
THE ONE-TWO PUNCH OF SOURCING VALUE: SAVING MONEY & IMPROVING PROCESS QUALITY

Genpact and Symantec Have Achieved a Real Value-Creation Model for Global Procurement

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Executive Summary

Cost reduction continues to play a principal role in driving outsourcing initiatives across industries, however, as these programs continue to mature, companies are looking for additional value beyond solely salary arbitrage.

Executives are seeking services partners that can bring value to *all* aspects of their business. Sourcing and Procurement programs have, therefore, become a priority for many companies that aim to cut costs, drive efficiency, and improve supplier performance. Not only can these programs decrease salary costs of 100 people by 20 to 30 percent, for example, but they can also impact many millions of dollars of direct and indirect spend through advantageous sourcing contracts that realize ongoing benefits.

In this report, HfS Research outlines how many chief procurement officers are evolving their whole approach to outsourcing. To illustrate this dynamic, we examine the case of the security software giant, Symantec, and its sourcing relationship with managed business services provider, Genpact, who have partnered to drive over \$100 million in savings out of their cost base and to implement sourcing programs that generate real business value.

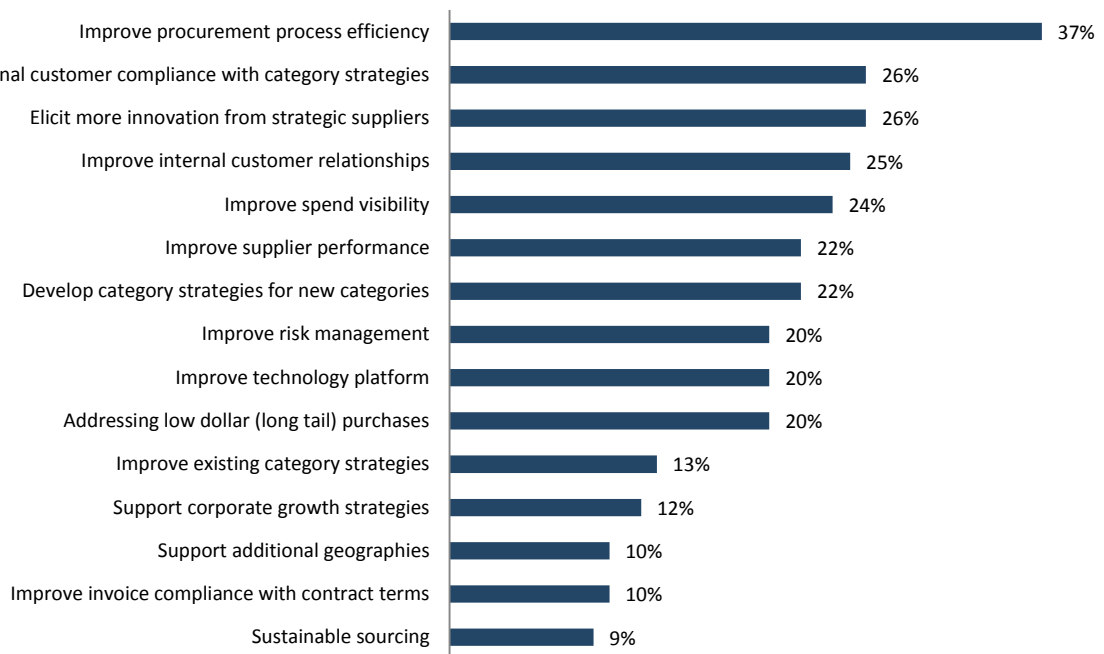
Since the onset of their engagement in 2009, these two companies have built a mature sourcing model that leverages both onshore and offshore resources to support Symantec's global footprint. In less than three years, this partnership has been able to drive a savings yield of 17 percent across Symantec's businesses and has positively influenced organizational processes, transparency, and supplier management.

Procurement Leaders Want Process Efficiency and More Innovation

HfS Research elicited responses from 99 senior procurement leaders and asked them to list the top three priorities facing their procurement organizations. Process efficiency topped the list by a significant margin, followed by improved internal compliance and innovation from strategic suppliers. (See Exhibit 1.)

