

RESEARCH REPORT

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GLOBAL SERVICES
September 2008
The gateway to the global sourcing of IT and BPO services

Sourcing ADVISERS

Global Services-AMR Survey

The Definitive Survey of



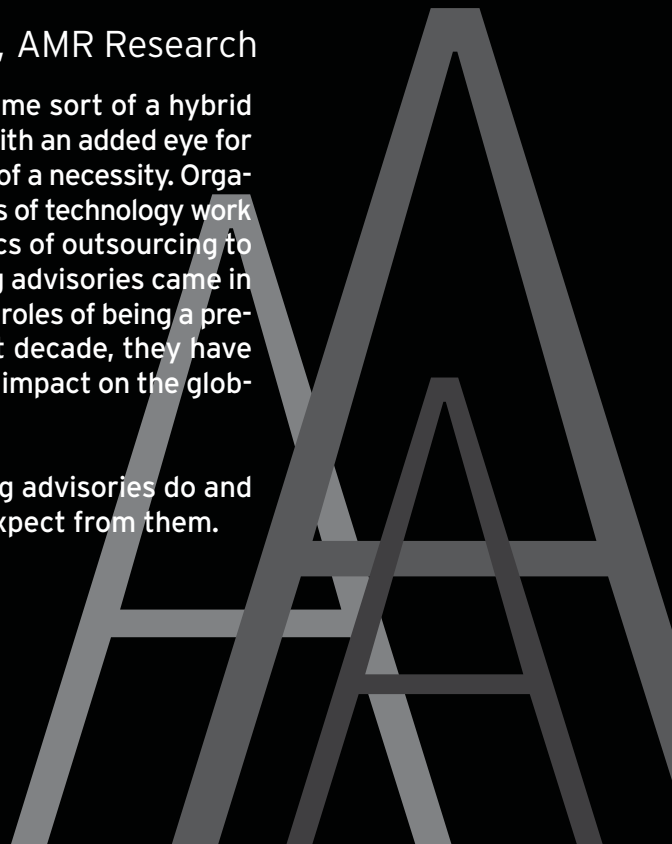
Sourcing Advisers

Welcome to the first ever study on sourcing advisory companies that covers the views of service buyers and providers

By Ed Nair, Global Services, and Phil Fersht, AMR Research

SOURCING ADVISERS ARE A unique breed – some sort of a hybrid between operations and strategy consultants, with an added eye for research. As all good things, they were born out of a necessity. Organizations looking to outsource and offshore pieces of technology work did not have the requisite understanding of the dynamics of outsourcing to a third party or of setting up offshore captives. Sourcing advisories came in to facilitate the process and ended up playing variegated roles of being a preceptor, an adviser, a coach and a dealmaker. In the past decade, they have grown to become entities with formidable influence and impact on the global services industry.

This study is an attempt to understand what sourcing advisories do and what do customers of services and service providers expect from them.



What's on Offer

The breadth of services that sourcing advisory companies offer are a reflection of two clear trends in the practice of global sourcing of services — increased complexity and growing maturity. Much of global sourcing continues to be an area that requires specialized knowledge and expertise where the scope for black box solutions is less. No wonder then that more than half, up to nearly a third of advisers, are frequently engaged in pre-transaction services like business-case development, RFP formulation and provider selection. The other clear finding is that with sourcing contracts getting more complex, which in itself is an index of growing maturity, the need for governance-related services are on the rise compared to what it was two years ago. More than 50 percent of the advisers reported the increased need for governance services.

The Source of Sourcing

How do sourcing advisers develop their business? While many of them have both customers and service providers in their client roster, it is the latter that seems to keep the consultants' clocks ticking. With half the advisers citing their relationships with providers as their primary source of new business, this does raise concerns over the bias in the selection process. In other words, if provider X recommends to its prospective customer the use of adviser Y, will adviser Y be more incented to recommend provider X in the hope of securing future business opportunities with that provider? So customers need to avoid relying solely on their advisers' recommendations and access other independent research and advice to validate their decisions.

Faster is Better

Global sourcing deals no longer have the luxury of time — companies are realizing that it is no longer about cost savings but the missed opportunity on value-add and compet-



SURVEY METHODOLOGY AND RESPONDENTS' DETAILS

The Definitive Survey of Sourcing Advisers was conducted jointly by *Global Services* and AMR Research. The online survey was done during the month of July 2008 with participation from respondents all over the world. In addition, the sourcing advisory companies were asked to submit detailed information about their firms.

