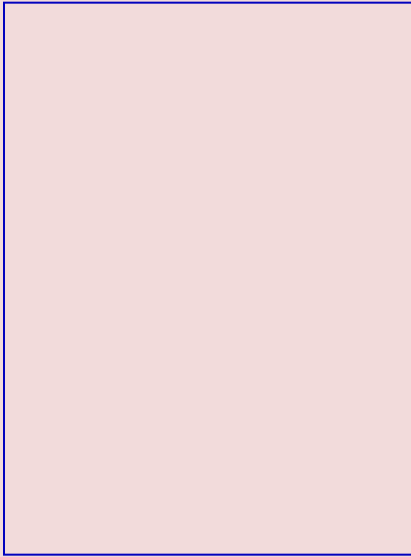


WHITE PAPER

Strategic Sourcing and Vendor Management



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EXECUTIVE SUMMARY

This White Paper describes the growing challenge of managing the proliferation of new and existing IT software, hardware and infrastructure applications common among both large and mid-sized companies across virtually every industry. It also outlines various strategies utilized to source and manage multiple vendor relationships based on financial, technological and business considerations. The goal is to not only control costs but to achieve and sustain superior services levels for all applicable areas of the company. The paper also details the steps to consider when preparing your IT department for this strategy.

TODAY'S MULTI-VENDOR, MULTI-TECHNOLOGY ENVIRONMENT

For many years, IT departments at mid-sized companies were either self-sufficient or hired a single technology vendor to oversee individual projects. These technology vendors, whose skills were primarily technical, assumed responsibility for all hardware, software, and networking during the project lifecycle.

Today, few companies are able to work with a single technology vendor. Typically, because IT systems have become complex and specialized, IT departments are often engaged in a puzzle-like series of relationships with external vendors offering solutions for:

- Server hardware
- Operating system
- Networking
- Application software
- Management tools
- End user (client) systems
- Storage

Given this environment, resolving even the most basic complaint about a small functional application or a large enterprise system can involve multiple vendors. In some cases, troubleshooting requires isolating a problem in layers of hardware, software, network, and storage components stretching to the user's desktop. The process becomes even more complex if each component of the system consists of an industry-specific application running atop proprietary middleware or a business rules engine. If the proprietary software fails, the entire business process can come to a stop until each vendor diagnoses the cause individually and offers a resolution.

Vendor management has therefore become a critical component of smooth and cost-effective business operations. Companies cannot afford down time, lost productivity, and increased costs due to poor vendor management. Unfortunately, for many organizations vendor management has become a labor-intensive, time-consuming, and frustrating process. Each vendor has its own way of working with the company as well as its own service level commitments.

Typical challenges facing companies that work with multiple vendors include

- Procuring the best vendor with the best price, performance and support
- Negotiating and managing multiple vendor contracts
- Inconsistent service levels and incompatible service level reporting
- Multiple support interfaces and frustration due to finger pointing
- Lack of vendor performance metrics
- Inability to track, monitor and report on vendor performance
- Rising IT development and maintenance costs
- Managing change in a multi-vendor, multi-technology environment

To address these challenges, a company must develop IT operational and architectural standards, which allow them to work with multiple vendors. By following these standards, companies are better able to manage the mix of vendors that develop, maintain or outsource the systems responsible for their organization's daily operations.

THE STRATEGIC SOURCING CHALLENGE

In addition to trying to effectively manage multiple vendors, many companies are also faced with the challenge of whether to outsource either their entire IT department or a specific IT system or application. Compounding this challenge is the realization that much of the cost savings used to initially justify outsourcing can quickly vanish if the business evolves and the service becomes ineffective.

Cutting costs should therefore not be the sole consideration for outsourcing. Today, very few IT services meet the definition of a real commodity, since technology components become "decommoditized" when applied in unique ways to meet specific business goals. When this happens, they become woven into the fabric of the business and strengthen the company's competitive advantage.

In the quest to cut costs, some companies have outsourced functions they later discovered were critical to their ability to adapt to market changes and retain their competitive advantage. IT-enabled and IT-intensive processes are often the vehicles through which market challenges are being met; any loss of control over critical IT services can severely damage an organization's ability to compete.

