

12 WAYS TO SURVIVE THE RACE TO IRRELEVANCE

Key Takeaways from the HfS Cambridge University Buyers Summit

The Analyst Team, HfS Research
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Introduction

In March 2016, HfS hosted its 11th [Working Summit for Services Buyers at Gonville and Caius College, Cambridge University](#). This two-day event focused on the current inflection point bearing down on the sourcing community—namely, the impact automation and digital technologies are having on enterprises and their sourcing strategies. In short, the theme was all about how operations and governance executives can stay relevant as the business world adopts these new technologies and working practices.



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This was the second time HfS held an event in Cambridge; the last time was 18 months ago. In that span, perhaps the biggest change we noticed was the attitude of the buyers. The event highlighted a big leap forward in the maturity and sophistication of the buy-side community. In particular, the buyers showed a genuine desire to look at themselves focusing on what they need to do to make the most out of the change that is happening within the sourcing community. In particular, how to make outsourcing, and shared services part of the mainstream business agenda and move it beyond its current silo—to keep themselves relevant. This change in attitude had a huge impact on the takeaways and learnings recorded here. This document captures the most important and valuable ideas we captured throughout the sessions.

The Key Takeaways

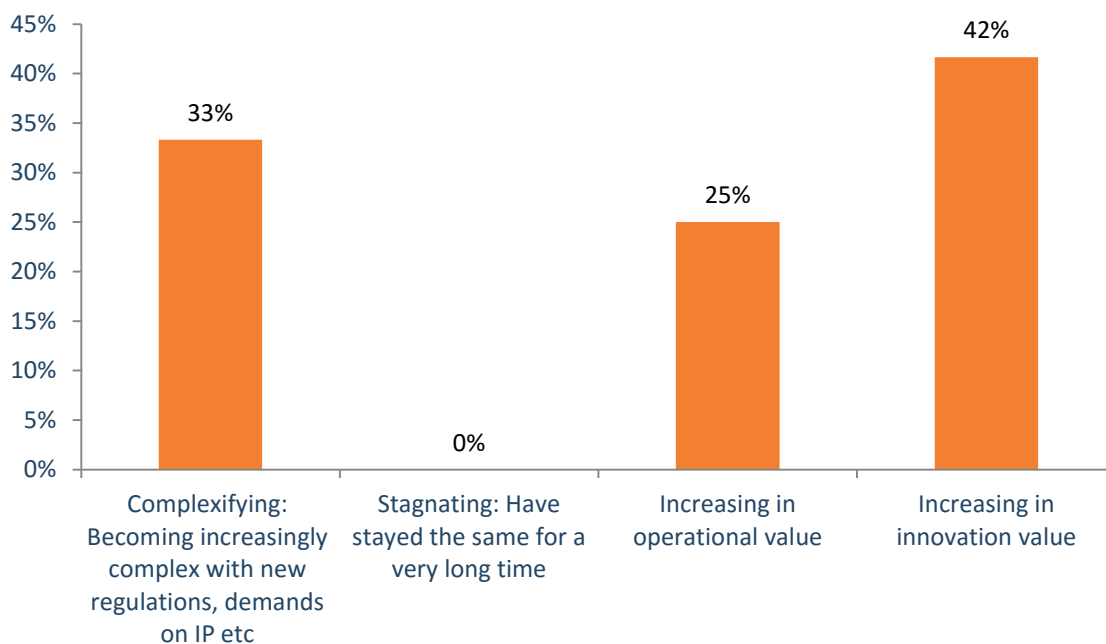
1. **Writing off legacy is as more about a change in mindset than it is about actual technology or process:** Writing off legacy is not about getting rid of anything for the sake of it. “Legacy” in this context means part of the process that is no longer fit for the purpose. It does not refer to some abstract concept of legacy IT, where anything before cloud is bad. Frankly, you can’t simply remove legacy by just disposing of some archaic ERP system and slamming in some SaaS product, or mimicking every defunct manual process into a piece of RPA software, or firing an entire department of ineffective process wonks. In fact, a lot of what is

termed legacy IT actually works and the ROI for changing platform doesn't make sense, practically or financially. Writing off legacy is about starting the process of reimagining a future without those legacy systems and processes that are holding back businesses.

