

Supplier Assessment Whitepaper

What's in a relationship? Quantum Plus explores the benefits of establishing and maintaining good supplier relationships

Introduction

It is clear that good relationships between clients and suppliers deliver real and tangible benefits. In fact, relationship management can create a 20-40% difference on service, quality, cost and other performance indicators and globally, organisations investing most in developing successful relationships consistently perform better than competitors or agencies in the same sector¹. Moreover, successful supplier relationships bring a whole host of less tangible advantages, including:

- Ability to react when things go wrong
- Exposure to applicable innovation
- Access to the supplier's best people
- No surprises
- Service first, paperwork follows
- Focus on client value, not supplier cost
- Optimised charges
- Access to executive level staff

With this level of benefit, "good" relationships need definition and focus, not only during inception but during the life of the contract through to successful exit or renewal.

Quantum Plus has developed a detailed insight into the workings of the relationship between supplier and client in outsourcing arrangements over many years. Much of this data has recently been analysed to further develop our services, particularly in the areas of the sourcing process and the ability to deliver valuable service health checks throughout the contract term. This paper shares some of that insight, giving suppliers and clients alike the opportunity to further explore and improve the basis of their current and planned relationships.

Context

Recent research suggests that around 50% of current outsourcing deals are currently "up for grabs"². This is a larger percentage than we have seen in the past and at its core is the health of the relationship between the contracting parties. Furthermore, outsourcing contracts are not getting any simpler with various innovations, delivery options and dynamics at play to frustrate current relationships and potential new ones.

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These include the following:

- Outsource agreements are reducing in contract term, making transition a larger percentage of the overall contract and giving suppliers a challenge to deliver service and innovation with a reasonable financial return.
- Outsourcing agreements are being disaggregated, not only reducing the size of the “pie” to the supplier but increasing the number of interfaces and creating the need for an overall service integration layer. In addition, multiple providers/suppliers will struggle to align with and deliver to business objectives.
- Capability can now be delivered in different ways across the IT service towers and on into business services, particularly as we see the “as a service” models develop.
- Digital services in many sectors are taking a business priority and urgency. The owner of a particular service (and relationship) may no longer be the CIO but the CDO (Chief Digital Officer) or Line of Business Executive.
- As with any procurement, there is a tension between value and cost. Transactional behaviours will not necessarily result in the desired partnership.

It is surprising for some of our clients to learn that in many cases sourcing has become more rather than less complicated. If that comes with greater value, more flexibility and alignment with your business, then it is a good thing.

Key Findings

Any assessment begs the question “what is the relationship you would like with your supplier?” This may seem a basic point but it must be the starting point in engaging and subsequently assessing a relationship. Relationships can be purely transactional through to partnership. From an IT perspective, they can be characterised in four types, as shown in Table 1.

Table 1 – The four styles of IT supplier services and the relationships that can be expected from them (adapted from ¹).

Style	Characteristic	Summary	Relationship
IT Supply	<ul style="list-style-type: none"> • Cost is the overriding consideration • Transactional behaviours against individual supply components 	Supply deliverables are defined by client and commoditised to enable effective transactional procurement optionally to multiple suppliers	Procurement transactional relationship focused on cost and quality of service
IT Partner	<ul style="list-style-type: none"> • Expectation of benefit from supplier capabilities, expertise and improvement • Ongoing development and dialogue 	Supplier and client work together to develop/improve IT supply	Partnership around delivery of IT. IT-focused not business
Business Supply	<ul style="list-style-type: none"> • Pay per supply but on business results 	Supplier understands and can deliver around business context	Client shares business requirement, giving supplier an alignment they can utilise as part of the service
Business Partner	<ul style="list-style-type: none"> • Deliverable against business objectives • Expectation of benefit from ongoing business understanding 	Client and supplier have a shared business vision	Mutually beneficial, focused around joint business objectives

So if the relationship is one of IT supply, it should not be judged against a business partner relationship and so on. To be clear, it is not appropriate for every relationship to be established at or matured to, the 'Business Partner' stage. IT supply will be fit for purpose for some relationships (e.g. voice lines). Moving between types of relationship is of course possible but needs a conscious desire, plan and effort from both client and supplier.

