant market and we expect it to grow.
- The Outsourcing market is evolving as new trends appear.
- Businesses in Asia have clear drivers for sourcing that they are keen to deliver against.
- New trends in outsourcing are driving unprecedented change at an unprecedented pace.
- The traditional segmented market is fragmenting and resulting in federated models
- New ways to engage the market are being developed – RFX.
- Suppliers are undertaking innovative activities that respond to the market and drive the market.
Introduction

- Current trends re: SIAM and Multi-Sourcing
- Key Current Trends in Negotiated Clauses
- Automation/Robotics
- The impact of the Cloud
Evolution of sourcing

**Sourcing 1.0:**
- Monolithic
- No real service change – “same for less”
- Few suppliers in the pool
- Long term deals

**Sourcing 2.0:**
- E2E
- Some transformation
- More suppliers in the pool
- Medium term deals

**Sourcing 3.0:**
- Multi-sourcing
- Best of breed
- Tower models
- More transparency

**Sourcing 4.0:**
- Utility based
- Cloud / BYOD supported
- Short term
- Disaggregation – many suppliers
- Service integration is key
<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best of breed approach leads to higher service quality delivered by specialists in a more competitive environment</td>
<td>Lack of end-to-end responsibility – the customer has to manage this or engage someone to do so</td>
</tr>
<tr>
<td>No tie to one supplier/eggs not all in same basket</td>
<td>Suppliers may be wary of co-operating with competitors</td>
</tr>
<tr>
<td>Increased flexibility, with more manageable contracts</td>
<td>Loss of economies of scale and increased negotiations</td>
</tr>
<tr>
<td>Increased control / visibility through a direct contractual relationship with each supplier</td>
<td>Requires organisation to ensure every service is covered but nothing is covered twice</td>
</tr>
<tr>
<td>Potentially cheaper overall as the customer is not paying for the risk and contract management fee of the prime contractor</td>
<td>‘Forgotten’ costs of service integration and management, and potentially higher exit costs</td>
</tr>
</tbody>
</table>

(*Advantages/disadvantages as viewed from a customer prospective)
Can be delivered in-house or by a SIAM contractor

Role varies but can cover:

- Co-ordination of delivery of services and service catalogue
- Overall technical design authority
- Central point of contact, responsible for governance
- Service desk and knowledge management
- Managing default allocation and performance management regime

Old wine into new bottles….?
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Key documents of a potential SIAM structure

Primary Contract Documents

- **Tower Services Agreement**
- **SIAM Agreement**
- **Collaboration Agreement**
- **Accession Agreement**

Subsidiary documents/agreements:

- Common processes: change control and relief notices, service requests, project requests, dispute resolution
- Common documents: definitions, governance framework and formats of reports, service delivery manual
- Dependencies register and possible intra-supplier operating level agreements
SIAM "Lite" – The Simpler Alternative

Customer

SIAM Services Agreement

SIAM Supplier

No direct contractual links between SIAM Supplier and Tower Suppliers; Customer imposes contractual obligations upon Tower Suppliers to co-operate with each other / SIAM Supplier; SIAM Supplier may act as customer's agent

Tower Supplier

Tower Supplier

Tower Supplier
What will be measured?

- Collaboration Principles
- Collaboration Measures – hard and soft measures
- Customer Satisfaction

<table>
<thead>
<tr>
<th>Soft measures</th>
<th>Hard measures</th>
</tr>
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<tbody>
<tr>
<td>Alignment to customer’s values</td>
<td>Fix first, discuss later</td>
</tr>
<tr>
<td>Delivering customer’s business objectives</td>
<td>Agreement and successful delivery of joint projects</td>
</tr>
<tr>
<td>Collaborative behaviour (including with other suppliers)</td>
<td>Following the common processes</td>
</tr>
<tr>
<td>Openness/transparency</td>
<td>Compliance with OLAs (as distinct from SLA's)</td>
</tr>
<tr>
<td>Honesty</td>
<td>Acting in accordance with SIAM instructions</td>
</tr>
<tr>
<td>Problem solving approach</td>
<td>Minimising disputes and claims</td>
</tr>
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</table>
### What will be rewarded.... and what will be punished?

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
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<tbody>
<tr>
<td>Financial payments <em>(genuine bonus)</em></td>
<td>Governance / executive time</td>
</tr>
<tr>
<td>Earnback re: service credits</td>
<td>Financial deductions</td>
</tr>
<tr>
<td>Reference site rights/ability to cite customer</td>
<td>Loss of contractual rights such as any exclusivity</td>
</tr>
<tr>
<td>Project work commitment?</td>
<td>Loss of reference site/ability to cite customer</td>
</tr>
</tbody>
</table>
• Charges retentions based on contract size (e.g. % of monthly charges) with or without additional service credit regime

• Released to individual suppliers based on performance up to [>100%] of retention amount

• Rationale for different regime to apply in transition and steady state e.g. in steady state move to an earnback regime, with no (or smaller) bonus component

• Consider risk pricing by suppliers
Key Current Trends in negotiated clauses

- Absolute exclusions
  - loss, corruption of data
  - loss of profit
  - indirect loss...?!?

- "Deemed" direct losses

- Warranties → indemnities → unlimited loss linkages

- Divergent approaches to data privacy/security issues

- "Operationalisation" of Relief Notice provisions

- Impact of Regulation in Financial Services
  - Rights of regulators
  - Obligations to continue to service divested entities
  - Suspension of termination rights
The march of automation....
“We are indeed approaching a seminal moment, a tectonic shift is imminent. The basic platform for how services are delivered is shifting. Not replacing labour with cheaper labour, but replacing labour with cognitive systems.”

Chetan Dube, President and CEO of IPsoft
So is Automation the way forward...?
What are the characteristics for automation?

- Digital feeds
- Rule based processing
- Processes prone to human error
- Poorly integrated systems
- High volumes
What are the potential benefits?

...and improved analytics and data as well...

| Savings/removal of labour costs | Circa 80% improvements in cycle/processing times | Circa 90% improvements in error rates |
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The Contract Issues….

- Gainshare/Financial benefit tracking
- Liability for errors
- TUPE/redundancy impacts
EVERYTHING IS CLOUD
Which services and data can be entrusted to the cloud?

<table>
<thead>
<tr>
<th>Typical perceived risks</th>
<th>Data control related risks</th>
<th>Continuity risks</th>
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<tbody>
<tr>
<td></td>
<td>Data protection legislation</td>
<td>Inadequate service delivery</td>
</tr>
<tr>
<td></td>
<td>Misuse of data</td>
<td>Unavailability</td>
</tr>
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<td></td>
<td>Data security breach</td>
<td>Vendor lock-in</td>
</tr>
<tr>
<td></td>
<td>No access to / return of / destruction of data</td>
<td>Insolvency</td>
</tr>
</tbody>
</table>
Customer can't secure "usual" outsourcing terms

Service Provider is "squeezed" at prime contractor level

Regulated entities unable to satisfy contract related requirements
How to approach cloud contract negotiation?

- **Specific (non-negotiable) customer cloud terms of purchase**
- **Case-by-case review and negotiation of customer terms**
- **Hybrid approach**
- **Case-by-case review and negotiation of supplier terms**
- **Full acceptance of supplier standard terms**

**CUSTOMER TERMS OF PURCHASE**

**SUPPLIER TERMS OF SERVICE**

Often unsuccessful

Overlay?

Cloud contracting checklist?

Cloud computing policy or protocol?