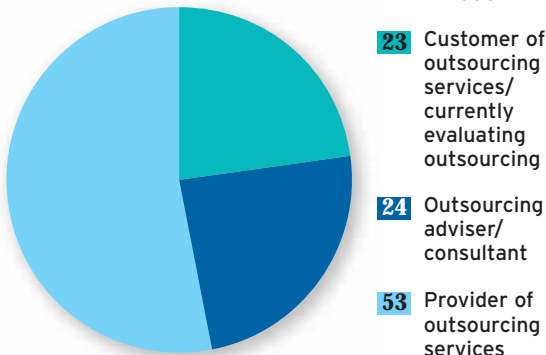
itiveness. Sourcing advisers are expected to transact sourcing deals far more rapidly and often under a six-month time-frame. To achieve this, most of them have reusable templates to assist in various stages of the sourcing lifecycle. While there are obvious risks in rushing through a deal, as long as the right provider is selected, a suitable master services agreement and base-line pricing structure developed, the adviser has done her job at this stage of the sourcing process. There have been many instances where the adviser spent too long working on pre-transaction activity with the customers, resulting in expensive consultant fees and, in hindsight, many of the issues are better resolved during transition and governance processes, where "on-the-job" experience often leads to better decisions.

KEY FINDINGS OF THE SURVEY

- Most demand is for pre-RFP services, but the need for governance work is much greater than what it was two years ago
- Half the advisers frequently won their business via provider relationships – does this encourage bias?
- Demand for rapid-transactions in under six-month timeframes
- Traditional “big 3” – EquaTerra, Everest Group and TPI – perform most consistently across all categories. Booz & Company, Deloitte, PWC and the Hackett Group perform well in some areas, but average in others
- Many of the small boutiques performed strongly, example Alsbridge and the W Group, whose performance is clearly centered on consultant experience
- Providers want more communication in the process and advisers with genuine outsourcing implementation experience (not simply strategy)
- Some customers want a tighter methodology to shorten the advisory cycle and advisers with more domain expertise.

Are you primarily a customer, adviser or provider of outsourcing services? (%)

n=530



SOURCE: GLOBAL SERVICES MEDIA / AMR RESEARCH SOURCING ADVISER STUDY, JULY 2008

Now the Oscars ... Well, Not Quite

The traditional areas of the sourcing-advisory cycle, namely outsourcing strategy/business-case evaluation, provider selection and contract-negotiation skills, which are the “bread-and-butter” skills needed to get to an outsourcing transaction, were where the long-time established sourcing advisers performed the best, notably EquaTerra, Everest Group and TPI. Clearly, deal experience, existing intellectual property and a good base of industry research serve these firms well in doing their job. The experience of the individual adviser — a veteran with deep business experience who understands broader issues than simply executing an outsourcing transaction, and the corporate politics of outsourcing — is also of high importance to customers. Apart

from EquaTerra, Everest Group and TPI, Deloitte Consulting performed well in this category in addition to some of the boutique firms, namely Alsbridge and the W Group, which favor hiring veteran consultants. The other area of increased importance involves the ability of the sourcing adviser to deliver governance support and the nuances of supporting post-transaction activities. Booz & Company and the Hackett Group, with their experience working with complex change in mature organizations, were noted high-performers in this category.

Providers' Voice

Though sourcing advisories have most of the lead-ins coming from service providers, providers are peeved about the aggressive sales agenda from sourcing advisers. Providers also came up with a litany of expectations from sourcing advisories. Notably, providers want more quality communication from sourcing advisers; they want their share of voice in the deal-making cycle. Also, service providers expect sourcing advisers steeped in real-life outsourcing experience to be brought into play in a variety of deals. So a love-hate relationship between providers and sourcing advisories, in some cases, and an unholy nexus in others, characterizes the relationship.

Customers' Byte

Customers were found to be more equivocal about their expectations from sourcing advisers. Their expectations are basic — sourcing advisers should have extensive process knowledge, deep provider knowledge, and solid expertise in the overall sourcing-evaluation methodology.

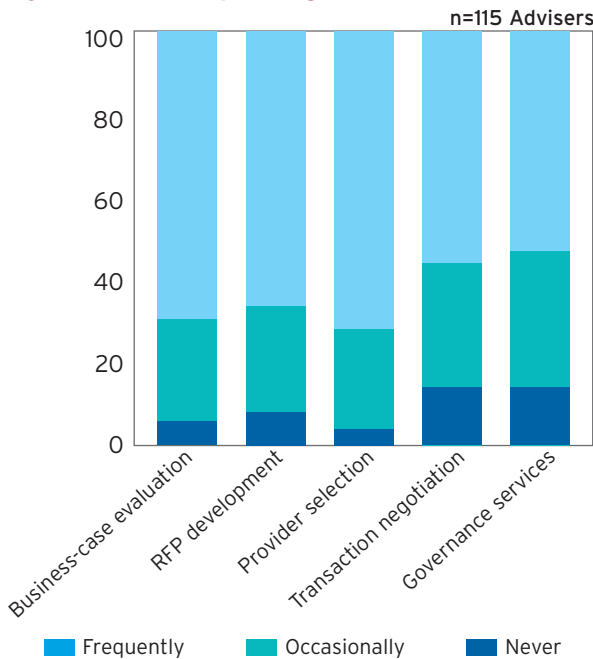
All-in-all, the role of the outsourcing adviser has become a lot broader than simply administering an outsourcing transaction. Some advisers recognize this fact while some, unfortunately, do not. Customers not only cited deep process acumen and provider knowledge as two of the critical elements, but also mentioned their global perspective and post-transactional knowledge as being important. As customers strive to globalize their business models, they view outsourcing as one vehicle to access low-cost offshore talent, and stay competitive and nimble in global markets. Hence, while achieving a successful outsourcing engagement is critical, the ability to tie their outsourcing environment to their needs to be more competitive at a global level is equally important. Added to this is the fact that most customers cannot simply reach out into the marketplace to hire seasoned executives with outsourcing experience — in most cases they have to re-train their existing management to run a successful outsourced operation and focus on adding higher-value competency to the business. The more the outsourcing adviser can engage in those higher-level conversations with their customers, the more successful they will be, and the higher the value-impact they will have on their customers. **GS**

