



Sourcing & Vendor Relationships
Symposium Community

Trip Report

Sourcing & Vendor Relationships Symposium Community

Members: 124

Key Takeaways

Among the prominent topics at this Symposium was the maturing of the global outsourcing industry. The past several years have seen the maturing of globalization and the confirmed emergence of offshore service vendors. Many Indian service vendors have shown double-digit year-over-year growth, and their presence continues to impact both their clients' markets and how traditional service providers develop and market their services.

The question of whether India's ascendancy as the premier destination for outsourcing is in danger was the topic of a well-attended debate between Gartner Research Vice President Fran Karamouzis and Vice President and Distinguished Analyst Partha Iyengar. Prior to the debate, the majority of audience members thought that not only was India's leading position in this area unquestioned, it was likely that this leadership would continue into the near future. However, during the debate, Karamouzis changed more than a few minds by arguing that the competitive advantages India has enjoyed up until now — particularly a plentiful supply of low-cost skilled labor and aggressive government support — are dwindling as countries such as China and the Philippines, as well as some in Eastern Europe, catch up. Other prominent issues at the conference included:

- Ways outsourcing and vendor management can contribute to cost-cutting in light of the looming economic slowdown in the U.S.
- The growth of alternative delivery models, especially software as a service (SaaS), infrastructure utilities and business process outsourcing. None of these are mainstream yet, but all are moving toward maturity and changing the way IT is delivered to organizations.
- The increasing importance of outsourcing and vendor management as a role for business leaders, not just IT managers. Vendor management is no longer simply contract management; instead, businesses must see their vendors as part of a comprehensive portfolio of produce and service providers.

Conference Highlights

Conference Keynote

This year's conference theme was "emerging trends." In his opening remarks, Gartner CEO Gene Hall pointed out that CEOs want the IT organization to provide cost reduction, flexibility and support for growth, regardless of the economy. That's why 80% of CIOs expect major changes in the next three years — and 40% of CIOs expect transformational change, according to Gartner's latest CIO Survey. Seventy percent of CIOs said that their organizations don't have the right skills to make the needed changes. This will mean learning to capitalize on global talent. Hall urged businesses to prepare for a return to growth even as the present economic downturn plays out. Companies that wait until the recession ends will lose months of opportunity, he said.

The following are some of the analyst presentations that attracted the most attention from conference attendees.


How to Handle Global Delivery

Working across cultures, time zones and distance is not easy, no matter what the outsourcing partner says — and there will inevitably be cultural misunderstandings and miscommunication. Understanding the challenges is just the first step; you also have to evaluate your risks and prepare a mitigation strategy for those risks. Recommendations:

- Establish a sourcing strategy before determining the choice of country and vendor.
- Decide on the type of deal you want.
- Establish "offshore-specific" vendor evaluation criteria.

Sourcing Governance: Boost Your Organization's Effectiveness

A sourcing governance framework aims to steer services toward business objectives by establishing how decisions should be made. This frequently means getting mired in organizational politics. Thus, understanding sourcing governance styles is critical. Sourcing governance styles are driven by the decision-making styles organizations adopt. When you understand styles,



you can choose governance mechanisms that are aligned with the organization's culture and create a framework that will tell people to do things the way they like to do things, substantially improving your chances of success. Recommendations:

- Assess the effectiveness of your current sourcing governance framework across different units and geographies.
- Identify other governance initiatives that are under way.
- Create a sourcing governance program, a development plan, a supporting office and a steering committee.

Alternative Delivery Models: IT as a Service

New and more-efficient alternative delivery and acquisition models are rapidly emerging. Enterprises able to integrate models that yield lower costs/better operations will have a competitive advantage. The range of choice for how enterprises acquire and access IT is growing, in terms of service scope, engagement and delivery model. Enterprises that successfully navigate the resulting changes will achieve additional cost savings and higher levels of agility, and differentiation. Recommendations:

- Understand the various models and services that are already in use in their business or that are set to become viable for use in the industry.
- Evaluate which models and services are most appropriate today and yield the best risk-to-reward ratio.
- Communicate with your key vendors and providers as a precursor to possible changes in your IT portfolio.

