CHERUB

ADVISORY & CONSULTING
IT Sourcing for Maximum Value

VMIS

Insights into your vendor performance, outcomes, and value

CONTENTS

PREFACE

This paper presents insights into Cherub thinking on the subject of Vendor Management reporting. Understanding Vendor Management performance and outcomes beyond simply reviewing Service Level results will help you maximise the value of the IT services received from your vendors.

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What's the problem?

Cherub research indicates that over 70% of IT Managed Services contract are at risk within the first 18 months of their life

Understanding *Why this happens* and *What to do about it,* is critical to understanding *How to address it*.

The diagram below illustrates a common manifestation of the relationship customers have with their services vendors. Clearly this is not always the case, however, to some degree, it is the case all too often

Operating in the Goldilocks Zone is desirable for the customer as it means their users and stakeholders are satisfied, and even pleased, with vendor services and outcomes.

Equally, it's a critical operational zone to the vendor as it means their customer is viewing their services favourably, which in turn, improves their opportunity for ongoing, and/or increased business with the customer.
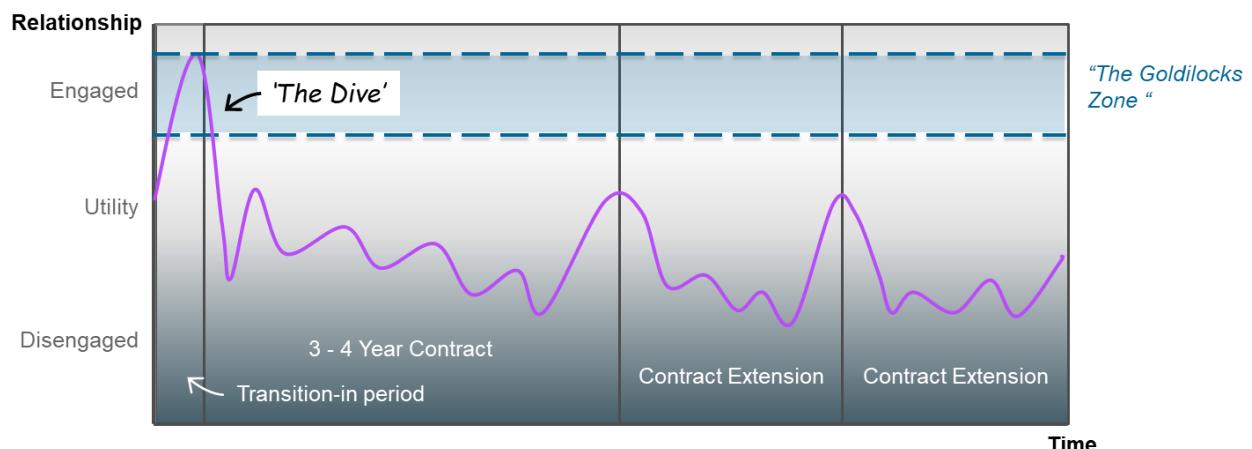
Considering this diagram, the purple line represents the depth of the relationship, and related satisfaction that a customer has with the vendor. At the outset, and in particular, at the time of signing a new contract with the vendor, this relationship is highly engaged.

However, within the first 18 months this relationship often falls away. We refer to this phase as '*The Dive*'. After this phase there is commonly a degree of recovery where both the customer and the vendor work to improve the relationship, with aspirations of getting the relationship back to the 'Goldilocks Zone' – the just right area.

What causes The Dive

The Dive is a critical event in the service delivery of the contract with the vendor, and it commonly occur. The reasons for this drop in overall Relationship may be complex, but not necessarily a simple result of service levels not being achieved. Service levels are a factor in most managed services contracts. Therefore, meeting these requirements is an expectation of the customer, and failing to meet service levels does, without doubt, adversely affect the Relationship.

However, research shows that in many cases, a vendor can largely be achieving the service level requirements, and still suffer consequences of *The Dive*.

This is the Watermelon Effect. Service levels are green, but on the inside the Customer sees Red.

The cause of the Watermelon Effect can be a result of expectations the customer has of the vendor, that, in their opinion, are not being achieved.

Even worse, the vendor may be unaware of the dissatisfaction. Or, worse still, some of the failings could be as a result of customer activity, with the customer being unaware of the impact on the vendor.