- It really isn't just about cost anymore:** For the last 20 years, large outsourcing deals have been driven by the desire to extract as much cost out of the process as possible. As we pointed out after our Harvard event, this race to the bottom isn't sustainable and has impacted the industry's ability to add value to many deals. However, the light at the end of the tunnel is automation, which is helping to create an environment where cost and innovation can co-exist. For this to work, though, buyers are going to have to give a broader portfolio of work to providers and allow those providers a chance to introduce innovation and value. One of the buyers in Cambridge demonstrated how the cost goal has subtly shifted in the last couple of years. It's no longer about absolute savings; rather, it's about extracting more value. The question they are asked by their business is: "Can your department or business service deliver more value for the same money?"

Exhibit 1: European Outsourcing Relationships Increasing in Innovation and Complexity

Polling Question: Please best describe how are your primary service provider relationships changing?



Source: HfS Research, 2016; HfS Cambridge Buyers Summit (19 Outsourcing Buyers)

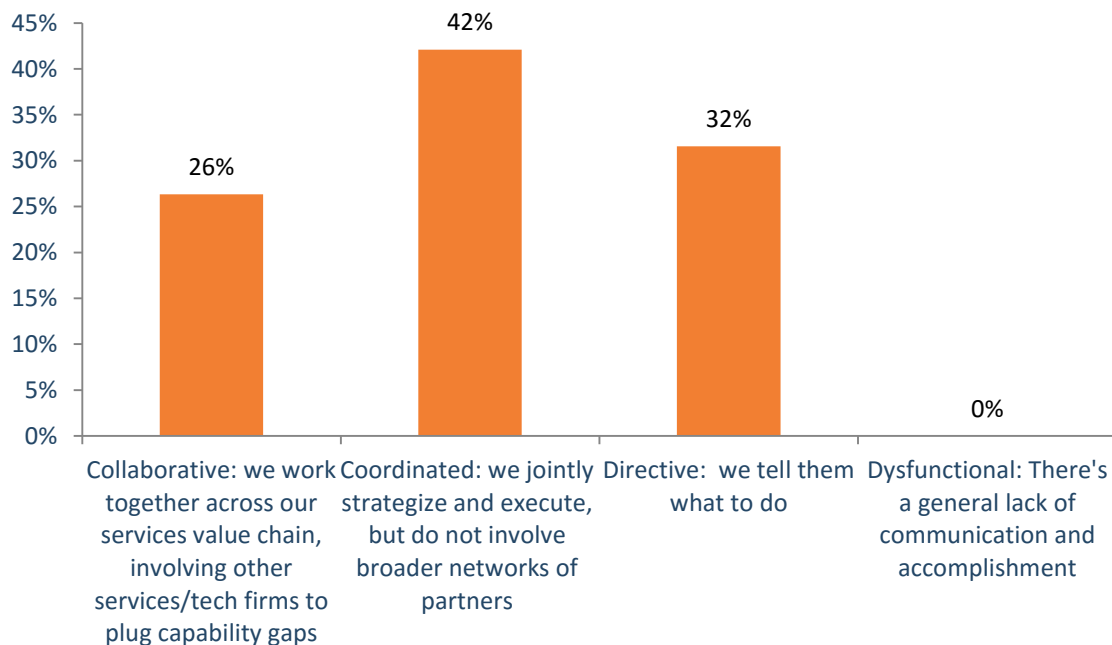
- Some smart providers are already cannibalizing their revenues with clients to keep out their competitors:** Service providers need to start taking the initiative to do projects with clients that potentially impact short-

term revenue gains. A good example is RPA: As buyers start to see increasingly compelling use cases they will look around for providers to help. Getting in with these initial projects will keep these providers' services relevant. This not only helps build the relationship with the client, but as one of the delegates put it, "It also cuts the throat of the competition and smart providers will take a bigger, more profitable slice of the smaller pie." One major buy side worry about automation is that the service providers are not passing on the savings and, in some cases, still charge for full price FTEs.

