

Balance of Power

Mastering power relationships in
a multi-supplier ecosystem

An ISG Focus Paper: June 2016



Talking it through

At ISC we believe in dialogue. It's the basis of any good relationship. The best way to work through strategies, issues and objectives is to gain valuable insights that can make a difference to any organization.

We brought together five of our most experienced people to talk about the balance of power in a multi-supplier ecosystem, and the issues that affect this important subject. This first Focus Paper is a result of their conversations.

They are:



John Keppel
President EMEA & Asia



Lois Coatney
Partner & Head of Strategy & Operations



Kirsten Buffo de Jong
Head of Digital Vendor & Sourcing Services



Owen Wheatley
Partner & Head of Banking, Financial Services & Insurance



Steven Hall
Partner & Head of Digital Advisory Services

Their views are personal but relevant and sometimes controversial. Feel free to agree or disagree. Let us know what you think.



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Outsourcing should not be a zero-sum game

Ensuring the right balance of power in a multi-supplier ecosystem.

“The power should be with the client. It really is that simple,” says John Keppel. “They set the strategy, and they need to engage suppliers to deliver it. But, I’m not sure that clients either understand that, or are using their power. That’s why I would argue they need help to achieve the right balance of power.”

By its very nature, outsourcing raises questions of power. When a business engages a supplier to take over a task, or a whole function, power inevitably shifts. Different interests can conflict.

Sometimes the relationship turns into a zero-sum game. The supplier wants to extract maximum value from a tightly negotiated contract. The client, naturally, wants to achieve specific business objectives which were, after all, the basis for contracting out a task. Relationships can then become focused on battling for advantages, however small, and that can undermine the reasons for taking the outsourcing route in the first place.

“It shouldn’t be about having to wield a big stick or dangle carrots to get the maximum value from a relationship with a supplier,” says John, “It’s got to be about relationships between professionals, supported by processes and technologies that are all focused on business objectives.”

In this ISG Focus, we’re looking at five critical issues that affect your ability to extract the best results from your outsourcing strategy. Over the last 20 years the field has been through dramatic changes. From tentative deals to a rush to outsource just about everything; from a fashion for single suppliers with all-encompassing contracts, to a multi-vendor environment in which an organization’s different functions often engage a range of small suppliers on relatively short-term contracts, the challenges keep evolving and become ever more demanding.



“ Clients don’t want to put their trust in one behemoth who claims to be a one-stop-shop for all technologies. That’s so over! ”

But what has stayed the same is the fundamental need for a good relationship between client and supplier – whether it’s one or many. And that’s why we need to talk about power. “The industry is at a tipping point right now,” says Steven Hall. “It’s been accelerating fast over the last few years, and the delivery model might be well defined, but what clients need is the ability to cope with the rapid developments in technology; all the new ways they can run their businesses, from cloud to the Internet of Things to social networking and so on. They want a multi-vendor ecosystem that not only enables them to keep pace with that rapid change and exploit niche technologies quickly – but also put them ahead of the curve.”

Outsourcing has become about agility and flexibility as much as it is about rationalization, efficiency and saving

money. That’s why the days of the one-big-contract that lasts a long time are over. “Clients don’t want to put their trust in one behemoth who claims to be a one-stop-shop for all technologies. That’s so over!” says Lois Coatney, “Everyone is evolving. Let’s not pretend that the people in this field don’t know what’s going on; they do. On both sides – client and supplier – they’re smart enough to understand that multi-vendor is here to stay. No way are we going back to the old days. So, the onus is on the client – who’s going out there to buy these services – to manage the relationships, not just to prevent value leakage, but to boost value extraction.”

“You need a voice,” says Kirsten Buffo de Jong, “An internal team that knows how to find the right suppliers, negotiate with them, and then manage them over the term of their contract. A strong,

competent voice that’s supported by Service Integration and Management (SIAM) skills. Now, the issue is: do you do it all yourself or do you get support? Again, it’s about balance. You must do it yourself – but you don’t have to go it completely alone. Which is where a neutral third party comes in.”

