Sourcing and Vendor Management Leadership Vision for 2017
The first wave of rapid digital innovation is here in almost all industry verticals and geographies. CEOs are investing heavily in digital technologies and other digital investments; however, IT budgets are staying flat, indicating that investments in technology are outside the IT budget. Enterprise leadership is expecting that current IT infrastructure and services will be transformed by the time new digital business investments move into the production phase, including a massive ramp-up of IoT devices.

Gartner's 2016 CEO Survey gathered data from 396 respondents between September and December 2015. Participants were asked, "What percentage of your organization's revenue do you believe will be spent on introducing and advancing digital business in 2015?" Respondents expected to spend, on average, 10% of their revenue on digital business. Of those respondents, 71% in total said they are actively experimenting (36%), piloting (14%), deploying (13%) or have fully deployed (8%) as a digital business.

The 2016 Gartner CIO Agenda Survey gathered data from 2,944 CIO respondents in 84 countries and all major industries, representing approximately $11 trillion in revenue/public-sector budgets and $250 billion in IT spending (see "Building the Digital Platform: The 2016 CIO Agenda"). This survey reveals that 2016 IT budgets will be almost flat (global growth is just around 2%) with an average of 2.3% of revenue — less than one-third of the CEOs' expected 10% investment on digital spending.

Gartner's 2015 CEO and Senior Executive Survey finds that growth is the priority, and technology is a primary tool, but the need for deep, structural change is not yet fully recognized (see "2015 CEO Survey: Committing to Digital").

Gartner's 2015 CIO Survey indicates that 42% of respondents lack the skills required for the digital future, 51% have a timeliness issue, 70% will change their vendor portfolio drastically through 2017, and 70% of initiatives will fail to generate new revenue by 2018.

Endpoints of the IoT will grow at a 32% CAGR from 2013 through 2020, reaching an installed base of 21 billion units, with almost two-thirds of them consumer applications. Spending on networked consumer and business endpoints will displace non-networked, growing at a 22% CAGR to $3 trillion (see "Forecast Analysis: Internet of Things — Endpoints, Worldwide, 2015 Update").
Sourcing and Vendor Management Leadership Vision for 2017

IT sourcing, IT procurement and vendor management leaders are becoming increasingly important as they represent the critical link between organizations' internal capabilities and the external digital business ecosystem. They are accountable for developing and deploying strategies to acquire and manage IT services and products from internal and external providers to drive successful business outcomes.

The 2017 Leadership Vision for IT Sourcing and Vendor Management Leaders is a critical tool to ensure corporate and personal success. It highlights major trends and related challenges affecting the role, showing why the role is critical to a successful digital business. It also provides practical advice and best practices to overcome these challenges and successfully deliver the expected business outcomes.

Learn here how to be successful in your role, and use this slide deck in your planning for 2017 and in your presentations to leadership, peers and teams.

This Leadership Vision is one out of seven similar role visions helping IT leaders to be successful in the digital age. It is foundational research to shape the need and the best practices for collaboration to achieve expected outcomes in mission-critical priorities:

- Sourcing and Vendor Management
- Applications
- Data and Analytics
- Enterprise Architecture and Technology Innovation
- Infrastructure and Operations
- Program and Portfolio Management
- Security and Risk
Sourcing and Vendor Management Leadership Vision for 2017

Key Issues

1. What major trends and challenges affect how organizations select, negotiate with and manage technology providers?
2. Why is sourcing and vendor management (SVM) a critical area for leading organizations to focus on today and in the future?
3. How can leading SVM organizations deliver the highest value from selecting, negotiating with and managing technology providers?
4. What are the best practices for SVM roles?