The Sourcing Advisory Business

TYPICAL SOURCING ENGAGEMENTS

- Customers are primarily looking for pre-transaction work: Business-case evaluation, RFP development and provider selection
- Governance services are now much more in demand – over half the advisers surveyed are frequently asked to provide them.

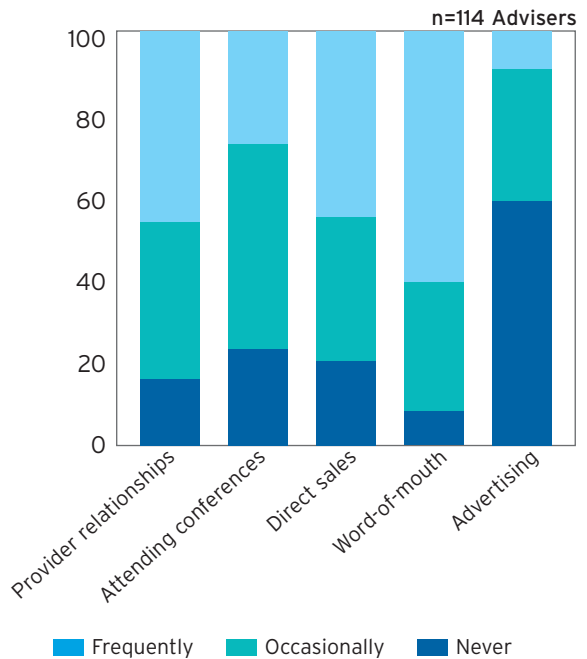
What typical sourcing engagements are your clients requesting? (%)



WHERE ADVISERS ARE SOURCING CUSTOMER LEADS FROM

- Word-of-mouth clearly is the most frequent source of business leads for advisers
- Sourcing new business through provider-relationships is as common as direct selling
- Advertising not a particularly used technique.

How does your firm source most of your customer leads? (%)

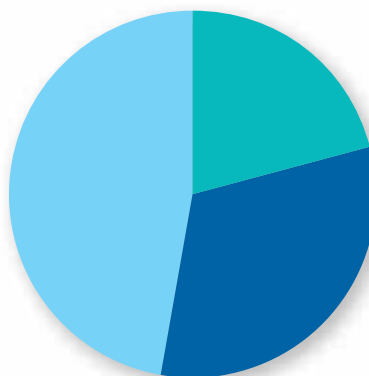


TIME TO TRANSACT

- Transaction expectations are firmly in the four to six month bracket
- Most providers are responding to RFPs in a two-week timeframe.

How quickly are your clients generally expecting you to finalize an outsourcing transaction?

n=113 Advisers



SOURCE: GLOBAL SERVICES MEDIA / AMR RESEARCH SOURCING ADVISER STUDY, JULY 2008

The Advisory Ratings

HIGH PERFORMERS (CUSTOMERS)

Category

- Outsourcing strategy/business-case evaluation
- Provider selection
- Industry knowledge/research
- Experience of advisers
- Contract-negotiation skills
- Governance support