“SIAM enables clients to make a virtue out of service proliferation,” says Owen Wheatley, “They have to create a sound integration layer which enables them to manage multiple suppliers. I work with many large banks, and they’re doing fundamental work on their internal structure so that they can manage a complex supplier ecosystem. They have to. And they’re right. You need outside help – but you also need sound internal capabilities. The power has to come from within.”

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The biggest challenge was getting everyone to talk to each other and deal with issues in a non-partisan way.

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When it comes to outsourcing, honesty really is the best policy

Be clear about what you can and can't do alone.

“I've met a lot of clients who have learned through bitter experience,” says Kirsten. “They bought into the need for outsourcing strategic functions, but thought that they could manage their suppliers internally. They soon learned that it wasn't easy. But it was hard for them to be honest about it.”

“On the face of it, managing suppliers doesn't sound difficult,” says Lois, “But the reality is always challenging. Dealing with service providers – especially when there are many of them - is different to managing ordinary suppliers. The relationships are much more intricate, and what they're doing for you is much more strategic and, frankly, vital to your organization.”

Kirsten describes how many organizations, conscious of the need for service integration and management, first tried to

go it alone, and then realized that they might achieve better results by outsourcing the function to a third-party. “At first, they tried out the idea of getting one of their service providers to do it, but that led to inevitable conflicts,” she says.

Lois experienced that scenario first-hand: “I was working for a large service provider on behalf of a big government ministry in the UK, and I was tasked with being totally independent,” she says. “The biggest challenge was getting everyone to talk to each other and deal with issues in a non-partisan way.”

“I think that the clients just believed that the suppliers should know how to get on together, and that they'd be focused on delivering value to them, rather than fighting their own corner all the time,” says Kirsten. “But in reality what happens is that when service issues arise, a lot of time is spent shifting responsibility between them all. When there are many suppliers, it's even more complex.”

The complexity gets in the way of an honest appraisal of what's actually being delivered to the business, and how the suppliers are advancing the business objectives set by the client at the contract stage of the relationship. "People get bogged down in detail. They're quoting the SLAs all the time, escalating incidents, and producing metrics about performance, but they don't look at the bigger picture," says Lois.

The ideal solution is to start with an honest appraisal of what the business needs, what it can achieve on its own, and whether it needs help to not only find the right suppliers, run the tender process, appoint the right service providers with the right SLAs, but also to realize that SIAM doesn't end once everything's in place and up and working.

"The 'management' part of SIAM is actually the most important part," says Kirsten. "I think too many clients forget that. And it's not just managing SLAs or incidents, it's managing relationships."

"You need to be clear about what skill sets are necessary to ensure that the services you've integrated stay together and work together," stresses Kirsten, "Once you've outsourced everything then the operational work you're used to is gone, so the task becomes managing those relationships. Frankly, most organizations don't have that expertise internally. They think they do, but they don't. They don't have the experience or the breadth of data that a third party specialist has."

Service problems come with the outsourcing territory. "We need to be honest about what can and will go wrong," says Lois. "When I tried to do this role as part of a service provider, I found it hard because your loyalties are always under strain. You try to be objective, but you can't. And even if you are, others suspect you aren't." So, if the client can't do it, and one of the service providers shouldn't, then who can? "A SIAM specialist that can go beyond the initial phase," says Kirsten. "A specialist who sees themselves as the client's voice, but who also is able to understand the perspective of each service provider."

The key is orchestration on both the demand and supply sides. "I'm not saying that this is all done by a third party, not at all," says Lois. "It's got to be a hybrid model. The client must retain the most important roles and functions in-house. We advise on which they should be. They must also be sure that the consultants they work with have all the basics under control – those day-to-day management roles that keep everyone on their toes, and all the services running. But it's also vital that there's someone who can bring in new ideas based on a broader perspective and depth of experience across industries as well as the client's specific sector."