SVM leaders are increasingly affected by a rapid proliferation of challenges driven by external and internal factors:

- Incredible acceleration of technology innovation that matters to CxOs and boards
- Business and societal trends that impact both demand and supply for technology
- Inability of internal business and IT resources to cope with rapid digital innovation and industrial delivery of current/future capabilities and processes

This key issue explores these trends and identifies the most important challenges that will affect most SVM leaders around the world in the short term and midterm.
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We select trends for inclusion in our top 10 list based on their potential to create disruption for people, businesses or the IT market. We use insights from analysts across Gartner and key research projects — including Hype Cycles, Predicts and Magic Quadrants — to identify and evaluate candidate trends. The trends' disruptive potential is just beginning or rapidly expanding. Another criterion is the degree to which the trends are shifting or reaching critical tipping points, and are challenging conventional wisdom to such an extent that organizations need to look again at the trends and related technologies. Organizations must examine the potential impact of these trends, factor them into their strategic planning for 2016 and 2017, and adjust business models and operations appropriately. If they fail to do so, they will risk losing competitive advantage to organizations that do.

Our top 10 strategic technology trends for 2016 fall into three groups that mutually reinforce each other with amplified disruptive characteristics:

- The digital mesh revolves around three key trends that are bringing the virtual and physical worlds together and driving the expansion of digital business: the device mesh (for example, the expanding set of endpoints — spanning traditional, mobile and IoT endpoints), continuous and ambient UX (for example, next-generation UXs; rich I/O; and blending of people, things and organizations), and 3D printing.

- Smart machines involve three interlinked trends anchored on data science and smart algorithms that are extending digital business into algorithmic business: information of everything, advanced machine learning, and autonomous agents and things.

- The new IT reality consists of four trends that address key areas in which technology architectures and platforms must change. This change is necessary to support the world of digital and autonomous business that the digital mesh and smart machines enable.

Together, our top 10 trends are forcing changes to the strategies, processes and tools used by IT professionals to deal with the complexities of digital and algorithmic business. For more details on this research, see "Top 10 Strategic Technology Trends for 2016," "Using EA to Master Emerging and Strategic
Sourcing and Vendor Management Leadership Vision for 2017

Trends Primer for 2016," and "Leveraging Enterprise Architecture to Lead the Enterprise Response to Disruptive Technologies."
Sourcing leaders must address changes coming from: (1) major technology innovation and disruption [for example, Internet of Things]; (2) sociopolitical factors [for example, globalization vs. protectionism]; (3) competitive landscape changes [for example, reducing offshore advantage]; and (4) changes in buyer behaviors and models [for example, crowdsourcing, and direct business unit spending]. Such a complex set of market trends, external opportunities and challenges is already heavily affecting sourcing, procurement and vendor management leaders on both the quantity and the quality of their activities.

Gartner SVM analysts — based on daily client interactions, surveys of buyers and providers, and their ongoing research — have selected four areas as the most representative challenges for SVM leaders and professionals:

- **New sourcing approaches**, models and vendors required to enable digital business transformation, including mainstream approaches, such as bimodal IT and adaptive sourcing (see "A Practical Guide to Bimodal Adaptive Sourcing Research").

- **Cost optimization** driven by an uncertain economy, a hypercompetitive environment, and the need to move more IT funding into the development of digital business approaches. This includes leveraging low-cost services, commoditization of a large part of the market (for example, cloud and infrastructure services), and a new balance between operating and capital expenditures (see "Cost Optimization in the Age of Digital Business").

- **Procurement evolution** toward managing new categories of technology. Technology procurement must be involved heavily in procuring IoT and related services, smart-machine-based services, partnering across the economics of connections, and mesh-based ecosystems (see "Transforming Technology Procurement to Support Business Innovation").

- **Vendor management** must evolve toward new and more-complex ecosystems of vendors and partners. New approaches and metrics are required to evaluate vendor performances (see "Build a Proficient Vendor Management Capability Primer for 2016").
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This key issue examines why sourcing, procurement and vendor management remains a critical part of the organization to focus on in the midst of all this change.
Sourcing and Vendor Management Leadership Vision for 2017

**IT Sourcing Has New Business Model Requirements and Bimodal Strategies to Implement**

- Sourcing strategies that are flexible enough to provide the best balance of cost, risk and innovation
- Agile identification and evaluation of providers, including IoT and smart machine vendors
- Plans for cloud transition, hybrid IT brokerage and management
- Agile sourcing of information and analytics

<table>
<thead>
<tr>
<th>70%</th>
<th>81%</th>
</tr>
</thead>
<tbody>
<tr>
<td>of CIOs are changing their sourcing mix by 2017</td>
<td>of sourcing managers expect digital to have a high impact</td>
</tr>
<tr>
<td>50%+</td>
<td>10%</td>
</tr>
<tr>
<td>of enterprises will be bimodal by 2017</td>
<td>of revenue is being invested in digital transformation</td>
</tr>
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</table>

Over a third of organizations are bimodal now, and two-thirds will be bimodal in the next three years:

- 36% are proof-testing new digital technologies.

