

CLOSING THE STRATEGY-TO-EXECUTION WORKFORCE GAP



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INTRODUCTION

Business reality today deals with soaring customer expectations and escalating competition coming at increasing velocity and from new directions. Added to this are cost pressures, technology disruption and an unprecedented demand for innovation (new methods, technologies, features), at ever-higher quality, delivered yesterday. The breaking point looms on the horizon. Executives look for a way forward. How does a company keep up?

A common solution is bringing on outsourced help, but this often comes without considering how to discuss innovation, quality and speed as inherent outcomes. Traditional outsourcing methods are focused on cost, which in today's complex environment is not the primary consideration. All too often, clients are seeking the wrong solution, and service providers respond accordingly.

▶ **How the Strategy-to-Execution Gap is Created**

Strategy calls for one thing; execution buys another. This is the classic miss. Several factors play into creating the gap, many of which are present in outsourcing deals:

- Lack of rigor in defining the desired outcomes
- Inability to let go of entrenched interests
- Lack of perseverance and fidelity to the strategy throughout the entire lifecycle, from the selection through the life of the relationship
- Lack of flexibility to adapt as the market and ecosystem evolve
- Service providers attempting to shape the requirements to best fit their strengths

OUTSOURCING IS BROKEN, BUT THERE IS A BETTER WAY.

Capto identified academic research that showed that outsourcing of all kinds, from food service to logistics, is underperforming across industries. A surprising discovery from this research was that both clients and service providers complained that outsourcing relationships underperform on both economics and operations. Leveraging this research, Capto interviewed close to 40 large enterprises and found IT outsourcing suffered from similar poor performance.

NOBODY IS HAPPY

CLIENT COMPLAINTS

Innovation

- 38% of buyers indicate lack of innovation is the biggest challenge in ITOS relationships
- 70% claim ITOS providers consistently fail to meet innovation goals

Outcomes

- 54% of buyers report lower than expected economic outcomes
- Clients report inconsistent or poor quality and lack of flexibility

SERVICE PROVIDER COMPLAINTS

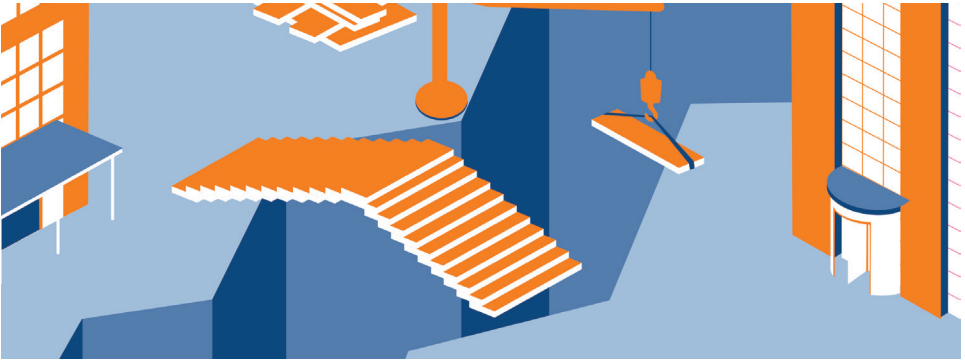
Innovation

- Prevented from “selling” innovation expertise
- Margin compression by 5-50 percent
- Unrealistic expectations

Outcomes

- Limited ability to add value to client

THERE IS A BETTER WAY



Several flaws common to unsatisfactory sourcing relationships include the lack of:

- Discipline to **define crystal-clear outcomes** sought by the client
- Open-ended requirements to **allow for innovation**. Client requirements are over-proscriptive, dictating the solution, narrowing service providers' abilities to bring its expertise to bear (e.g., your mess for less)
- Structure in the outsourcing relationship to **achieve measurable outcomes**
- Investment, thoughtfulness and leadership in defining and **promoting the relationship up and down the organization**
- **Rigorous governance and management** of the relationship, adjusting as necessary to achieve the desired outcomes
- Explicit design for how the outsourcing program will **integrate key processes and cultures**
- Appropriate infrastructure to **onboard and sustain service providers**
- **Focus on the core operating team** from both the client and service provider
- **Understanding that successful outsourcing is difficult**

These flaws result in a failure to achieve operational and economic outcomes, evidenced by a lack of innovation, poor quality, reduced velocity, missed savings and, most importantly, failed delivery of a competitive advantage. Our research demonstrated that both sides of the outsourcing equation, the client and service provider, are to blame for the deep strategy-to-execution gap. It can be done better. Much better.



CLOSING THE GAP: THE SYNAPTIC SHIFT

Capto developed SYNAPTIC Sourcing to ensure success across the spectrum of outsourcing relationships. The five-stage method is a repeatable, scalable and nimble process for implementing progressive, outcomes-based outsourcing (Figure 1). It shifts the relationship between client and service provider from buyer/seller to a true collaborative partnership, with shared goals through measurable outcomes.