Lois believes that there's a growing realization that the role of a SIAM and Managed Governance specialist is valuable, and it's based on a maturing market. "I'm hearing more and more CIOs and CEOs tell me that they've made mistakes during the first generation of outsourcing, and they're determined not to repeat them," she says. "They're moving to new organizations and, from the start, bringing in SIAM specialists to bring

that honesty that's needed to get outsourcing and multi-supplier management right. It's how they can maximize value and deliver what matters to them, which is growth and success where it counts, on the bottom line."

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SIAM: it's a function, but it needs to be a profession

A professional, serious approach to SIAM pays dividends.

"SIAM is talked about a lot, but it's not yet a profession, and it needs to be," says John. "Our business started when clients asked us to help them do outsourcing deals – from finding the suppliers to running the tendering process, to ensuring the contracts and SLAs were fit for purpose. But all that's the pre-dance to what really counts; the ongoing relationship. Now, that's where things can really go wrong."

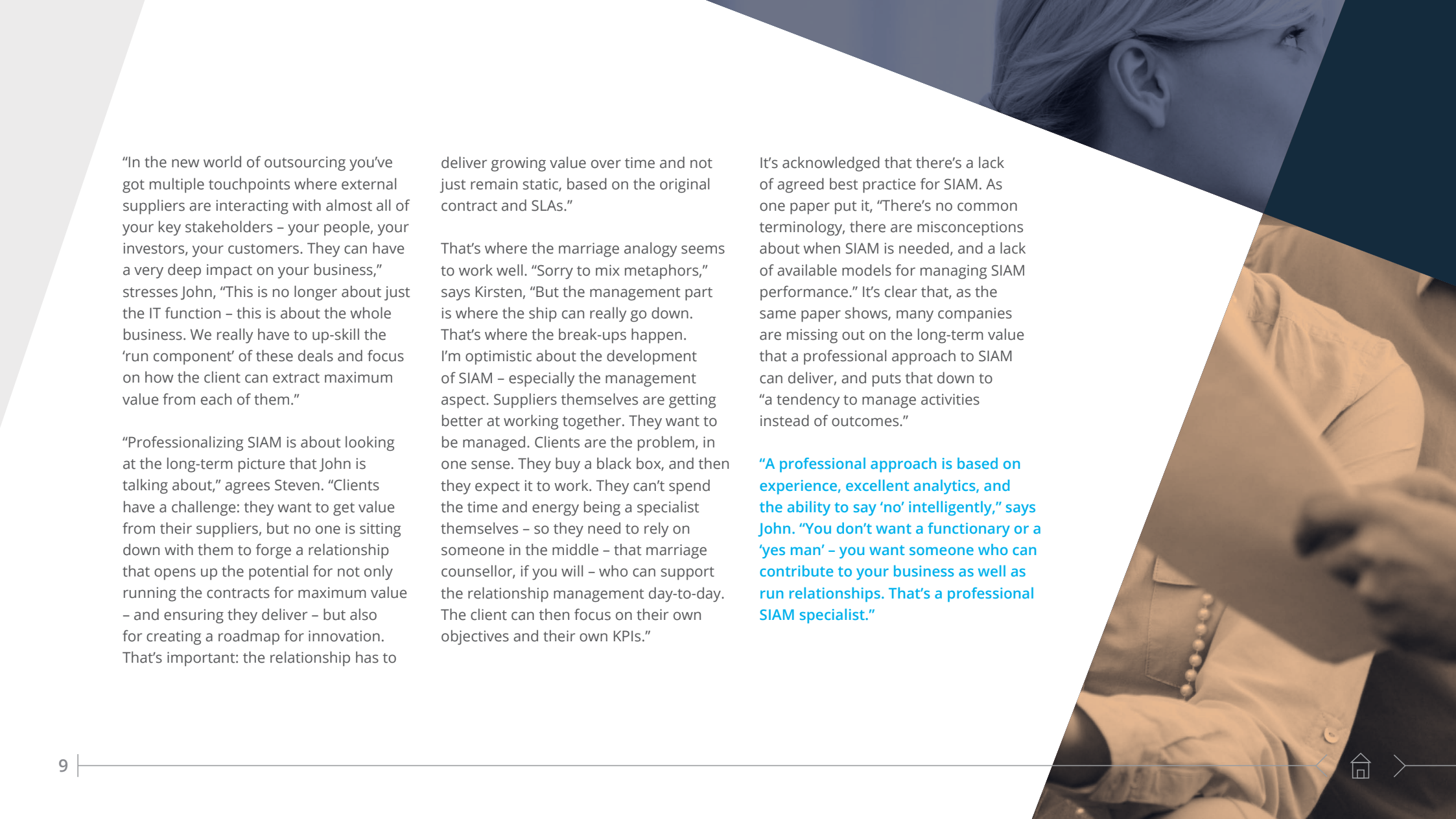
"An analogy that I think works for this idea is a marriage," says Steven, "The tendering and contract phase is like drawing up the pre-nup. Once you've made your vows then you need marriage guidance and, sometimes, counselling. That's where a professional SIAM specialist really earns their money."