- Proofs of concept are often taking place with niche products and service providers, but without IT or sourcing teams' participation. With supplier offerings, and aggressive marketing and selling techniques directed toward the business, the business user is making digital technology and service decisions, which Gartner predicts will result in the shift of a significant portion of the IT budget outside IT.

- Gartner's 2015 CIO data identified a lack of process agility, domain competency and timely response from IT and sourcing teams in meeting stakeholders' demands.

- There are historical perceptions of critical perceived weakness in SVM functions — that they are "nonstrategic" and lack alignment to business strategies.

Lacking these skills, sourcing executives risk being excluded in Mode 2 projects. IT sourcing is a critical area for digital business transformation. To be successful, sourcing executives must learn how to:

- Design and deliver adaptive sourcing strategies for an optimal balance of cost, risk and business value (see "Applying Advanced Service Sourcing to Optimize Cost-Effectiveness and Business Value Primer for 2016").

- Be agile in the identification of sourcing models, styles, models and providers to support rapid innovation (see "Transform Service Sourcing to Promote Business Agility Primer for 2016").

- Plan to transition toward a brokerage role and new forms of sourcing management more aligned to cloud digital business and the economics of connections (see "Sourcing and Vendor Relationships Leaders Key Initiative Overview," "Evaluating and Negotiating Software License Agreements and Cloud Contracts Primer for 2016," and "Research Roundup for the MSI-SIAM Role").
Sourcing and Vendor Management Leadership Vision for 2017

Three critical pressures are changing the way that procurement will fundamentally do business with technology providers by 2020 — a real transformation of IT procurement:

- **Technology innovation** — The business drive to innovate with the latest technologies (for example, smart machines and the Internet of Things) challenges IT procurement. To remain relevant, technology procurement leaders must address the advances in digital technology that are shifting the dynamics of power in vendor relationships and disrupting the fundamental economics of enterprise leverage in IT procurement.

- **Demand for business agility** — Accelerating business demands for technology cannot be satisfied by traditional, linear IT procurement processes and IT budgetary constraints. They demand a revitalized customer experience and a game-changing response in the face of competition. To eliminate being bypassed, technology procurement leaders must anticipate and influence accelerating business demand for technology.

- **Cultural/organizational shifts** — Economic pressures are changing the status quo in the enterprise (for example, bringing mass, consumer-driven behavior to the corporation), and shaking up old ways, structures, rules and processes. Outdated cultures and organizational structures prevent IT procurement from being trusted or engaging effectively where it is most needed. To build trust and effective engagement, technology procurement leaders must transform the outdated cultures and organizational structures that diminish the significance of IT procurement.

Using vendors for digital business initiatives brings innovative solutions to organizations, but may expose them to devastating performance and security risks. IT vendor management (ITVM) leaders play a critical role in balancing the risks and rewards to ensure vendors deliver expected business outcomes. At the same time, they must continue to advance their capabilities to take advantage of the new world of digital business. They must improve their team's maturity, as evidenced by Gartner's ITScore maturity assessments (Level 1 = low maturity, Level 5 = high maturity). They must move ITVM from transactional, reactive and bureaucratic to become more agile, proactive and business-focused, and be able to adapt VM style to different providers (for example, cloud hyperscale vs. small vendors or startups).