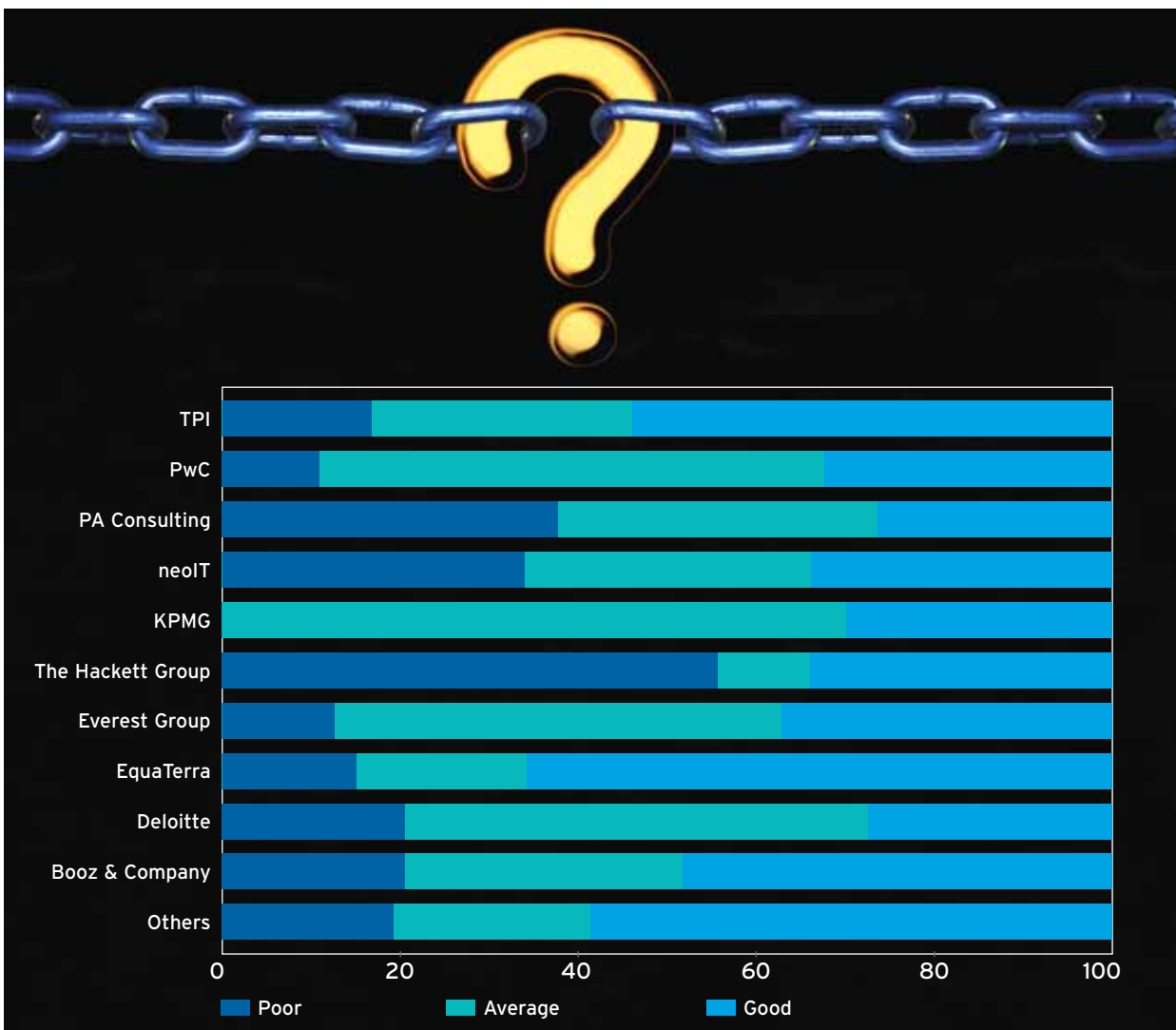
High performers

TPI, Booz & Company, Everest, EquaTerra, Deloitte
 TPI, Booz & Company, Equaterra, Everest, PwC, PA Consulting
 Everest, EquaTerra, TPI, The Hackett Group
 Equaterra, TPI, Everest, Deloitte
 Equaterra, TPI, Everest, The Hackett Group, neoIT
 TPI, Booz & Company, Equaterra, The Hackett Group, Everest

THE OVERALL EXPERIENCE (CUSTOMERS)

Which of the following third party advisers have you worked with, and how would you rate your overall experience with them? (%)

