



The IT Executive's Role In Vendor Management

RFG believes the identification and continuous application of vendor management best practices, especially for key vendors, provides valuable tangible and intangible benefits to the enterprise. These benefits include maintaining acceptable performance levels, achieving consistent and effective cost control, and developing and managing long-term executive-level vendor relationships. However, successful vendor management also requires that IT executives be continually vigilant and proactive in order to maintain the necessary levels of interactive communications needed to sustain strong relationships. IT executives and their lines of business (LOB) counterparts should designate vendor management as a top priority and begin identifying and focusing on those vendor relationships considered critical to the enterprise's success.

Business Imperatives:

- Enterprises deal with a multitude of vendors on a daily basis, and the success or failure of these relationships hinges primarily upon the specific role the enterprise assumes. IT executives should identify those vendor relationships that are viewed as enterprise-critical and begin developing proactive, robust working relationships with key executives in those respective companies.
- As soon as those vendors classified as "critical-enterprise-suppliers" are identified, a strengths, weaknesses, opportunities, and threats (SWOT) analysis should be performed. IT executives must verify that a thorough SWOT is performed on all critical vendors in order to mitigate unnecessary risks and to identify potential problems that could affect the delivery of critical IT services.
- RFG has identified several best practices that can assist enterprises in managing key vendor relationships effectively. These best practices reflect general management techniques that will be familiar to some IT executives, but may not be fully implemented for a variety of reasons. IT executives should review the RFG recommended best practices and select and implement those items that could potentially provide improvements to enterprise vendor management initiatives.

Numerous companies have experienced the pain that results from a vendor relationship that has gone sour over time. Although some disastrous relationships are caused by circumstances outside the control of IT executives, many could have been improved upon and/or salvaged by exercising the appropriate tactics and best practices in a timely manner.

Few IT executives refute the fact that successful vendor relationship management represents a challenging problem simply because of the sheer numbers of vendors that typically supply services to the enterprise. This problem is exacerbated because enterprises must already deal with a lack of internal resources, and taking on another high priority task is easier said than done. Consequently, IT executives must take the lead and assume a proactive role in the overall vendor management process or run the risk of being held culpable later on if a key vendor relationship fails.

RFG analyst and client experiences confirm that once vendor-related problems begin to spiral out of control, chaos quickly develops, and finding a working resolution to the problem is not an easy task. Consequently, it makes excellent business sense to assign an enterprise vendor team, before problems arise, to work with those vendors classified as enterprise-critical. Additionally, the vendor team should be chartered to closely track vendor finances, products and services, and overall performance. Enterprise vendor management teams should also be responsible for building and maintaining robust relationships with key vendor personnel. (See the RFG Research Note "[Best Practices for Vendor Qualification and Selection](#).") IT executives should include the internal costs of managing key vendor relationships in their budgets, and consider this function an important component of the overall IT support organization.

Although vendor management can appear to be a daunting task at first glance, culling down the vendor list based on each vendor's importance to the enterprise will help significantly. IT executives should first establish the criteria required to classify a vendor as enterprise-critical and then begin identifying those vendors that fall into this category. Once the list is completed, the next step is to begin reviewing the products and services these vendors deliver, as well as the performance levels they currently provide. This important review process should also include a comprehensive examination of all related contracts and service level agreements (SLAs) currently in place. (See the RFG Research Note "[How to Manage Multiple Network Service Level Agreements \(SLAs\)](#).") Any mismatches should be identified and placed on the action item list for the appropriate vendor.

Unfortunately, it is not uncommon for IT personnel to fail to notice certain key items during the initial contract negotiation process with vendors, or to require additional changes to the contract or SLA due to changing business conditions. Consequently, IT executives should take a second look at the documentation provided by critical vendors to verify that it continues to meet enterprise business requirements and performance mandates. If there are significant discrepancies, IT executives should take immediate action to rectify the situation by working with the specific vendor to amend the contract as required or modify the terms of the SLA. If there is no contractual process in place to change incompatible terms and conditions, IT executives should begin a re-negotiation process with those vendors as quickly as possible.

Furthermore, IT executives should verify that they have been assigned a designated executive-level sponsor within all critical vendor organizations. This senior person should be focused on the success of the enterprise relationship and also have the authority to initiate corrective actions when problems occur. A primary role of the executive-level sponsor is to keep the two companies closely aligned over time so that a strong value proposition continues to exist and a strong working relationship is maintained. IT executives should verify that all sponsors are familiar with their mission, specific business drivers, and overall expectations and requirements. (See the RFG Research Note "[Vendor Management Strategies for Effective Compliance](#).")

Executive-level sponsors also make prudent business sense for vendor and service provider communities because they can help to verify that products and services remain synchronized with the business needs of their enterprise clients. Likewise, vendors can take advantage of the executive level contacts within the enterprise their executive level sponsors maintain and nourish.