Successful ITVM leaders assess, manage and mitigate vendor risk, while they manage vendor performance and relationships to achieve expected outcomes, by:

- Categorizing vendors based on their strategic value and risk to the business
- Understanding the risks posed by current and future vendors
- Communicating expectations for current and future vendors to meet compliance requirements
- Using tools and analytics to manage vendor risks and performance
- Maintaining a good relationship with vendors by communicating expectations and results
- Onboarding new vendors effectively into the ecosystem
- Collaborating with vendors to improve value, innovation, communication and performance, while reducing risk

See "Manage Vendor Risk and Performance to Anticipate and Avoid Negative Business Impacts Primer for 2016" and "Build a Proficient Vendor Management Capability Primer for 2016."
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This key issue identifies how sourcing, procurement and vendor management organizations add value to the business when working with service providers.
IT strategic sourcing is the process of defining, acquiring and managing contracts for IT hardware, software and services. Therefore, to support a bimodal IT organization, sourcing organizations must define the right strategy for each mode. For service sourcing, Gartner offers the above adaptive sourcing model, in which IT services are pace-layered into three environments: innovate (fast/agile proof testing), differentiate (business process optimization and transformation), and run (production environment). For each environment, the stakeholders, sourcing options and suppliers may be different, along with the speed of delivery and desired outcomes.

Why is it necessary to implement bimodal IT and adaptive sourcing? As two-thirds of the organizations (from Gartner's CIO Survey) embark on a bimodal journey by 2017, sourcing organizations that do not become bimodal and adopt adaptive sourcing strategies will find themselves disintermediated or, worse, obsolete. Digital business economies will require new sourcing options, as well as higher digital competencies and faster sourcing and procurement processes, because more than 20 billion connected "things" will be bought and incorporated into IT services, systems and technologies by 2020. Cognitive technologies, automation, as-a-service models and BPaaS options are already starting to take over the tactical activities done traditionally by sourcing and procurement organizations.

What are the two sourcing strategies required to enable digital transformation? See "Adaptive Sourcing Strategies Are Bimodal by Design to Accelerate Digital Transformation."

How can the sourcing organization start preparing for rapid modernization? See "IT Services Sourcing Reform Will Prepare the Organization for Bimodal IT and Digital Business" and "Key Governance Changes That IT Procurement Must Make to Become Adaptive and Agile."

How does one develop, update and customize a roadmap to implement bimodal IT and adaptive sourcing? See "Three-Step Roadmap to Bimodal Adaptive Sourcing: Leverage Digital Urgency to Be an IT Broker" and "Toolkit: Your Roadmap to Delivering Bimodal IT and Adaptive Sourcing."
Gartner customer inquiries and search demonstrate a significant growth of search for terms like IoT, cloud, DevOps, big data, security, blockchain, enterprise architecture, analytics, Internet of Things, bimodal, business intelligence, Office 365, cost optimization and agile. These terms are consistently among the top search terms in gartner.com. Gartner SVM analysts have addressed almost 20,000 inquiries in the past 24 months on all the matters they cover (both traditional and emerging themes). While in 2015, they answered approximately 600 inquiries each month (for a total of more than 7,200 inquiries), the first months of 2016 show an impressive growth with well over 1,000 inquiries per month. A significant focus in these inquiries is on application and infrastructure services, market changes, selection and negotiations, and sourcing strategies.

Sourcing organizations have a responsibility to their stakeholders to provide the external capabilities required to move toward digital business, IoT implementation, agile development and business innovation through exploratory Mode 2 approaches. At the same time, existing vendor and service relationships must be updated, renegotiated, extended or phased out. In some inquiries, sourcing executives report that they are managing hundreds of parallel sourcing initiatives, selection and negotiations — often for very high-stake delivery to meet business-critical requirements. Gartner research also finds that sourcing leaders recognize their challenges and know they cannot be passive, or they will find themselves at risk of being viewed either as irrelevant to the enterprise or, worse, as "part of the problem, rather than the solution."