n=64 Customers



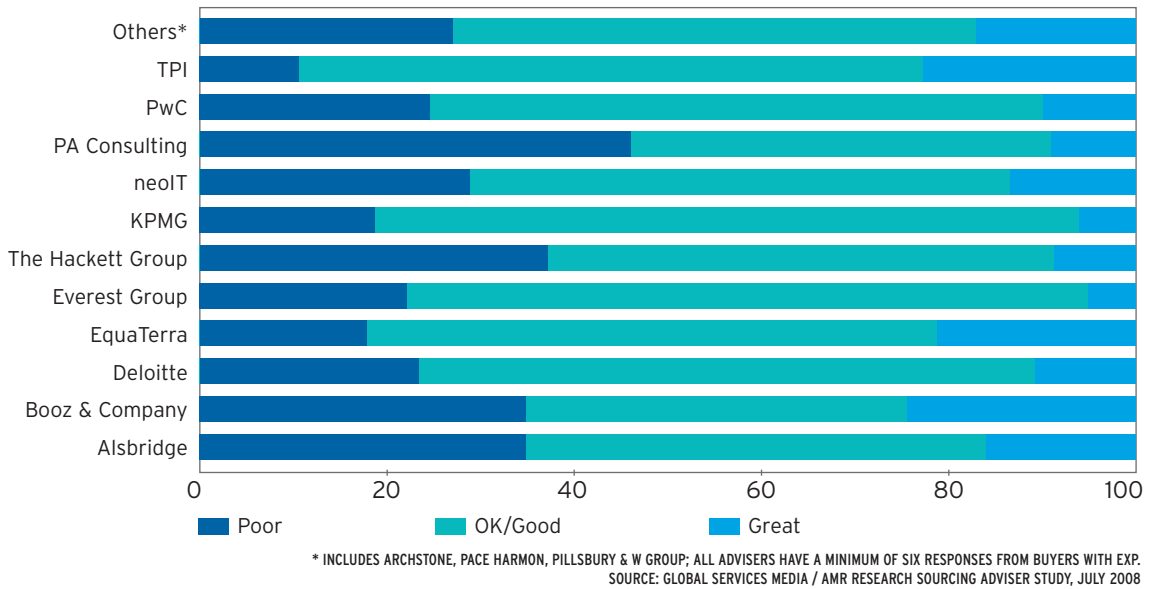
SOURCE: GLOBAL SERVICES MEDIA / AMR RESEARCH SOURCING ADVISER STUDY, JULY 2008

The Advisory Ratings

VALUE FOR MONEY (CUSTOMERS)

In terms of the adviser(s) you have used, how would you rate the value for money you received from their services? (%)

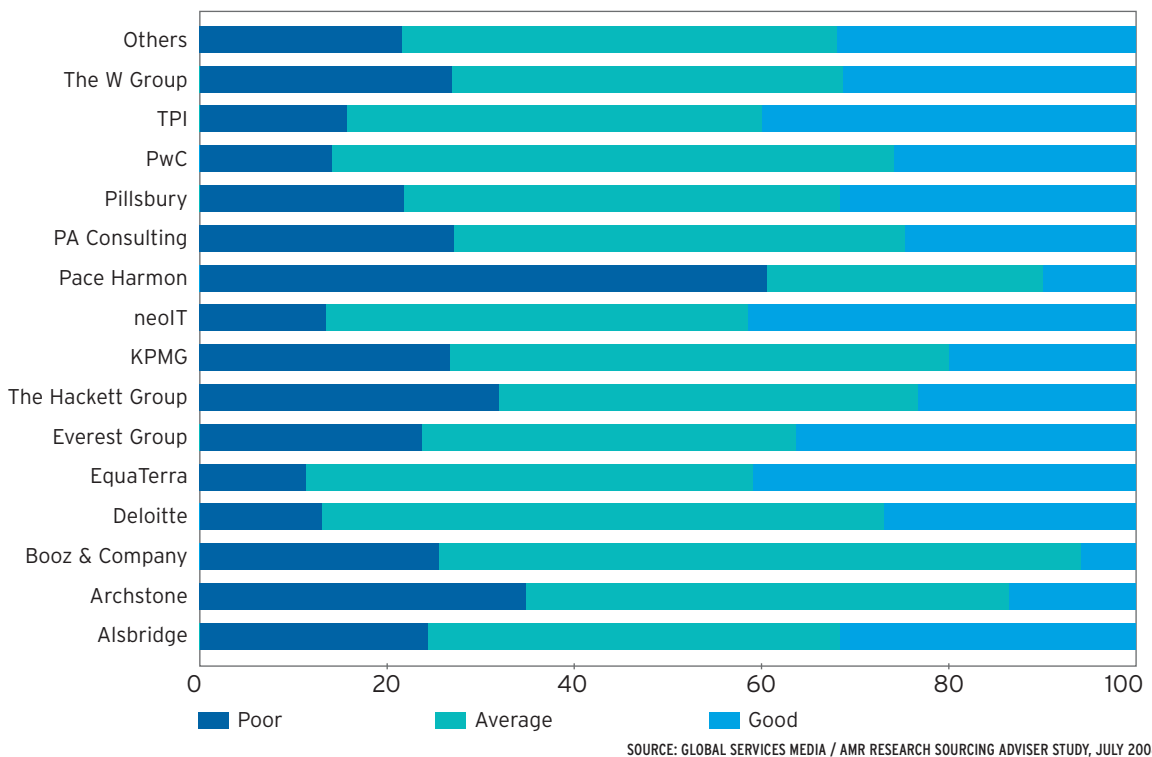
n=62 Customers



THE OVERALL EXPERIENCE (PROVIDERS)