Nonetheless, maintaining strong vendor relationship management is not a simple task. RFG recommends enterprises deliberate the following sequence of actions when managing, or planning to manage, key vendors:

- Determine and validate the selection criteria required to classify a vendor as enterprise-critical.
- Identify those vendors that fall into the enterprise-critical category and rank them accordingly.
- Review all current contracts and SLA documents associated with a critical vendor and identify those areas of concern that require adjustments.
- Verify that SLA metrics, penalties, and performance guarantees are acceptable and enforceable.
- Identify any maintenance fees, outside of the actual product and/or service, and verify that they are acceptable and industry competitive.
- Identify the executive-level sponsor within the key vendor organization and, if there is none, require the vendor to appoint one.

Once the above actions have been satisfactorily addressed, IT executives should utilize a SWOT (strengths, weaknesses, opportunities, and threats) analysis to scrutinize carefully each vendor or service provider classified as enterprise-critical.

Strengths should identify why the vendor stands out among its competitors and should also reflect the reasons why a vendor and its products and/or services were selected over its peers. Also, if the strengths are no longer compatible with enterprise business requirements, IT executives should initiate prompt action to migrate, replace, and/or upgrade the vendor's products and/or services. Over time, a vendor's strengths can become run of the mill; therefore, enterprises must continuously review vendor strengths to substantiate if they are still valid and enterprise appropriate. Any disconnects between a vendor's technology refresh plans and enterprise requirements can result in unplanned cost overruns and performance issues. (See the RFG Research Note "[The Critical Role IT Executives Play In Network Technology Refresh Planning.](#)")

Weaknesses should be identified based upon vendor performance, product/service cost and competitiveness, as well as other factors such as alignment with long-term enterprise needs. Once the list of weaknesses has been identified and validated, IT executives should review them with the vendor and allow them time to respond to each one prior to taking any aggressive actions. Since all vendors have certain weaknesses, IT executives will be required to select those vendors or service providers that are most compatible with enterprise business needs.

Opportunities represent those areas where the enterprise believes a key vendor's products or services enable them to obtain a strategic advantage. The potential advantages could be in the areas of cost reduction, flexibility, performance improvements, and technology implementations – any areas that are considered strategically important. IT executives should be able to identify at least one significant enterprise opportunity that is based on doing business with a key vendor or else it is likely the vendor may not represent the optimum choice for a certain product or service. Over time, opportunities change and IT executives should corroborate whether or not an opportunity resulting from a specific vendor relationship or product remains valid.

Threats should be analyzed from the perspective of the enterprise. If the enterprise does business with a particular vendor, of what threats/risks must they be cognizant and are they acceptable? Threats in this particular context also mean significant issues and/or risks. For example, using a proprietary product or service has its risks, but the risks may be outweighed by the overall value proposition. Similarly, a small company may lack the funding that a larger competitor has available, but other factors may make the selection an appropriate one. IT executives should note that almost every vendor company provides some level of risk. However, if the risks are acceptable, based on the overall value proposition, the vendor selection may still represent a practical choice.

In summary, SWOTs can and should be used to provide an accurate analysis of enterprise-critical vendors. However, the information gleaned from this process must be validated to ensure its accuracy or the results will be biased, leading to false conclusions. RFG recommends enterprises perform an annual SWOT on all key vendors to verify there is a strong value proposition to continue using their products/services that outweighs any significant risks or concerns.

Although conducting a thorough SWOT analysis on critical vendors is certainly considered a best practice, there are numerous other actions that fall into the best practice category for vendor management. Unless enterprises continue to follow best practices when dealing with key vendors, it is likely that problems will soon arise. In addition to performing a SWOT examination, RFG advises all clients to consider the following prioritized list of suggested best practices when dealing with key vendors and service providers:

- Schedule monthly performance reviews with all key vendors to evaluate ongoing performance and customer satisfaction levels.
- Conduct quarterly review meetings with the local sales team and a senior level executive from the respective vendor company to discuss any problems or concerns. (The executive should be the enterprise's designated sponsor.)

- Verify that an approved problem escalation policy is in place and tested to verify that it works as stated.
- Assign enterprise staff to monitor SLA performance and contractual compliance for critical vendors and suppliers.
- Ensure that vendor SLAs contain a mechanism for adding incremental performance improvement processes that could provide additional enterprise value during the life of the vendor's contract.
- Require key vendors and service providers to conduct on-site semi-annual technology refresh planning sessions that identify the funded product/service directions and provide an update on important financial performance metrics.
- Take full advantage of any vendor user groups that provide updates on a vendor's products and financials and serve as a user forum for information exchange.

RFG believes enterprises must proactively address and implement vendor management initiatives to prevent major problems from occurring that could ultimately affect the reliable delivery of enterprise services to its customers. In addition, IT executives must now take appropriate steps to address vendor management proactively, including budgeting funds for this task. IT personnel should be assigned to work with critical vendors to develop strong relationships and maintain a vendor pulse check that minimizes the need for sudden or drastic actions to resolve major problem situations.

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