SYNAPTIC Sourcing closes the strategy-to-execution gap using these key differentiators that enable mutual success:

Clarity

This is the single most critical element in closing the strategy-to-execution gap. It's the ability to look past the symptoms and articulate clear outcomes that will serve the business strategy. Proceed without clarity, and you will achieve the wrong outcomes.

Focus on Outcomes

Articulating outcomes is often difficult. For example, consider linking an enterprise outcome of improving customer experience to measurable behaviors in an IT outsourcing contract. This kind of outcome could require a complex solution the client has not identified at the outset of the service provider search. The desired outcome could include feature-release parity across mobile platforms while improving quality through a technical framework that reduces labor hours or through "next-best actions" in a customer care setting using active decisioning. All of this innovation brought by the service provider? Absolutely—if you seek focus on the right outcomes.

Achieving clarity by articulating measurable outcomes has perhaps the biggest payback in an outsourcing relationship.

Ability to Operate

Outsourcing relationships do not work in isolation. The client must use a critical eye to assess its ability to provide the supporting infrastructure. This could include anything from servers to remote access, to security and knowledge management, to marketing and communications, to organizational change

management. It is critical in identifying areas that require added resources or expertise to support the outsourcing relationship. For example, if demand planning is inadequate, then no service provider can deliver (within reason) the flexible capacity to meet service levels.

No client is 100 percent able and ready to support progressive outsourcing deals, but rather than delay, it should work to resolve any deficiencies as an outcome of the deal.

Strike Vendor from Your Vocabulary

A “vendor” has an agenda separate and distinct from the client’s and is therefore treated as separate. A change in perspective is required. Traditional command-and-control behavior is counterproductive in outcomes-based relationships. Clients must seek a relationship with a service provider that is defined and governed by the collective success of both parties.

SYNAPTIC Sourcing Model

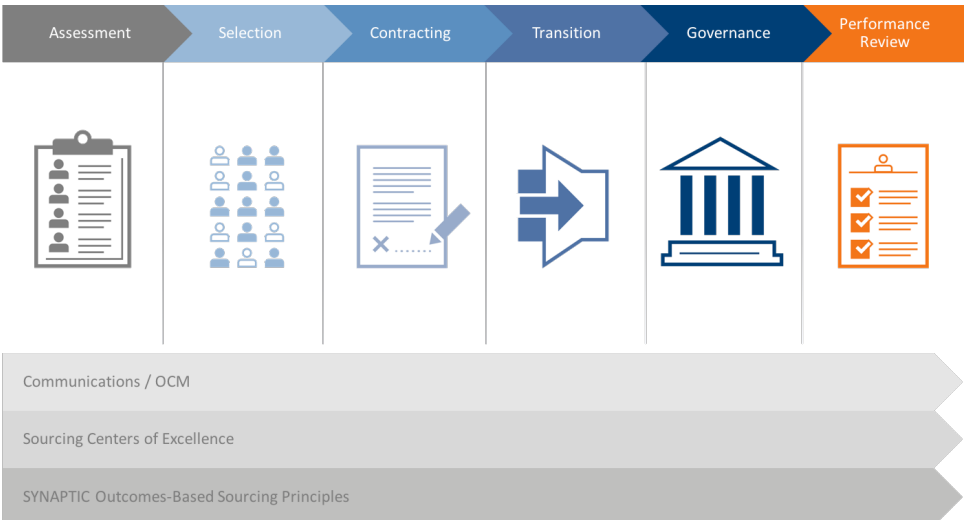


Figure 1: Capto’s SYNAPTIC Sourcing Methodology

OUTCOMES-BASED SYNAPTIC SOURCING

The SYNAPTIC Sourcing method creates an interactive selection process that seeks the best outcomes for both the client and the service provider. SYNAPTIC Sourcing is a facilitated process that enforces rigor to get clarity on the goals and desired outcomes throughout the selection process and the life of the eventual relationship. SYNAPTIC Sourcing combines the client's hands-on leadership (not procurement) with the service provider's engagement (not sales) teams to create and evolve best approaches to obtain the desired outcomes. This approach keeps the focus on outcomes and allows the "how" to evolve into the best, most innovative and expedient way forward.

Readiness Assessment

The readiness assessment is the first step in getting crystal clear about what is needed from a service provider. It also identifies where the client needs to improve to implement and operate a progressive outsourcing relationship. There are six key internal areas for the client to evaluate.

1. Leadership Commitment

Support and clarity have to start at the top. The outsourcing effort will be headed to mediocre outcomes before it begins without vision and continued leadership and investment.

