

Agile IT Vendor Management in a Digital World

Mid-Atlantic CIO Forum

Christopher Ambrose

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Digital Business Increases Complexity in the Vendor Ecosystem

46%

need to work with a new type of partners

51%

of CIO's cannot respond timely to digital opportunities

70%

change sourcing mix in the next years

50%

digital spending under business control by 2017



Key Issues

1. What is agile vendor management?
2. What are the best practices for managing IT vendors and service providers?
3. How can we extract greater value from our ecosystem of IT supply?

New Categories of Vendors = New Opportunities and Risks

Vendor Category	Description	Opportunities	Risks
Digital Design	Design compelling customer experiences in a digital context, including mobile device capability.	Increased revenues, increased website close rate, increased traffic.	Brand risk, data sensitivity, data loss, financial viability.
Data Science/ Analytics	Analyze large volumes of data; mine social, multimedia and unstructured data; conduct real-time (and predictive) analysis.	Real-time and accurate predictions, competitive advantage, effective risk mitigation.	Data integrity, source integrity, correlation/causation issues.
Smart Machines	Machine intelligence that mimics human interaction and acts autonomously, making decisions using probability models.	Automation, repurposing workflows.	Unlimited liabilities, loss of life, ethical dilemmas, public relations issues.
Agile Development	Develop solutions in an iterative/collaborative manner, often in a vendor ecosystem.	Team-enabled metrics, cross-vendor synergies, increased innovation.	Loss of controls, lack of ownership/accountability, subjective measurements.

Agile Vendor Management Program Characteristics

	Conventional (Mode 1)	Agile (Mode 2)
Goal	Reliability	Agility
Value	Cost/Risk reduction, price for performance	Revenue, brand, external customer experience
Approach	Sequential, workflow-based approvals	Fluid, flexible, nonlinear
Vendors	Traditional technology leaders, enterprise suppliers	Microvendors, New Guard, emerging and new vendors
Talent	Good for conventional processes and outcomes	Good for new and uncertain projects
Culture	IT-centric, removed from customer	Business Centric, close to customer

Agile Vendor Management Processes — What's Different?

	Conventional (Mode 1)	Agile (Mode 2)
Governance	Controlled, policy-based.	Coordinated – Guardrails.
Risk	Thorough, multipoint life cycle. Lengthy risk mitigation negotiations.	Calculated, prioritized & focused. Deal breakers identified early.
Performance Metrics	Contract milestones, SLA.	Innovation, collaboration within ecosystems.
Relationships	Hierarchical, cross-functional, SPOC with vendor.	Collaborative, flexible, multidisciplinary, clusters & ecosystems.
Contracts	Long-term deals.	Short-term contracts.
Data Analytics	Historical views, reporting.	Predictive, proactive, leverages trends.
Cycle Times	Long (months).	Short (days or weeks).

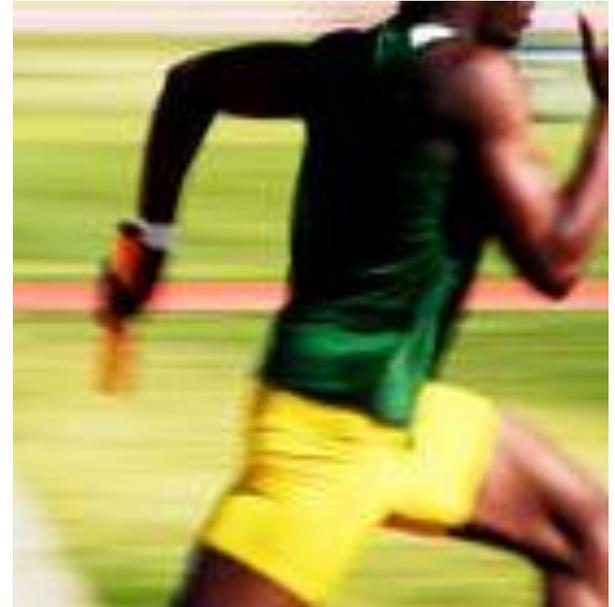
Bimodal Contract Considerations

Pillar	Mode 1	Mode 2
Measures/SLAs	SLAs, OLAs, Business Measures	Business Success
Behavior Drivers	Penalties, Incentives, Earn-Back	Revenue/Profit
Risk Factors	<u>Understood and Managed</u> — Liability, IP, Risk Management, Data Privacy and Security, Indemnification, Environmental Security, Availability, Business Continuity, Record Retention Requirements, Disaster Recovery	<u>Same, Mostly Ignored</u> — Liability, IP, Risk Management, Data Privacy and Security, Indemnification, Environmental Security, Availability, Business Continuity, Record Retention Requirements, Disaster Recovery
Financial	Pricing Model, Maximum Expenditures, Fee Reductions or Increases	Revenue, Customer Performance, Brand, Innovation, Sharing
Management	Communication, Human Resources, Governance, Advisor	Governance

How Do We Respond With Agility?