What SVM leaders must do, and how to do it:

- Provide rapid innovation capabilities to your business — See "Adopt Agile Microsourcing for Innovation Projects to Drive Digital Success," "How to Contract for Agile Development Services," and "Driving Timely Outcomes When Negotiating and Contracting for Digital Consulting Services."
- Create and implement your adaptive sourcing roadmap — See "Three-Step Roadmap to Bimodal Adaptive Sourcing: Leverage Digital Urgency to Be an IT Broker" and "Toolkit: Your Roadmap to Delivering Bimodal IT and Adaptive Sourcing."
- Deliver as a provider, and broker as a partner; build and balance trust and control for business value
Sourcing and Vendor Management Leadership Vision for 2017

— See "Research Roundup for the MSI-SIAM Role" and "Applying a 'Cloud-First' Checklist to Ensure Successful Sourcing and Business-IT Alignment."
Gartner believes that organizations — particularly those in heavily impacted industries (that is, those being disrupted by digital business or under severe economic pressure) — must look holistically at cost optimization. IT cost cutting is not a business growth strategy, particularly in the age of digital business. IT costs represent a small fraction — 4% on average — of business costs. Thus, the greatest opportunities to optimize in an organization are outside IT. However, many CIOs are reluctant to raise this possibility, given the cultural and political barriers to optimizing business costs. For example, when CIOs try to drive application rationalization to shrink the IT footprint and lower costs, they often meet with resistance from stakeholders. What is more, CIOs soon realize that successful application rationalization often requires business process standardization, and that is usually something that the CIO cannot mandate.

Cost optimization in the age of digital business requires organizations to use a mixture of IT and business cost optimization for increased business performance, while preparing for the digital future.

What SVM leaders must do, and how to do it:


- Create a core cost optimization team that aligns strategic planning and execution activities with shared targets. See "Cost Optimization Secrets: Plan and Manage Cloud Services for 14% Savings, on Average," "How to Budget, Track and Reduce Public Cloud Spending," and "Mandate Investigation of Smart-Machine-Enabled Services to Accelerate Business Outcomes."

- Restructure operational spending to channel funds into initiatives that drive business value, such as digital business innovation, competitive differentiation and the renovation of core IT. See "How to Leverage Industrialized 'Low-Cost' Market Prices to Optimize Your Data Center Infrastructure Service Cost."
Sourcing and Vendor Management Leadership Vision for 2017
Without engaging with innovators in business units, technology procurement leaders risk being involved late, if at all, and thereby find themselves unable to ensure positive business outcomes.

To prepare for beyond 2016, technology procurement leaders must develop short- and long-term plans to transform their procurement organizations to meet cultural and organizational shifts, as well as business agility demands, and to take advantage of technology innovation opportunities. A successful procurement transformation plan requires new and improved methodologies for communication and collaboration. Technology procurement leaders who exploit techniques for robust collaboration to proactively and effectively engage with stakeholders are well-positioned to understand, seek out and successfully drive business outcomes. Collaboration is a prerequisite to understanding the goals, objectives and strategic priorities of the organization, as well as those of individual business units. Creating communities to engage representatives from business units and IT will serve as the mechanism to capture the pertinent information necessary to ensure that procurement's goals, strategies and plans align with those of the organization and business units as part of the transformation plan. The community approach also serves as an effective mechanism for procurement to communicate its transformation plan and facilitates the engagement of IT and the business to help ensure the proposed plan will meet their needs and demands for agility, flexibility, speed and innovation.

What SVM leaders must do, and how to do it:


- Create a cross-functional technology procurement — See "Follow Gartner's C-H-A-N-G-E Process for Robust Collaboration to Harness Technology Procurement Opportunities" and "Refresh Outdated IT Procurement Policies to Accelerate Technology Innovation and Govern Bimodal IT."

- Develop a transformational 2020 roadmap to technology procurement.
Sourcing and Vendor Management Leadership Vision for 2017

• Exploit procurement automation tools and analytics.
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Manage Complex Vendor Ecosystems With New Players and Toward Challenging Objectives

- **New vendors:**
  - Digital design
  - Agile development
  - Data science/analytics
  - Smart machines

- **Ecosystem objectives:**
  - Risk sharing/control
  - Vendor cooperation
  - Trust and light controls
  - Rapid innovation

IT vendor management needs to move out of the back office and take a more prominent role in helping organizations achieve their strategic objectives. This can only happen with a disciplined strategy across IT and the business that addresses vendor risks, relationships and performance. The Gartner ecosystem collaborative framework is a structure to promote vendor collaboration in order to leverage synergies between vendors and to increase speed to results for all parties. Effective vendor performance management realizes business value and enhances vendor relationships.