2. IT Governance

IT governance provides the framework to shape and forecast demand, ensure alignment with overall enterprise goals and measure results. Immature or incomplete IT governance prevents focus on outcomes and risks the success of an outsourcing relationship.

3. Staff Competency and Organizational Readiness

Objective assessment of client staff competency and organization change readiness is critical. The assessment indicates what and where investment is needed for the client organization to make an appropriate service provider selection. Matching client capabilities and needs to those of the service provider sets up a successful, progressive, outcomes-based deal.

4. Technical Environment

Clients often lack the level of documentation of their current architectures and infrastructures to allow effective onboarding of a service provider. Further, understanding the business value and investment profile (current and future) of the portfolio will facilitate innovative solutioning when it comes time for selection.

5. Metrics

Not all metrics are created or weighted the same. Understanding a performance metric's timeliness, accuracy and efficacy prior to selecting or engaging a service provider will inform the governance process design for the outsourcing effort.

6. Systems Development LifeCycle and Current Methodologies

Similar to the technical environment, clients often have incomplete or inaccurate documentation and artifacts of their Systems Development LifeCycles (SDLCs). This causes clients to overestimate the maturity and compliance of their SDLCs. Realistic and complete understanding is required for the effective selection and appropriate transition to a service provider.

Selection

It's important to get to the short list of potential service providers as fast as possible. Reducing the cost of sales means service providers have the time and budget to spend helping you determine the solution rather than jumping through a predefined—and often too proscriptive—RFP process.

The selection process should facilitate, not dictate, development of solutions for the client and allow freedom for the service providers to deliver via the shortest path between the desired outcome and the delivered outcome. When a person has a cavity, he or she trusts the dentist to know the best way to treat it. The same thinking applies here. Let the experts (service providers) help you refine your desired outcomes and develop solutions to achieve those outcomes. It is possible to ensure service providers on a short list are operating with the same information via a series of workshops and one-on-one feedback and coaching sessions.

Finally, if there is a third-party consultant helping facilitate the deal, it's critical to define its role as a matchmaker versus a gatekeeper. Access to the people doing the work on both sides of the relationship is crucial to a successful outsourcing deal. Beware third-party consultants that attempt to dictate what the client wants versus what the client and service provider desire and can deliver.

Contracting

Developing a term sheet that describes the legal and key commercial requirements of the client should be done prior to, or very early in, the selection process. This quickly identifies any sticking points with potential service providers and begins to build a framework for a business relationship prior to making significant investment in the selection process. Having the term sheet in place early speeds up the contracting process once a selection is made.

Transition

Rigor in the readiness assessment will pay dividends during transition. During selection, the results of the readiness assessment are shared and discussed with the short list of service providers. This informs their transition solutions. Stage-gate definition is important and almost always in the transition plan. What often goes wrong is the client's and service provider's lack of discipline to enforce the stage-gates and adjust the schedule as required. Typically financial considerations pressure schedule adherence. Lack of adherence to strict stage-gates will increase costs and lower quality with more negative impact than transition delays.

Deal Governance

Governing an adaptive, progressive, outcomes-based relationship is difficult. A generic governance structure applied to a relationship designed to adapt and achieve outcomes rather than activities will not be successful. A three-tier governance model that allows for flexibility as to which part of the relationship is governed in each tier provides the fit-for-purpose governance that is required to support such a relationship. Beyond the model, leadership investment and relationship building and nurturing come to the fore. While the selection is important, the ongoing relationship management by both client and service provider has a great deal of influence over the success of the relationship over the long term.



DIRECTV IMPLEMENTS SYNAPTIC SOURCING

In 2011, DIRECTV was in the midst of a technology investment cycle in a highly competitive market. Business demand for new functionality across the IT portfolio was exceeding the IT department's ability to spend and deploy development capacity fast enough to keep pace. DIRECTV's IT delivery was failing to scale at a rate to meet the business demand, limiting DIRECTV's ability to compete. DIRECTV had been using a typical onshore/offshore outsourcing staff augmentation and small-project model. Contractors were recruited, onboarded, given task assignments, directed and managed by DIRECTV employees. This method scaled to a point and then fell over from the onboarding and day-to-day supervision overhead. DIRECTV was unable to meet growing demand and delivery at the velocity and quality the enterprise required. DIRECTV, looking for a better way, sought to develop a workforce strategy that was responsive and adaptable to the dynamic requirements of the business.

Capto worked with DIRECTV to develop a workforce model where DIRECTV's employees were focused on specific higher-level activities and developed the skills and capabilities to support a progressive, outcomes-based outsourcing strategy.

