



Sourcing & Vendor Relationships
Symposium Community

Trip Report

Sourcing & Vendor Relationships Symposium Community

Members: 295

This year's Gartner Symposium/ITxpo — held from 12 through 16 October in Orlando, Florida — was organized around the theme of IT and the economy. This report offers an overview of what was on attendees' minds and what they learned from Gartner analysts and each other.

Key Takeaways

Many attendees in the sourcing and vendor relationships community are concerned with improving pricing, performance metrics, service-level agreements. As long-term contracts start to come up for renewal or renegotiation the impact of global sourcing models as more and more countries become viable outsourcing destinations is also a hot topic. Several presentations spoke directly to these concerns. Some of the most popular and well-attended presentations of the conference are described below.

Conference Highlights

Perfecting the Three Pillars of Vendor Management: Contract, Relationship and Performance

The keys to effective vendor management are managing contract conditions, keeping vendor relationships aligned with the organization's business goals and ensuring that vendors meet or exceed their performance metrics. Organizations that are most effective at this have mastered all three disciplines through effective organization, vendor management competencies and formal performance management programs. For maximum effectiveness, vendor management leaders should:

- Create a definition of vendor management.
- Develop a vendor manager competency model.
- Define the right performance metrics and measurement model.
- Balance knowledge with process in vendor management disciplines.

Workshop: Developing Vendor Management Dashboards

At a workshop, Gartner analysts asked about three dozen attendees to develop sample vendor management dashboards to track the most important kinds of metrics for the four major classes of vendors: strategic, legacy, emerging and tactical. For each class of vendor, the participants developed metrics that would speak to and satisfy four kinds of stakeholders: IT operations, IT management, business unit leaders and executives.

Each category of vendor and each type of stakeholder will have different priorities; for example, when dealing with tactical vendors, IT management will tend to be more interested in issues such as benchmarking, risk compliance and risk of vendor lock-in. The business, on the other hand, will more likely be concerned with cost and performance metrics. Some other pointers from the workshop were:

- Dashboards for strategic vendors need a top-down approach.
- Dashboards for emerging vendors need to be scalable, since those vendors may become major suppliers later on.

Place Your IT Services and Sourcing Bets Wisely

In the coming five years, technology and sourcing forces will bring even greater change and volatility. To make sense of this complexity requires taking a step back and looking at the big picture. Tactical, well-intentioned initiatives may work to solve short-term outcomes, but most will be only moderately successful or outright failures.

Gartner believes that nine major forces will impact most organizations' sourcing futures:

- Externalization of IT services spending
- Primacy of business guiding IT
- Globalization of IT services supply and demand
- Ubiquity of the Internet
- The force for legacy modernization
- Green IT consciousness

- Explosion of sourcing choices
- The imperative for sharing
- Maximizing outsourcing through governance excellence

Organizations should take time to identify these forces. It's a first step to move from tactical decision making to strategies that will help organizations choose investments wisely, intelligently select partners and prioritize critical issues. Mere cost-cutting or tactical outsourcing will not enhance competitiveness.

Global Sourcing: State of the Market and Future Trends

Several trends have marked the outsourcing market recently. The leading India-heritage service providers continue to extend their capabilities and grow their geographic reach. Buyers of IT services and business process services have moved beyond the early obsession with cost. Meanwhile, traditional providers continue to invest in acquiring Indian service providers and expanding their market reach.

Buyers need to look beyond short-term savings and take a more strategic approach to outsourcing. Gartner's recommendations for organizations considering a global sourcing strategy include:

- Consider the impact of future acquisitions or mergers on your deal and plan for it within your contract. Consider including clauses that allow for termination or renegotiation of the contract in the event your provider is acquired.
- Beware of lengthy cost-reduction deals. Concerns over the effects of an economic downturn require vigilance in contracts.
- Because so many factors can change overnight, be sure to look at all available country options.

Exposing the Hidden Costs and Risks of Sourcing Options

Companies often base strategic sourcing decisions on broad assumptions or, sometimes, on intuition. They assume "it just has to cost less"; they fail to quantify choices and don't adequately assess risks.

Some organizations do evaluate the financial consequences of their sourcing decisions; however, understanding what types of costs need to be included in the analysis is crucial to properly understanding the financial engineering of a deal. Including all possible costs is not easy. Gartner estimates that more than 70% of initiatives exceed the original business case costing estimates, which results in significant challenges to on-time and on-budget delivery, and forces compromises on deliverables and quality.

IT organizations should:

- Quantify their strategic sourcing decisions and ensure that they factor in all the variables (including hidden costs) over time.
- Ensure that sourcing options are comparable across the scope and quality of service. The service market has exploded with diverse offerings of varying maturity levels.
- Assess organizational appetite for risk and comparable resources required to mitigate or manage it. Risk management is critical in evaluating sourcing options.

