Integrating Suppliers
Current State Assessment
Executive Summary

In support of our mission to Research, Document and Promote IT Best Practices, Pink Elephant is proud to announce the establishment of the Pink Think Tank. The premise of the Think Tank is to annually assemble a group of thought leaders to discuss growing trends and challenges in the IT industry. The specific challenge that was addressed at this year’s inaugural meeting hosted at the 18th Annual International IT Service Management Conference & Exhibition (“Pink14”) was the fact that there is an observable increase in the use of third party suppliers adding complexity to the IT value system.

The challenge put before the assembled Think Tank participants was to address the question: “How do you manage the current and growing challenge of multi supplier integration?”

Going into this session, each individual understood that the goal was not only to discuss the problem but also to offer the industry with practical guidance on how to address the challenge. During the day’s dialogue, the problem statement was nicknamed “The Squeeze” and can be described as the two drivers that internal IT organizations experience, to increase the use of external suppliers.

The Squeeze

*Top Down:* From the top down, business units are engaging in business process outsourcing such as Payroll, Finance, Supply Chain or HR, where traditional IT Systems are now part of packaged supplier relationship agreements, and which are being entered into directly by the business with or without internal IT involvement.

*Bottom Up:* While at the same time, traditional infrastructure and network environments are becoming increasingly commoditized and are either being moved to a cloud based Platform as a Service (PaaS) solutions where classic data center technology is becoming virtualized (infrastructure is now software). Or outsourced to Managed Service Providers (MSPs) who promise “Your Mess For Less”.

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In addition to these trends, many organizations realize that generally available enterprise applications such as Email, Collaboration, or CRM suites do not provide strategic advantage or market differentiation, and based on this conclusion are moving to outsource these IT services to external suppliers.

All of these trends lead to the growing reality that the IT Value System is becoming more and more complex, and that the state of general IT Governance maturity and specifically Supplier Management is woefully inadequate to deal with this challenge.

To add additional context to this observation, Pink Elephant published a research paper that demonstrates that rather than moving forward with improvements around supplier integration, organizations are in fact regressing, or have no immediate plans to address this issue. The focus of this paper is to provide an overview and assessment of the current state of supplier integration.

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1. **Suppliers & The IT Value System**

The stark reality of our industry today is that the business has an ever-increasing set of “options” for how, when, where and from whom it buys IT services. Additionally, based on the trends and drivers described in the previous section, it frequently makes sound business sense to strategically shift certain services to external providers.

These trends as well as the drivers addressed as “The Squeeze” require focused investment into practices and approaches that will enable IT to achieve the intended value from its chosen third party suppliers.

Two such areas addressed by this paper are:

1. The creation of a Strategic Supplier/Vendor Management Function.
2. The integration of suppliers into enterprise IT process governance structures and roles.

**These two focus areas are critical to enable the successful selection, integration and ongoing management of third party suppliers into the IT value system a strategic practice warranting investment and improvement.** However, very few organizations have a strategic Vendor/Supplier Management function focused on orchestrating and managing the integration of their suppliers.

For most organizations Supplier Management is managed at a tactical line manager level supported by a procurement function that is tasked with managing the request for proposal and contracting process. The primary focus of this typical approach is on ensuring the highest value is received from the supplier for the lowest price. Little to no focus is placed on defining how the supplier will integrate with existing processes and how they will participate in ongoing service improvement. In short very little forethought is given to establishing an effective integration strategy and an ongoing Supplier Management practice.
Integrating suppliers into process governance structures and roles is a critical success factor for IT Service Management (ITSM). However, very few organizations have developed and deployed a repeatable approach on how to integrate suppliers into their existing core IT management processes.

2. The Current State Problem

A few years ago I spoke at an Information Systems Audit and Control Association (ISACA®) conference focused on IT Governance, and attended a session titled: “Governance Of Outsourced IT Services”.

