

Report Brief: Six Steps To Successful Vendor Management

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RESEARCH BACKGROUND AND METHODOLOGY

The ability to manage vendors effectively enhances the business perception of IT effectiveness and helps CIOs achieve success. To identify the six steps to successful vendor management, we investigated the best vendor management practices of CIOs and vendor managers of multibillion-dollar companies, government agencies, and experts in the field. We examined how, in a time of flattening budgets and mounting priorities, CIOs can meet the technology needs of their organizations by effectively managing vendors and forming strategic partnerships for custom products, services, or outsourcing functions.

We conducted in-depth interviews with more than 25 CIOs and vendor managers at global corporations and government agencies recognized for their vendor management practices. We interviewed leading technology vendors to learn their perspective on what makes a great vendor-client relationship. Interviewees included CIOs and vendor management leaders from Emerson, Banorte, Toyota Motor Sales U.S.A., Oakland County Government of Michigan, Hitachi Metals America Ltd., and Post Office Ltd. They also included experts such as Raf Howery, partner, Capgemini; Tom Weakland, partner, Diamond Management and Technology Consultants; Phillip J. Hatch, CEO, Ventoro; Ed Hansen, partner, Morgan Lewis & Bockius; Dave Clarke, partner, Tatum; and many others who provided their insights and advice for CIOs.

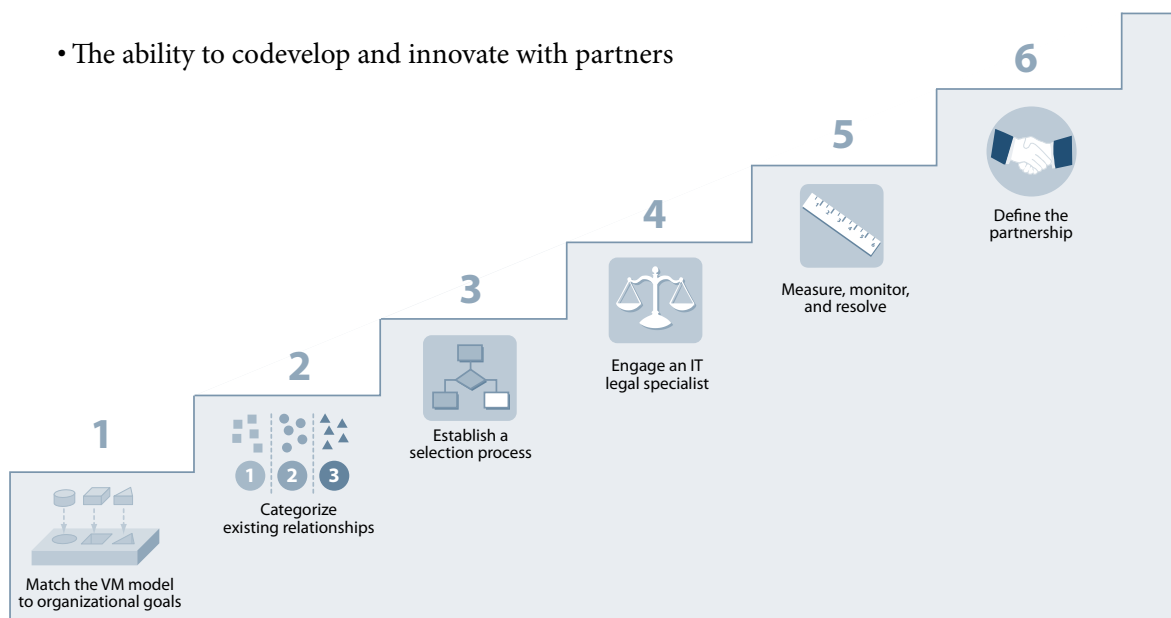
In addition to the extensive interview process, the research references other Forrester publications and secondary sources related to the topics discussed.

SIX STEPS TO SUCCESSFUL VENDOR MANAGEMENT: OVERVIEW

In a time of flattening budgets and mounting priorities, CIOs struggle to meet the technology needs of their organizations. These priorities are accomplished or supported by vendors' products and services. In some cases, strategic vendors provide custom products, services, or outsourcing functions that the organization needs to operate. It's all too easy to leave money on the table through poor negotiation or inadequate vendor performance monitoring. Some CIOs find vendors taking the driver's seat in the relationship and lose their deal leverage. The ability to manage vendors effectively enhances the business perception of IT effectiveness and helps CIOs achieve success.