To accomplish this objective, DIRECTV needed its outsourcing capability to:

- Achieve **greater flexibility** in development capacity to respond to dynamic business needs across the diverse application portfolio with a wide range of required skill sets
- **Shift** from staff augmentation to outcomes-based engagement models in order **to align with business objectives, drive workforce capacity flexibility, improve results and reduce costs** in order free up funding for innovation investment
- **Develop the skills and capabilities** within IT to support advanced sourcing models

Beginning with the initial readiness assessment, Capto evaluated each major IT function to see if it could support a progressive, outcomes-based sourcing model.



SYNAPTIC SOURCING READINESS SUMMARY

ASSESSMENT AREA	SCORE	SUMMARY
LEADERSHIP AND MANAGEMENT SUPPORT		Major transformational initiatives underway including the IT Architecture Strategy; Sourcing, Development Process & Governance, Business Process Management groups; Readiness Assessment.
GOVERNANCE		Minimal to no vendor governance; tactical focus; sourcing resources spread over numerous vendors; no value management or leveraging of the ecosystem.
STAFF COMPETENCY AND ORGANIZATION READINESS—OCM		OCM not core competency. Need formal approach for changes in process, procedures, and communications related to sourcing. Staff recognizes that need.
STAFF COMPETENCY AND ORGANIZATION READINESS—PLANNING, BUDGETING, DEMAND MANAGEMENT		Consensus that the process has significantly improved over the last year. New business planning/funding process is viewed as largely successful to date. Data is inconsistently captured and used, difficult to obtain and of questionable quality. Staffing demand/capacity forecasting process is labor intensive and inadequate.
TECHNICAL ENVIRONMENT MANAGEMENT AND PARTNER INTEGRATION		Major initiatives completed or underway including IT Architecture Strategy, Blueprinting and Knowledge Management. Current state documentation does not support on-boarding of new service providers and/or resources; inadequate standardization and process across application areas.
METRICS		Issues with accuracy, timeliness, use and delivery. Data gathering processes is very difficult, labor intensive and often results in poor quality information.
SDLC AND METHODOLOGIES		Good starting point, rigorous approach to defining methodology and disseminating throughout the organization; well understood and documented. Appreciation for the benefits the current SDLC, universal agreement it needs more flexibility and adaptability in process and output.

Figure 2: SYNAPTIC Sourcing Readiness Summary



The readiness assessment uncovered a number of challenges in DIRECTV's ability to operate an outcomes-based outsourcing relationship. Planning, project management and development processes needed shoring up to support a new service provider. DIRECTV did not have to be perfect to move forward, but it needed clarity as to what areas required support and investment. That knowledge informed DIRECTV's selection, incorporating improvement in these areas as key elements of the expected outcomes DIRECTV sought as part of its overall selection process.

Furthermore, DIRECTV's internal metrics were insufficient to manage an outcomes-based arrangement, so DIRECTV wasn't able to make data-driven decisions regarding sourcing options and performance management.

Lastly, Capto identified that DIRECTV needed to rearrange how it governed and managed its sourcing relationships. Governance needed to be integrated into its routine business processes and executed in a disciplined way up and down the organization.

DIRECTV was hesitant to address all of the key issues at once (Figure 2). Its initial thinking was to reduce the scope of the planned outsourcing engagement, starting with the small portions of the portfolio and keeping the larger elements of its work in-house. Capto pushed back. To meet its scalability and velocity requirements, DIRECTV needed to put the vast majority of the IT portfolio in play. Capto's approach was to shore up a few internal foundational elements and buy the expert solutions for everything else as part of the overall outsourcing engagement.

“Because of this Strategy Readiness Assessment, we realized that we had a lot of homework to do before we could begin the next phases of the sourcing process,” said Sven Gerjets, former SVP Delivery, DIRECTV. “Capto helped us understand that the assessment is not just the first stage, but it is perhaps the most important stage because if we were not really clear about what we wanted and very disciplined to ensure we receive it, all the subsequent phases would have been built on a poor foundation.”

The biggest issue that came out of DIRECTV's readiness assessment was the IT department's lack of measurement across its application-development function. If organizations are to succeed in making outsourcing transformations, they must have a disciplined way to calibrate themselves: one that can be adapted and adjusted to fit the fidelity and frequency required across the portfolio. Therefore, as part of its outsourcing plan, it was essential that DIRECTV adopt a new method for collecting and using metrics across IT to support an effective outsourcing program.

Another key factor identified in the readiness assessment was the need to address organizational skepticism given the underperforming track record of DIRECTV's existing outsourcing relationships. Capto worked alongside DIRECTV to develop a comprehensive communications and organizational change management capability that, over time, developed the trust and confidence in the future outsourcing program with the key stakeholders, business units, IT middle management and staff.

The readiness assessment resulted in a workforce management strategy that included the selection of a strategic application-development outsourcing partner. DIRECTV sought a new partner using Capto's SYNAPTIC Sourcing method.