During this session a question was asked by one of the over 150 session attendees to the presenter and the rest of the audience: “Do you or does anyone in this session know of an IT Outsourcing relationship that has ever gone well? In my 10 years of managing these relationships I have not seen this happen.” The response to this question was utter silence without even one positive voice to be heard!

The implication from the silence in the room was alarming and provides a sense of the risk we face as the trend to increase the use of third party suppliers increases.

To illustrate this issue here are four classic worst practice scenarios that are tragically too often a reflection of the current reality:

2.1 Outsourcing Services Or Processes That Are Not Defined Or Are Broken (Your Mess For Less)

Consider that one of the classic mistakes we make is to attempt to outsource something which we have not defined or which currently has major problems we have not captured or analyzed. The conference session was called “Governance Of Outsourced IT Services.” The presenters did a great job on their topic but what kept coming to mind during the session was the fact that most IT shops are just beginning to define what they do and expect to deliver from a service perspective. Today, many, if not most, organizations, manage their technology as isolated domains and have little knowledge or history about what to expect of a service. So consider what
happens when you outsource a service that you don't fully understand, have customer satisfaction issues with, and don't currently measure. The answer to this question is that you get compounded problems rather than improvement. Chances are that your supplier contract will not reflect what is needed and all you have added is another level of bureaucracy protected by contract language and legalese. This concept of “I can’t deal with my problems, so I will pay you to take them” leads to arguments and broken relationships with perhaps the only benefit being the fact that you have someone else to yell at, rather than the improved services and processes you were hoping for.

2.2. Outsourcing Accountability/Governance

Building on the first issue, the second most common mistake we typically make is that we often completely pass the oversight, strategy, delivery and measurement of outsourced services to the MSP. After all, the very word ‘outsource’ means we send it outside our walls right? Sadly this sentiment is not practical, healthy, beneficial and even legal in some countries. A primary reason that many MSP relationships falter and fail is that the organization that has contracted for the service has not retained the strategy and oversight of the service. While it is very possible to outsource the responsibility for the provisioning of the service it is not advisable at any time to outsource accountability. Consider that if an external audit finds a deficiency in the service/process or the controls managed by the outsourcer, the risk and legal implications of which impacts the customer not the MSP. The organization that has contracted for the services provided by the MSP must have people whose primary function it is to retain the governance, strategy, oversight and management of the MSP relationship for the services you have purchased externally.
2.3 Beating The MSP Down To the Lowest Possible Price

Many organizations place the negotiation of their MSP contracts solely in the hands of a procurement group whose primary key performance indicator is to get lowest possible cost for anything. I have seen this process carried as far as procurement forbidding interested stakeholder involvement in the negotiation as they might possibly compromise the goal of lowest cost possible. Consider for a moment what the most probable outcome of this strategy will be. You will beat the MSP down to a level where they are bordering on unprofitability leading them to become rigid, inflexible and surly. Also as a consumer and purchaser of goods ask yourself if you would actually fill your home with the cheapest priced goods and hire contractors for important home improvement projects at the lowest prices you can find. Chances are that you may do so for commodity products but for the goods that need to be relied on and that protect your loved ones, the lowest price will not be your primary selection criteria. So it is not surprising that your relationship with your MSP starts on a bad footing when you beat them down to the lowest possible price. No one wins in this scenario.

2.4. Pretending & Acting As If The MSP Is A Stranger Outside The Family Circle

The fourth worst practice on my list is perhaps the most emotional, and often one the most powerful contributors to failed relationships. In reality the relationship between the internal IT staff and the MSP is often one of hostility, mistrust and fear. The causes for this negative set of emotions range from the fear of losing their jobs and privileges, to the reality that in some instances the internal IT staff had no involvement in contracting of the MSP, yet have been told to accept an outsider whom they don’t trust at the family table. The analogy of a family is appropriate here in light of the comment I made in the earlier point about the inability to outsource accountability. To extend the family analogy a bit further, when an organization decides to contract out a component of or the majority of its IT services, the MSP is
being brought inside the family circle albeit on a contractual and temporary basis. When this occurs the MSP becomes a legally adopted member of the extended family for the term of the contract, and as such is part of the organization’s Service Value system in practice and in the eyes of the law. This means that to be an effective family member the MSP must agree with, participate in and share responsibility for following the organization’s policies, processes and standards. Even more importantly, the internal IT staff must stop treating the MSP as an outsider, a stranger or an unwelcome dinner guest, and accept the fact that at least for the time being, the MSP is an adopted sibling and should be treated with courtesy and respect.

