- Security procedures that are justified, appropriate and supported by senior management
- Effective marketing and education in security requirements
- A mechanism for improvement
- Information security is an integral part of all IT services and all ITSM processes
- The availability of services is not compromised by security incidents
- Clear ownership and awareness of the security policies amongst the customer community.

Information systems can generate many direct and indirect benefits, and as many direct and indirect risks. These risks have led to a gap between the need to protect systems and services and the degree of protection applied. The gap is caused by internal and external factors, including the widespread use of technology, increasing dependence of the business on IT, increasing complexity and interconnectivity of systems, disappearance of the traditional organizational boundaries and increasingly onerous regulatory requirements.

This means that there are new risk areas that could have a significant impact on critical business operations, such as:

- Increasing requirements for availability and robustness
- Growing potential for misuse and abuse of information systems affecting privacy and ethical values
- External dangers from hackers, leading to denial-of-service and virus attacks, extortion, industrial espionage and leakage of organizational information or private data.

Because new technology provides the potential for dramatically enhanced business performance, improved and demonstrated information security can add real value to the organization by contributing to interaction with trading partners, closer customer relationships, improved competitive advantage and protected reputation. It can also enable new and easier ways to process electronic transactions and generate trust. In today's competitive global economy, if an organization wants to do business, it may well be asked to present details of its security posture and results of its past performance in terms of tests conducted to ensure security of its information resources.

Other areas of major risks associated with ISM include:

- A lack of commitment from the business to the ISM processes and procedures
- Lack of commitment from the business and a lack of appropriate information on future plans and strategies
- A lack of senior management commitment or a lack of resources and/or budget for the ISM process
- The processes focus too much on the technology issues and not enough on the IT services and the needs and priorities of the business
- Risk assessment and management is conducted in isolation and not in conjunction with Availability Management and ITSCM
- ISM policies, plans, risks and information become out-of-date and lose alignment with the corresponding relevant information and plans of the business and business security.

4.7 SUPPLIER MANAGEMENT

4.7.1 Purpose/goal/objective

> 'The goal of the Supplier Management process is to manage suppliers and the services they supply, to provide seamless quality of IT service to the business, ensuring value for money is obtained.'

The Supplier Management process ensures that suppliers and the services they provide are managed to support IT service targets and business expectations. The aim of this section is to raise awareness of the business context of working with partners and suppliers, and how this work can best be directed toward realising business benefit for the organization.

It is essential that Supplier Management processes and planning are involved in all stages of the Service Lifecycle, from strategy and design, through transition and operation, to improvement. The complex business demands require the complete breadth of skills and capability to support provision of a comprehensive set of IT services to a business, therefore the use of value networks and the suppliers and the services they provide are an integral part of any end-to-end solution. Suppliers and the management of suppliers and partners are essential to the provision of quality IT services.

The purpose of the Supplier Management process is to obtain value for money from suppliers and to ensure that suppliers perform to the targets contained within their contracts and agreements, while conforming to all of the terms and conditions.

The main objectives of the Supplier Management process are to:

- Obtain value for money from supplier and contracts
- Ensure that underpinning contracts and agreements with suppliers are aligned to business needs, and

support and align with agreed targets in SLRs and SLAs, in conjunction with SLM

- Manage relationships with suppliers
- Manage supplier performance
- Negotiate and agree contracts with suppliers and manage them through their lifecycle
- Maintain a supplier policy and a supporting Supplier and Contract Database (SCD).

4.7.2 Scope

The Supplier Management process should include the management of all suppliers and contracts needed to support the provision of IT services to the business. Each service provider should have formal processes for the management of all suppliers and contracts. However, the processes should adapt to cater for the importance of the supplier and/or the contract and the potential business impact on the provision of services. Many suppliers provide support services and products that independently have a relatively minor, and fairly indirect, role in value generation, but collectively make a direct and important contribution to value generation and the implementation of the overall business strategy. The greater the contribution the supplier makes to business value, the more effort the service provider should put into the management of the supplier and the more that supplier should be involved in the development and realization of the business strategy. The smaller the supplier's value contribution, the more likely it is that the relationship will be managed mainly at an operational level, with limited interaction with the business. It may be appropriate in some organizations, particularly large ones, to manage internal teams and suppliers, where different business units may provide support of key elements.

The Supplier Management process should include:

- Implementation and enforcement of the supplier policy
- Maintenance of a Supplier and Contract Database (SCD)
- Supplier and contract categorization and risk assessment
- Supplier and contract evaluation and selection
- Development, negotiation and agreement of contracts
- Contract review, renewal and termination
- Management of suppliers and supplier performance
- Agreement and implementation of service and supplier improvement plans
- Maintenance of standard contracts, terms and conditions