- 4. Relationship-focused contracts need to emerge:** From our event in Harvard in December, we envisaged the need for a new types of genuine risk/reward contract. Although risk and gainsharing are aspects of this new type of contract design, the underlying method needs to change. The relationship is moving to the fore and the contract needs to reflect this. Exhibit 2 shows how buyers feel about their current relationships. We can see that a lot of this work has been done, with buyers increasingly focused on jointly executing on their joint goals. Taking this further, the willingness to co-invest and move beyond measuring the success of the contract by merely the KPIs is important. Service providers need to form part of the operations team and not feel that they are being squeezed for every ounce of cost. One buyer at the event said taking a more relationship-oriented approach to contracting means they have achieved 100 times the value out of their agreements in the last three years than they did in the 20 years of outsourcing before.

Exhibit 2: Three-Quarters of European Outsourcing Relationships Are Not Truly Collaborative

Polling Question: How would you describe your relationship with your current (primary) service provider?



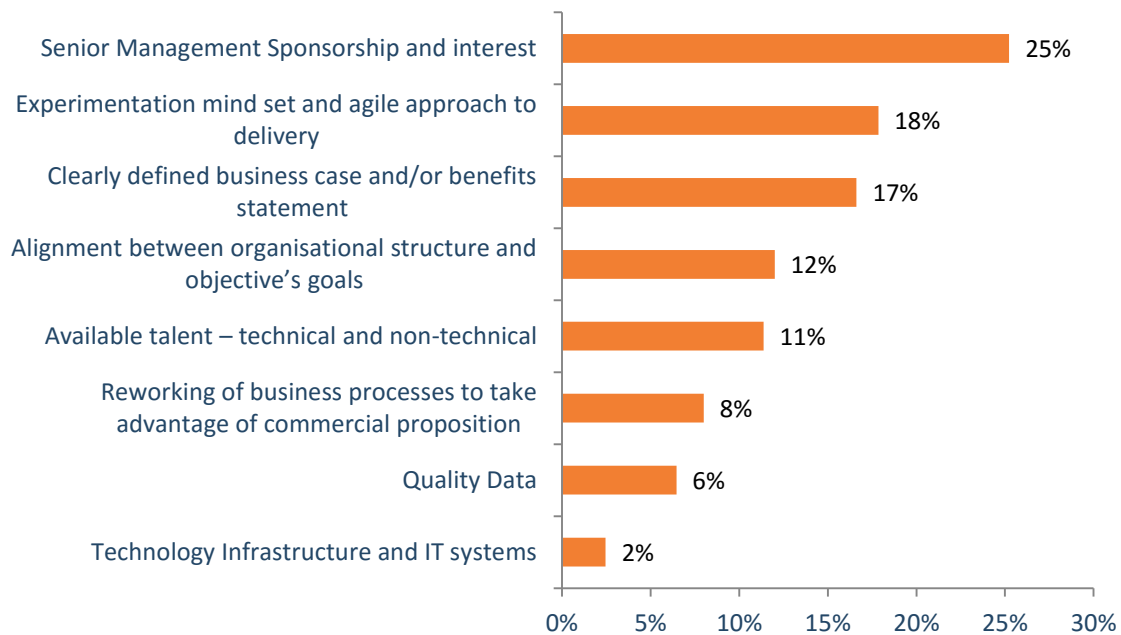
Source: HfS Research, 2016; HfS Cambridge Summit (19 Outsourcing Buyers)

5. **Focus on what we can change today, not some idealized future end state:** There is a tendency for any technology-driven change to focus on the fantastical future end state—where the gap between hype and reality becomes so wide it obscures the path. So it is time to focus on what we can achieve today. Successful sourcing executives need to become “brokers of capability” (which, one buyer commented, sounds like a rock band)—living in the present to drive a change of mindset for the future. Most of the executives have been tasked with adopting digital strategies (whatever those may be) and to come up with smart approaches to take advantage of automation technologies. But, to get there, they need to change how their teams think, collaborate and operate.