Which of the following third-party advisers have you worked with, and how would you rate your overall experience with them? (%)

n=119 Providers

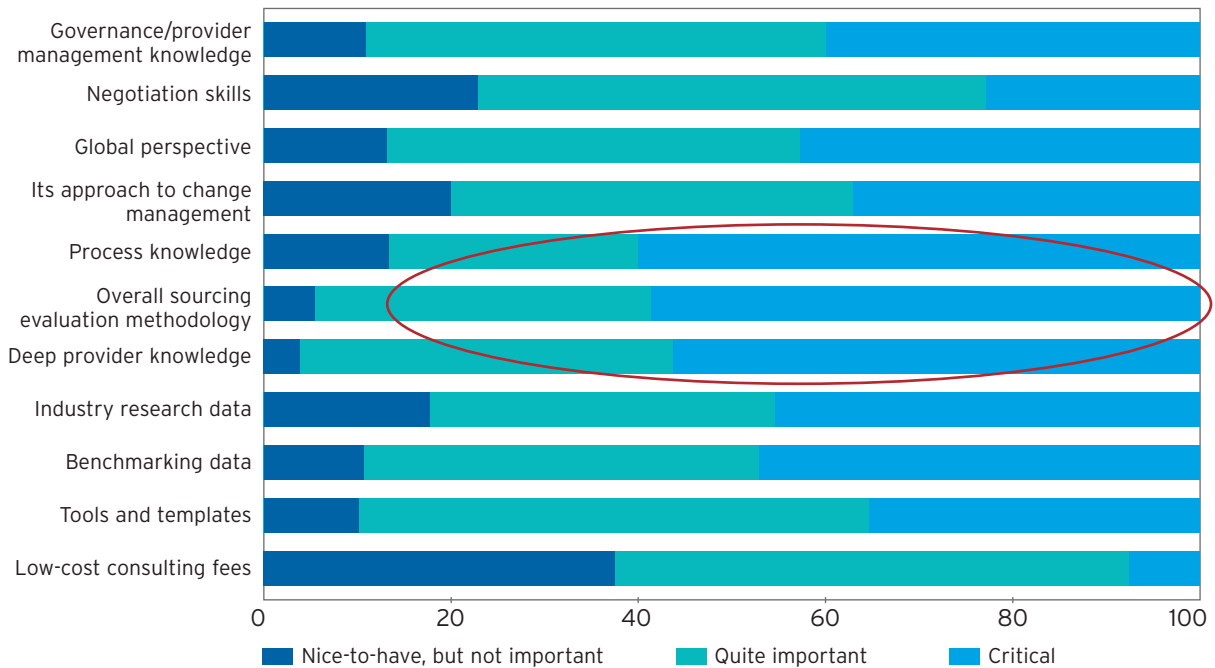


Expectations from Advisers

WHAT CUSTOMERS WANT FROM ADVISERS

How critical are the following elements of a sourcing adviser relationship to you? (%)

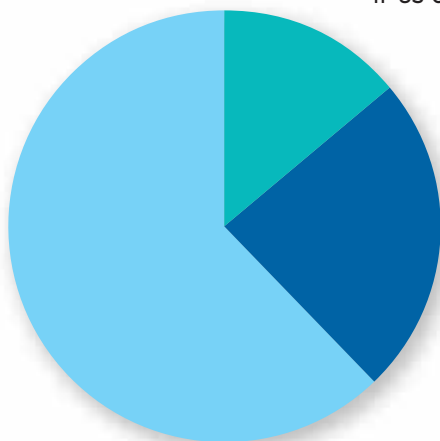
n=66 Customers



SOURCE: GLOBAL SERVICES MEDIA / AMR RESEARCH SOURCING ADVISER STUDY, JULY 2008

What would be your preferred pricing for sourcing advisory services, if you were to use them again in the future? (%)

n=63 Customers

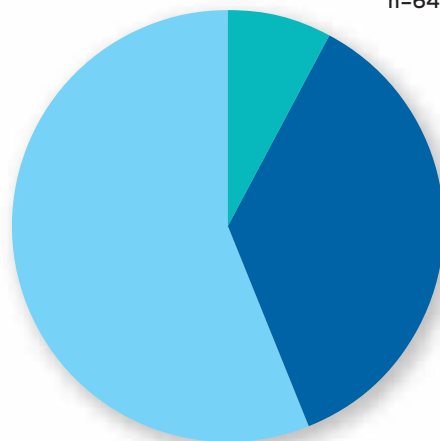


- 14** Monthly flat fee
- 24** Billable hours
- 62** Flat total project fee

SOURCE: GLOBAL SERVICES MEDIA / AMR RESEARCH SOURCING ADVISER STUDY, JULY 2008

Will you use a third-party adviser again in the future for sourcing advice?

n=64 Customers



- 8** No
- 36** Don't know
- 56** Yes

SOURCE: GLOBAL SERVICES MEDIA / AMR RESEARCH SOURCING ADVISER STUDY, JULY 2008

WHAT BUYERS WANT FROM ADVISERS

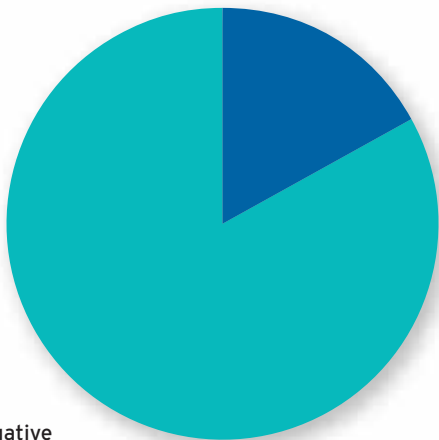
Statements: If you use a sourcing adviser again in the future, what would you do differently?