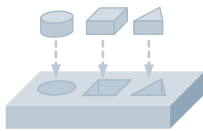
Successful CIOs establish vendor management as a function complete with processes, templates, tools, and a governance structure. For some, this means creating a vendor management office to orchestrate IT, legal, procurement, and vendor management activities. Others simply dedicate resources within their IT department to manage strategic partnerships. When vendor management is managed as a life cycle rather than a procurement event, it provides significant benefits, including:

- Reduced costs
- Increased customer satisfaction
- The ability to acquire and sunset technology expertise quickly
- Greater business impact of technology projects
- Enhanced reputation of the CIO and IT organization
- The ability to codevelop and innovate with partners



SIX STEPS TO SUCCESSFUL VENDOR MANAGEMENT: BEST PRACTICES

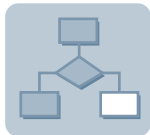
Every organization follows a unique process and timeline to formalize vendor management. The six steps to successful vendor management provide a common set of practices that can apply to any organization. Within each step are key decisions about approaches, processes, and tools that CIOs should consider when formalizing their vendor management function.



Match the vendor management model to organizational goals. Vendor management models vary in terms of resources and structure. IT leaders who succeed in vendor management choose a model that best matches their organization's needs.



Categorize existing relationships. Successful vendor management requires categorizing vendors and devoting resources according to the role their products and services play in the business.



Establish a selection process. Every organization's vendor selection process is unique. It's critical to decide the parameters and decision points that matter most.



Engage an IT legal specialist. Although not required for all sourcing, complex technology relationships benefit from early legal involvement to manage dialogue, lead negotiations, and author partnership agreements.



Measure, monitor, and resolve. Successful vendor management requires a strong project management approach with regular measurement and data monitoring.



Define the partnership. Effective vendor management requires defining the partnership for long-term success.

BEST PRACTICES AREA: MATCH THE VENDOR MANAGEMENT MODEL TO ORGANIZATIONAL GOALS

IT leaders who succeed in vendor management choose a model that matches their organization's needs. The focus of the vendor management function varies depending on the number and strategic impact of technology vendors on the organization. Best practices vendor management models include:

- Creating a dedicated vendor management staff
- Creating a project/program management office
- Creating a vendor management office

As CIOs assess their level of success in creating a vendor management model, they can ask themselves the following questions:

- What is the appropriate number of people to dedicate to the vendor management function?
- How critical are vendors' products and services to the organization?
- What metrics should be used to measure the effectiveness of the vendor management model?

In one example from our research, the CIO of an insurance company created a vendor management function to manage a large number of vendors to whom it outsources many IT functions. Key actions the CIO took to create the appropriate vendor management model include:

- Ensuring that IT vendor management was controlled within IT, rather than through procurement
- Articulating and publicizing vendor management strategy
- Having the vendor management office report into the CIO when it is initially formed

With these practices, the CIO was able to position the vendor management office as a strategic, rather than a bureaucratic function; raise awareness of the office's role, process, and purpose; and enable client and vendor teams to work together effectively.

BEST PRACTICES AREA: CATEGORIZE EXISTING RELATIONSHIPS

IT leaders who manage vendors well often categorize them by their level of impact on the business or by the type of product or service they provide. This enables them to assign their resources effectively, since CIOs can't manage all of their vendors to the same degree. Common ways to categorize vendors include:




- Strategic, tactical, commodity, or niche players
- Hardware, software, services, system integrators, telecommunications

As CIOs consider how they will categorize their existing vendor relationships, they can ask themselves the following questions:

- What dollar amount do the contracts of vendors represent?
- Does the vendor provide a commodity product or a niche one?
- How long-term or short-term is the relationship with the vendor?

In one example from our research, the initial categorization of the vendors provided the foundational framework for formalizing vendor management:

Vendor management model success relies on categorizing vendors

	Expectations	Price sensitivity	Example
 <p>Strategic partners</p>	<ul style="list-style-type: none"> • Have long-term contracts with organization • Have a long-term vested interest in the success of the organization • Have long-term relationship 	Competitive	Programming resources to maintain existing portfolio
 <p>Tactical, commodity vendors</p>	<ul style="list-style-type: none"> • Focus on just-in-time operational elements • Have short- to medium-term relationship, because price changes lead to vendor changes • Support tactical needs 	Commodity	Telecom
 <p>Niche players</p>	<ul style="list-style-type: none"> • Focus on building custom applications • Provide unique expertise (e.g., underwriting and technology) • Fulfill short, strategic projects 	Premium	Custom-built technology

BEST PRACTICES AREA: ESTABLISH A SELECTION PROCESS

Establishing a vendor selection process is a necessity for effective vendor management. Every organization will follow a unique process that will impact its relationship with the vendor and its non-IT colleagues.