6. **Digital transformation must be a business-driven strategy enabled by technology:** As more organizations embed digital technologies into their business processes, digital becomes part of the fabric of the enterprise. Exhibit 3 illustrates this point. The most essential factor for a successful digital project is senior management buy in. Singling out and separating “digital” from the rest of the business is counterproductive for many organizations.

Exhibit 3: Senior Buy-in Critical for Digital Success

Polling Question: What factors are most essential, in your opinion, for delivering successful digital initiatives?



Source: HfS Research, 2016; HfS Cambridge Summit (65 Outsourcing Buyers and Service Providers)

7. **RPA is real, but falls short of intelligent automation:** The current narrow focus on RPA as the sharp end of automation underpins the disconnect between hype and reality for many buyers that think about automation. RPA is linked to swivel-chair tasks, replacing the humans that take inputs from one set of systems, such as email or spreadsheets, process those inputs using rules and then enter outputs into systems of record, like ERP or CRM systems. One of the attendees stated that “RPA is like Tofu. It has no flavor. The supply side has to be innovative as to how it is packaging it.” However, this is where reality of automation sits for many buyers at the moment.
8. **Intelligent automation needs to look beyond RPA to take advantage of the data explosion:** As noted in point 7, RPA is just the tip of the automation iceberg. We are starting to see a number services beyond basic RPA and autonomics. We see an increasing focus on horizontal business applications like ERP integration, service orchestration, workload automation. Also we are starting to see its use in capture and application of industry data. One of the delegates advised: “Automate as fast as you can. There is no other way to deal with the exponential data explosion we are in the middle of.” Frankly, without automation there is no way to realistically leverage this data on an industrial scale.
9. **Europe needs more focus on design thinking:** Design thinking was one of the central topics of conversation from our event in Harvard last year, but was not part of the discussion in Cambridge. Increased focus on the use of design thinking to transform process is vital to the industry proceeding down the path to As-a-Service. Design thinking can help sourcing relationships in a number of ways. Firstly, it can structure relationships so buyers and providers can have common goals/outcomes. It can be used in conjunction with rapid development techniques like agile and devops to empower staff, enabling staff to become genuine agents of change within the organization. A key challenge for operations departments is helping to balance new more customer-centric corporate priorities with cost saving and process improvement. Essentially, delivering customers a highly personalized and increasingly intimate service, whilst at the same time standardizing and simplifying the process. This is the main strength of design thinking: it makes enterprise leaders change the perspective of the problem from themselves to the customer. Ultimately it drives organizations to “think big, start small, and adapt fast.”
10. **Buyers need to take more responsibility to ensure the success of an outsourcing relationship:** As we mentioned in the introduction, the most telling change at this year’s event was the attitude of buyers. None of the participants wanted to play the supplier blame game and rant about failed promises of the past and lack of provider inspired innovation. The focus was on moving the outsourcing relationship forward, ensuring that responsibility for its success or failure was shared. Ensuring that not only the right governance was in place, but also the right people (and by implication, the right “can do” attitude”). This is a major shift in the sourcing conversation: buyers accept that if they want a sourcing engagement to work for them, they need to change first. Advice from one buy side delegate was: “Don’t replace Vendor A with cheaper Vendor B and expect a better outcome.” Highlighting the need for buyers to be realistic about the likely outcomes of their actions.
11. **We need to establish a more broadly understood set of definitions:** Outsourcing, digital and automation expertise are becoming part of everyday broad management capability, however, much of the terminology being used today is not widely understood by the industry at large. For example, “RPA” is only understood

in outsourcing and shared services communities, not broader operations, and “digital” has different meaning to people in different roles. Digital, RPA, outsourcing and shared services were all volunteered as examples of concepts needing a serious branding initiative—especially as the focus develops from the abstract technology future toward real business outcome and business need. A theme that cropped up in many discussions was the importance of the terminology, how we should promote its use and, in some cases, lack of use (e.g., people becoming jaded by over-hyped phrases such as “digital” and concepts with mixed connotations like outsourcing). Many delegates wanted to distance themselves from the shared services and outsourcing terminology of the past, by reframing the industry into sourcing and global business services. As sourcing professionals that want to be taken more seriously within their organizations, the label is increasingly vital.

