Governing in a Multi-Supplier Ecosystem

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Contents

Transforming Multi-Supplier Complexity into Service Value ................................. 3
Balancing Accountability in a Multi-Vendor Ecosystem ................................. 5
Implementing a Multi-supplier Governance Model .......................................... 7
Vendor Management and Governance with Alsbridge ................................. 9
About the Authors ......................................................................................... 10
About Alsbridge ......................................................................................... 11
Transforming Multi-Supplier Complexity into Service Value

Corporations continue to virtualize themselves to the point that we can now say with some certainty that “nothing happens solely within the four walls of any corporation today.” A recent study of 2,000 companies of various sizes across multiple industry sectors shows that spend on sourcing as a percentage of total revenue is growing at a rate of 6% annually while the same spend on labor is decreasing at an annual rate of 8%. The data further finds that a 1% improvement in supplier cost management has a six time greater impact on profitability than does a similar 1% reduction in labor costs. Hence, a focus on supplier management is paramount to corporations who are seeking to optimize the value received from their sourcing arrangements (see Figure 1).

The trend toward sourcing is not abating and, in fact, multi-sourcing is now the norm. As this trend continues, IT functions are transforming their supplier management functions to multi-sourcing and are now facing the enhancement of their IT Service Management capabilities (ITSM). Governance capability is now a core competency of the IT organization. Governance involves many stakeholders at many levels:

- Architectural governance
- IT finance and project governance
- Performance governance
- Supplier relationship management and governance

All categories of governance call for new skills and new structures. Additionally, there are other trends increasing the ‘workload’ for governance such as continuous increase in IT responsibility for managing multiple interfaces among providers, managing between providers and business unit customers and the commoditization and globalization of IT delivery.

This complexity is depicted in the process map in Figure 2, which illustrates the growing redefinition of operating level agreements, contractual service level agreements and non-contractual operating practices. Such non-contractual operating practices are captured as part of a contract run manual that defines what happens in the white spaces where hand-offs occur and where doing the right thing among the stakeholders becomes the order of the day. These are all trends that are impacting the structure and negotiation of sourcing agreements in multi-supplier ecosystems.
Such complex environments can be confusing, thus creating value erosion across multiple relationships, impacting customer service negatively and creating a governance nightmare. These issues can be successfully addressed through governance transformation that leverages models and solutions available to simplify governance complexities. These transformation challenges and needed interventions are addressed in Figure 3.
Coming to the conclusion that a single “strategic” supplier is unable or unwilling to transfer its knowledge to other players in the emerging ecosystem has created immense concern among IT executives. Consequently, corporations have moved slowly and, in many cases, created more problems for themselves when a quicker and more decisive response to re-sourcing their major outsourcing contracts and renewals – a move to multi-sourcing – would have positively altered the dynamics of the supplier-client relationships to create more value. That said, it is not an easy transition and some suppliers may behave badly when faced with having to play well with others. Hence, these circumstances create the need to address new risks with improved governance structures.

Balancing Accountability in a Multi-Vendor Ecosystem

The ten-year mega-contracts of the past are being reviewed, segmented and re-distributed to multiple suppliers. The role of the single supplier as the trusted partner remains important, but it is increasingly evident that failure to create appropriate competition that drives innovation and keeps your supplier partners focused and engaged results in complacency and replacement of the supplier’s “A Team” with their B and C teams. A successful transformation demands collaboration and cooperation that can only be achieved through improved accountability and contract structures that obligate suppliers to operate uniformly. This includes standardizing operating processes and operationally aligning around these processes as well as establishing a governance structure that improves accountability and reporting. Simply seeking to squeeze more out of suppliers through increased competition is not enough. In fact, experience shows that compliance achieved by threat of removal does not produce the desired behavior.

Proper behavior can best be secured through a motivational structure built into the system at two levels: governance methods and tools for monitoring integrated services, and contractual incentives to improve collaboration. This means that tomorrow’s contracts will look and operate differently from yesteryear’s contacts. The old adage that the best contracts are those you negotiate and then place in a drawer is outdated. The future will require aligning contracts with the target multi-supplier ecosystem strategy and understanding and managing contractual obligations across the ecosystem.