- Ensure they have an established and comprehensive process for reducing provider-selection time.
- Focus more on the skills of advisers than the reputation of the company
- Use RFP process to select adviser
- Have them provide a broader set of services to manage the post-selection transition
- Be better prepared internally when they arrive, use them sooner in the process
- Select individual consultants on the basis of their CVs rather than a consultancy company against a RFP
- Use different outsourcing advisers for expertise in a domain with a proven track record for innovative management
- Be clear of their role and ensure it does not restrict access to providers' value add
- Use targeted assignments that are smaller in scope with very tangible deliverables
- Ask for more sushi at dog n' pony shows.

PROVIDERS ON ADVISERS...

In your opinion, have sourcing advisers been a positive or a negative influence on assisting their customers' sourcing strategies? (%)

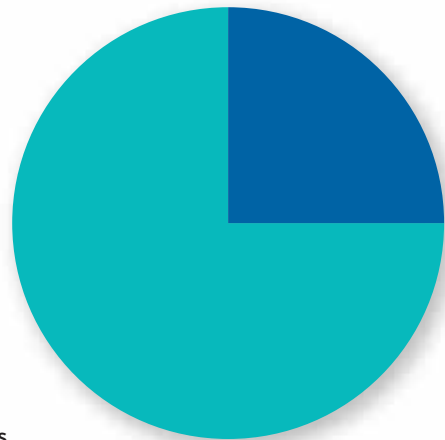
n=106 Providers



17 Negative
83 Positive

Are there sourcing advisers with whom you refuse to work? (%)

n=103 Providers



25 Yes
75 No

From your experience, how can advisers improve their sourcing process/methodology?

- By NOT pushing their own agenda (sales) at every instance
- Start focusing on the mid market customers too and also customize their RFPs to their needs
- More frequent communication with service providers
- Advisers with more hands-on experience and greater understanding of how sourcing is changing
- Keep learning and educating themselves and networking and helping each other
- Allow the providers to have a dialogue with the prospect during the sales process
- They must be open to encouraging lesser-known, yet competent, providers and not follow the trodden path only
- Reduce number of providers considered
- Have right attitude versus "beat up provider" mentality
- Hire people who have real-life experience in outsourcing delivery and implementation.

Advisers' dashboard

Name	Year founded	Total staff			Staff to manage service provider relations	Global presence					
		Full-time employees	Part-time / contracted advisors	Other		Americas		Europe		Asia Pacific	
						Office(s)	OAS personnel	Office(s)	OAS personnel	Office(s)	OAS personnel
Alsbridge	2002	100	–	15	1	ND*	ND*	ND*	ND*	ND*	ND*
Archstone Consulting	2003	40	0	2	0	In 5 countries	210	In 1 country	40	–	–
Avasant	2006	40	100+	11	1	7	81	1	20	1	50
Deloitte	1840s	420	300	ND*	20	892	440	419	230	178	50
EquaTerra	2003	225	15	50	ND*	4	194	5	90	2	6
KPMG	1987	250	400	–	0	In 4 countries	ND*	In 10 countries	ND*	In 7 countries	ND*
neolT	1999	ND*	ND*	ND*	3	1	ND*	1	–	–	ND*
PA Consulting	1943	400	0	100	0	11	410	14	2,055	7	135
Pace Harmon	2003	38	22	3	1	2	63	0	0	0	0
Pillsbury Winthrop Shaw Pittman	1868	55	2	3	–	4	49	1	8	0	0
The W Group	2002	25	15	5	25	1	45	0	0	0	0
TPI	1989	ND*	ND*	ND*	1	ND*	ND*	ND*	ND*	ND*	ND*

*NOT DISCLOSED; SOURCE: GLOBAL SERVICES MEDIA / AMR RESEARCH SOURCING ADVISER STUDY, JULY 2008

SOURCING ADVISERS ARE EXPECTED TO TRANSACT SOURCING DEALS FAR MORE RAPIDLY AND OFTEN UNDER A SIX-MONTH TIMEFRAME.

THE ROLE OF THE OUTSOURCING ADVISER HAS BECOME A LOT BROADER THAN SIMPLY ADMINISTERING AN OUTSOURCING TRANSACTION.