12. **Shifting to outcomes entails buyers giving up more control over processes and technology:** To embrace the As-a-Service Economy fully, buyers need to be willing to release an element of control over processes and technology, as the focus moves shifts squarely towards achieving businesses outcomes. This will take another adjustment in attitude where buyers are willing to concentrate much more on the results and not the method, particularly where it differs from their current practice. However, the main sticking point will be with the service providers, who will need to be more willing and able to take on outcome-based pricing and promises, which involves an added degree of risk.

What to Watch

HfS will continue to be in the forefront of discussion about **Being As-a-Service**: the development of the As-a-Service Economy, design thinking, automation and intelligent operations. These topics will form the core of our research agenda for 2016, which you can read about [here](#).

You can join the debate online at HfS Research’s acclaimed blog **Horses for Sources**, which is universally recognized as the most widely read and revered destination for unfettered collective insight, research, and open debate about sourcing industry issues and developments. Horses for Sources today receives over a million web visits a year.

Alternatively, if you’d like to join us in person, we always save a few spots at our events for senior buyer executives, so [drop us a line](#) if you're interested in taking part in one of the next two:

» [San Francisco, California, 26-27 May 2016](#)

» [White Plains, New York, 14-16 September 2016](#)

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About the Authors

Phil Fersht



Phil Fersht is Founder, CEO and Industry Analyst for leading global analyst authority for the services industry, HfS Research. He is an acclaimed author, analyst and visionary in Global IT services and business operations and has been focusing heavily on automation, cognitive computing and evolving "digital talent" strategies. Fersht coined the term "The As-a-Service Economy," which is HfS Research's vision for the future of the global services and outsourcing industry and has become widely adopted by the global services industry.

Fersht founded HfS Research in 2010 and has masterminded the development of the HfS organization as a leading analyst for the firm, in addition to steering the business operations. He is also author and creator of the most widely-read and acclaimed blog in the global services industry, entitled "[Horses for Sources](#)" and now entering its ninth year, attracting over a million visits per year across the globe. At HfS, he directs the firm's research, advisory and global knowledge community, which today totals over 100,000 professionals and is served by a growing and widely respected global analyst team. HfS has been named Analyst Firm of the Year for 2016, alongside Gartner and Forrester, by leading analyst observer InfluencerRelations.com.

Over the past 20 years, Fersht has lived and worked in Europe, North America and Asia, where he has advised on hundreds of operations strategy, outsourcing, and global business services engagements. During his career, Phil Fersht has worked at Gartner Inc. (AMR Research), directing the firm's BPO and IT Services practices and served as market leader for Deloitte Consulting's BPO Advisory Services, where he led numerous outsourcing and offshoring advisory engagements with Fortune 500 enterprises. He began his career with IT analyst IDC.

Fersht contributes regularly to media such as Wall St Journal, Business Week, Economist, The Times of India and CIO Magazine and is a regular keynote speaker at major industry events, such as NASSCOM, Sourcing Interests Group and the HfS Blueprint Sessions.

He received a Bachelor of Science, with Honors, in European Business & Technology from Coventry University, United Kingdom and a Diplôme Universitaire de Technologie in Business & Technology from the University of Grenoble, France. He also has a diploma from the Market Research Society in the United Kingdom

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Jamie Snowdon



Jamie Snowdon has primary responsibility for overseeing the development of HfS' Quarterly Market Index, in addition to managing and developing the firm's data-centric products and services. He works across the HfS analyst teams to define evolving services markets and create market size estimates and forecasts. He also manages HfS' quantitative survey and benchmark data.