End-to-end services, such as the standing up of a server, require the completion of provisioning actions by multiple teams including security, networking, database, and system hardware and software. The IT customer of the future will expect end-to-end services and visibility into services through service catalog SLAs (Service Level Agreements) that represent IT’s commitment to the customers. Today, those activities are increasingly outsourced to multiple suppliers, each responsible for only one component of the service without process alignment and without a full understanding of the underlying configuration management data base required to structure and offer an IT service. Their contractual obligations are governed by SLAs only at the service component level. The net result can be that while each individual component SLA is being met, the end customers are still not receiving the service they expect.

To address misalignment of contractual SLAs, the hand-offs between suppliers must be documented in both process “swim lanes” and RACI charts with the coincidental contract SLAs aligned with the required obligations for executing these hand-offs effectively. These documents are known today as CSPs (Cross-Supplier Procedures) each governed by an OLA (Operation Level Agreement).

Best of breed OLAs include:

- Detailed process steps for end-to-end services mapped into complete “swim lanes” (roles and responsibilities) of the players.
- RACI charts that define the specific hand-offs fully documented in a supplier management playbook or run manual.
- Definition of the multi-supplier strategy and segmentation of services among best practice suppliers with CSPs formulated prior to making the sourcing decisions and negotiating service delivery contracts.
- Accountability measures for SLA, OLA and CSP obligation management placed squarely on the shoulders of the IT vendor management organization providing oversight to supplier relationship and business relationship managers.
This cascade of metrics and measurement is key to operationally aligning suppliers with the business and enabling both the suppliers and client to monitor a fully integrated multi-supplier ecosystem. Achieving collaboration and creating an aligned and positive operating environment requires contractually negotiated obligations and incentives.

The historical use of penalties with incentives, in the form of earn-backs or repentance payments for past mistakes, do not work in parallel with incentives. While financial rewards are important, non-financial recognition through social events where suppliers receive positive “shout outs” from business unit customers are quite effective.
Formal incentive clauses in emerging contracts may include:
- Innovation pool creation
- Innovation gains sharing
- Ecosystem team awards for meeting end-to-end SLAs
- Recognition of operational excellence with the ability to increase the footprint of services with suppliers who play well
- Incentives for accelerating year-over-year cost reductions

While suppliers may not immediately warm to these changes, suppliers who understand the requirements of operating in large corporations typically realize that if they want to be invited to the party, they will need to adapt. Perhaps the greatest barrier is suppliers who balk at the idea of accountability for end-to-end results when they do not control the full service delivery process. Additionally, suppliers will be highly suspicious of process alignment that requires them to share IP. Where suppliers may co-exist, the protection of each supplier’s intellectual property is a key component to structuring effective processes with assurance that what differentiates them is protected. However, the continuing commoditization of IT services makes it increasingly difficult to argue that suppliers are truly different. That said, emerging trends in automation and service robotics are something that we all should watch carefully as it can be a true service differentiator.

Implementing a Multi-supplier Governance Model

Figure 5 represents a Supplier Governance Capability Framework developed by Alsbridge. The key capability dimensions include:
- Articulating supplier governance goals and guiding principles
- Governance model – the governance meeting cadences, structures and artifacts
- IT organization skills in supplier governance
- Tools for supplier governance
- Governance processes

Governance processes include the following in each of the vendor management disciplines (see Figure 6).

While this framework applies regardless of the number of suppliers involved, the more fragmented and fluid multi-supplier environment adds complexity and challenges to all the dimensions. Examples:

Operational Alignment – Tracking value realization among multiple suppliers over the lifecycle of a contract with varying terms can be challenging. Also, operating in a multi-supplier ecosystem requires segmentation of suppliers and investment in relationship management strategies.