3. Integrating Suppliers Into Process Governance

While you can hand a supplier the keys of your process you need to keep a firm hand on the ownership papers!

As presented in this paper, the reality is that all organizations use external suppliers in their value system, but few do so well. At the heart of the challenge you will also frequently find the misguided belief that when you outsource a service to an external provider, you are also fully handing over the reins of process ownership and governance to them. While it is true that suppliers are part of the governance structure, they should not hold the role of overall enterprise ownership and accountability for an Enterprise IT Management process or IT Service. However, I have been told more than once by senior IT leaders that they fully expect their suppliers to own the overall accountability and governance for the process. After all, that is what they are paying them for.

Part of the challenge comes from the actual term we use for using external suppliers. The term “Outsourcing” gives the impression that we are externalizing both the delivery, and ownership of the process and service. However, what
is in fact happening is that as an IT Service organization you are choosing to integrate external suppliers into your “Internal Value System” as part of your service strategy. This is a concept that ITIL® addresses in the Service Strategy and Service Design books.

A good definition of outsourcing used by Carnegie Mellon’s eSourcing Capability Model (eSCM) describes Outsourcing as “The act of delegating a specific responsibility.” As a Senior Manager, I fully understand that while I may delegate a task I still remain accountable for what I have delegated, and must stay involved from a steering and improvement perspective.

Here are a few actual case studies we have worked with recently that demonstrate what happens when suppliers are not integrated into shared enterprise processes, and when process ownership is outsourced along with the responsibility of execution.

Case Study 1:
A Global Energy Company has outsourced several major service towers to different providers (e.g.: End User Services, Service Desk, Hosting, Network, Telephony, etc.) based on a cost optimization strategy.

Challenge: While each supplier is contracted to deliver their respective services based on ITIL best practices, each provider has its own processes, and presents the required metrics from a different process definition.

Result: Even though they have agreed to collaborate, there are no common processes shared across internal and external providers. This causes significant customer satisfaction and service delivery issues.

Case Study 2:
A North American Office Products distributor decided to outsource their services to a prime supplier leaving only five full-time IT people in place to manage the supplier contract. The ownership of the processes has been totally outsourced to the prime supplier without any recourse to require improvements without engaging in contract negotiations.
**Challenge**: The current contract is focused on financial objectives and does not include any requirements to follow service management practices other than some high level measures and Service Level Agreement (SLA) targets.

**Result**: The five remaining IT staff have no mechanism to steer their supplier towards improvements nor can they steer the provider without renegotiating the contract.

**Case Study 3**: A US Government Agency is looking to outsource multiple service contracts to different Suppliers based on a Service Tower model. One of the contractors is asked to be responsible for establishing processes across the other peer level providers with no common processes defined, accountable roles identified and the only contractual clause in place being ‘Willing to collaborate’ and to stand behind their specific SLAs.

**Challenge**: Without this provider being designated as Prime, with contractual obligations for the other providers to follow a common process and share data across service towers, this is a disaster in the making.

**Predicted Result**: Following the logical premise of, 'what is not defined, cannot be controlled; measured or improved', this contract model will deteriorate quickly into chaos, with all parties pointing fingers at each other.

Each of these scenarios is a recipe for a great deal of pain for the practitioner/client organization. To avoid this unnecessary challenge, a key strategy and critical success factor for integrating third party suppliers into the IT value system should ensure that externally contracted resources understand, and are integrated into the overall process governance structure shared by both, internal and external suppliers.