Key actions:

- Develop fast-track evaluation process for small vendors
- Focus on targeted vendor capabilities/skill sets
- Modify contractual requirements:
 - Payment terms
 - LOL
 - Price
 - Quality metrics with termination
- Focus on critical risks — Protect IP rights, data
- Minimize onboarding requirements

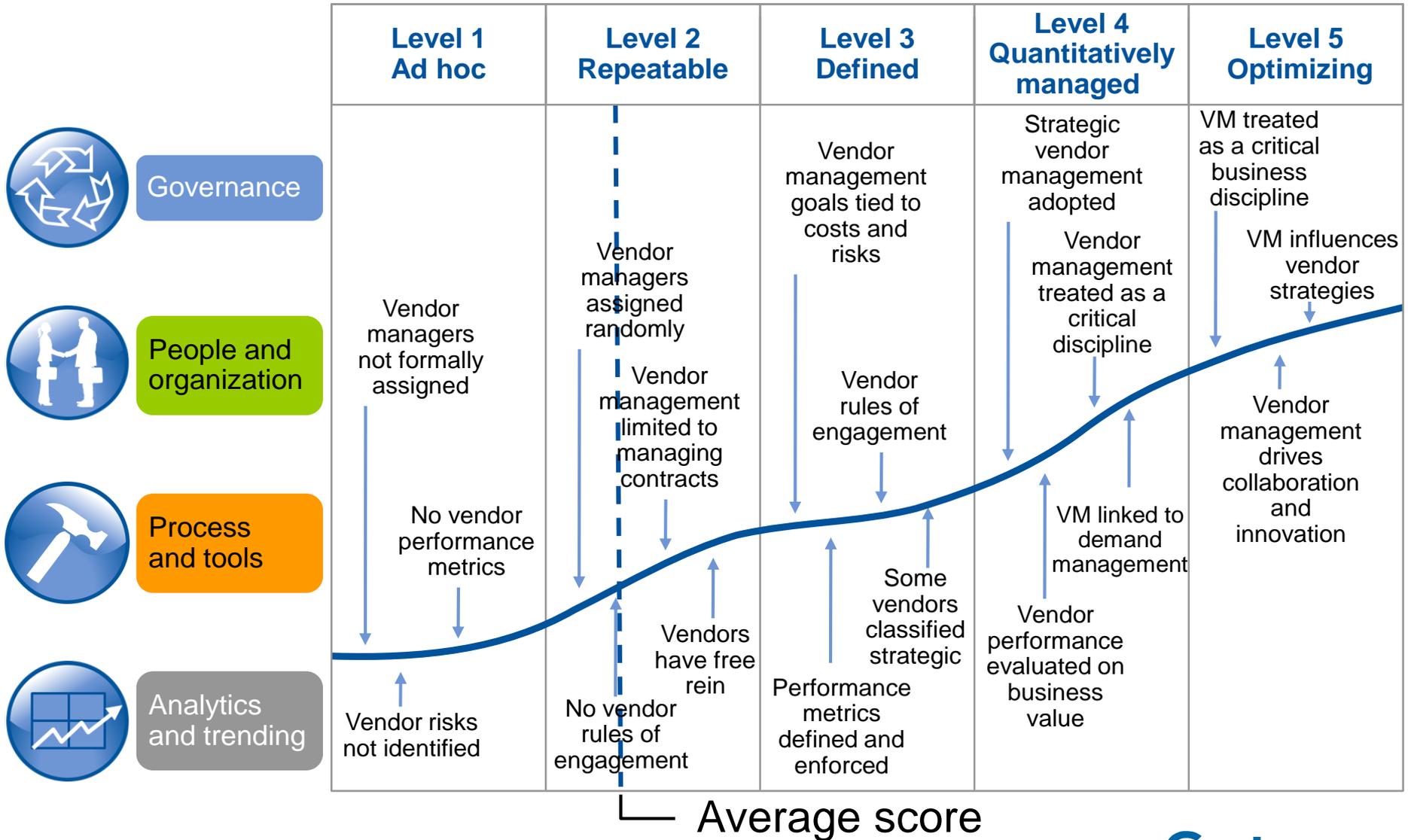


Critical Success Factors for Agile VM

- Authority
- Executive buy-in and endorsement across disciplines
- Playgrounds and guardrails
- Limited access — Key initiatives
- Collaboration mindset
- Fast-track processes:
 - Quick evaluation process for small players
 - Allow for fast transitions
 - Unique risk and performance practices
- IT Gatekeepers to protect IP and sensitive data