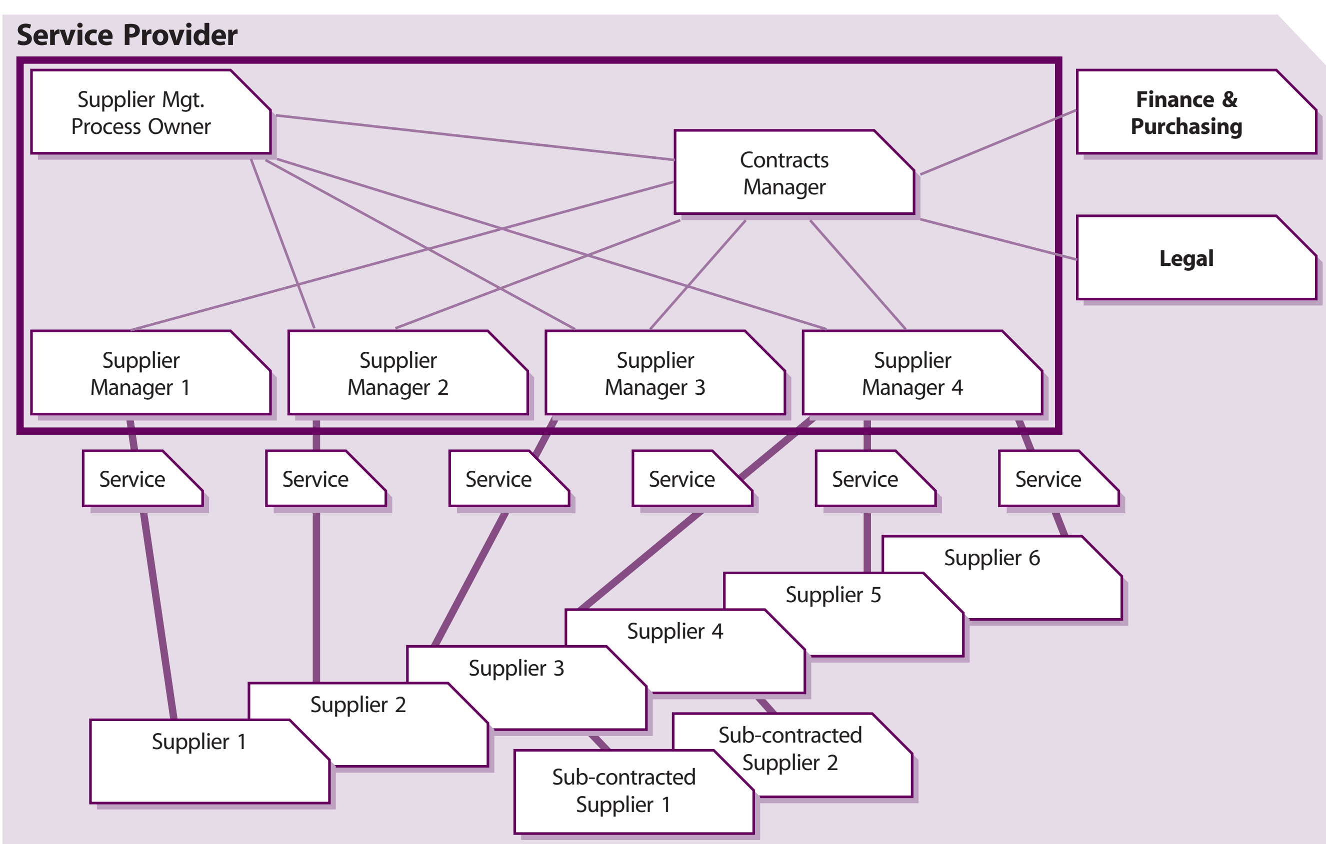

Figure 4.29 Supplier Management – roles and interfaces

- Management of contractual dispute resolution
- Management of sub-contracted suppliers.

IT Supplier Management often has to comply with organizational or corporate standards, guidelines and requirements, particularly those of corporate legal, finance and purchasing, as illustrated in Figure 4.29.

In order to ensure that suppliers provide value for money and meet their service targets, the relationship between each supplier should be owned by an individual within the service provider organization. However, a single individual may own the relationship for one or many suppliers, as illustrated in Figure 4.29. To ensure that relationships are developed in a consistent manner and that suppliers' performance is appropriately reviewed and managed, roles need to be established for a Supplier Management process owner and a Contracts Manager. In smaller organizations, these separate roles may be combined into a single responsibility.

4.7.3 Value to the business

The main objectives of the Supplier Management process are to provide value for money from suppliers and contracts and to ensure that all targets in underpinning supplier contracts and agreements are aligned to business needs and agreed targets within SLAs. This is to ensure the delivery to the business of end-to-end, seamless, quality IT services that are aligned to the business's expectation. The Supplier Management process should align with all corporate requirements and the requirements of all other IT and SM processes, particularly ISM and ITSCM. This ensures that the business obtains value from supporting supplier services and that they are aligned with business needs.

4.7.4 Policies/principles/basic concepts

The Supplier Management process attempts to ensure that suppliers meet the terms, conditions and targets of their contracts and agreements, whilst trying to increase the value for money obtained from suppliers and the services they provide. All Supplier Management process activity should be driven by a supplier strategy and policy from Service Strategy. In order to achieve consistency and effectiveness in the implementation of the policy, a Supplier and Contracts Database (SCD) should be established, as illustrated in Figure 4.30, together with clearly defined roles and responsibilities.

Ideally the SCD should form an integrated element of a comprehensive CMS or SKMS, recording all supplier and contract details, together with details of the type of service(s) or product(s) provided by each supplier, and all other information and relationships with other associated CIs. The services provided by suppliers will also form a key part of the Service Portfolio and the Service Catalogue. The relationship between the supporting services and the IT and business services they support are key to providing quality IT services.