The impact of The Dive

The timing, depth, and length of *The Dive* is critical to the longer-term effectiveness of the contract.

If *The Dive* occurs very early in the contract, the customer may question if they have made the right choice.

Early Dive   Later Dive
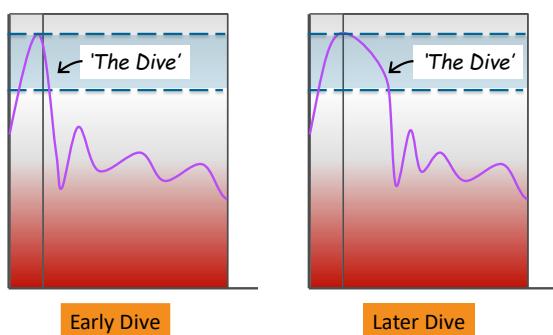
If *The Dive* is very deep, our research indicates that it's very difficult to fully recover and operate in the Goldilocks Zone.

Deeper Dive
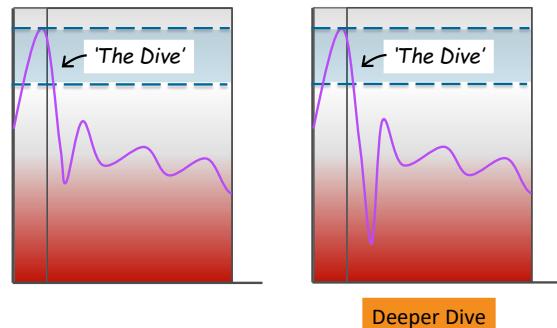
If *The Dive* is long in duration, it may create a level of deep-seated dissatisfaction that can be difficult to change.

Longer Dive
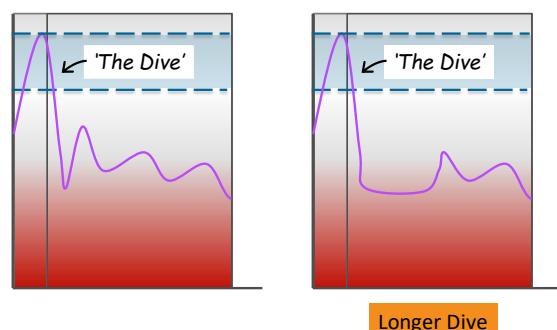
Is The Dive perception or reality?

This is a crucial question. Even though *The Dive* has occurred for the customer, it's not always the case that it should have occurred. Sometimes there is a mismatch of customer expectations and vendor obligations. In this situation it is a *perception* issue of the customer that the vendor is not delivering what is required.

At other times there is a mismatch of vendor obligations and their understanding of their obligations. Vendor operational staff may not be aware of all contractual requirements, and therefore not realise they are underperforming. In this situation it is a *reality* issue that the vendor is causing the dissatisfaction.

In *either case*, there is a problem that needs solving. In many cases, with care, these problems can be either fully or partially resolved, for the good of both the customer and the vendor.

Eight Disciplines of Vendor Management

We know that effective Vendor Management is a multi-disciplinary function reviewing and acting on the interactions of customers and vendors in multiple ways and means.

The following diagram illustrates the key eight disciplines of effective management.
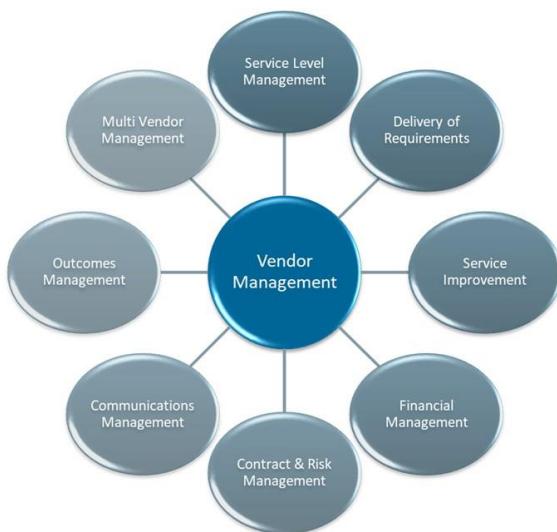
Service Level Management

Service Level reporting reviews performance against pre-defined Service Levels. Service Levels may be designated with differing levels of criticality. Some may also have financial rebates applicable in the event of failure of the vendor to achieve the Service Level.