Jamie has over seventeen years' experience in the IT and Business Services industry. In that time, he has worked in a variety of roles including sales, marketing, consulting and as an industry analyst. Jamie's analyst career has largely been spent conducting data analysis including market size/forecast models, quantitative/qualitative survey analysis and competitive analysis.

Prior to HfS, Jamie worked for UK-based analyst firm Nelson-Hall as a Research Director, conducting vendor and market analysis within the IT and Business Services community. Prior to Nelson-Hall, Jamie spent seven years at IDC, where he was the European consulting director for IDC's services group, managing all of their bespoke research. Jamie specialized in delivering custom market forecast models and forecasting tools tailored to his client's individual needs. In addition, Jamie ran IDC's European outsourcing research, covering both IT and business process outsourcing. Jamie has wide industry knowledge covering IT consulting, enterprise applications, IT & business process outsourcing, desktop & network services, equipment maintenance, and business continuity.

Earlier in his analyst career, Jamie spent four and a half years at the IT services research specialist INPUT in a mixture of marketing and analysis roles. He left as the UK operations manager having spent two years as a customer services industry analyst. Jamie completed his graduate training at one of the UK's leading electronic and IT distribution companies.

Jamie's passion is learning; he holds university degrees in general science (computing), law and has a post graduate diploma in legal practice. He lives in Twickenham, London with his partner (and soon to be wife), step daughter and Lucky the cat. His other loves include cycling, reading trashy sci-fi, cool technology and the perfect pint.

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Derk Erb 



Derk Erb  is Managing Director Research at HfS Research. Erb  is responsible for a compelling, leading-edge research agenda covering the core topics of interest for buyer and vendor communities in the areas of digital business transformation services and business operations, with a specific emphasis on key vertical markets, namely Energy, Utilities and Resource Industries.

He works with the HfS research team on key research areas that are impacting HfS clients, such as automation, SaaS and workforce transformation.

Derk is responsible for Custom Research at HfS, working across the commercial and analyst team and client organisations developing and executing research deliverables.

Derk has a keen interest in Business Transformations, new business models, Digital, Mobile and IoT from a technology and change management perspective.

Most recently, Derk was Co-Founder and CEO of Kea Company. He held several roles at Kea Company, serving as EVP Strategy and leading business advisory and consultancy. He was part of the team behind the annual global Analyst Relations Forum.

Throughout his career Derk had a wide variety of leadership, consultancy and advisory roles with emphasis on business processes, operations, enterprise architecture, change management and crisis management. He was a management consultant and interim manager at energy companies like RWE/Essent and a natural gas giant, NGO's, government agencies, tech startups, large technology vendors and service providers.

Derk is known for his ability to rapidly distill the top priorities in difficult circumstances and fluid, complex situations and executing on these priorities with his "getting things done" mentality.

Derk holds a Master's of Science in Sociology from the University of Amsterdam. If he is not cooking up plans for clients he likes to be in an actual kitchen. With a curious mind, he likes to get his head around complex stuff. When the realization sank in his talent and height weren't leading to the NBA he became a passive basketball connoisseur.

When Derk is not travelling, business or pleasure, he resides near Amsterdam, the Netherlands with his wife and two little sons.

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Tom Reuner



Tom Reuner is Managing Director for IT Outsourcing Research at HfS. Tom is responsible for driving the HfS research agenda for the "As-a-Service Economy" across SaaS applications, cloud eco-systems and IT. Together with his HfS colleagues Tom continues to develop ground breaking research around process automation and cognitive computing in both IT and business processes. A central theme for all of his research is the increasing linkages between technological evolution and evolution in the delivery of business processes.

Tom's deep understanding of the dynamics of this market comes from having held senior positions with Gartner, Ovum and KPMG Consulting in the UK and with IDC in Germany where his responsibilities ranged from research and consulting to business development. He has always been involved in advising clients on the formulation of strategies, guiding them through methodologies and analytical data and working with clients to develop impactful and actionable insights. Tom is frequently quoted in the leading business and national press, appeared on TV and is a regular presenter at conferences.

