

Upgrading the sourcing function to a strategy facilitator

The fast paced change in telecoms requires sourcing to be at the intersection of strategy and execution.

In telecoms, Sourcing as a process and organizational role is often highly focused on price of equipment and services. Habitually, success is measured by the obtained price per unit or system. In light of this, the sourcing process tends to be designed to primarily be an instrument to achieve such price/cost targets. For certain commodities such approach is adequate and in some cases even to prefer, but for much of the core assets of a telco operator it does not serve very well. At all.

Northstream would argue that taking a wider perspective of the sourcing process and function as a strategic facilitator and catalyst is critical to achieve business objectives.

Beside the strategic virtues of using sourcing in the "right" way, we would also argue that establishing a relation/partnership is the second vital part of a strategic sourcing function. Looking beyond the point of purchase, building a strong foundation for a relationship will be vital to achieve savings, strategy and ways to deal with unexpected events that will occur.

Thus if handled optimally, sourcing can be a tangible strategy facilitator and act as a common ground for strategy formulation and execution between business and technology strategy.

Introducing the strategic sourcing function

A strong sourcing function would work as a catalyst for - and allow efficient execution of - several important and interrelated functions and processes of an operator:



Sourcing in the intersection of strategy and execution

Business Strategy

The sourcing function/process gathers the business strategy input, forecasts and aligns with technology needs, and implements agreements to support the business needs and priorities

Technology Strategy

The sourcing function/process triggers formulation, consolidation and execution of requirements. It essentially forces a true transformation of a technology strategy into requirements

Operational execution

The sourcing function triggers and gathers operational needs in management, training, logistics etc. In addition, it should form a partnership structure and trusted foundation with the vendors (through establishing governance, agreements and way of working)

Budgeting and Forecasting

The sourcing function/process triggers and helps forecasting coming events by analyzing scenarios. The sourcing function is also vital in spend analysis and cost allocation

Gathering requirements as a process is underestimated

To start with, the sourcing process is an excellent vehicle to align a company's business and technology strategy just from the pure fact that requirements need to be gathered, documented, evaluated and justified. Being forced to scrutinize current and future needs and formulating it is a reality check for a strategy process in itself. If no technology strategy has been formulated before, the need for it becomes apparent as soon as requirements are to be formulated. The same goes for formulating future growth scenarios to evaluate (e.g. scope of equipment, functionality upgrades, addition of new technologies and capacity). Same for amount of users, services, usage – the evolution of all three parameters need to be taken into account. Thus, the business strategy of a company will align with technology strategy, and vice versa, as an integral part of the sourcing process and with all the stakeholders involved.

Evaluation is learning as much as choosing

Normalization of vendor bids requires diligence and thorough understanding of what is really required to achieve targets. Only if you understand your scope, priorities and real needs is it possible to normalize different bids. Having done your homework in the requirements phase and definition of scope and strategy becomes vital.

We would also argue that going through the sometimes complex and burdensome process of evaluating vendors should be used not just for choice or exclusion but also as a learning process. Use the evaluation process to learn internally about the latest developments and provide feedback to business units what is available, plausible alternatives and at what price. Adjust and strengthen the strategy accordingly.

Balancing business objectives, technology requirements and cost of ownership becomes strategy

Stepping further in the process, a strong sourcing function should always balance the business driven technology requirements with the financial impact they will have on the operation. TCO calculations should not be made solely to compare vendors but also for decision making on what and when investments should be made. Timing and approach of technology introduction is an area where the sourcing function can provide a good balancing view between technology and business departments.

Neither savings nor strategy is realized at the point of choice, rather through the right choice

The last few years have taught us that the mobile operator environment is constantly changing, and sometimes rapidly. No matter how diligent one would be, forecasting seven, five or even three years ahead is very difficult in today's environment. To be able to execute a business and technology strategy you have to take into account the fact that your environment may (read *will*) change. To be able to execute your strategy in an adaptable and cost optimized manner you need the right mix of a good agreement, trust and foresight. All three are very difficult to achieve unless the sourcing function has insights into all areas of the strategy and how the environment may change. Understanding which variables to include in an agreement (and which ones to leave out) is just as important as knowing where to put hard numbers. As the distinct sourcing phase is just the beginning of a successful operation, the sourcing function should also be used as a platform on which to further build the way of working and nurturing an efficient governance of the operator-vendor relationship. Else, there is an apparent risk that the benefits of having run a good process are lost in the execution phase.

Conclusion

In the complex environment of telecoms, use the sourcing function as a true intersection of business, technology and vendor strategy. Learn, adapt and build strong relationships and assure an alignment between business and technology strategy. Else run the risk of ending up with a good price for equipment that you do not need or a relationship that will soon fall short. Or both.

About Northstream

Northstream is a management consulting firm providing strategic business and technology advice to businesses in the global telecommunications industry. We help our clients through independent and objective analyses, advice, problem-solving and support that are tailor-made to our client's unique situation, based on the right combination of innovation, industry best practices and Northstream methodologies. Our long industry experience, proven approaches, ability to focus on the essentials and strong execution skills ensure effective results.

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