IT vendor management leaders must introduce a robust and standardized program that aligns with business objectives to deliver results, also taking into account that different types of providers (for example hyperscale cloud providers) require a different style of management.

What SVM leaders must do, and how to do it:

- Reduce risks to project delivery and outcome — See "Manage Vendor Risk and Performance to Anticipate and Avoid Negative Business Impacts Primer for 2016" and "Magic Quadrant for IT Vendor Risk Management."

- Motivate and incentivize cooperation and collaboration between vendors — See "Adopt Agile Microsourcing for Innovation Projects to Drive Digital Success."

- Increase vendor trust while reducing client management controls — See "Research Roundup for the MSI-SIAM Role."

- Increase access to scarce competencies and capabilities.

- Ensure long-term continuity and maintainability of solutions.

- Use a phased approach to risk sharing between the client and vendors — See "Bimodal Vendor Management Reduces Risks and Enables Rapid Digital Business Transformation."

- Improve the delivery of innovative solutions.
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• For examples of successful ecosystems, see "Five Business Ecosystem Strategies Drive Digital Innovation."
The slide reports examples of the traditional and new metrics that are required when managing service providers as part of a digital ecosystem. This includes:

- Evaluating collaboration — behavioral measures:
  - Ease to work with
  - Communication/dispute resolution
  - Access to vendors/responsiveness
  - Flexibility
  - Business/solution orientation

- Evaluating performance — operational consistency

- Decreased dispute resolution time:
  - Reduced risk (where the ecosystem was the mitigation method)
  - Cost savings through synergies
  - Cost avoidance (reduced throughput time, and optimization of resource aggregate spending)
  - Overall improved adherence to SLAs

What SVM leaders must do, and how to do it:

- Raise the level of maturity of your vendor management organization above Level 3 on the Gartner ITScore — See "ITScore Overview for IT Sourcing and IT Vendor Management."

- Identify the most effective report mechanisms, and create scorecards and/or dashboards that are practical, timely, relevant and actionable — See "Improve Vendor Performance Through Enhanced Dashboards and Scorecards."

- Develop a repeatable scorecard process, and review results and analysis with the agreed-on parties at established intervals — See "Leverage Disciplined Vendor Scorecard Design, Delivery and Analysis to Drive Continuous Improvement."
Sourcing and Vendor Management Leadership Vision for 2017

**Key Issue**

1. What major trends and challenges affect how organizations select, negotiate with and manage technology providers?
2. Why is SVM a critical area for organizations to focus on today and in the future?
3. How do SVM organizations deliver the highest value from selecting, negotiating with and managing technology providers?
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This key issue identifies the best practices that sourcing, procurement and vendor management organizations should follow in order to maximize their value.
How Do I Implement Bimodal Adaptive Sourcing for Success?

Sourcing executives cannot wait to implement bimodal adaptive sourcing to stay relevant. Being busy today is not enough to ensure future success. The future of sourcing and procurement is in strategic business advisory and multivendor ecosystem management. The bimodal sourcing organization will need to address different levels of competencies for each mode.

What SVM leaders must do, and how to do it:

- Below are the most common questions that clients ask as they initiate their journey toward bimodal and adaptive sourcing, as well as a list of documents that will address the questions:

  - What are the two sourcing strategies required to enable digital transformation? See "Adaptive Sourcing Strategies Are Bimodal by Design to Accelerate Digital Transformation."

  - How can the sourcing organization start preparing for rapid modernization? See "IT Services Sourcing Reform Will Prepare the Organization for Bimodal IT and Digital Business" and "Key Governance Changes That IT Procurement Must Make to Become Adaptive and Agile."