To accomplish this objective, a tiered and distributed process governance/ownership approach needs to be established, where overall or enterprise ownership is retained by a role within the practitioner organization with oversight and direction being provided to external process managers.
4. Supplier Management Research

Based on the critical success factor of being able to successfully integrate third party suppliers, one would think that establishing a strategic Supplier Management function that’s focused on avoiding the four worst practice scenarios (as listed in this paper) would be a priority. However, based on research that Pink Elephant has conducted over the past 4 years, we have yet to see this demonstrated by the participating organizations.

The following statements and graphs represent a part of the data collected in 2012 & 2013. This was also reported in a research paper presented at Pink14.

**Survey Statement:** We have established a Supplier Management function to ensure suppliers are successfully integrated into our Service Delivery strategy.
Data: The 2013 survey shows a 17% decrease in organizations which are starting down the path of establishing a Strategic Supplier Management function. Correspondingly there is a dramatic increase in those organizations which are “Not Planning To Start.”

Analysis: The two survey years show a significant decline in organizations working towards establishing a Strategic Supplier Management function. While a lack of forward progress is observed, it is apparent in the overall percentages. The “Not Planning To Start” response was predominantly driven by 3 verticals – Education, Retail and Health. The responses from these verticals are similar to those observed in the survey statement dealing with Integrating Suppliers into process governance. We expect the survey response is partially due to a strong focus in these verticals on cost and contract focused procurement objectives, rather than strategic supplier integration.
Survey Statement: We have integrated external suppliers into our process governance and ownership structures.
Data: During the 2012-2013 survey periods, there is a 9% decrease in the companies which have integrated suppliers into process governance structures. The most alarming increase is the 19% increase of the data point for those companies “Not Planning To Start”.

Analysis: The sharp decline in this area combined with the lack of progress made with the adoption of a strategic Supplier Management function indicates a lack of focus on integrating suppliers into the service value chain. This is an unfortunate observation and presents a high-risk area for those organizations which are moving to integrate external cloud computing and other external suppliers. The retail and education verticals were the bulk of the “No Plans” response. Traditionally these sectors use a fairly de-centralized IT Governance approach which may be contributing to the general decline in this metric year over year.
5. Conclusion

The findings of the assembled Pink Think Tank, Pink Elephant’s research and the arguments made in this paper clearly identify that the current state of supplier integration within process governance structures and roles is not adequate, and presents a clear and growing risk to the goal of delivering business value.

As supplier complexity continues to grow, addressing this challenge now becomes a critical and urgent requirement. The recommendation of this paper is to re-focus some of the ITSM investment, energy and resources away from typical process improvement areas such as Incident, Problem and Change Management to those focused on establishing the basis for improving the integration and ongoing management of trusted suppliers. To not address this issue by establishing the type of roles identified in this paper will only put the service delivery model under increased pressure ensuring that third party relationships continue to be a major roadblock to achieving strategic objectives.

Subsequent papers written as part of the Think Tank Series will provide practical direction and recommendation on how to successfully integrate suppliers into the IT Value system to ensure the optimization of benefit realization and the reduction of risk.
6. ABOUT PINK ELEPHANT

Pink Elephant is proud to be celebrating 20 years of ITIL experience – more than any other supplier. Operating through many offices across the globe, the company is the world’s #1 supplier of ITIL and ITSM conferences, education and consulting services. To date, more than 350,000 IT professionals have benefited from Pink Elephant’s expertise. Pink Elephant has been championing the growth of ITIL worldwide since its inception in 1989, and was selected as an international expert to contribute to the ITIL V3 project as authors of V3’s Continual Service Improvement book and through representation on the International Exam Panel. For more information, please visit www.pinkelephant.com.

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PinkEDUCATION: Pink Elephant is the most prolific creator and widespread distributor of ITIL training, and leads the way with education based ITIL V3’s service lifecycle approach. Pink is internationally accredited with EXIN, APMG and PEOPLECERT, independent examination institutes that manage the ITIL certification program. The Project Management Institute (PMI) has also recognized Pink as a Registered Education Provider

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