Capto developed an initial service provider questionnaire designed to qualify service providers with the range of technical skills, scale and, most importantly, experience in outcomes-based relationships to get to a short list of potential service providers fast. That questionnaire was sent to 18 firms. Thirteen firms provided responses with references.

Using a lightweight scoring method, the DIRECTV selection team cut the list down to eight firms deemed to be qualified. Those eight firms were invited to present their capabilities in direct meetings with the selection team. From there, four firms were invited to the short list.



KEY TO SUCCESS: THE RIGHT SELECTION TEAM

- Development line managers
- SQA representative
- OPS representative
- PMO representative
- Newly created sourcing director
- VP Development
- Capto advisors



DIRECTV SYNAPTIC SOURCING TIMELINE

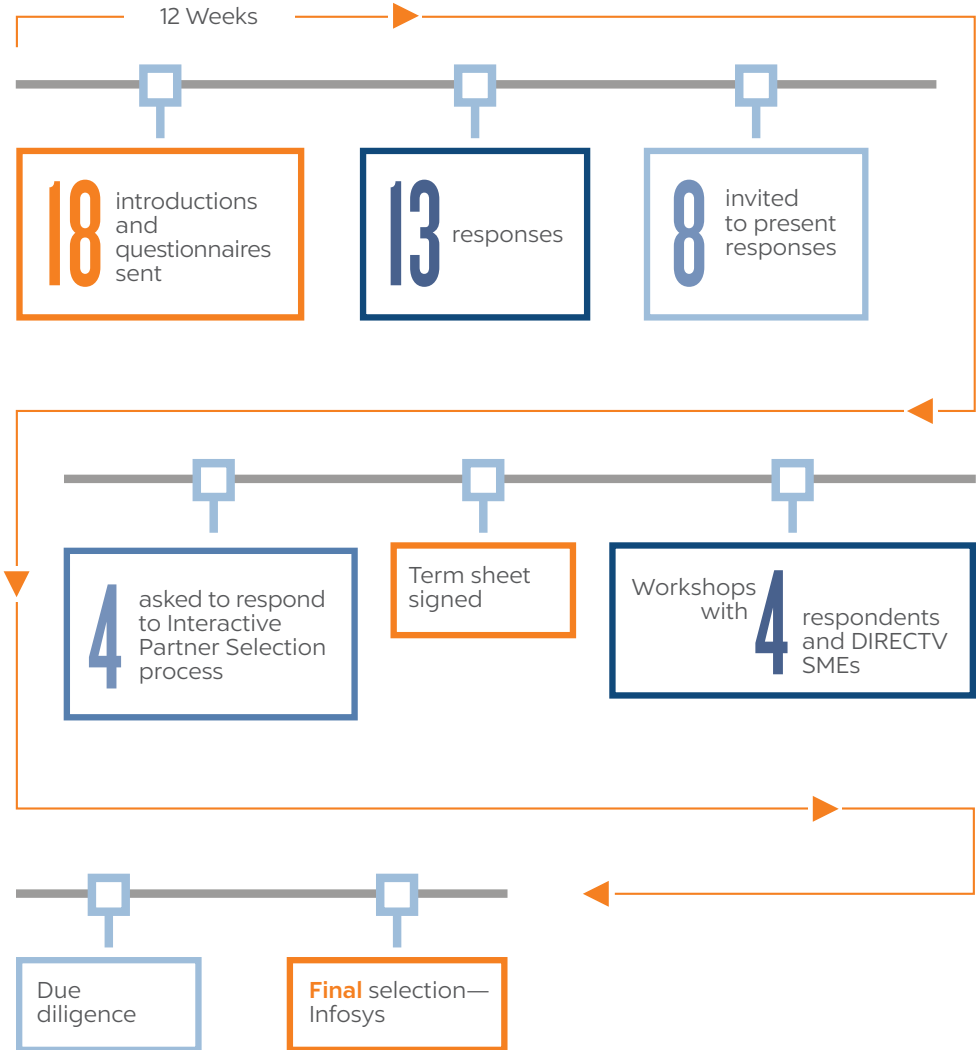
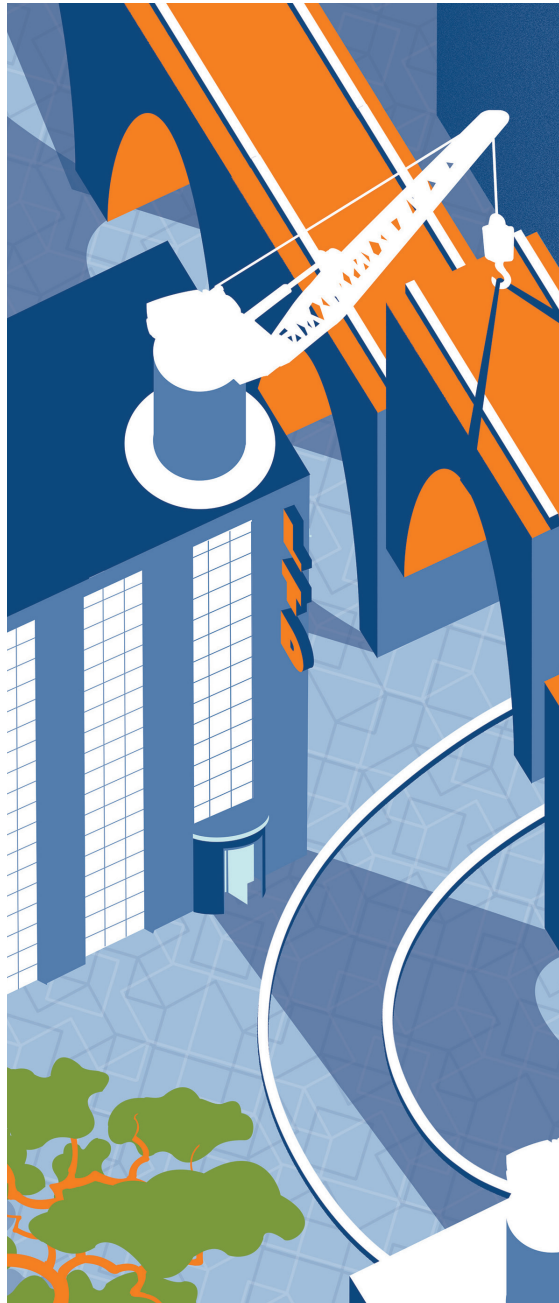