SIAM has developed rapidly alongside the growth in outsourcing. It's become more and more important as the multi-vendor ecosystem has developed. More contracts, more relationships, and more complexity driven by shorter contracts and a mix of big and niche providers, means that there's far more potential for things to go wrong. John is clear about why it's important to professionalize the

SIAM function: "You enter into a three to five-year relationship with a supplier that's much more than a set of contracts; it's a day-to-day service relationship," he says. "And what's vital to recognize is that the value is delivered day-to-day, not on the day the contracts are signed."

John points out that 'significant investment' is often made at the start of the relationship; "You pay for lawyers and consultants and take a lot of your internal staff's time to get the contracts right, but it's the 'management' part of SIAM that delivers the real value – and it's where you can run into serious value leakage if you don't get the management part right."





“In the new world of outsourcing you’ve got multiple touchpoints where external suppliers are interacting with almost all of your key stakeholders – your people, your investors, your customers. They can have a very deep impact on your business,” stresses John, “This is no longer about just the IT function – this is about the whole business. We really have to up-skill the ‘run component’ of these deals and focus on how the client can extract maximum value from each of them.”

“Professionalizing SIAM is about looking at the long-term picture that John is talking about,” agrees Steven. “Clients have a challenge: they want to get value from their suppliers, but no one is sitting down with them to forge a relationship that opens up the potential for not only running the contracts for maximum value – and ensuring they deliver – but also for creating a roadmap for innovation. That’s important: the relationship has to

deliver growing value over time and not just remain static, based on the original contract and SLAs.”

That’s where the marriage analogy seems to work well. “Sorry to mix metaphors,” says Kirsten, “But the management part is where the ship can really go down. That’s where the break-ups happen. I’m optimistic about the development of SIAM – especially the management aspect. Suppliers themselves are getting better at working together. They want to be managed. Clients are the problem, in one sense. They buy a black box, and then they expect it to work. They can’t spend the time and energy being a specialist themselves – so they need to rely on someone in the middle – that marriage counsellor, if you will – who can support the relationship management day-to-day. The client can then focus on their own objectives and their own KPIs.”

It’s acknowledged that there’s a lack of agreed best practice for SIAM. As one paper put it, “There’s no common terminology, there are misconceptions about when SIAM is needed, and a lack of available models for managing SIAM performance.” It’s clear that, as the same paper shows, many companies are missing out on the long-term value that a professional approach to SIAM can deliver, and puts that down to “a tendency to manage activities instead of outcomes.”

“A professional approach is based on experience, excellent analytics, and the ability to say ‘no’ intelligently,” says John. “You don’t want a functionary or a ‘yes man’ – you want someone who can contribute to your business as well as run relationships. That’s a professional SIAM specialist.”