Exhibit 1: Top priorities facing procurement organizations beyond cost reduction

Q. Please identify the top three opportunities facing your procurement organization:



Source: HfS Research 2012, N = 99 Procurement Leaders

The Four Tenets of Successful Procurement: People, Process, Globalization and Savings Realization

Of the many priorities that procurement leaders must address, most are associated with four areas of the business:

- » **People:** In many organizations, there is an ongoing tension between the procurement organizations sourcing a category and the many business owners using the services and goods. The business has the domain experience and knowledge, whereas the procurement organization has the procurement expertise and tools. Based on discussions with procurement leaders, HfS Research has found that these two groups often do not work well together and that their goals generally are not aligned.
- » **Process Efficiency:** Many Sourcing and Procurement programs lack the process rigor associated with many areas of the business, often because of the disparate processing that takes place across the company. Processing can also be very manual and paper intensive. Ample opportunities exist to improve policies and procedures for better sourcing, backend processes, and program controls.
- » **Globalization:** Companies are recognizing the challenges of sourcing for global locations. This complex operational environment often forces the adoption of a decentralized model, which can be inefficient and difficult to staff. On the other hand, a centralized model situated in only one of the geographies creates a challenge when it comes to sourcing categories across the remaining part of the global footprint.
- » **Savings Realization:** When sourcing programs are executed, companies must still capture the savings and associate them with specific programs. The complexity of that process is compounded by all the challenges described in the previous three areas. Many companies do not know if their sourcing programs are paying off because they lack an effective process to associate cost savings with individual activities. This topic is especially interesting and important for procurement leaders, whose bonuses are largely tied to savings being generated.

These four areas all relate back to the need for stronger practices and compliance, both internally and within the supplier's operations. So as procurement leaders focus on driving improvements in their programs, they require support from both their internal business partners and their outsourcing partners.

Why Many Companies are Turning to Outsourcing Elements of Their Procurement Function

Simply put, most companies today do not run their procurement functions with large numbers of staff – many have been cut to the bone over the years, and the only room to find new value is from process improvement, better access to category experts and procurement technology. While other processes, such as transactional accounting and call center services, focus predominantly on labor arbitrage as the initial value lever, Strategic Sourcing focuses on category expertise to reduce the negotiated cost of goods and services.

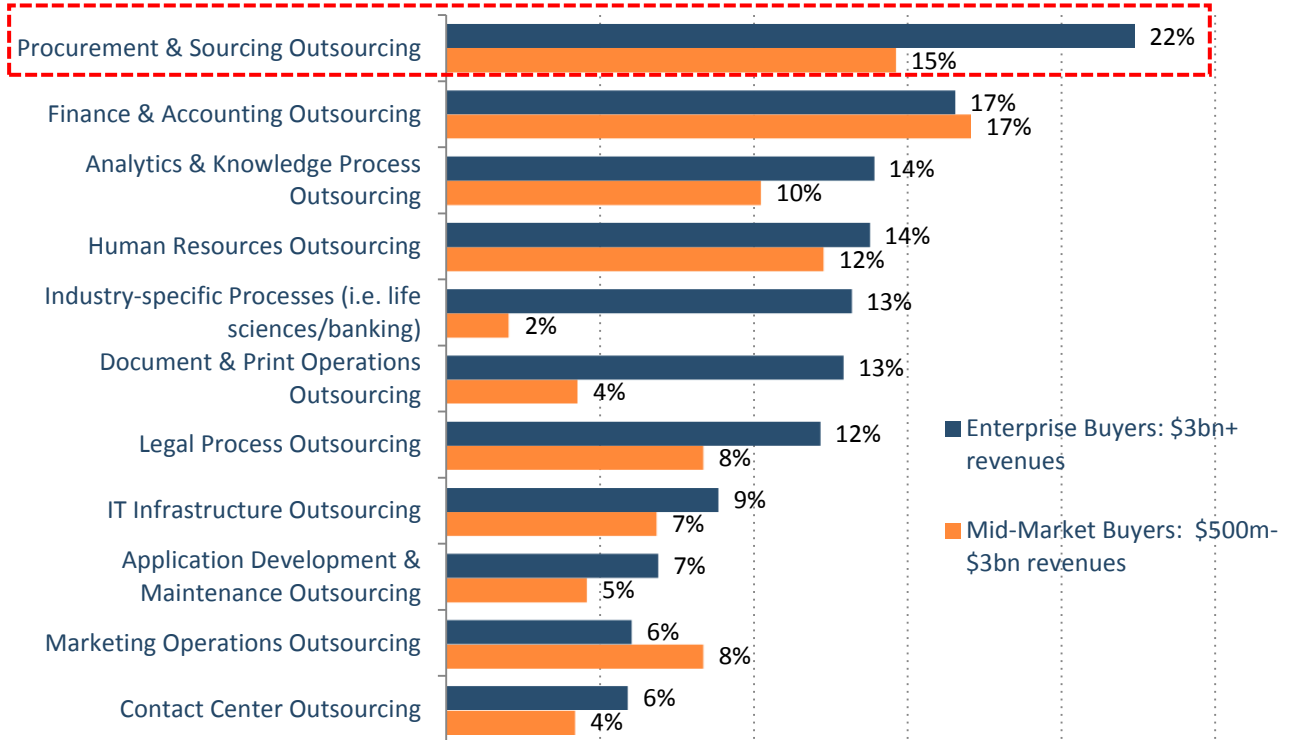
If executed effectively with a competent service provider, outsourcing procurement functions can drive cost savings at both a resource and a spend level, improves effectiveness, and addresses many of the change management issues that face decentralized organizations. While other processes focus on labor arbitrage; Strategic Sourcing focuses on category expertise to reduce the negotiated cost of goods and services.