Service Level Management is focussed on working with both the customer users and the vendor to understand the reasons for service level failures. Where applicable, service rebates will also be required. The value of this management is to assist in resolving any underlying causes of service level failures.

Delivery of Requirements

Delivery of Requirements is the process of the vendor delivering the contracted services to the customer.

The management of this discipline is focussed on ensuring that all contracted activities of the vendor are delivered in a timely basis to an acceptable quality.

Failure of the vendor to fully achieve this can result in aspects of the service delivery failing, and yet the customer may still be paying for these services, consequently not receiving the full value of their commercial relationship.

Service Improvement

Service Improvement is about recognising and seizing opportunities for enhancing the efficiency and effectiveness of contracted services that changing circumstances may throw forth.

It is even more about encouraging and facilitating others, be they persons in the customer's enterprise or persons from the vendor, to be continually on the lookout for such opportunities and to bring appropriate and effective ideas to the table.

Financial Management

Financial Management is concerned with the ensuring the smooth and timely flow of quotations, statements, accurate invoices, payments and remittance advices for services rendered by the vendor.

Excellence in financial management requires proactive monitoring of the processes concerned to ensure that queries or procedural delays emanating from either the customer or from the vendor are communicated immediately and resolved quickly.

Contract and Risk Management

This capability deals with controlling and supervising the maintenance and execution of the agreement in accordance with the contract terms and conditions; including compliance monitoring and reporting.

Excellence in Contract and Risk Management is to avoid over-reliance on the codified content of the contract document.

Communications Management

The goal of excellent Communications Management is to foster and maintain a harmonious, collaborative and cooperative working culture between the customer's people and the vendor's people. The two sides, vendor and customer, must be encouraged to come together and work as a single team.

Outcomes Management

Outcomes Management reviews performance against defined Outcomes. Outcomes are typically related to IT or Business objectives that have been identified as critical to the business. These outcomes may involve end-to-end processes.

Multi Vendor Management

Most organisations will engage multiple vendors to deliver their IT services. The vendors may combine to deliver end-to-end services, or may be engaged to deliver separate, non-related IT services.

Multi-Vendor Management recognises the roles the vendors provide through to the organisation, and importantly, where there are relationships where vendors need to, from time-to-time, co-operate to deliver the services. In this instance, it is critical that the vendors work together to deliver an effective service, rather than acting independent of each other, with the risk of service disruption caused by the actions of one vendor not being in synchronisation with the actions of another vendor.

VMIS is a management tool to monitor the eight disciplines of Vendor Management

VMIS (Vendor Management Information System) is a unique tool developed by Cherub specifically to help both customer Vendor Managers and vendors themselves better understand the eight disciplines.

Cherub identified both *The Dive* and the Watermelon Effect can be significantly moderated with information provided through our VMIS tool. Using VMIS, customers and vendors can have a structured conversation about critical, fact-based aspects of the overall contract outcome, and importantly, how to improve them

VMIS provides the Fact-Based Insights that enable both parties to focus on the real issues rather than the symptoms or perceived problems. Customers internally are able to discuss and clarify findings from VMIS. Vendors are able to have similar discussions with the customer to understand the issues of concern to the customer.

Without this information, often the vendor is 'blind' to customer concerns beyond Service Level measures. This blindness results in the Watermelon Effect.

Equally the customer can be 'blind' to actions they are taking that hinder the vendor in its endeavours to improve the outcomes of the eight disciplines.

VMIS outcomes and the resulting dialog significantly improves the likelihood of both parties understanding the role in the effectiveness of the disciplines. Improving this significantly increases the likelihood of maintaining the relationship in the Goldilocks Zone.

Indicators

VMIS refers to the eight disciplines as Indicators. There are two groups of Indicators – Lag and Lead.

Lag Indicators

Lag Indicators measure results of activities and actions that have occurred and can be identified as impacting service outcomes in the immediate term. These failures have the likelihood of adversely affecting users. At the same time vendors are likely to very aware of this impact due to the immediacy of the issue.

Lag Indicators are:

- Service Level results
- Delivery of Requirements results
- Service Improvement results

Lead Indicators

Lead Indicators measure results of activities and actions that may have a longer-term impact on the effectiveness of service delivery. A once off failure of a Lead Indicator is unlikely to cause significant issues, however it can erode confidence of the customer, and failure of Lead Indicators is a significant contributor to the Watermelon Effect.