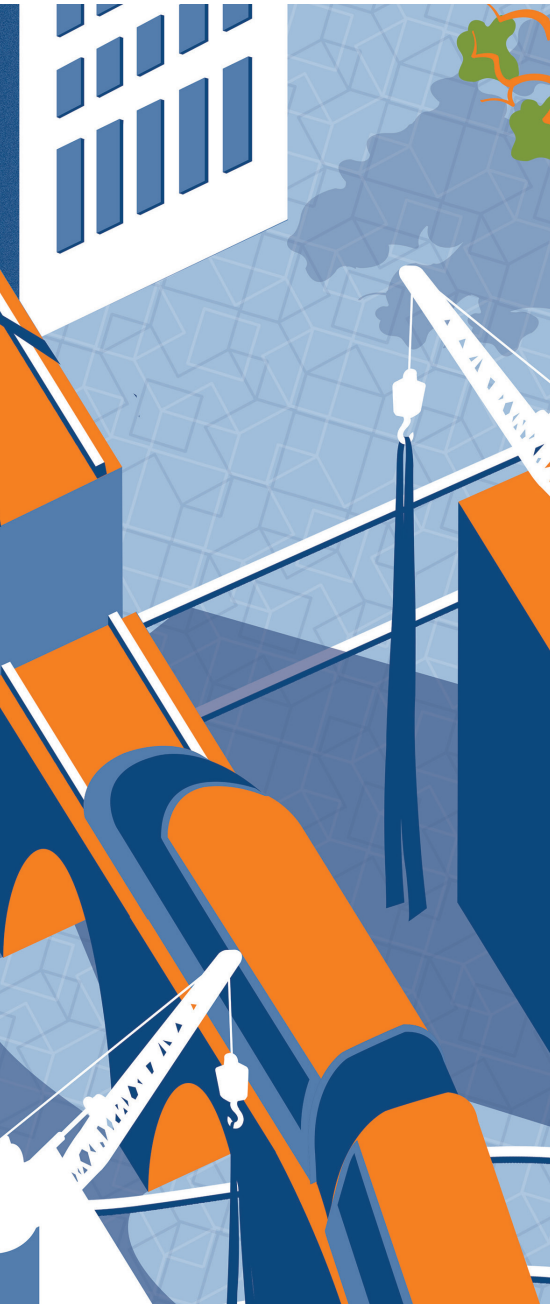
Figure 3: SYNAPTIC Sourcing Timeline for DIRECTV

The short-listed respondents were then required to respond to the term sheet co-developed by Capto and DIRECTV's legal department. The term sheet described the legal terms required by DIRECTV and key business terms, including IP rights appropriate for a heterogeneous ecosystem supporting DIRECTV's SDLC. Working in tandem with DIRECTV's legal team and IT management, Capto negotiated common terms with all of the potential short-list candidates prior to proceeding with the selection process.

The four finalists then participated with DIRECTV in collaborative workshops that ran the spectrum of topics, from areas deemed in scope for the eventual deal to areas out of scope and areas on the border. Topics included IT governance with the business units, demand planning, strategy and architecture, business analysis, SDLC, application portfolio, quality assurance, operations and financial management.