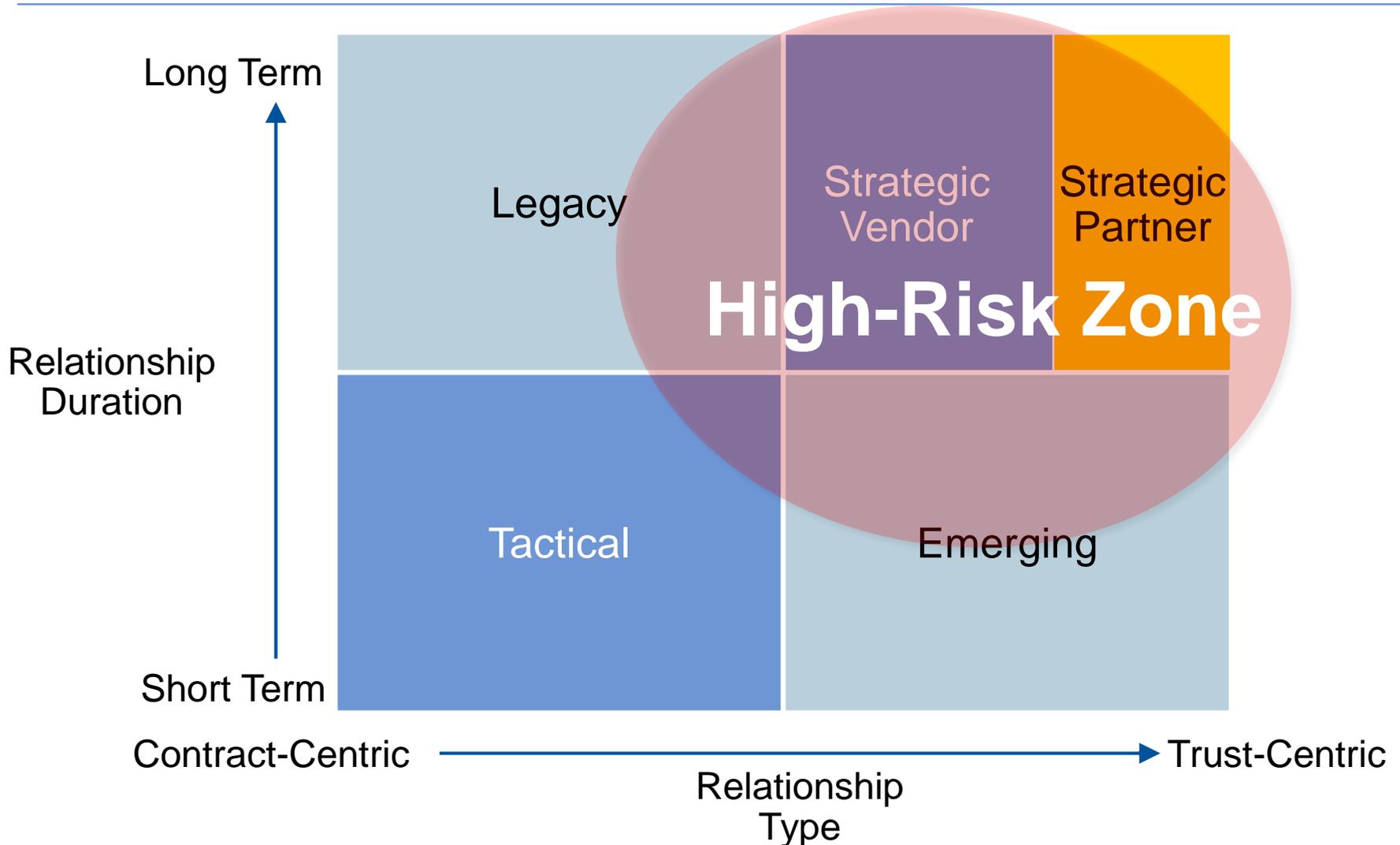
IT Vendor Management Maturity



Use a Vendor Management Framework to Identify and Align Activities and Gaps

Create Vendor Management Program	Acquire and Divest Vendors	Manage Vendors	Develop and Articulate Value
Establish Vendor Management Mission, Objectives	Evaluate and Select Vendors	Manage Contracts and Finances	Create and Manage Communication Plan
Develop Organization and Staffing Model	Negotiate and Contract With Vendors	Manage Performance	Establish Vendor Ecosystem Operating Model
Define Vendor Management Value Metrics	Onboard Vendors	Manage Relationships	Define and Manage Continuous Improvement
Classify and Optimize Vendor Portfolio	Manage Transitions	Link Demand Management and Supply	Drive Innovation
Create Strategic Vendor Management Program	Vendor Disposition	Manage Vendor Risk	Develop Dashboards and Analytics
Vendor Governance Models and Rules			
Assess Vendor Management Maturity			

A New Classification of Strategic Vendor



Source: Gartner EXP Report: Managing Strategic Partnerships, June 2011

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Governance Rules

Classification	Approval Threshold	Relationship Manager	Scorecard Level	Operational Review	Strategic Reviews
Strategic Technology	> \$\$\$\$	Yes	Detailed	Quarter	Semiannual
Strategic Integrator	> \$\$\$\$	Yes	Detail	Monthly	Annual
Strategic Outsourcer	> \$\$\$\$	Yes	Detail	Monthly	Annual
Preferred	> \$\$\$	Yes	Detail or Light	Quarter	Annual
Major Telco's	> \$\$\$	Yes	Light	Annual	Semiannual
Preferred Consultant	> \$\$\$	Maybe	Light	Annual	Semiannual
Legacy Commodity	>\$	Maybe	Light	Annual	N/A
Staff Augmentation	> \$\$\$	No	Light or None	Annual	N/A
Other ESP	>\$	Maybe	None	Semiannual	N/A
Emerging	>\$	Maybe	Light to Detailedb	Monthly to Semiannual	Semiannual
Tactical or Niche	>\$	No	None	Annual	N/A

Balance Vendor Risk and Innovation

Risks:

- IP Loss/Restrictions