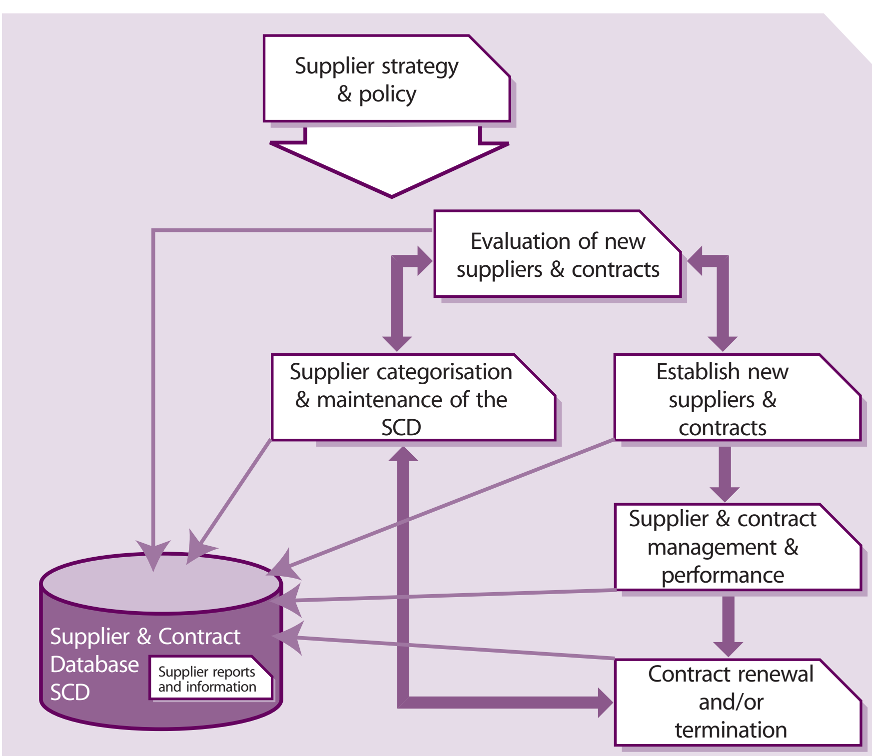

Figure 4.30 Supplier Management process

This information within the SCD will provide a complete set of reference information for all Supplier Management procedures and activities:

- Supplier categorization and maintenance of the Supplier and Contracts Database (SCD)
- Evaluation and set-up of new suppliers and contracts
- Establishing new suppliers
- Supplier and Contract Management and performance
- Contract renewal and termination.

The first two elements within the above list are covered within the Service Design stage. The third element is part of Service Transition, and the last two are part of the Service Operation stage and are covered in more detail in those publications.

4.7.5 Process activities, methods and techniques

This section provides more detail on the Supplier Management process, its sub-processes and activities, and the management of the contract lifecycle.

When dealing with external suppliers, it is strongly recommended that a formal contract with clearly defined, agreed and documented responsibilities and targets is established and managed through the stages of its lifecycle, from the identification of the business need to the operation and cessation of the contract:

- Identification of business need and preparation of the business case:
  - Produce a Statement of Requirement (SOR) and/or Invitation To Tender (ITT)
  - Ensure conformance to strategy/policy
  - Prepare the initial business case, including options (internal and external), costs, timescales, targets, benefits, risk assessment.
- Evaluation and procurement of new contracts and suppliers:
  - Identify method of purchase or procurement
  - Establish evaluation criteria – for example, services, capability (both personnel and organization), quality and cost
  - Evaluate alternative options
  - Select
  - Negotiate contracts, targets and the terms and conditions, including responsibilities, closure, renewal, extension, dispute, transfer
  - Agree and award the contract.
- Establish new suppliers and contracts:
  - Set up the supplier service and contract, within the SCD and any other associated corporate systems
  - Transition of service
  - Establish contacts and relationships.
- Supplier and contract categorization:
  - Assessment or reassessment of the supplier and contract
  - Ensure changes progressed through Service Transition
  - Categorization of the supplier
  - Update of SCD
  - Ongoing maintenance of the SCD.
- Manage the supplier and contract performance:
  - Management and control of the operation and delivery of service/products
  - Monitor and report (service, quality and costs)
  - Review and improve (service, quality and costs)
  - Management of the supplier and the relationship (communication, risks, changes, failures, improvements, contacts, interfaces)
  - Review, at least annually, service scope against business need, targets and agreements
  - Plan for possible closure/renewal/extension.
- End of term:
  - Review (determine benefits delivered, ongoing requirement)
  - Renegotiate and renew or terminate and/or transfer.

The business, IT, finance, purchasing and procurement need to work together to ensure that all stages of the contract lifecycle are managed effectively. All areas need to be jointly involved in selecting the solution and managing the ongoing performance of the supplier, with each area taking responsibility for the interests of their own area, whilst being aware of the implications on the organization as a whole. The processes involved in the stages of the contract lifecycle are explained in detail in the following sections.

4.7.5.1 Evaluation of new suppliers and contracts

The activities associated with the identification of business needs and the subsequent evaluation of new suppliers and contracts are part of the Service Design process. The outputs from this area provide the inputs to all other stages of the contract lifecycle. IT is vital to the ongoing success of the contract and the relationship that the business is closely involved in all aspects of these activities. Every organization should have templates and a formal method for the production of business cases and their approval and sign-off. The detailing of the business needs and the content of the business case should be agreed, approved and signed off by both the business and IT.

When selecting a new supplier or contract, a number of factors need to be taken into consideration, including track record, capability, references, credit rating and size relative to the business being placed. In addition, depending on the type of supplier relationship, there may be personnel issues that need to be considered. Each organization should have processes and procedures for establishing new suppliers and contracts.

While it is recognized that factors may exist that influence the decision on type of relationship or choice of supplier (e.g. politics within the organization, existing relationships), it is essential that in such cases the reasoning is identified and the impact fully assessed to ensure costly mistakes are avoided.