The outsourcing challenge companies face is therefore threefold:

1. Deciding whether or not to outsource
2. Deciding who is the best outsourcing vendor to select
3. Deciding upon the best outsourcing model and process to follow

Many companies have made the mistake of signing rigid, long-term outsourcing contracts only to find later that their business focus has changed significantly. The effect of those changes can result in additional charges that erase the original cost savings and sour the client-provider relationship.

Instead, innovative partner-style agreements are becoming the norm as companies recognize the need for improved risk sharing and benefit reward models. The ability to modify the provision of service over the course of an agreement is sometimes more significant to a company's long-term success than a well-crafted set of penalties for below-standard performance. The recognition of these realities is leading many firms toward strategic sourcing of IT services.

Gartner Group has defined strategic sourcing as "the dynamic delivery of internal and external technology resources and services to ensure that business objectives are met." The objective is to align IT with changing business needs more effectively, which is particularly important in light of the vital role that technology-enabled processes play today in the ongoing success of the enterprise. Creating an effective strategic sourcing approach is not easy and requires a great deal of analysis and consideration.

Questions you should ask as you define your outsourcing strategy include ...

1. What are our current and anticipated business goals?

It's no longer enough to just outsource current business processes or IT services—every sourcing decision needs to be considered in the context of the entire enterprise and the marketplace. At a minimum, your sourcing strategy should be based on:

- Expected evolution within the marketplace, including both service providers and business competition.
- Explicit business objectives, such as capabilities you plan to add.

2. What is our internal capability?

The status of internal capability should be considered with a long- and short-term view of make or buy, that is, how much of the overall solution you want to handle internally vs. externally. The internal capability of many IT departments may be inadequate to fulfill the challenges they face. Typical symptoms of an inability to support expected innovation internally include:

- A passive or reactive relationship between IT and business units.
- A perception by business units of IT as a cost center that does not deliver innovation despite frequent cost-reduction campaigns.
- Significant use of external consultants without internal IT involvement.
- Poor results from previous sourcing attempts, especially when involving new solutions spanning multiple business units.
- Bad experience with outsourcing contracts driven by cost reduction.

3. Which of the available external market capabilities fit best with our goals?

The IT services market is one of the more dynamic and chaotic marketplaces. As a result, companies need to understand the capabilities of service providers and how current and anticipated developments will affect their business needs. Are changes imminent in the service provider market? Are providers over-promising their abilities with emerging technologies? In short, the CIO's challenge is to match up externally available service capability with internal business goals and then balance that decision against the risk of change within the service capability, the business needs, or both.

4. Which sourcing model is the best solution for our needs?

Creative sourcing approaches have evolved as organizations seek to avoid the problems of fully outsourced solutions without reverting to a fully in-sourced alternative. This is mostly a make-or-buy decision, with internal delivery and fully outsourced services at opposite ends of a service/solution continuum.

A company may have outsourcing initiatives that fit on different areas of this continuum. For example, it may use staff augmentation, which fits under technical skills, when it wants to retain ownership of the effort but needs expertise in a particular technology. On the other hand, it may outsource its order processing and invoicing functions, which are on the opposite end under business processes.

5. What capabilities are required for sourcing governance?

Sourcing governance addresses capabilities needed to regulate and support multiple service providers, including management methods and processes, organizational roles and responsibilities, and service delivery rules and agreements. An effective governance model must span traditional enterprise boundaries and become not only an integrated part of the business, but also part of the internal IT function and the external providers themselves (including even subcontractors and the provider's partners).

Establishing effective sourcing governance is critical to the success of any sourcing strategy. Clearly, strategic sourcing is a way to more effectively align IT with the business. The challenge for business executives is to find the best set of interconnected service solutions that meet the strategic needs of their organization.

THE BUSINESS CASE FOR INTEGRATED VENDOR MANAGEMENT

Implementing an Integrated Vendor Management (VM) function is the most efficient means of managing multiple vendors and outsourcing relationships:

- **The Strategy** -- is to leverage the expertise of an outside firm with a proven track record of implementing best practices across the vendor management process.

- **The Objective** -- is to control rising IT costs while optimizing service levels across all vendor relationships.
- **The Outcome** -- is a standardized and measurable process that replaces the previously random management of these critical activities.