Lead Indicators are:

- Financial Management
- Contract and Risk Management
- Communications Management
- Outcomes Management
- Multi-Vendor Management

VMIS Reporting

VMIS allows reporting of all eight best practice Indicator results at multiple levels of granularity. Multiple vendor contracts can be set up and reports specific to each contract can be produced.

Category Reporting

Categories are the most granular level of information. A category could be an individual Service Level (e.g. "Did it pass or fail?"), or an individual aspect of Communications Management (e.g. "Is executive level communication effective?")

Classification Reporting

Classifications are groups of Categories. For example, a Classification within the Service Level Indicator could be Capacity Management. This could comprise several Categories, each one being a different Service Level associated with Capacity Management.

Indicators

The eight Indicators overall outcome are reported on. This level of reporting may be required by senior management seeking to understand at a holistic basis the overall effectiveness of the contract.

Group

An organisation may have different divisions or business units. Each division or business unit can run its own instance of VMIS and head office can run a Group report of the overall results.

Service Level Credits

If Service Level Credits apply to some or all contracts, the rules for calculating these can be set up and then on a monthly basis a Service Level Credits report run to calculate any applicable credits.

Trends

VMIS reports show results for the current month, previous two months, six-month average, and the trend. This information is very important because it allows customers and vendors to work towards continual improvement of outcomes.

The following diagram illustrates the basic hierarchy of reporting.

Conclusion

The Dive and the Watermelon Effect are phenomena that occur regularly with customers and vendors. The extent of this can have a significant impact on realising the original business case outcomes and ensuring the long-term viability of the contract.

Constructive dialog between the customer and the vendor on all eight Vendor Management disciplines has a dramatic influence on alleviating both The Dive and Watermelon Effect. Done well, it can promote the relationship into the Goldilocks Zone.

VMIS is a critical tool to provide deep insights into all eight disciplines, illustrate ongoing performance and improvements, and support the dialog.

CHERUB
IT sourcing for maximum value

Cherub is a Sourcing Advisory and Consulting firm that specialises in providing practical and actionable insight and consulting spanning the entire sourcing lifecycle.

Our single-minded focus is on understanding the Australian / New Zealand IT Sourcing marketplace and leveraging our unrivalled practical experience and market perspective to provide our clients with pragmatic and actionable sourcing advice, solutions and consultancy and help you answer critical questions such as:

- Am I getting value for money today from my current deal?
- How do I get
    - the right Services
    - with the right Vendor
    - supported by the right Contract
    - at the right Price

We know that the sourcing journey has many stages. Our Lifecycle Solutions Framework is pivotal in helping our clients to understand each stage of the journey and where their sourcing initiative fits into the overall sourcing journey.

It provides a platform from which clients can have a clear and informed view of the foundational activities and steps that have preceded the journey to date; as well as understanding what activities and steps need to follow to ensure success.

At the heart of our Lifecycle Solution Framework is Advisory Services which is the foundation of everything Cherub does and delivers. Our understanding and appreciation of both the 'hard' and 'soft' aspects of Advisory means that we are able to extend 'thinking' into 'doing' through the application of our best practice approaches, methods and tools.

Figure 1.   Cherub's Lifecycle Solutions Framework

This is achieved through our Consulting Solutions that can be used to complement a client team's capacity or capability. Alternatively, a client may opt for a targeted sourcing consultancy where Cherub delivers an end-to-end solution. Such sourcing consultancies can focus on some or all aspects of the sourcing lifecycle, including:

- Sourcing Strategy to set the direction;
- Go To Market to select the solution;
- Transition to monitor the health of transition and ongoing transformational projects;
- Value Strategy to review, refine, and if necessary, undertake rectification of a service contract to help maintain and improve the effectiveness of the sourcing relationship between the customer and the supplier; and
- Vendor Governance to support excellence in governance and management of the relationship, including where required, the design and establishment of the vendor management office and toolsets.

We pride ourselves in our flexibility to either 'roll our sleeves up' and work closely with clients; or to simply provide expert guidance in a more advisory role.

We believe it is our many years of real-world experience combined with our deep functional expertise that provides lasting value to our clients.

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