Known unknowns, unknown unknowns and the importance of trust

Who can you trust? Your people, their people or someone in the middle?

"I believe that trust is based on data," says Steven. "The client can see what's going on inside their own organization, and perhaps have some perspective across their sector, whilst the service provider has an interest in spinning their data – and market data – to their own advantage, but a truly deep and broad perspective is very hard to come by."

And data is what is needed to ensure that service providers are delivering value to the client over the term of their contract. Analytics are becoming ever more sophisticated, and our ability to collect it from every layer of an organization and sector, as well

as from global flows of information, means that its granularity has become overwhelmingly complex. "The fact that there's so much data is a problem – many people recognize that. Data, in itself is not information that instantly becomes knowledge," says Steven. "In the end, you need to organize the data, see through the quantity of information so that you can achieve the wisdom you need to make the best decisions."

Which is why you need to be able to trust the source of the data and, more importantly, the people who help you interpret it. Donald Rumsfeld's famous conundrum, uttered at the time of the Iraq War when he was US Secretary of Defense, caused initial hilarity. He said that there were 'known knowns, known unknowns, and unknown unknowns' in every human endeavour. It sounded obvious, but it was actually philosophical profound: especially in a world awash with data.

"It's a message that's very relevant to outsourcing," says Steven, "When you embark on an outsourcing initiative you're making some important decisions. Is this the right thing to do for your organization? Will you get the value you expect? Which service providers are guaranteed to deliver that value? How will the relationship unfold? Will managing multiple suppliers take up too much of your internal energy and lead to service problems and slow you down ultimately?"

Those questions are the known unknowns. And then, of course, there are the ones you don't know about – yet. Trust is at the heart of the issue. If you can trust your people and their people to work together in an honest and open way, then, perhaps, the long-term relationships will work. But what if you can't?

"You have to trust that your service provider constantly has your back – that they're looking out for your interests instead of their own," says Lois. "That's

why I think it's vital for the client to retain core responsibilities inside their organization, and get someone to help them manage the relationships – the doing part of the contracts – in partnership with them. Between them and the suppliers. That's what I mean by a 'hybrid model. You do some of the work, and a third party, like ISG, does everything else. So, instead of multiple lines of communication and reporting from different functions to different suppliers, you channel them through a third party in the middle. They manage the minutiae, while you get on with focusing on your business objectives."

"That's exactly right," says Steven. "We argue that in such a fast moving marketplace it's better to have a flexible approach which helps to uncover the unknowns before they become a problem. That takes data. And data is what a neutral third party like ISG is all about. Our perspective ranges across sectors, and across the world. We bring that

data together, analyze it, learn lessons from it and then advise clients using the knowledge we've extracted from the numbers."

"Bottom-line is, you've got to do what it takes to make better informed decisions at the start of the process, and, most importantly, throughout the relationship," stresses Lois. "Few organizations have the digital tools to get that data. We do. It doesn't make sense for each organization to try and do it alone. Which is why we do it for you."

Outsourcing is about value but it's also about change

Why you need to see outsourcing as organizational change.

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It's not just putting in tools, processes and mechanisms to make things happen.

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“Outsourcing is about change,” says Lois. “What tends to be my biggest challenge when I’m working with an organization is getting them to realize that they have to change their behaviors. That’s where I spend the majority of my time; talking about how they work today, how they should be working, and the fact that if they don’t change the way they work then issues will arise.”

But do most clients accept that? “Well, they have to recognize that, in truth, they are the source of many of the issues they’ve had with service providers in the past. So, I try to walk through those behavior changes with them so that they understand that it’s a change they need to make. That’s why I always say, SIAM and managed governance is as much about organizational and sometimes cultural change as it is about anything else.”