However, before a company can successfully implement integrated vendor management, it must first disabuse itself of several misconceptions. These include:

Misconception: *A multi-vendor environment translates into no accountability*

Fact: Often deploying technology from multiple vendors can lead to finger pointing between them when things go awry. However, companies can have world-class IT from multiple vendors without compromising the level of service. Integrated Vendor Management simplifies IT support by consolidating responsibility for all vendor management and service delivery, freeing the IT department's time to focus on increasing business value.

Misconception: *Using one vendor to manage multi-vendor relationships means ultimately losing control over budget, resources, vendor selection, and technology utilization*

Fact: Integrated vendor management actually gives companies greater control of their IT environment by delivering tangible and measurable business benefits, including reduced risk, increased cost savings, consistent service levels, and rapid change management.

Misconception: *In order to avoid the headache of multi-vendor management, companies must outsource their entire IT environment.*

Fact: A company can actually preserve a heterogeneous IT environment without the headache of multiple points of contact. By partnering with an IT vendor that has deep vendor management expertise, companies can have just one point of accountability for IT support. An IT vendor with multi-vendor management capabilities acts as the primary service partner, consolidating support contracts from different vendors and managing the entire heterogeneous environment at strict service levels under one service agreement. For some companies, complete outsourcing is the right answer. However, if a company wants to maintain any level of control while managing multiple vendors, then Integrated Vendor Management is the right solution to consider.

Misconception: *Adding another vendor will just be an additional strain on the IT budget.*

Fact: Outsourcing the management of multiple IT vendor relationships can actually increase the value IT brings to the business. Integrated Vendor Management helps achieve a better alignment between service levels and business needs. An Integrated Vendor Management function also makes less demand on in-house resources ... generates lower support costs ... ensures less downtime and risk of failure ... achieves higher user satisfaction ... creates better visibility and control ... and enables greater flexibility to deploy resources wherever needed. The goal of Integrated Vendor Management is to average less than five minutes of annual downtime across all systems. Additionally, Integrated Vendor Management plays an active role in measuring and reporting on service level achievements, ensuring all service providers are performing to pre-established metrics.

STRATEGIC SOURCING & VENDOR MANAGEMENT: BENEFITS & SAVINGS

Strategic Sourcing – The Process

- Review of core business processes to identify scope and focus
- Define current and future requirements
- Map the landscape of available vendor options
- Select the most appropriate vendor
- Negotiate contract based on performance criteria
- Establish governance structure for outsourced effort
- Develop issue resolution structure
- Set up the infrastructure and manage the effort

Integrated Vendor Management – The Benefits

- Lower cost of delivery
- More focused acquisition process
- Increased productivity
- Better return on investment
- Commitment to excellence
- Improved quality and customer satisfaction
- More reliable and consistent delivery

Integrated Vendor Management – The Functions

- Scope development and management
- Procurement planning and management
- Cost planning and management
- Resource planning and management
- Timing and scheduling management
- Risk analysis and management
- Change control planning and management
- Communications planning and management
- Quality planning and management
- Organizational development
- Contract management

Integrated Vendor Management – The Savings

- 10-20% savings in overall business costs
- 10-15% additional IT outsourcing savings
- 2-3% additional growth by supporting specific growth areas
- 15-40% reduction in product development costs

THE IT “VALUE LADDER”

Optimizing People, Processes & Technologies

IT Evolution specializes in helping companies enhance the performance and efficiency of their IT organization. IT Evolution is able to achieve this success by bringing together an experienced team of senior professionals with technology, operations, and business expertise. By integrating this broad range of knowledge, IT Evolution has been able to help build proactive IT organizations for companies that have been unable to generate either sustained or significant business value from their IT operations

To achieve this goal, IT Evolution conducts an initial gap analysis of the client company’s IT processes, procedures, personnel and technologies. This assessment identifies the organization’s current state then maps it against desired outcomes.

These outcomes are based on the Capability Maturity Model (CMM) developed by the Software Engineering Institute. CMM is the *de facto* standard for improving both technical and business-related processes involved in the management, development, implementation and maintenance of information technology.

IT Evolution’s customized CMM approach integrates proven techniques and best practices into an ascending structure of competency that enables a company to appraise its IT organization’s maturity and process capabilities, establish priorities, and implement improvements.