Alternative Delivery and Acquisition Models Are Changing How IT Conducts Its Business

Several forces in the evolution of the service market are acting as tipping points that will accelerate the transition toward a new market structure that emphasizes global delivery, virtualization, SOA, consumerization, IT industrialization, the emergence of asset-based services that answer a specific business or technology pain point, and IT utilities. These changes together will redefine every aspect of how IT is delivered to the business: from where, how, for what kind of services, by whom and why. Organizations considering alternative delivery models should:

- Understand the various models and services (for example, software as a service and IT utilities) that are already in use or set to become viable for use in various the industries.
- Evaluate which models and services are most appropriate today and yield the best risk/reward ratio; also, evaluate current sourcing maturity.
- Communicate with key vendors and other providers as to their alternative delivery and acquisition model (ADAM) offerings as a precursor to possible changes in the IT portfolio.
- Review current IT architectures, infrastructure, services, applications and sourcing practices to encompass ADAM opportunities.

Keynotes

Welcome Address and Analyst Keynote

Most IT budgets will take a hit from global economic problems, but the situation is not as dire as IT leaders who lived through the dot-com bust might expect. Gartner's recent surveys of CIOs show that at worst, IT spending worldwide likely will increase 2.3% in 2009, down from Gartner's earlier projection of a 5.8% increase. IT spending at worst will be flat in the U.S. and down in Europe.

IT budgets will be largely spared because IT runs almost all aspects of business, and IT is increasingly viewed as the means to improve and transform the business, but IT leaders still have to deliver.

Economic downturns tend to amplify disruptive technologies, so IT leaders should research virtualization and modernization opportunities. IT leaders also should take stock of the whole IT portfolio to see what the business can run for less or live without. For every application and system, ask:

- Why is this needed?
- What does it cost?
- How can it be implemented with fewer resources?

Mastermind Keynotes Show Other Organizations' Strategies

Gartner analysts interviewed three IT leaders to gain insights about their strategies and outlook for 2009:

- John Chambers, CEO of Cisco Systems, said Cisco plans to work on dozens of projects in 2009 that aim to expand the company's scope beyond networking into networked-enabled processes to improve productivity. Cisco will use partnerships to help customers boost scale and speed. Cisco has a unique opportunity in the economic downturn to help its clients enable transformative business strategies, Mr. Chambers said.
- Joseph Eng, Executive Vice President, Systems and Technology at JetBlue Airways, urged IT leaders to show how IT can help transform and differentiate the business, as his group has done to make JetBlue a customer-centric airline. Mr. Eng described how JetBlue customers are empowered to make their own decisions and receive perks to make the trip better. This strategy has greatly helped JetBlue grow and has provided more opportunities for revenue.
- Steve Ballmer, CEO of Microsoft, insisted that what has been an apparently slow uptake of the Vista operating system among enterprises doesn't indicate a problem with Vista. In fact, he said, Vista's uptake is roughly comparable to the uptake of Windows XP at a similar stage. Ballmer also said Windows 7, Vista's follow-up, will be a true release, not a mere update. He acknowledged competition from Google but was critical of Google Apps, saying that it is "just not good enough today" for enterprise-level adoption. Cloud computing will also be a challenge for Microsoft, he said, since it involves a paradigm shift, but he predicted the company will adapt. Cloud computing will be delivered "piece by piece," he said. "This is a technology that Microsoft is embracing, but it won't be ready the day after tomorrow."

What People Asked About

How do I define what the right metrics are?

The success of any outsourcing deal depends on using the right metrics to drive the behavior of the service provider. Gartner research shows that both service-level agreements and key performance indicators are important to ensure that services buyers realize their intended outcomes and can judge providers against mutually agreed and measurable benchmarks. As described in the workshop held at this year's Symposium on creating dashboards, different constituencies within each organization have different concerns, and those concerns need to be mapped out to prioritize what's most important to the enterprise's business goals.

What are the main challenges we should be concerned about when it comes to multisourcing?

Two key challenges are emerging in outsourcing:

- High expectations associated with outsourcing are increasingly hard to meet.
- As more functions are outsourced, integrating and managing a portfolio of service providers is becoming more difficult.

To address these issues, organizations must improve their sourcing competency. They must stop ad hoc outsourcing and consider business processes, workforce, value chain, relationships and above all, business goals.

Some helpful practices include using a country evaluation model to compare a shortlist of countries and building long-term, large-scale outsourcing agreements for continuous change. Focus on managing the relationship with your providers, rather than governing the contract. Most strategic sourcing deals fail because of a breakdown in the relationship between the parties.

Things to Watch For

Balance Cost-Cutting Needs: Cost reduction and resource acquisition continue to be the most prominent drivers of outsourcing efforts, but cost issues must always be balanced against organizations' needs for agility and growth. Vendors continue to shift away from featuring low-level processes toward higher-value services that increase their margins. Gartner research stresses that organizations must adopt a strategic approach to sourcing, rather than merely seeking the lowest-cost options. Unless the downturn becomes severe, economic factors aren't likely to overwhelmingly affect most organizations' sourcing policies, since those policies are generally driven by key initiatives that will proceed regardless of economic conditions.

Demand Management: Demand management is becoming more of an issue as organizations try to prioritize those aspects of their processes that will need the most attention going forward. Vendor management as a discipline will receive more attention, particularly in the area of managing multiple vendors — users will want to know more about whom they are spending their money with, and why.

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