Lois continues, “It’s not just putting in tools, processes and mechanisms to make things happen – it actually includes a whole step-change in how you do work. It’s the human side of it that’s hard for some clients, especially in IT, to recognize. Some don’t like to talk about it. But it is a big part of dealing with a multi-vendor world and you need to drive it as a goal that’s different from what they’ve been used to doing.”

“Lois is right, especially because the landscape is changing so fast,” says Kirsten. “The technologies out there are developing very fast, which is why outsourcing models have changed. We now have a multi-supplier ecosystem for a reason: it enables organizations to make the most of a range of technologies whilst going to the most appropriate vendor to get them. But that drives change inside clients because you have to change the way you work and the way you manage relationships. It’s all fragmented.”

“Take the example of how the role of internal offshore delivery centers is changing,” says Owen. “They’re known as ‘captives’ and have been a key part of clients’ service delivery models for many years, but now their role is evolving. Clients are beginning to develop specific remits for individual captive centers, because they want to increase their domain expertise, and enhance staff career opportunities so they can reduce attrition rates, and, ultimately, increase value to the business. That’s driving change inside clients as they seek to balance internal and external operations, cut costs (those captives cost money to run) and even monetize them.”

The external market has evolved to the point where an internal offshore resource comes into question. Decisions have to be taken to change the way they’re deployed, or to even float them off or close them down because external suppliers can deliver the services they provide in more cost-efficient ways. That has a ripple-effect on the internal organizational structures of the client. “It can get pretty complex,” says Owen, “But what I’m seeing in the banking sector specifically,

is a greater willingness to question operating models and make big decisions. What we can do is broker those conversations between clients, their disparate functions and divisions and third party suppliers. What counts, in the end, is a more agile, flexible and cost-effective internal ecosystem that’s focused on delivering what a client’s end consumers want and need.”

“And it’s not just about the client changing – service providers have to change too,” says Steven. “Someone has to sit down with them and encourage them to change so that they deliver the best value to clients. Again, that’s why someone in the middle needs to spark those conversations.”

“The role of the CIO, in particular, is changing fast,” adds Owen. “CIO’s have to adapt, especially as more and more clients are appointing Chief Digital Officers and Chief Technology Officers, with different business functions running their own IT, and even going out and getting their own suppliers. I see the role of the CIO changing to one of more management and control, and making

sure that the environment within which all of this operating is secure. Security is a huge factor for CIOs today, and setting policies and standards, working with the CTO to understand which architectural direction is right, and what IT roadmap should be followed. It’s all about service orchestration, in the end.”

“That’s exactly right,” says Lois. “The CIO has to be much more attuned to the needs of the business, and act like a broker. They can’t be pedantic about using a specific environment, they’ve got to be ready to use any technology, and so create a big picture that works to deliver business objectives. What we do is help the CIO change; we help them evolve their role and add to it. To be more valuable. And that has to be founded on sound SIAM and managed governance, so they’re not spending their time fire-fighting and, ultimately, being blamed for problems by end-users.”

Why ISG? Maximizing value

It's why you outsource, but how do you get it?

"I believe that there is a greater realization amongst clients that they need to invest in the way they deal with a multi-supplier ecosystem," says John. "The situation has changed; in the past, when outsourcing was more about saving money, then, it was hard to build a business case around spending on managing relationships with suppliers. But that's changing."

John is clear about what needs to be done: "This is an area where greater investment could yield greater value. But I don't think that it's being universally addressed. People have not really thought about how the service

provider's role has changed; how they've become much more significant to the client's business. Clients need to understand that much more work is needed to be focused on working out how you integrate them into the inner workings of your organization. There isn't enough collective openness about it in the industry."

There's a common scenario that plays out in organizations across all sectors: "They will outsource something and then distribute the management across various parts of the organization, and that means that, in reality, no one is effectively managing it. Sure, they'll put someone in to oil the gears but they'll split it up in such a way so that, when the organization stands back to see if it is extracting maximum value from a relationship – or all of them - there's no one who actually has that job or can achieve that view."