Special Report

Name	Revenues in 2007(A: \$1 to \$10 mn; B: \$11 to \$50 mn; C: \$50 to \$250 mn; D: \$251 mn+)	% of Revenue Attributed to A: Sourcing Strategy & Evaluation; B: Solution, Design & Contracting; C: Transition & Governance Services	How do you charge your customers? (A: Flat project fee; B: Billable hours; C: Fixed project fees + billable hours; D: Monthly flat rate; E: Annual subscription; F: Other)	Where do you see a change*? (A: Flat project fee; B: Billable hours; C: Fixed project fees + billable hours; D: Monthly flat rate; E: Annual subscription; F: Other) <small>* In the next 18 months</small>	In the next 18 months, changes expected in A: Sourcing Strategy & Evaluation; B: Solution, Design & Contracting; C: Transition & Governance
Archstone Consulting	B (sourcing revenues) and C (total consulting revenue)	A = 50, B = 25, C = 25	A	C and D	A = up**, B = up, C = up
Alsbridge	B	A = 33, B = 34, C = 33	B	B	A = up, B = up, C = up
Avasant	B	A = 32, B = 38, C = 30	A, B, C	B	A = no change, B = no change, C = no change
Deloitte	Not Disclosed	A = 40, B = 30, C = 30	B	A = up, E = continental fee arrangements	A = up, B = up, C = up
EquaTerra	Not Disclosed	A = 15, B = 60, C = 25	A, B, F (at risk based on outcomes)	A and F (at risk based on outcomes)	A = up, B = down***, C = up
KPMG	C	A = 20, B = 40, C = 40	A	A	A = up, B = up, C = up
neolT	Not Disclosed	A = 50, B = 30, C = 20	A	-	A = up, B = no change, C = up
PA Consulting	C	A = 30, B = 30, C = 40	C	A	A = up, B = up, C = up
Pace Harmon	B	A = 20, B=40, C = 20	B	C and D	A = up, B = up, C = up
Pillsbury Winthrop Shaw Pittman	B	A = 40, B = 50, C = 10	B	A and C	A = up, B = up, C = up
The W Group	B	A = 50, B = 30, C = 20	D	-	A = up, B = up, C = up
TPI	C	A = 35, B = 50, C = 15	B	-	-

Functional Expertise			Change in functional areas you serve in the next 18 months			Industry Expertise		
Deep	Some	Cursory	Decrease	Same	Increase	Deep	Some	Cursory
IT infra, app.s, F&A, HR, procurement, M&As	Call center, product development	RPO, KPO	-	Call center, M&As	IT infra, app.s, F&A, HR, procurement, KPO	Financial svcs, telecom, high-tech, utilities, media, public	Retail, consumer packaged goods, automotive, other mfg, transportation & logistics	-
IT infra, app.s, F&A, HR, procurement, call center	KPO	-	HR	IT infra, F&A, call center, KPO	App.s, procurement, M&As	Retail, chemicals, other mfg, financial svcs, telecom, hi-tech, health care, utilities, public	Consumer packaged goods, automotive, media	-
IT infra, app.s, F&A, HR, procurement, call center	-	-	-	-	IT infra, app.s F&A, HR, procurement, call center	All	-	-
IT infra, app.s, F&A HR, procurement, call center	-	-	-	HR, procurement, call center	IT infra, app.s, F&A	All	-	-
App.s, F&A, procurement	IT infra, HR, call center	-	-	-	IT infra, app.s, F&A, HR, procurement call center	Mfg, financial svcs, telecom, tech, health care	Retail, consumer packaged goods, automotive, utilities, media, public	Chemicals, transportation & logistics
IT infra, app.s, F&A, high-tech, media	HR, procurement, call center	-	-	App.s, HR, procurement, call center	IT infra, F&A	High tech, telecom	Retail, mfg, financial svcs, insurance, health care, media, utilities public	-
IT infra, app.s HR, procurement, call center	F&A	-	-	IT infra, call center	App.s, F&A, HR, procurement	Financial svcs, insurance, telecom, tech, utilities, health care, media, public	Retail, consumer packaged goods, chemicals, automotive, other mfg, transportation & logistics	-
IT infra, app.s, F&A, procurement, call center	HR	-	-	Procurement, call center	IT infra, app.s, F&A, HR	Retail, other mfg, financial svcs, high-tech, telecom, utilities, health care	Consumer packaged goods, automotive, transportation & logistics, media, public	-
IT infra, app.s, F&A, HR, procurement, call center	-	-	-	App.s, HR, call center	IT infra, F&A, procurement, facilities mgmt., telecom, managed network svcs	Retail, consumer packaged goods, other mfg, financial svcs, telecom, tech, health care, media	Automotive, transportation & logistics, utilities	Chemicals, public
IT Infra, app.s	F&A, HR, procurement, call center	-	-	HR	IT infra, app.s, F&A, procurement, call center	Retail, consumer packaged goods, mfg, financial svcs, telecom, hi-tech, health care, media	Transportation & logistics, utilities	Chemicals, automotive, public
IT infra, app.s, HR, F&A, BPO, multi-process	F&A, procurement, call center	-	-	-	-	All	-	-

** INCREASE; *** DECREASE; SOURCE: GLOBAL SERVICES MEDIA / AMR RESEARCH SOURCING ADVISER STUDY, JULY 2008