Services may be sourced from a single supplier or multi-sourced. Services are most likely to be sourced from two or more competing suppliers where the requirement is for standard services or products that are readily available 'off-the-shelf'. Multi-sourcing is most likely to be used where cost is the prime determinant, and requirements for developing variants of the services are low, but may also be undertaken to spread risk. Suppliers on a multi-source list may be designated with 'Preferred Supplier' status within the organization, limiting or removing scope for use of other suppliers.

Partnering relationships are established at an executive level and are dependent on a willingness to exchange strategic information to align business strategies. Many strategically important supplier relationships are now positioned as partnering relationships. This reflects a move away from traditionally hierarchical relationships, where the supplier acts subordinately to the customer organization, to one characterized by:

- **Strategic alignment:** good alignment of culture, values and objectives, leading to an alignment of business strategies
- **Integration:** a close integration of the processes of the two organizations
- **Information flow:** good communication and information exchange at all levels, especially at the strategic level, leading to close understanding
- **Mutual trust:** a relationship built on mutual trust between the organizations and their individuals
- **Openness:** when reporting on service performance, costs and Risk Analysis
- **Collective responsibility:** joint partnership teams taking collective responsibility for current performance and future development of the relationship
- **Shared risk and reward:** e.g. agreeing how investment costs and resultant efficiency benefits are shared, or how risks and rewards from fluctuations in material costs are shared.

Both parties derive benefits from partnering. An organization derives progressively more value from a supplier relationship as the supplier's understanding of the organization as a whole increases, from its IT inventory architectures through to its corporate culture, values and business objectives. With time, the supplier is able to respond more quickly and more appropriately to the organization's needs. The supplier benefits from a longer-term commitment from the organization, providing it with greater financial stability, and enabling it to finance longer-term investments, which benefit its customers.

A partnership makes it possible for the parties to align their IT infrastructures. Joint architecture and risk control agreements allow the partners to implement a range of compatible solutions from security, networking, data/information interchange, to workflow and application processing systems. This integration can provide service improvements and lowered costs. Such moves also reduce risks and costs associated with one-off tactical solutions, put in place to bridge a supplier's IT with that of the organization.

The key to a successful partnering relationship is being absolutely clear about the benefits and costs such a relationship will deliver before entering into it. Both parties then know what is expected of them at the outset. The success of the partnership may involve agreeing the transfer of staff to the partner or outsourcing organization as part of the agreement and relationship.

Service provider organizations should have documented and formal processes for evaluating and selecting suppliers based on:

- Importance and impact: the importance of the service to the business, provided by the supplier
- Risk: the risks associated with using the service
- Costs: the cost of the service and its provision.

Often other areas of the service provider organization, such as Legal, Finance and Purchasing, will get involved with this aspect of the process. Service provider organizations should have processes covering:

- Production of business case documents
- Production of SoR and Invitations to Tender or proposal documents
- Formal evaluation and selection of suppliers and contracts
- The inclusion of standard clauses, terms and conditions within contracts, including early termination, benchmarking, exit or transfer of contracts, dispute resolution, management of sub-contracted suppliers and normal termination
- Transitioning of new contracts and suppliers.

These processes may, and should be, different, based on the type, size and category of the supplier and the contract.

The nature and extent of an agreement depends on the relationship type and an assessment of the risks involved. A pre-agreement Risk Analysis is a vital stage in establishing any external supplier agreement. For each party, it exposes the risks that need to be addressed and needs to be as comprehensive as practical, covering a wide variety of risks, including financial, business reputation, operational, regulatory and legal.

A comprehensive agreement minimizes the risk of disputes arising from a difference of expectations. A flexible agreement, which adequately caters for its adaptation across the term of the agreement, is maintainable and supports change with a minimum amount of renegotiation.

The contents of a basic underpinning contract or service agreement are as follows:

- **Basic terms and conditions:** the term (duration) of the contract, the parties, locations, scope, definitions and commercial basis.
- **Service description and scope:** the functionality of the services being provided and its extent, along with constraints on the service delivery, such as performance, availability, capacity, technical interface and security. Service functionality may be explicitly defined, or in the case of well-established services, included by reference to other established documents, such as the Service Portfolio and the Service Catalogue.
- **Service standards:** the service measures and the minimum levels that constitute acceptable performance and quality, e.g. IT may have a performance requirement to respond to a request for a new desktop system in 24 hours, with acceptable service deemed to have occurred where this performance requirement is met in 95% of cases. Service levels must be realistic, measurable and aligned to the organization's business priorities and underpin the agreed targets within SLRs and SLAs.
- **Workload ranges:** the volume ranges within which service standards apply, or for which particular pricing regimes apply.
- **Management Information (MI):** the data that must be reported by the supplier on operational performance – take care to ensure that MI is focused on the most important or headline reporting measures on which the relationship will be assessed. Key Performance Indicators (KPIs) and Balanced Scorecards (BSCs) may form the core of reported performance data.
- **Responsibilities and dependencies:** description of the obligations of the organization (in supporting the supplier in the service delivery efforts) and of the supplier (in its provision of the service), including communication, contacts and escalation.

An extended service agreement may also contain:

- Service debit and credit regime (incentives and penalties)
- Additional performance criteria.

The following gives a limited sample of the legal and commercial topics typically covered by a service or contractual agreement:

- Scope of services to be provided
- Service performance requirements
- Division and agreement of responsibilities
- Contact points, communication and reporting frequency and content
- Contract review and dispute resolution processes
- Price structure
- Payment terms
- Commitments to change and investment
- Agreement change process
- Confidentiality and announcements
- Intellectual property rights and copyright
- Liability limitations
- Termination rights of each party
- Obligations at termination and beyond.