  - How can we be personally successful? How do we make the sourcing organization relevant to digital innovation? How do we bring a sense of urgency into our current organization? How do we support Mode 2 initiatives? See how to use business anxiety questions and dynamic checklists in "Make Your Sourcing Team Essential and Ready for Bimodal Innovation Through Seven Key Business Questions" and "Toolkit: How to Make Your Sourcing Team Essential for Rapid Digital-Driven Business Innovation."

  - How do we develop, update and customize a roadmap to implement bimodal IT and adaptive sourcing? See "Three-Step Roadmap to Bimodal Adaptive Sourcing: Leverage Digital Urgency to Be an IT Broker" and "Toolkit: Your Roadmap to Delivering Bimodal IT and Adaptive Sourcing."
CEOs focused on digital innovation have new, fast requirements for IT sourcing, enabled by the evolution of the Nexus of Forces, resulting in increased use of digital service technologies and smart machines. As a result, the use of small product vendors and IT service providers is becoming pervasive in the hybrid IT service ecosystem. This presents challenges for more conservative and larger enterprises and their sourcing managers. Recent Gartner research identified, "With agile, fast-paced innovation sourcing requirements, the sourcing and onboarding suppliers will need to be engaged in just weeks, rather than months. Additionally, small niche suppliers, sometimes referred to as microvendors, should (by default) be included in the sourcing discussions … New sourcing models such as crowdsourcing may also need to be incorporated."

What SVM leaders must do, and how to do it:

- Use agile sourcing approaches when engaging with small providers for innovation and digital implementation initiatives.
- Use left-field thinking and sources to identify potential innovative digital service providers.
- Build up specific sourcing competencies for engaging with smaller providers throughout the sourcing cycle, while understanding how those competencies impact strategic, tactical and operational environments, including protection of intellectual property and knowledge transfer.
- Derisk small service provider use by a prime contractor model in the differentiate layer, and an MSI role in the run layer.
- Undertake a market scan of potential cloud service offerings.
- Establish a short, or shorter, list of providers using deal sweet-spot analysis. Sandbox, test or pilot shortlisted cloud service offerings.
- Undertake a detailed evaluation of shortlisted offerings. Sign up or negotiate with the final one or two cloud service providers.
- Transition into ongoing cloud service delivery and management. See "Increase Sourcing Agility by
Sourcing and Vendor Management Leadership Vision for 2017

Using Small Providers of Digital and Innovation Services Effectively."
Many organizations underestimate the management of their vendors and underinvest in it. Most organizations realize the importance of vendor management, but fail to develop a disciplined approach to managing vendors. Instead, they spread vendor management responsibilities and activities throughout their organizations, if they perform it at all. As organizations rely more heavily on IT vendors and create more-complex multivendor models, they should realize the importance of disciplined vendor management. This approach goes beyond merely managing the contract terms and conditions (T&Cs) and extends into areas of collaboration, innovation and vendor performance.

For many organizations, vendor management emerges as a discipline after they sign a vendor contract. However, IT vendor managers must start thinking about vendor management and formalizing vendor management activities and responsibilities before they sign any contract.

Although an increasing number of organizations have formalized IT vendor management, maturity varies greatly, and many organizations are searching for methods to increase vendor value.

Gartner's framework for vendor management, illustrated in this slide, provides IT vendor managers with the set of activities they need to manage vendors effectively.

What SVM leaders must do, and how to do it:

- Develop a formal IT vendor management program, defining the organization, governance and processes necessary to manage vendors in a comprehensive manner.
- Rationalize usage, optimize external spend and simplify vendor management by classifying the entire IT vendor portfolio and identifying strategic vendors.
- Regularly assess and mitigate the financial, operational and compliance risks of strategic vendors to detect early-warning signals of potential problems or failures.
- See "Comprehensive IT Vendor Management Framework Builds the Foundation for an Effective Program."