- Vendor Strategy Changes
- Quality Issues
- Insolvency
- Brand/Reputation Risk
- Ethical Issues
- Data Loss or Breach
- Regulatory/Compliance
- Outages/Performance Issues
- Mergers/Acquisitions/
Divestitures
- Value Chain Failures

Innovation/Outcomes:

- Competitive Advantage
- Customer Revenue
- End-Client/
Citizen Experience
- Agility/Speed to Market



Facilitate the Delivery of Innovation by Using Strategic Vendor Days

Objectives:

- Elevate the level of engagement
- Socialize your business strategy
- Incentivize collaboration
- Facilitate innovation
- Change the culture of vendor relationships

An Agenda:

- Overview of industry trends
- Big picture view of the company
- Making the mission and goals real
- Discuss key business, technology and market challenges
- Uncover the opportunities

Eight Principles for Operating in a Vendor Ecosystem



**Be
Transparent**



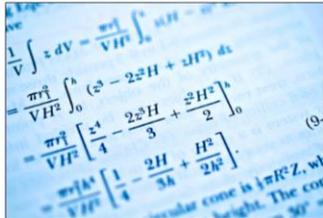
**Focus on
Business Goals**



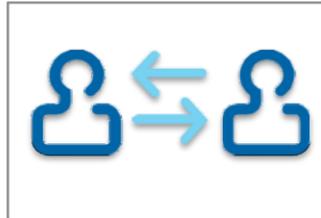
**Be
Collaborative**



Give and Take



**Be
Outcome-Driven**



**Share
Knowledge**



**Be
Self-Reliant**



**Be
Responsive**

Recommended Gartner Research

- ▶ [2015 Strategic Road Map for Vendor Management](#)
Chris Ambrose and Gayla Sullivan (G00291093)
- ▶ [Toolkit: Vendor Management Strategic Road Map, 2015](#)
Chris Ambrose, Gayla Sullivan, Gilbert van der Heiden (G00250818)
- ▶ [Comprehensive IT Vendor Management Framework Builds the Foundation for an Effective Program](#)
Helen Huntley (G00261538)
- ▶ [The Art of Innovating by Partnering With Small Companies](#)
Dave Aron and Nick Jones (G00239799)
- ▶ [Digital Business Acceleration Elevates the Need for an Adaptive, Pace-Layered Sourcing Strategy](#)
Claudio Da Rold and Frances Karamouzis (G00259901)
- ▶ [Bimodal IT and Adaptive Sourcing Are Critical to Digital Business Success](#)
Claudio Da Rold, Elise Olding and Julie Short (G00265879)