To this point, procurement executives have consistently generated three major forms of benefits. The most important to procurement leaders is dramatically **improved access to better category expertise in more spend categories**. Service providers have teams of category experts that they inject into their clients' teams on demand. Under the guidance of category experts, organizations improve their savings rates with better strategies and market knowledge, as well as through accelerating project timelines. The second most important benefit is **improved process performance and efficiency**. Most transactional indirect procurement teams lack mature processes. Service providers focus on improving cycle times and category playbook execution, which improves stakeholder relationships and improves savings. In fact, many organizations leverage highly efficient process to address more long tail spend. Finally, procurement executives **gain global scale to support their clients' and supply bases' global footprint**. Not having to duplicate category and transactional responsibilities in each part of the world allows procurement leaders to flexibility to address global client needs more flexibly.

Despite the benefits, procurement leaders considering outsourcing face two important challenges. Most challenging is **strategic stakeholder management**. Procurement leaders need to develop an operating model that creates deeper relationships. A third party will rarely understand a company's culture and business goals sufficiently well to eliminate the need for the retained team to serve in relationship management roles. As a result, some categories or parts of the sourcing process may be best managed by internal resources, sometimes with augmented expertise of a service provider. The second most challenging aspect of procurement outsourcing is **establishing balanced performance metrics that reflect the culture of a company**. Many relationships are too incented on savings, which can create discord during supplier selection or category strategy discussions. Other relationships are too focused on processing purchase orders quickly, and not on matching them with category playbooks. Rather than focus purely on best practices, performance metrics should be tailored to the company's objectives.

Exhibit 2: Procurement in highest demand for first-time outsourcing for many organizations

Q. percentage buy-side organizations looking to outsource for the first time over the next 12 months



Source: HfS Research and the London School of Economics Outsourcing Unit, 2011 Sample: 277 Enterprise Buyers of Outsourcing Services

Symantec's Relationship with Genpact: Achieving Real Productivity Gains From Value Creation

Symantec and Genpact forged a relationship in 2009 that epitomizes the value that companies can derive from more efficient procurement processes. This buyer-provider relationship stretches across various areas of Finance & Accounting and Procurement organizations, resulting in a working model that, for Symantec, has created both short-term cost savings and long-term value.

Symantec had been confronting many of the common procurement-related industry challenges; the company realized there were opportunities to improve performance and create substantial savings. Through a six-month, multi-level selection process, Symantec chose Genpact as its partner because of Genpact's extensive sourcing and procurement experience and global footprint. Most of all, Symantec was drawn to the process improvement acumen Genpact had garnered via its GE heritage and its Six Sigma and lean manufacturing programs of today.

HfS has identified the following "value creators" from this particular relationship:

Value Creator 1: Having Sourcing Experts On-Tap

The largest savings potential lies in the ability to put in place better agreements that cover more areas of spend. The challenge is that category expertise is very specific. If procurement leaders want to address a wide scope of categories, they require a large number of experts. Generally, however, they need them for only three to six months—just enough time to source and contract a category. This type of resource management is difficult, and most procurement leaders cannot afford specialists in every category. John McGoun, Sr. Director of Global Operations at Symantec, said, "The reality is that regardless of the quality of sourcing professionals a company has, they become generalists over time because they just aren't in the market enough when they source a particular area once a year, at most."