Tom has a PhD in History from the University of Göttingen in Germany.

He lives in London with his wife and in his spare time, he is trying to improve his culinary skills in order to distract him from the straining experience of being a Spurs supporter.

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Mike Cook



Mike Cook is the Human Resource Services Research Director at HfS Research, shaping the firm's research in a newly formed "HR-as-a-Service" domain that helps enterprises transform their HR and workforce management capabilities in the emerging As-a-Service Economy.

Mike is responsible for driving and authoring a compelling research agenda focused on HR service delivery, talent management and HR-as-a-Service strategies for HR practitioners and HR industry stakeholders. He works with the HfS research team on key research areas that are impacting HfS clients, including multi-process HRO, Payroll Outsourcing, Recruitment Process

Outsourcing and HR SaaS.

Mike also has specific focus on developing and supporting analyst services for HfS buy-side practitioner clients across Business Process Outsourcing domains, working across the multi-disciplinary HfS analyst teams.

Previously, Mike worked at BPO researcher NelsonHall as one of the firm's leading principal analysts. In his most recent role, he assisted buy-side organizations in making strategy and provider selection decisions for outsourcing services across multiple BPO domains, including HRO, Customer Management Services, F&A, LPO, Marketing BPO and Insurance Outsourcing.

Mike prides himself on his ability not only to analyze a market accurately and identify how it is changing, but also to apply this knowledge in a practical, thought-provoking and hands-on manner for enterprise service buyers, providers and investors in outsourcing and technology services.

Mike holds a Post Graduate degree in International Trade and Development Studies from the University of Johannesburg. Having realized that the lower echelons of professional cycling were not going to pay the bills, Mike has since hung up his wheels, and is now a fully qualified armchair commentator on the subject. When not diving the murky depths of the outsourcing market Mike can be found taking pot shots at innocent clay pigeons, sampling airline cuisine, getting tangled in fly fishing line and undercooking most dishes.

Mike lives in the cozy Berkshire village of Wokingham in the UK.

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Khalda De Souza



Khalda De Souza covers developments in IT and BPO across Europe for HfS and globally covers the emergence of services around software as a service (SaaS) offerings.

Prior to HfS, Khalda has been a senior level IT services research analyst at Gartner for nearly 20 years. In that time, she has managed the European research for several areas including network and IT security and business applications. Khalda has led key research deliverables such as Magic Quadrants for both Europe and global markets at Gartner.

Khalda has extensive experience in providing strategic advice to both IT services providers and customer organisations globally. For providers, this includes, but is not limited to, channel strategies, product positioning, competitive intelligence, market trends and forecast analysis. For customers, Khalda has provided insightful guidance on sourcing and vendor selection strategies.

Khalda has a BSc. from Aston University in International Business and French. She lives in the UK with her husband and three children.

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About HfS Research

We coined the [As-a-Service Economy](#) term because we see a profound change under way that is more all-encompassing than a simple business model or product line. It's a global shift that will leave few sectors of business or society untouched.

To help our clients and the market get to the As-a-Service Economy, we serve the strategy needs of business operations and IT leaders across finance, supply chain, human resources, marketing, and core industry functions in organizations around the world. HfS provides insightful and meaningful analyst coverage of best business practices and innovations that impact successful business outcomes, such as the digital transformation of operations, cloud-based business platforms, services talent development strategies, process automation and outsourcing, mobility, analytics and social collaboration. HfS applies its acclaimed [Blueprint Methodology](#) to evaluate the performance of service and technology in terms of innovating and executing against those business outcomes.

HfS educates and facilitates discussions among the world's largest knowledge community of enterprise services professionals, currently comprising 100,000+ subscribers and members. HfS Research facilitates the HfS Sourcing Executive Council, the acclaimed elite group of sourcing practitioners from leading organizations that meets bi-annually to share the future direction of the global services industry and to discuss the future enterprise operations framework. HfS provides sourcing executive council members with the HfS Governance Academy and Certification Program to help its clients improve the governance of their global business services and vendor relationships.

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