The final form of an agreement, and some of the terminology, may be dictated by the views and preferences of the procurement and legal departments, or by specialist legal firms.

Tip

Seek legal advice when formalizing external supply agreements.

Formal contracts

Formal contracts are appropriate for external supply arrangements that make a significant contribution to the delivery and development of the business. Contracts provide for binding legal commitments between customer and supplier, and cover the obligations each organization has to the other from the first day of the contract, often extending beyond its termination. A contract is used as the basis for external supplier agreements where an enforceable commitment is required. High-value and/or strategic relationships are underpinned by a formal contract. The formality and binding nature of a contract are not at odds with the culture of a partnering agreement, but rather form the basis on which trust in the relationship may be founded.

A contract is likely to be structured with a main body containing the commercial and legal clauses, and with the elements of a service agreement, as described earlier, attached as schedules. Contracts may also include a number of other related documents as schedules, for example:

- Security requirements
- Business continuity requirements
- Mandated technical standards
- Migration plans (agreed pre-scheduled change)
- Disclosure agreements.

Most large organizations have procurement and legal departments specializing in sourcing contracts. Specialist legal firms may be employed to support the internal procurement and legal function when establishing significant formal contracts.

Underpinning agreements

In ITIL an SLA is defined as a 'written agreement between a service provider and the customer(s) that documents agreed service levels for a service'. Service providers should be aware that SLAs are widely used to formalize service-based relationships, both internally and externally, and that while conforming to the definition above, these agreements vary considerably in the detail covered.

Key message

The views of some organizations, such as the Chartered Institute of Purchase and Supply (CIPS) and various specialist lawyers, are that SLAs ought not to be used to manage external relationships unless they form part of an underlying contract. The Complete Guide to Preparing and Implementing Service Level Agreements (2001) emphasizes that a stand-alone SLA may not be legally enforceable but instead 'represents the goodwill and faith of the parties signing it'. Therefore it is in service providers' and suppliers' interests to ensure that SLAs are incorporated into an appropriate contractual framework that meets the ITIL objective that SLAs are binding agreements.

SLAs, underpinning agreements and contracts should be reviewed on a regular basis to ensure performance conforms to the service levels that have been agreed.

The organization is likely to be dependent on its own internal support groups to some extent. To be able to achieve SLA targets, it is advisable to have formal arrangements in place with these groups. Operational Level Agreements (OLAs) ensure that underpinning services support the business/IT SLA targets. OLAs focus on the operational requirements that the services need to meet. This is a non-contractual, service-oriented document describing services and service standards, with responsibilities and obligations where appropriate.

Just as with SLAs, it is important that OLAs are monitored to highlight potential problems. The Service Level Manager has the overall responsibility to review performance against targets so that action can be taken to remedy, and prevent future recurrence of, any OLA breaches. Depending on the size of the organization and variety of services, e.g. SLAs and OLAs, a Service Level Manager should take responsibility for their service or set of services.

4.7.5.2 Supplier categorization and maintenance of the Supplier and Contracts Database (SCD)

The Supplier Management process should be adaptive and spend more time and effort managing key suppliers than less important suppliers. This means that some form of categorization process should exist within the Supplier Management process to categorize the supplier and their importance to the service provider and the services provided to the business. Suppliers can be categorized in many ways, but one of the best methods for categorizing

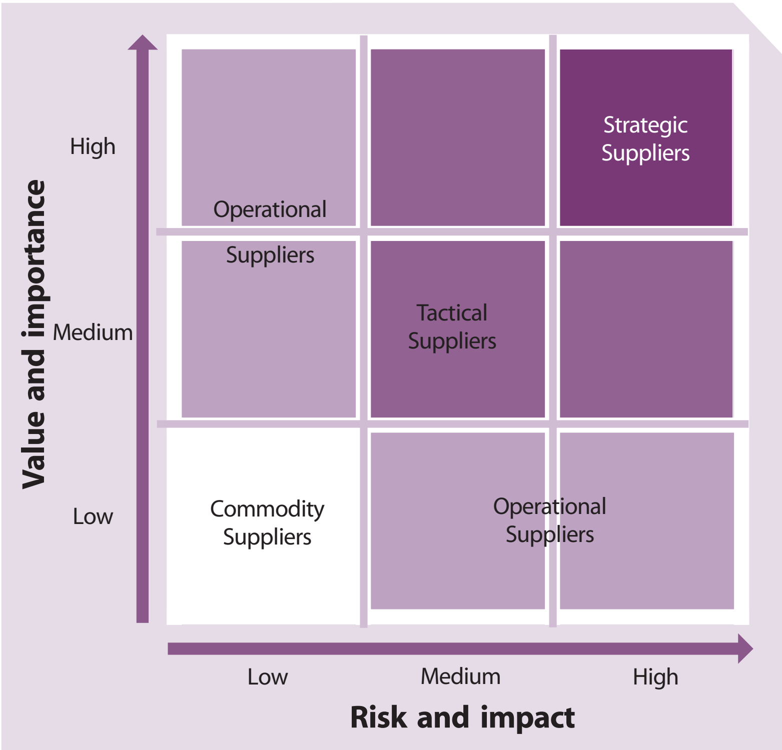

Figure 4.31 Supplier categorization

suppliers is based on assessing the risk and impact associated with using the supplier, and the value and importance of the supplier and their services to the business, as illustrated in Figure 4.31.