Governance Framework – Roundtables and venues for supplier interaction and collaboration must be part of the normal operation in a multi-supplier ecosystem. The Vendor Management Organization (VMO) must clearly articulate how these forums work, the agendas, the performance scorecard used to compare providers and contracts to ensure suppliers are focused on future operating improvements and aligned to business objectives.
Competencies & Skills – New skills are required of relationship managers where accurate data and reporting are critically important for ensuring that fact-based discussions are the standard, eliminating finger pointing associated with invalidated claims. The number of vendor management resources dedicated to supplier governance will likely increase and significantly impact the need for automation to keep the cost of governance within the 4% to 6% of ACV best practice range. Improved contract management through contract obligation extraction and tracking methods will be needed and, in many cases, such talent will need to be acquired by engaging a third-party management organization as these skills are in short supply. Offshore strategies for supplier management of transaction and operation functions should be considered to optimize retained supplier management talent and to focus on strategic supplier management functions.

Metrics Documentation – To eliminate value erosion of services contracted for but not received and to ensure the accuracy of invoices and work orders, real-time metrics and tracking methods must be employed with the integration of multiple reporting tools or the requirement that all suppliers adopt a single process and reporting method.

Automated Tools & Technology – Emerging tools focused on performance tracking that also address all six vendor management disciplines (see Figure 6) should be sought out and reviewed for applicability in a multi-supplier ecosystem.

Even with all the challenges we have discussed, the benefits of risk mitigation associated with mega contracts can be overcome. Figure 7 summarizes the benefits one can expect from proper transformation to a multi-supplier ecosystem:

From building governance structures to defining sourcing strategies to facilitating contract reviews and transition management, Alsbridge collectively brings decades of
hands-on experience in IT supplier management engagements to assist our clients with the multi-supplier challenge. Figure 8 highlights our approach. We also recognize the importance of the closely related need for innovation in order to take IT services to the next level of productivity.

**Vendor Management and Governance with Alsbridge**

As the chosen advisor on more than 500 outsourcing transactions during the last 10 years and having performed more than 200 governance-related engagements in the last 5 years, Alsbridge has extensive subject matter expertise to benefit clients.
Craig Nelson, Managing Director

Craig has been active for 25 years as an advisor, provider and buyer of outsourcing services. His background presents a unique blend of IT outsourcing (ITO) and vendor management (VM) expertise giving Craig a strategic perspective on outsourcing effectiveness. He has been instrumental in setting up VM structures for Delphi, Best Buy, and Timken Automotive. Craig led IBM’s VM COE globally, successfully turned around a software company applying sourcing as a strategy and has held Directorships with Mercer Consulting, Towers Perrin, Ernst & Young, IBM and Oracle.

David England, Managing Consultant

David offers broad international ITO sourcing experience. Prior to joining Alsbridge, David had over 20 years of success with EDS and AT Kearney formulating, implementing and managing innovative ITO sourcing solutions for Fortune 500 clientele. David has extensive international ITO experience and has spent more than 11 years in Asia where he lead numerous business transformation and IT transition projects. David has led over 100 sourcing contracts as a consultant to clients. David has led several business transformation projects for large global clients, including: General Motors, Delphi, Samsung, and NASA. David is experienced in addressing complex cross-functional, multi-provider sourcing solutions and is an expert in developing ITIL version 3 based sourcing solutions.
About Alsbridge

Alsbridge is a global management consulting firm that helps companies enable their businesses and reduce costs by optimizing their service provider relationships. As a trusted advisor to over 40% of the Fortune 500 and FTSE 250, we work with over 200 clients a year on over $11b in spend. Our experienced consultants leverage market insight and deep benchmarking databases to help clients align their requirements to the optimal vendor solution, apply best practices, negotiate terms at fair market prices and improve relationship governance. We help clients utilize the most cost-effective and value-added sources globally for IT infrastructure services, network carrier services, hardware and software, application support and development, business processes and cloud services.

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200+ Advisors globally in US, Canada, EU and APAC