Software as a Service in 2010 and the Virtualized Enterprise

CEOs and IT managers must involve themselves in SaaS acquisition and management. As SaaS becomes more mainstream, it is moving beyond its early incarnations as a “good enough” solution, and many providers' offerings are becoming very sophisticated. Few software vendors will not have a SaaS offering by year's end, and more and more software will become available via SaaS delivery models. IT management must focus on meshing the best of this new technology with existing technologies. Recommendations:

- Undertake application portfolio analysis; identify requirements that can be fulfilled via SaaS.
- Understand how SaaS fits into your enterprise's sourcing strategy.
- Analyze software vendors' plans to exploit SaaS.

IT Sourcing Goes Strategic: Raising the Bar for Procurement

IT organizations must evolve from providing IT procurement competencies alone to developing broader, more-strategic IT sourcing competencies. Achieving deeper efficiencies and leveraging IT acquisitions will require new demand management competencies, along with discipline in sourcing governance.

Organizations must invest in disciplined spending management through vendor categorization and stronger vendor management skills, and to ensure that IT assets and investments meet the demands of business sourcing manager will need to develop relationship management skills. These skills will not usually be found in today's procurement teams or IT organizations. Recommendations:

- Consolidate your vendor contracts and identify your vendors.
- Define key sourcing and procurement business impacts.
- Define your sourcing governance styles.
- Categorize your vendors by strategic value.

What People Asked About

What is China's impact on IT consumption and IT outsourcing?

China is rapidly evolving as an IT services and sourcing destination, and is often cited as a potential challenger to India for dominance in this area. China has most of the ingredients needed to succeed as an outsourcing destination, but it is still maturing and faces certain challenges, including a lack of English-speaking workers and relatively high levels of risk for security and intellectual property. Still, interest in China continues, and we expect continued growth in both the number and size of outsourcing deals.

What do we do about SaaS?

Accept that it's here, that your users are buying it, that you should read between the lines to understand what they're telling you, and that you've got to get involved in understanding how to make it work in your enterprise. The movement toward SaaS has been brewing for years and is finally beginning to have a meaningful impact on the IT industry. Gartner forecasts that by 2011, 25% of new business software will be delivered as SaaS.

What are some cost-cutting approaches that we should implement?

With the prospect of an economic downturn in the U.S. and other Western economies, many Gartner clients are concerned about cutting costs. Gartner estimates that 70% of IT support for infrastructure services can be performed from a remote location. Therefore, hiring an external service provider to supply remote IT infrastructure monitoring and support services is an alternative that may provide cost savings.

Things to Watch For

Sourcing and vendor relationships are increasingly being approached as strategic business concerns rather than tactical IT or procurement functions. More and more, enterprises will need to view their sourcing portfolios strategically as they deal with rapid and frequent changes in IT delivery models, including global delivery, SaaS, infrastructure utilities and business process outsourcing. Vendors will need to be treated not as individual entities, but as part of a comprehensive portfolio of service providers designed to meet specific business goals. This means creating structured processes for dealing with vendors.

Although Gartner expects India's ascendancy as the premiere destination for global outsourcing to continue at least through 2012, there are signs that it is becoming a victim of its own success, as wages increase and resources become scarcer. China's continued growth will increasingly make it a major player in the IT services landscape. Competition for India will also continue to come from the Philippines, Eastern Europe, Latin America, Mexico, South Korea and Thailand.

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Interactive Polling Results

A number of sessions polled attendees about hot topics. At the "great debate" entitled "*Is This the End of the Road for Indian Service Providers?*" the audience was polled before and after on the question:

Indian Offshore providers have had a great run, but there are clouds on the horizon in the form of a resource crunch, escalating costs, economic slowdown in their markets. Is this end of the road for Indian offshore service providers?

Before:

Yes — 31%

No — 49%

Undecided — 20%

After:

Yes — 56%

No — 40%

Undecided — 4%

Other polls of interest included:

How are you related to China?

Operating in China — 35%

Buying from China — 8%

Selling to China — 4%

Considering entering China — 20%

None of the above — 33%

I am confident that we have successfully designed our roles, workforce competencies and skills to support the future state.

Strongly Disagree — 35%

Somewhat Disagree — 35%

Somewhat Agree — 29%

Strongly Agree — 1%

My company is well-positioned to anticipate and manage the changes that business transformation introduces:

Strongly Disagree — 23%

Somewhat Disagree — 42%

Somewhat Agree — 30%

Strongly Agree — 5%