Best practices for establishing a selection process include:

- Determining the role that an RFP or RFI will play in the selection process
- Establishing the degree and openness of interactions with the vendor during the process
- Deciding on the appropriate documentation for the deal (contract, SOW, SLAs)
- Engaging outside consultants or legal counsel to assist in selecting the right vendor

As CIOs evaluate their vendor selection process, they can ask themselves the following questions:

- Have I involved the right people in the process from IT and the rest of the business?
- Does my current selection process yield the best possible partners or, rather, the lowest-cost provider?
- Should I involve my architecture group in the process, and, if so, what role should it play?

In one example from our research, the head of the office of the CIO of a South American financial services company gives its architecture group a significant veto role in the vendor selection process. Because of this, the technologies selected by the business units are compatible with the existing architecture. Other actions taken by this company to improve the vendor selection process include:

- Requiring all technology RFPs to go through the vendor manager
- Working with business stakeholders to understand their business needs
- Involving stakeholders throughout the evaluation process
- Sending RFPs to the architecture team before sending them out to bid
- Having the architecture team conduct research about potential vendors
- Involving the architecture team in final vendor decision-making

BEST PRACTICES AREA: ENGAGE AN IT LEGAL SPECIALIST

Many CIOs choose to consult with IT legal specialists through complex technology deals. Attorneys experienced in negotiating complex deals based on long-term relationships can help the CIO structure better deals. They can also assist in documenting the complex relationships that are initially formed when defining a partnership.

Best practices for engaging an IT legal specialist include:

- Determining which deals require legal expertise
- Seeking an attorney experienced in complex, relationship-based technology decisions
- Securing a legal team that involves junior and senior members to manage costs appropriately
- Engaging the legal specialist early in the relationship with the vendor

As CIOs evaluate their vendor selection process, they can ask themselves the following questions:

- Will I allow vendors to respond to my objections throughout the selection process?
- Have I avoided the use of negative language in the negotiations and contract?
- Have I identified project sponsors and project managers in the contract?
- Did I include escalation procedures in the contract?

In one example from our research, the legal counsel used by the CIO of a large manufacturing company provided advice about the vendor selection process that runs contrary to the typical “blind” RFP approach. Key actions taken by this attorney and his CIO client included:

- Exploring the relationship before negotiating the contract
- Using a modified procurement method for vendor selection
- Inviting vendors to an initial sales call to explain the business need prior to RFP
- Having dialogues with vendor teams that included subject matter experts
- Allowing the vendor to offer a solution to the business need, rather than to force requirements on the vendor

BEST PRACTICES AREA: MEASURE, MONITOR, AND RESOLVE

Successful vendor management requires a strong project management approach with regular measurement and data monitoring. In addition to contracts, SLAs, and SOWs, organizations should monitor the overall business benefit of the relationship.

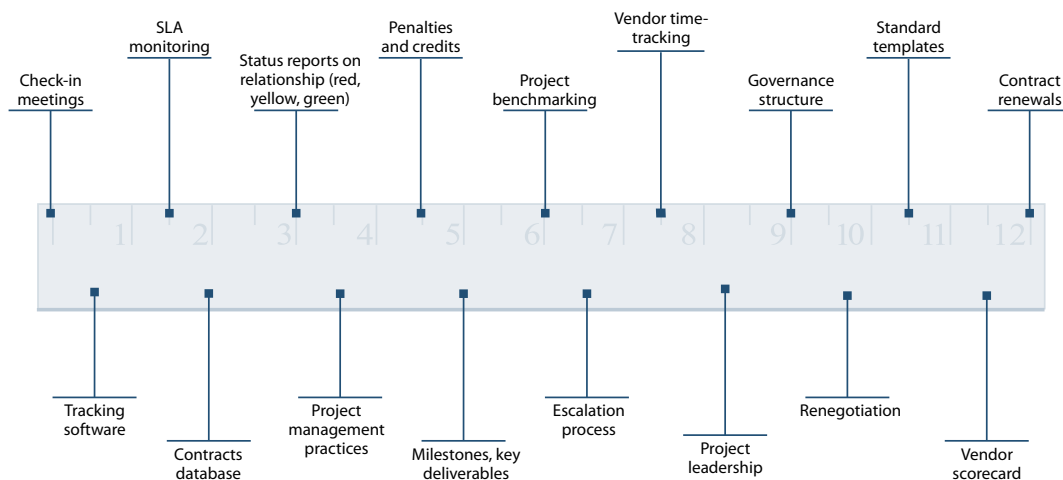
Best practices for engaging an IT legal specialist include:

- Using tracking software for project management and measurement
- Creating an escalation process that avoids going back to the contract to resolve disputes
- Establishing a governance structure for working with the vendor

As CIOs evaluate their ability to measure, monitor, and resolve vendor performance, they can ask themselves the following questions:

- Will I use a performance tracking software tool to monitor vendor performance?
- How will I monitor the contract SLAs?
- Will I schedule regular check-in meetings with vendors, and, if so, how frequently?

In one example from our research, a city government deputy county executive and CIO transformed the reputation of the IT organization by establishing a project management office to manage vendors. The organization’s vendor management function is now fully transparent, and customer involvement and satisfaction are high. Below is a representation of the important aspects of his vendor measurement and monitoring:



BEST PRACTICES AREA: DEFINE THE PARTNERSHIP

Strategic partnerships may last years and involve sharing proprietary organizational strategies, codeveloping products, and promoting success jointly. CIOs must consider processes, risks, and success criteria for these unique partnerships.

Best practices for defining the partnership include:

- Determining when to share organizational goals and future strategy
- Determining accountability for the overall success of the relationship
- Agreeing on the circumstances for terminating the relationship
- Considering if and when the relationship requires joint promotion through PR or references

As CIOs evaluate their partnership definition, they can ask themselves the following questions:

- Will I create incentives for my vendors to make or save money for my organization?
- Are there cultural differences between our organizations that I need to address?
- What will happen to our relationship if a merger, acquisition, or other ownership change occurs?

In one example from our research, the CIO of a large manufacturing company focused vendor management resources on partner relationships because of their strategic relationship. Together, they codeveloped products, shared future growth strategies, and defined the parameters of their relationship as it matured. The following chart highlights the criteria for partnerships compared with typical vendor relationships:

	Typical vendor	Partner
Role of RFP	<ul style="list-style-type: none"> • Predefined requirements (“Here’s what we need”) • Best fit for lowest price • Narrow down through RFP before in-person meetings 	<ul style="list-style-type: none"> • Open dialogue prior to RFP • Price not as significant a criterion • RFP follows confirmation of vendor’s viability as a partner
Amount of proprietary information shared	Very little shared other than RFP requirements	<ul style="list-style-type: none"> • Access to business plans and strategies • Specific company and industry needs shared • Plans for the future shared
Measurement	<ul style="list-style-type: none"> • Usual statistics (uptime, scalability) • SLAs 	<ul style="list-style-type: none"> • Partnership patterns more important than statistics; more subjective evaluation • Measurement responsibility assigned to the senior-most person working with the partner
Contract	Use own company’s contract	Examine both contracts and evaluate which is the better starting position
Communications	<ul style="list-style-type: none"> • Standard communications at level that technology impacts • Senior management not likely to be involved 	<ul style="list-style-type: none"> • Quarterly management meetings • Relationship is from the CEO and down • Frequent day-to-day interaction

MORE INFORMATION

The full “Six Steps To Successful Vendor Management” report is available exclusively to the members of the CIO Group, one of the Forrester Leadership Boards programs. The CIO Group is an executive-level peer knowledge community for CIOs and senior IT executives. Under the guidance of a set of dedicated advisors, the CIO Group strives to make its members more effective through a combination of research, member collaboration, and interaction with Forrester’s analysts.

As part of the CIO Group program, Forrester provides exclusive research on best practices covering topics that members determine to be most important and relevant. Our upcoming report is called “Partnering For Success: The CIO-CMO Relationship.”

For more information on this report or future research, or to learn more about the CIO Group, please contact Anton Hios at ahios@forrester.com or +1 203/221-2854.

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