The problem is that they can't see enough. "So, you get an issue about service in one area, even if it's modest, and this leads to a narrow view. Then decisions are taken by any one of those teams which are to the detriment of the overall relationship," says John. "And providers are to blame too; they don't help themselves either. They often just do what they are told – well, after all it's a 'service relationship' isn't it? But if they are just going to take orders, then the client is missing out on a significant proportion of their value because they don't get to benefit from innovation as much as they could."

"That also illustrates my point about data," says Steven. "First, the client can't get the right data. Second, they might get too much of it and can't see the wood for the trees, and third, they don't get a perspective that's broad enough."

"That's why it's important to work with a neutral third-party early, and often," says Kirsten. "Clients need to know that there are people like us that they can reach out to. That's why ISG needs to be clear that we support you with transactions and any kind of RFI, RFPs and contract development, but, most importantly, we need to stress that the next logical thing to talk to ISG about is the lifecycle of all contracts. That's the critical part – the management, the M in SIAM. It's the only way you can get the value for money you're looking for. So, talk to the experts from the beginning to give you the support you need to set up your own internal roles and organization so you can manage critical aspects of supplier relationships, with someone like ISG doing a lot of the leg-work, as well as contributing to the overall vision."

"That's important because the world is different; this isn't your father's outsourcing deal, this is new!" stresses Steven. "Can't the suppliers and client do it all for themselves? Sure, they could and, sure there's been a lot of skepticism in the past about why you need a third-party. But there's an increasing amount of data which shows that third parties deliver value, and new working models are being developed that make the most of the relationship. Those success stories – and

the value that's generated by them – are reducing skepticism. Clients realize that a third party frees them up to focus on higher order activities. So, the pitch isn't about price, it's about value."

Owen breaks the value of working with a third-party down into two parts: "First, the breadth of clients we work with means that we have a very broad market view. We have excellent coverage across sectors. No matter how experienced or mature a client is, they won't have a current view of what others are doing and what the market offers. Not only do we talk to all these clients, but our research function helps us to deliver the view that's accurate and timely. We know who the suppliers are and what they're offering – and what technology can do, and what's coming down the line."

Owen sees that as "a huge USP for us. I don't see any of the other companies capable of doing it the way we do," he says. "Second, we will get our hands dirty and help execute and operationalize our recommendations. Plenty of firms will do lovely reports and deliver theory about how things should look and how you can engage with the market. But the report goes in a drawer. "We actually work with clients on operationalizing

it; working with them on service transition, on executing the monetization of captives for instance, on HR communications and service migration issues around moving staff between locations, and so on. We will roll our sleeves up and be involved. We have practical experience. Our consultants are people who have been on the client-side and have driven these programs. We're not about theory, we're about practice in the world as it is now."

ISG seeks to achieve a balance of power between a client and their suppliers, with the advantage going to the client. It's that simple.



Why ISG?

ISG's proven methods and processes are based on decades of experience. We've seen just about every problem and found a way to solve it.

We use those insights to help you achieve operational excellence and focus on what really matters - your business and your objectives.



Cost control

One client recently saved a total of 5x what they would have spent with us in fees

20% of savings generally achieved through predictive analytics and root cause analysis



Quality control

Predictive analytics ensure our clients enjoy a 30% reduction in service interruptions

Supplier errors reduced by up to 20% through effective SIAM



Governance control

15% reduction in errors caused by SLA non-compliance

We minimize 20% of avoidable payment delays caused by invoicing errors & disputes



Global Scale

\$50bn (TCV*) of outsourcing contracts supported worldwide

138,899 governance process requests managed

*Total contract value





If you would like to discuss the issues raised in this ISG Focus Paper then give us a call on +44 (0)1737 371523, or send an email to denise.colgan@isg-one.com, and we'll set up a meeting.

Our next ISG Focus Paper will examine the subject of Irrational Digital Exuberance. Email denise.colgan@isg-one.com to register for your copy now.