Each session was attended by DIRECTV subject-matter experts, the selection team, Capto advisors and all four finalist engagement teams at the same time to ensure common information exchange and allow DIRECTV personnel to interact with and evaluate the finalist





engagement teams. Each day, the finalists submitted confidential follow-up surveys, which were then responded to the following day.

In parallel, Capto held coaching sessions with each finalist. The purpose of these coaching sessions was to assist the finalists in developing the strongest possible solution for DIRECTV. Coaching topics included the finalist team's composition, its technical solution and client feedback.

The four finalists were invited to present their solutions and pricing to the selection team and IT executives. This iterative process enabled DIRECTV to solicit and evaluate the best thinking from each of the finalists. The result of this highly collaborative process: the final scope and desired outcomes that defined the eventual sourcing relationship. Two service providers were then selected to proceed to final solution definition and pricing.

In the end, DIRECTV selected Infosys as the outsourcing service provider. By utilizing the SYNAPTIC Sourcing method, both parties were able to ramp up the project in record time due to the fact that most of the details of the project had already been outlined and assessed, and the road forward had been determined throughout the sourcing process.



THE SYNAPTIC SOURCING PROCESS WORKS FOR ALL

IT outsourcing service providers are always pleasantly caught off guard that the process is so inclusive and collaborative. The upfront elimination of candidates that are not a fit reduces ineffective cost of sales. For the finalists, their cost of sales may be higher, but so are their abilities to demonstrate value and differentiate their solutions from the competition. They are able to learn more about the client's situation and needs and thus create a better-fitting proposal. This is a vast difference compared to the traditional proscriptive RFP process which limits the ability of respondents to demonstrate the value and differentiation of their solutions.

At DIRECTV, the final four candidates were aware of their standing in the process, and they were motivated to be more creative and cost-effective. The majority of the sticking points that could come up in contracting were resolved, making that process smoother, faster and less expensive. The collaborative selection process also covered much of the standard discovery process, meaning that the selected partner could get to the work—and outcomes—that much faster.

“We were impressed with Capto's process. It was a first for us to be able to work with the client so closely during the selection process. This allowed us to really demonstrate our capabilities to the client.”

- Anurag Sinha, SVP, Industry Head, Communications, Media and Entertainment, Infosys

“Even though we weren't selected, we felt good about our experience. We have never had the type of opportunity Capto gave us to work with the client ahead of time.”

- Runner-up Workforce Outsourcing Partner

“I was impressed at the level of facilitation and customization Capto helped to accomplish in our outsourcing deal. I've seen some of the biggest consulting firms come with their one-size-fits-all contracts that cover the legalities, but not the outcomes of a sourcing deal.”

- Sven Gerjets, former SVP Delivery, DIRECTV

DEAL GOVERNANCE

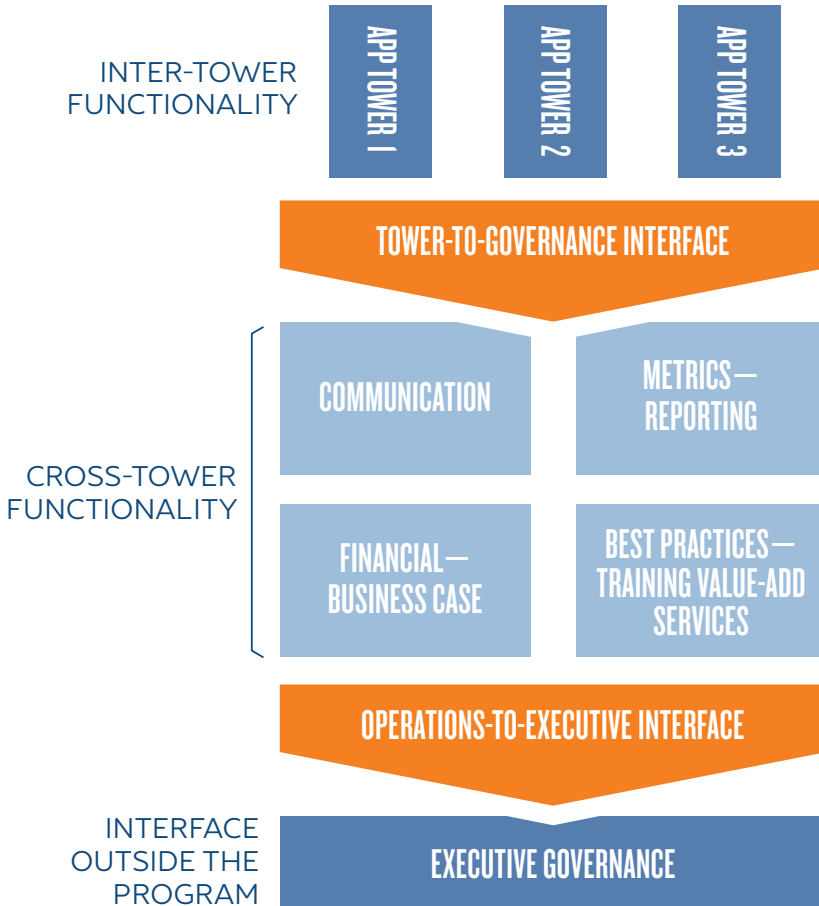
Once the deal is in place, Capto's role shifts from client advisor and coach to neutral advocate for the deal. In this role, Capto's fiduciary responsibility shifts from the client to the deal, acting as an advocate for the outcomes and, in that way, servicing both parties.