The amount of time and effort spent managing the supplier and the relationship can then be appropriate to its categorization:

- **Strategic:** for significant 'partnering' relationships that involve senior managers sharing confidential strategic information to facilitate long-term plans. These relationships would normally be managed and owned at a senior management level within the service provider organization, and would involve regular and frequent contact and performance reviews. These relationships would probably require involvement of Service Strategy and Service Design resources, and would include ongoing specific improvement programmes (e.g. a network service provider, supplying worldwide networks service and their support).
- **Tactical:** for relationships involving significant commercial activity and business interaction. These relationships would normally be managed by middle management and would involve regular contact and performance reviews, often including ongoing improvement programmes (e.g. a hardware maintenance organization providing resolution of server hardware failures).
- **Operational:** for suppliers of operational products or services. These relationships would normally be managed by junior operational management and would involve infrequent but regular contact and performance reviews (e.g. an internet hosting service provider, supplying hosting space for a low-usage, low-impact website or internally used IT service).
- **Commodity:** for suppliers that provide low-value and/or readily available products and services, which could be alternatively sourced relatively easily (e.g. paper or printer cartridge suppliers).

Strategically important supplier relationships are given the greatest focus. It is in these cases that Supplier Managers have to ensure that the culture of the service provider organization is extended into the supplier domain so that the relationship works beyond the initial contract. The rise in popularity of external sourcing, and the increase in the scope and complexity of some sourcing arrangements, has resulted in a diversification of types of supplier relationship. At a strategic level, it is important to understand the options that are available so that the most suitable type of supplier relationship can be established to gain maximum business benefit and evolves in line with business needs.

Tip

To successfully select the most appropriate type of supplier relationship, there needs to be a clear understanding of the business objectives that are to be achieved.

A number of factors, from the nature of the service to the overall cost, determine the importance of a supplier from a business perspective. As shown later, the greater the business significance of a supplier relationship, the more the business needs to be involved in the management and development of a relationship. A formal categorization approach can help to establish this importance.

The business value, measured as the contribution made to the business value chain, provides a more business-aligned assessment than pure contract price. Also, the more standard the services being procured, the lower the dependence the organization has on the supplier, and the more readily the supplier could be replaced (if necessary). Standardized services support the business through minimal time to market when deploying new or changed business services, and in pursuing cost-reduction strategies. More information on this subject can be found in the Service Strategy publication.

The more customized those services are, the greater the difficulty in moving to an alternative supplier. Customization may benefit the business, contributing to competitive advantage through differentiated service, or may be the result of operational evolution.

Tailored services increase the dependence on the supplier, increase risk and can result in increased cost. From a supplier perspective, tailored services may decrease their ability to achieve economies of scale through common operations, resulting in narrowed margins, and reduced capital available for future investment.

Standard products and services are the preferred approach unless a clear business advantage exists, in which case a strategic supplier delivers the tailored service.

Tip

High-value or high-dependence relationships involve greater risks for the organization. These relationships need comprehensive contracts and active relationship management.

Having established the type of supplier, the relationship then needs to be formalized. In the discussion below, the term 'agreement' is used generically to refer to any formalization of a relationship between customer and supplier organizations, and may range from the informal to comprehensive legally binding contracts. Simple, low-value relationships may be covered by a supplier's standard terms and conditions, and be managed wholly by IT. A relationship of strategic importance to the business, on the other hand, requires a comprehensive contract that ensures that the supplier supports evolving business needs throughout the life of the contract. A contract needs to be managed and developed in conjunction with procurement and legal departments and business stakeholders.

Tips

The agreement is the foundation for the relationship. The more suitable and complete the agreement, the more likely it is that the relationship will deliver business benefit to both parties.

The quality of the relationship between the service provider and their supplier(s) is often dependent on the individuals involved from both sides. It is therefore vital that individuals with the right attributes, skills, competences and personalities are selected to be involved in these relationships.

A business service may depend on a number of internal and/or external suppliers for its delivery. These may include a mixture of strategic suppliers and commodity suppliers. Some suppliers supply directly to the organization; others are indirect or sub-contracted suppliers working via another supplier. Direct suppliers are directly managed by the service provider; indirect or sub-contracted suppliers are managed by the leading supplier. Any one supplier may provide products or services used to support a number of different business services.

Supply chain analysis shows the mapping between business services and supplier services. Analysis of business processes will reveal the suppliers involved in each process and the points of hand-off between them. Management of the supply chain ensures that functional boundaries and performance requirements are clearly established for each supplier to ensure that overall business service levels are achieved. Business services are most likely to meet their targets consistently where there are a small number of suppliers in the supply chain, and where the interfaces between the suppliers in the chain are limited, simple and well-defined.

Reducing the number of direct suppliers reduces the number of relationships that need to be managed, the number of peer-to-peer supplier issues that need to be resolved, and reduces the complexity of the Supplier Management activities. Some organizations may successfully reduce or collapse the whole supply chain around a single service provider, often referred to as a 'prime' supplier. Facilities management is often outsourced to a single specialist partner or supplier, who may in turn subcontract restaurant services, vending machine maintenance and cleaning.

Outsourcing entire business services to a single 'prime supplier' may run additional risks. For these reasons, organizations need to consider carefully their supply chain strategies ahead of major outsourcing activity. The scope of outsourced services needs to be considered to reduce the number of suppliers, whilst ensuring that risk is managed and it fits with typical competencies in the supply market.

The SCD is a database containing details of the organization's suppliers, together with details of the products and services that they provide to the business (e.g. e-mail service, PC supply and installation, Service Desk), together with details of the contracts. The SCD contains supplier details, a summary of each product/service (including support arrangements), information on the ordering process and, where applicable, contract details. Ideally the SCD should be contained within the overall CMS.