### Must Do: Implement the Gartner Vendor Management Framework Toward Increased Maturity and Lower Risk

<table>
<thead>
<tr>
<th>Create Vendor Management (VM) Program</th>
<th>Acquire and Divest Vendors</th>
<th>Manage Vendors</th>
<th>Develop and Articulate Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish VM Mission and Objectives</td>
<td>Evaluate and Select Vendors</td>
<td>Manage Contracts and Finances</td>
<td>Create and Manage Communications Plan</td>
</tr>
<tr>
<td>Develop Organization and Staffing Model</td>
<td>Negotiate and Contract Vendors</td>
<td>Manage Performance</td>
<td>Establish Vendor Ecosystem Operating Model</td>
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<tr>
<td>Define Vendor Management Value Metrics</td>
<td>Onboard Vendors</td>
<td>Manage Relationships</td>
<td>Define and Manage Continuous Improvement</td>
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<tr>
<td>Classify and Optimize Vendor Portfolio</td>
<td>Manage Transitions</td>
<td>Link Demand and Supply</td>
<td>Drive Innovation</td>
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<tr>
<td>Create Strategic Vendor Management Program</td>
<td>Vendor Disposition</td>
<td>Manage Vendor Risk</td>
<td>Develop Dashboards and Analytics</td>
</tr>
</tbody>
</table>

Vendor Governance Models and Rules
Assess VM Maturity
This is a collection of best practices that Gartner analysts have compiled from several recent customer interactions, and an excerpt of our findings from the ITScore results, which in itself includes:

- Observations and best practices identified from thousands of inquiries about IT sourcing, IT procurement and vendor management organizations and programs during the past few years

- Interactions with other Gartner analysts and consultants involved in implementing IT sourcing and procurement organizations and programs

You can use this list to rapidly check where your team and your subteams are in terms of maturity. If you have not implemented some of the best practices, it is recommended that you execute an ITScore analysis (see "ITScore for IT Sourcing and Procurement" and "ITScore for IT Vendor Management," or go to the ITScore Diagnostic Tool at ITScore).

Gartner's ITScore for IT sourcing, IT procurement and IT vendor management enables sourcing leaders to identify shortcomings, determine priorities, and establish goals for improving the performance of their IT sourcing and procurement roles.


For procurement maturity, also see "Refresh Outdated IT Procurement Policies to Accelerate Technology Innovation and Govern Bimodal IT," "How to Achieve Enterprise Agility With a Bimodal Capability," "Build a Proficient Vendor Management Capability Primer for 2016," and "The IT Vendor Management Leader's First 100 Days."
This is a set of the current Gartner recommendations to sourcing and vendor management leaders. While implementing the four SVM must do's (adaptive sourcing roadmap, streamlined technology procurement processes, formalized vendor management frameworks and overall increase of SVM ITScore Maturity), Gartner clients can use these as a guideline for their activity. They may also use it as a starting point for creating action plans for their teams, developing collaborative actions across functions, planning with their peers, and making recommendations to their stakeholders.

This Leadership Vision is one out of seven similar role visions helping IT leaders to be successful in the digital age. It is foundational research to shape the need and the best practices for collaboration to achieve expected outcomes in mission-critical priorities:

- Sourcing and Vendor Management
- Applications
- Data and Analytics
- Enterprise Architecture and Technology Innovation
- Infrastructure and Operations
- Program and Portfolio Management
- Security and Risk
Sourcing and Vendor Management Leadership Vision for 2017

This is a selection of some upcoming Gartner research that will provide further insight into current and emerging trends, SVM leaders' and team challenges, best practices and recommended actions, and practical toolkits and advice.

You can create an alert in Gartner.com by selecting Track and Create a New Track to get informed about the most important content published daily by Gartner's research organization. We recommend selecting the broader Gartner Key Initiatives covering the different aspects of sourcing, procurement and vendor management and the IT services marketplace:

- Applying Advanced Service Sourcing to Optimize Cost-Effectiveness and Business Value
- Build a Proficient Vendor Management Capability
- Evaluating and Negotiating Software License Agreements and Cloud Contracts
- Manage Vendor Risk and Performance to Anticipate and Avoid Negative Business Impacts
- Sourcing and Vendor Relationships
- Transform Service Sourcing to Promote Business Agility
- Transforming Technology Procurement to Support Business Innovation
- Exploit IT Services Market Dynamics
- Improve Operational Effectiveness in Service Providers