For the first year of a deal, Capto supports the monthly operational governance and the quarterly executive governance. After the first year, Capto continues with the quarterly executive governance for the life of the deal (Figure 4).

At DIRECTV, Capto continues to participate in the executive governance, supporting DIRECTV and Infosys as their relationship matures and grows over time.

"I've never seen a consultant stay with a deal like Capto. While they are paid to help govern the deal in year one, they stay—on their own dime—thereafter for the life of the deal. It's inevitable that things change over time, and Capto acts as a neutral agent to keep outcomes at the forefront while making it work for both sides," explains Sven Gerjets, former SVP Solutions Delivery, DIRECTV.

GOVERNANCE APPROACH



GOVERNANCE PRINCIPLES

- Insight, not oversight
- Outcomes-based
- Active multi-level process
- Trust but verify— performance reviews
- Communication from application tower through to executive level
- Right information at the right time to the right constituents

Figure 4: Capto's Governance Model

POSITIVE OUTCOMES

The DIRECTV and Infosys partnership resulted in some significant and noteworthy outcomes.

- **Increased DIRECTV's IT capacity** to meet growing business demand by **35% annually** for four consecutive years
- **100% on-time project delivery**
- **Reduced defect density by more than 50%**
- **Increased innovation funding by 250%**
- **20% reduction in cost** over the previous outsourcing model

In addition to achieving the operational efficiency outcomes DIRECTV needed to support its growth, the outcomes-based partnership also resulted in a large amount of funding for innovation. It's the ideal outcome, not just for the client but for the service provider, as well. The service provider can demonstrate its ability to create foundational support in commodity tasks as well as pave the way for new, more innovative solutions. Everyone is happy.



DIRECTV found the SYNAPTIC methods so effective and beneficial that it has been applied to more than three dozen projects in subsequent, and increasingly more sophisticated, projects throughout its business, including:

- **Rethinking their approach** to procurement
- **Changing** their system-integration approach for replacing the company's legacy billing system
- Driving **new services** and **expanding growth** markets in the business-to-business arena
- Implementing a **progressive, outcomes-based outsourcing program** for business intelligence, dramatically **improving time to market for data-driven insights**
- Driving **competitive differentiation** via several strategy, business intelligence and advanced analytics projects

“The success of our development sourcing initiative led to applying the insights gained and this new approach to other areas of the business where we needed to rapidly innovate and deploy new services,” said Sven Gerjets, former SVP Solutions Delivery, DIRECTV.



CLOSING THE STRATEGY-TO-EXECUTION GAP

Outsourcing can be a very effective tool in the strategy toolbox. It can both reduce costs and free up funds for more innovative and competitor-differentiating pursuits. But it needs to be done more effectively in order to close the strategy-to-execution gap successfully. Outsourcing should be understood and contracted with an eye on the bigger outcomes-based vision versus being purely transactional or giving outcomes mere lip service.

It starts with getting really, really, really clear on the outcomes needed and then finding a service provider that will collaborate to find innovative pathways to those outcomes. It also requires client self-awareness and honest readiness evaluation. Being ready to undertake a service provider at magnitude is not an easy transition.

Those willing to put in the work to cross the strategy-to-execution gap using an outcomes-based relationship will be rewarded with achieving those outcomes at a faster pace and with a higher quality to achieve the ultimate—competitive advantage and market leadership.



ABOUT CAPTO

So here's a vision: a management consulting firm that gives you senior advisors from start to finish. A consulting firm that helps plan your strategy—and then helps you execute it. A consulting firm that isn't about trends or formulas or generic catchall solutions for specific situations. In short, a consulting firm that dramatically improves the operation, economics and efficacy of your company. A firm that brings a mindset and skills garnered from a diverse M&A advisory practice to bear in business and technology contexts.

Tracy Currie and Nick Vennaro conceived Capto Consulting with these things in mind, and they've actualized it by assembling a unique senior leadership corps possessing vast experience from both sides of the vendor-user gap and developing a hands-on, results-based strategy model called SYNAPTIC. Capto is known for high-velocity problem identification, roadmap creation and custom solution implementation. Capto delivers results. This isn't bragging—it's a track record.