SCDs are beneficial because they can be used to promote preferred suppliers and to prevent purchasing of unapproved or incompatible items. By coordinating and controlling the buying activity, the organization is more likely to be able to negotiate preferential rates.

4.7.5.3 Establishing new suppliers and contracts

Adding new suppliers or contracts to the SCD needs to be handled via the Change Management process, to ensure that any impact is assessed and understood. In most organizations, the SCD is owned by the Supplier Management process or the procurement or purchasing department. The SCD provides a single, central focal set of information for the management of all suppliers and contracts.

Risk management, working with suppliers, centres on assessing vulnerabilities in each supplier arrangement or contract that pose threats to any aspect of the business, including business impact, probability, customer satisfaction, brand image, market share, profitability, share price or regulatory impacts or penalties (in some industries).

The nature of the relationship affects the degree of risk to the business. Risks associated with an outsourced or strategic supplier are likely to be greater in number, and more complex to manage, than with internal supply. It is rarely possible to 'outsource' risk, although sometimes some of the risk may be transferred to the outsourcing organization. Blaming a supplier does not impress customers or internal users affected by a security incident or a lengthy system failure. New risks arising from the relationship need to be identified and managed, with communication and escalation as appropriate.

A substantial risk assessment should have been undertaken pre-contract, but this needs to be maintained in the light of changing business needs, changes to the contract scope, or changes in the operational environment.

The service provider organization and the supplier must consider the threats posed by the relationship to their own assets, and have their own risk profile. Each must identify their respective risk owners. In a well-functioning relationship, it is possible for much or all of the assessment to be openly shared with the other party. By involving supplier experts in risk assessments, especially in Operational Risk Assessments (ORAs), the organization may gain valuable insights into how best to mitigate risks, as well as improving the coverage of the assessment.

When evaluating risks of disruption to business services or functions, the business may have different priorities for service/function restoration. Business Impact Analysis (BIA) is a method used to assess the impacts on different areas of the business, resulting from a loss of service. Risk assessment and BIA activities relating to suppliers and contracts should be performed in close conjunction with Service Continuity Management, Availability Management and Information Security Management, with a view to reducing the impact and probability of service failure as a result of supplier or supplier service failure.

Once these activities have been completed and the supplier and contract information has been input into the SCD, including the nominated individuals responsible for managing the new supplier and/or contracts, frequency of service/supplier review meetings and contractual review meetings needs to be established, with appropriate break points, automated thresholds and warnings in place. The introduction of new suppliers and contracts should be handled as major changes through transition and into operation. This will ensure that appropriate contacts and communication points are established.

4.7.5.4 Supplier and Contract Management and performance

At an operational level, integrated processes need to be in place between an organization and its suppliers to ensure efficient day-to-day working practices. For example:

- Is the supplier expected to conform to the organization's Change Management process or any other processes?
- How does the Service Desk notify the supplier of incidents?
- How is CMS information updated when CIs change as a result of supplier actions? Who is responsible?

There may be a conflict of interest between the service provider organization and their supplier, especially with regard to the Change Management, Incident Management, Problem Management and Configuration Management processes. The supplier may want to use their processes and systems, whereas the service provider organization will want to use their own processes and systems. If this is the case, clear responsibilities and interfaces will need to be defined and agreed.

These and many other areas need to be addressed to ensure smooth and effective working at an operational level. To do so, all touch points and contacts need to be identified and procedures put in place so that everyone understands their roles and responsibilities. This should include identification of the single, nominated individual responsible for ownership of each supplier and contract. However, an organization should take care not to automatically impose its own processes, but to take the opportunity to learn from its suppliers.

Example

A contract had been awarded for a customized Stores Control System for which the organization's IT department had developed processes to support the live service once it was installed. This included procedures for recording and documenting work done on the service by field engineers (e.g. changes, repairs, enhancement and reconfigurations). At a project progress meeting, the supplier confirmed that they had looked at the procedures and could follow them if required. However, having been in this situation many times before, they had already developed a set of procedures to deal with such events. These procedures were considerably more elegant, effective and easier to follow than those developed and proposed by the organization.

In addition to process interfaces, it is essential to identify how issues are handled at an operational level. By having clearly defined and communicated escalation routes, issues are likely to be identified and resolved earlier, minimizing the impact. Both the organization and the supplier benefit from the early capture and resolution of issues.

Both sides should strive to establish good communication links. The supplier learns more about the organization's business, its requirements and its plans, helping the supplier to understand and meet the organization's needs. In turn, the organization benefits from a more responsive supplier who is aware of the business drivers and any issues, and is therefore more able to provide appropriate solutions. Close day-to-day links can help each party to be aware of the other's culture and ways of working, resulting in fewer misunderstandings and leading to a more successful and long-lasting relationship.

Two levels of formal review need to take place throughout the contract lifecycle to minimize risk and ensure the business realizes maximum benefit from the contract:

- **Service/supplier performance reviews:** reports on performance should be produced on a regular basis, based on the category of supplier, and should form the basis of service review meetings. The more important the supplier, the more frequent and extensive the reports and reviews should be
- **Service, service scope and contract reviews:** these should also be conducted on a regular basis, at least annually for all major suppliers. The objective of these should be to review the service, overall performance, service scope and targets and the contract, together with any associated agreements. This should be compared with the original business needs and the current business needs to ensure that supplier and contracts remain aligned to business needs and continue to deliver value for money.