Through a partnership with a domestic United States partner, Genpact was able to provide Symantec with category expertise on demand. Multiple companies share category experts and only use and pay for the services as required. In most indirect spend categories, new agreements need to be revisited annually at most, unless something changes. For example, in 2008, business travel was reduced dramatically, which meant the supply of hotel rooms was at a peak. Because of this, travel category leaders would have known they should renegotiate hotel rates in select cities.

Symantec only pays for Genpact's services on an as-needed basis. For this reason, Genpact has become a high-level resource to Symantec. Genpact category experts can complete a negotiation in half the time it would take generalists because they have conducted numerous negotiations in any given year, they know the vendors, and they can cut straight to final terms more quickly. The largest benefit to Symantec is Genpact's understanding of

specific industry categories, which only grows with more clients in each spend category and results in greater savings delivered more quickly.

For example, category experts in travel who perform 10 to 12 agreements per year have their own benchmark data on what the services are worth. Because the vendors do not bother to start the negotiation process with padded numbers, these category experts can close agreements more quickly and realize savings sooner for the client. The category experts keep constant tabs on the industry and know when changes take place. They understand the importance of city paring and ticket structures, for example, that can make the travel category so complex. They can look at the current spend data and tell the client, based on an understanding of the current environment and potential event benefits, if a sourcing event is even necessary.

Value Creator 2: Accessing Global Supplier Market Knowledge

As companies continue to expand into new geographies across the globe, the ability to leverage existing sourcing expertise in these geographies becomes increasingly valuable.

Symantec understands that it is imperative to leverage a global footprint that supports both current needs and expansion requirements. The company sought a provider that could support domestic and global operations with category expertise, sourcing analytics, and procurement support. Genpact's delivery model utilizes U.S.-based category experts to support many of the spend categories for Symantec North America. A second team in Asia Pacific supports additional global locations, while a central support team in India provides ongoing spend analysis. This global Genpact team provides a high level of process rigor and the ability to turn around the deliverables in an expedited timeframe.

Value Creator 3: Continuous Tracking of Realized Savings

The best category expert in the industry cannot realize savings without the internal organizations following and complying with the negotiated agreements. Compliance includes both a process component and a people component; by overlooking either component, companies fail to fully realize the potential value from their sourcing programs. Most procurement teams challenged by tracking actual savings give up trying in time. Instead, they claim savings based on historical demand. As a result, procurement leads the business with a contract and a promise of savings that may never materialize.

Realizing savings begins with policy. When Genpact and Symantec began their program, one of the first areas of focus was the procurement policy. Symantec's existing policy was outdated and had to be better aligned with the new savings-focused direction in which the company wanted to take its procurement program. As part of its review, Genpact applied both lean manufacturing and Six Sigma methodologies, followed by recommendations on how to make program changes that would support the business units. Making sure that the policy is relevant and

supports business goals improves compliance. That is what Symantec experienced during its implementation of the new procurement policy.

With a policy in place, compliance tracking creates transparency and opportunity. As part of their agreement, Symantec sends Genpact spend files each month and holds Genpact accountable for tracking the projected savings from the initiatives to the actual realized savings in the general ledger. Genpact is able to provide reporting in addition to spend analytics, thus identifying the effectiveness of both current and future initiatives.

The increased spend visibility has also allowed Symantec to improve supplier diversity. Symantec has been actively leveraging minority-owned companies as part of its sourcing program. Working with Genpact has allowed the company to draw attention to the diversity program and enhance strategies that have proven advantageous to both the supplier network and to Symantec.

Because of the dramatic impact on people across an organization, change management is key to the success of streamlined procurement programs. In most companies, the implementation of centralized procurement model affects many more members of the business units than the procurement team. If these individuals do not support the program, potential success will be jeopardized. While talking to John McGoun, he shared the importance of change management. Symantec took this issue so seriously that the company launched an independent initiative called “SymSource,” which McGoun described as “The first start to winning the hearts and minds of their internal clients.” “SymSource” included branding and marketing campaigns; Exhibit 4 is an example of a poster Symantec created and displayed as part of the initiative.

Exhibit 4: Symantec actively communicated with internal customers on the program benefits



Symantec introduces **SymSource**

Now, you will get the most out of your sourcing budget...