With this in mind, key findings are as follows:

- Client bargaining power is at its lowest when it is most important - when the supplier must deliver reliably and when innovation can have the greatest impact. It is during the selection and re-selection process that clients have the greatest bargaining power. It should be used wisely with a view to "steady state" when bargaining power is low but need for service and innovation high.
- The level of current maturity of relationship is directly aligned with the criticality and importance of the deliverables. It sounds obvious but this puts a heavy onus back onto the client who it would appear has much of the wherewithal to make the relationship a success.
- Targets and reporting are not the sole basis of managing the relationship. Whilst one might say you "hit what you aim for", this needs to include a documented understanding of values held between parties of the relationship and regular relationship health checks to enhance performance of both parties.
- At any point in time, 'the relationship' has to be viewed as at least three relationship levels, each of which could be at a different level of maturity. The supplier/client relationship exists at an executive, managerial and operational level and each of these requires its own establishment and maintenance to perform.

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Analysis of high performing enterprises shows that getting the desired relationship demands concurrent focus in a number of key areas which combine to create a convergent and harmonious environment where the relationship can prosper. From implementing a shared 'strategy and vision' to ensuring that 'targets and reporting' are set up to drive positive behaviour, both customer and supplier need to adopt mature processes and informed communications to avoid the common pitfalls of a sub-standard relationship.

These areas of relationship maturity have been developed through years of engaging with customer and supplier alike. They cover the following domains, as shown in table 2.

Table 2 –The nine domains of supplier relationships and the impacts of having low and high levels of relationship maturity in each of the domains.

Domain	Areas to explore	Commentary
Strategy and Vision	<ol style="list-style-type: none"> 1. The supplier sharing their strategy and vision 2. Common goals and objectives 	At low levels of maturity, the sharing of strategy and vision is not seen as a requirement. Most benefit is gained when endemic in process.
Mutual Benefit	<ol style="list-style-type: none"> 1. Understanding of the benefits of the relationship to both parties 2. Commitment of the supplier to deliver mutual benefit 	At the lowest level, any counter party benefit is seen as something that should be invoiced. At the higher levels of maturity, we see mutual benefit as a driver for innovation.

Domain	Areas to explore	Commentary
Commitment	<ol style="list-style-type: none"> Executive level commitment to the relationship and its development Operational management and staff commitment to the relationship and its development 	Commitment should be addressed pre-contract and an effective level of 'tier matching' introduced. Key indicators are cultural fit and mutual view of the importance of the contract(s) and relationship.
People	<ol style="list-style-type: none"> Level of co-working and collaboration Behaviours 	Individuals will conform to a 'style' which is generally driven by the primary contacts.
Problem and Risk	<ol style="list-style-type: none"> Risk management Process and problem resolution 	High levels of maturity are demonstrated where good process and governance are in place as well as continuous improvement.
Change	<ol style="list-style-type: none"> Change management Decision making 	The change process needs to be straightforward and fair to both parties. Significant friction is introduced if suppliers see the process as costly with burdensome process and poor decision making.
Targets and Reporting	<ol style="list-style-type: none"> Targets and measures for the relationship Performance reporting 	Targets and measures should not be set in stone but adapt through the lifecycle. They should be motivational tools to drive the right behaviours, updated to reflect evolving needs.
Planning and Forecasting	<ol style="list-style-type: none"> Planning and forecasting Allocation of resources 	Forewarned is forearmed - better response and resources are driven by good planning and its communication.
Continual Improvement	<ol style="list-style-type: none"> Innovation and continual improvement Cost reduction 	Poor levels of maturity can be foreseen from a contract which poorly addresses innovation, continual improvement, cost reduction and their inter-relation.

Conclusion

It is our view and experience from many supplier assessments that the relationship part of the outsourcing experience is the most important one. Without continual focus, poor relationships worsen and even good services can deteriorate if the aspects outlined above are not assessed and nurtured. As with any relationship, it is not the job of one party to keep it good, or make it better, but both.

References

- The Outsourcing Enterprise - The power of relationships (2010) Leslie P. Willcocks, Sara Cullen
- HfS Research (2014), conducted in conjunction with KPMG