SymSource

- Higher efficiency through consolidation of suppliers and reduction in management cost
- Risk mitigation through contract compliance per company standards
- Cost-effectiveness by providing category experts to facilitate best price for your purchase

A Holistic Solution for Your Sourcing Needs

For more info visit: <http://syminfo.ges.symantec.com/procurement/global/content/symsource.asp>

Source: Symantec

Bottom Line: Greater Value is Achieved from the Outcomes

As outlined above, Sourcing and Procurement value generation goes well beyond mere salary arbitrage. Put another way, salary arbitrage is only a small portion of the millions of dollars of savings that can be derived from a successful sourcing and procurement program. Outsourcing can maximize the value of a sourcing and procurement program by leveraging category expertise in a shared model, providing a global capability set, and helping clients realize savings throughout the organization.

In the end, the primary gauge of any model's effectiveness is in the results, and Symantec has seen the following results in its three-year relationship with Genpact:

- » Category expertise drove a 25 percent increase in the amount of spend under management.
- » A focus on savings, compliance, and sourcing knowledge drove savings of 17 percent in three years.
- » Higher levels of vendor and internal policy compliance have reduced the amount of internal friction and encouraged savings discipline.
- » Enhanced supplier diversity programs are associated with better spend visibility.

Key Takeaways for Operations and Procurement Executives

- » Do not limit the value for outsourcing to salary arbitrage; this may be a very small portion of the overall value that can be generated.
- » Global delivery is very important for diverse companies who need to service their global operations. Look to centralize support functions while using a domestic approach for category management.
- » When implementing an outsourcing program, do not overlook the implications of change management to guide those impacted both directly and indirectly.
- » Strategic providers that can provide technology, process, and people exist in the market. Spend the time necessary to make sure the right partner is chosen.

Genpact and Symantec have proven that they get it. They understand that value comes from a partnership that drives a desired outcome beyond salary arbitrage. They understand that success depends not on a set of tactical service level agreements (SLAs) but on a well thought-out model based on performance and savings improvement.

Relationships similar to Symantec and Genpact's are becoming more prevalent. As this industry continues to mature, such relationships are likely to become more of the norm than the exception.

About the Author

Michael Koontz



Michael Koontz is Senior Vice President and Research Director for HfS' Banking, Financial Services and Insurance (BFSI) analyst advisory practice. He provides leading-edge and practical research into global outsourcing and shared services strategies in the BFSI sector, which is in high demand from HfS Research's 120,000-strong readership base and knowledge community, which has a very strong representation from global financial services institutions.

Looking into the past, present and future of the outsourcing and shared services markets, reinforced with HfS data and supported by its global analyst team, Michael supports HfS financial services clients in creating strategies for their businesses. He examines the core financial services industry dynamics driving global sourcing strategy, as the boundaries between IT, Shared Services and Business Process Outsourcing strategy continue to blur.

Prior to joining HfS, Michael spent 4 years working as SVP of BFS on the provider side of the business, working with many of the top financial institutions in North America. Michael supported the creation of new capabilities, account management and new business development. Michael was at Wachovia Bank for 14 years, where he was the SVP of Outsourcing Strategy and Governance; leading over 130 transitions, and managing over 1000 SLAs, over four countries and three providers. Michael played a critical role in the creation of one of the most creative offshore models in existence, the idea of the virtual captive.

Michael held many other roles within Wachovia, including; CFO for Banking Operations, Operations Manager in Check Processing and Research Adjustments, and Process Improvement Leader in Treasury Services.

Michael has been very active in the offshoring world for the past 10+ years, and has spoken at many industry conferences including: the Gartner Offshoring Summit, TPI, The Conference Board, BAI, SIG and many others. He was selected by Finance and Accounting Outsourcing Magazine in 2006 and 2008 as one of their "FAO Superstars".

Michael has a BS in Finance from the University of Tennessee, and an MBA from Kennesaw State University in Georgia.

His favorite times are those with his family, his wife Renee and two sons, Dylan and Tyler. They spend much of their free time at baseball and soccer games with the kids.

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About HfS Research

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In 2011, HfS was awarded Outsourcing, BPO and Services Analyst Firm of the Year by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, and runner-up for overall Analyst Firm of the Year. Led by recognized industry expert Phil Fersht, HfS Research differentiates itself with its global team of expert services analysts with real industry experience, provocative and opinionated research, unrivalled market analytics, and a view of technology as an enabler for business process improvement. Its on-demand expertise relationship model helps clients leverage HfS knowledge and strategic insight in a rapid, responsive and engaging manner.

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