Formal performance review meetings must be held on a regular basis to review the supplier's performance against service levels, at a detailed operational level. These meetings provide an opportunity to check that the ongoing service performance management remains focused on supporting business needs. Typical topics include:

- Service performance against targets
- Incident and problem reviews, including any escalated issues
- Business and customer feedback

- Expected major changes that will (or may) affect service during the next service period, as well as failed changes and changes that caused incidents
- Key business events over the next service period that need particular attention from the supplier (e.g. quarter-end processing)
- Best practice and Service Improvement Programmes (SIPs).

Major service improvement initiatives and actions are controlled through SIPs with each supplier, including any actions for dealing with any failures or weaknesses. Progress of existing SIPs, or the need for a new initiative, is reviewed at service review meetings. Proactive or forward-thinking organizations not only use SIPs to deal with failures but also to improve a consistently achieved service. It is important that a contract provides suitable incentives to both parties to invest in service improvement. These aspects are covered in more detail in the Continual Service Improvement publication.

The governance mechanisms for suppliers and contracts are drawn from the needs of appropriate stakeholders at different levels within each organization, and are structured so that the organization's representatives face-off to their counterparts in the supplier's organization. Defining the responsibilities for each representative, meeting forums and processes ensure that each person is involved at the right time in influencing or directing the right activities.

The scale and importance of the service and/or supplier influence the governance arrangements needed. The more significant the dependency, the greater the commitment and effort involved in managing the relationship. The effort needed on the service provider side to govern an outsourcing contract should not be underestimated, especially in closely regulated industries, such as the finance and pharmaceutical sectors.

A key objective for Supplier Management is to ensure that the value of a supplier to the organization is fully realized. Value is realized through all aspects of the relationship, from operational performance assurance, responsiveness to change requests and demand fluctuations, through to contribution of knowledge and experience to the organization's capability. The service provider must also ensure that the supplier's priorities match the business's priorities. The supplier must understand which of its service levels are most significant to the business.

Example

A large multi-national company had software agreements in place with the same supplier in no less than 24 countries. By arranging a single global licensing deal with the supplier, the company made annual savings of £5,000,000.

To ensure that all activities and contacts for a supplier are consistent and coordinated, each supplier relationship should have a single nominated individual accountable for all aspects of the relationship.

Example

A nationwide retail organization had an overall individual owning the management of their major network services supplier. However, services, contracts and billing were managed by several individuals spread throughout the organization. The individual owner put forward a business case for single ownership of the supplier and all the various contracts, together with consolidation of all the individual invoices into a single quarterly bill. The estimated cost savings to the organization were in excess of £600,000 per annum.

Satisfaction surveys also play an important role in revealing how well supplier service levels are aligned to business needs. A survey may reveal instances where there is dissatisfaction with the service, yet the supplier is apparently performing well against its targets (and vice versa). This may happen where service levels are inappropriately defined and should result in a review of the contracts, agreements and targets. Some service providers publish supplier league tables based on their survey results, stimulating competition between suppliers.

For those significant supplier relationships in which the business has a direct interest, both the business (in conjunction with the procurement department) and IT will have established their objectives for the relationship, and defined the benefits they expect to realize. This forms a major part of the business case for entering into the relationship.

These benefits must be linked and complementary, and must be measured and managed. Where the business is seeking improvements in customer service, IT supplier relationships contributing to those customer services must be able to demonstrate improved service in their own domain, and how much this has contributed to improved customer service.

For benefits assessments to remain valid during the life of the contract, changes in circumstances that have occurred since the original benefits case was prepared must be taken into account. A supplier may have been selected on its ability to deliver a 5% saving of annual operational cost compared with other options, but after two years has delivered no savings. However, where this is due to changes to contract, or general industry costs that would have also affected the other options, it is likely that a relative cost saving is still being realized. A maintained benefits case shows that saving.

Benefits assessments often receive lower priority than cost-saving initiatives, and are given less priority in performance reports than issues and problem summaries, but it is important to the long-term relationship that achievements are recognized. A benefits report must make objective assessments against the original objectives, but may also include morale-boosting anecdotal evidence of achievements and added value.

Tip

It is important for both organizations, and for the longevity of the relationship, that the benefits being derived from the relationship are regularly reviewed and reported.

An assessment of the success of a supplier relationship, from a business perspective, is likely to be substantially based on financial performance. Even where a service is performing well, it may not be meeting one or both parties' financial targets. It is important that both parties continue to benefit financially from the relationship. A contract that squeezes the margins of a supplier too tightly may lead to under-investment by the supplier, resulting in a gradual degradation of service, or even threaten the viability of supplier. In either case this may result in adverse business impacts to the organization.

The key to the successful long-term Financial Management of the contract is a joint effort directed towards maintaining the financial equilibrium, rather than a confrontational relationship delivering short-term benefits to only one party.

Building relationships takes time and effort. As a result, the organization may only be able to build long-term relationships with a few key suppliers. The experience, culture and commitment of those involved in running a supplier relationship are at least as important as having a good contract and governance regime. The right people with the right attitudes in the relationship team can make a poor contract work, but a good contract does not ensure that a poor relationship team delivers.

A considerable amount of time and money is normally invested in negotiating major supplier deals, with more again at risk for both parties if the relationship is not successful. Both organizations must ensure that they invest suitably in the human resources allocated to managing the relationship. The personality, behaviours and culture of the relationship representatives all influence the relationship. For a partnering relationship, all those involved need to be able to respect and work closely and productively with their opposite numbers.

4.7.5.5 Contract renewal and/or termination

Contract reviews must be undertaken on a regular basis to ensure the contract is continuing to meet business needs. Contract reviews assess the contract operation holistically and at a more senior level than the service reviews that are undertaken at an operational level. These reviews should consider:

- How well the contract is working and its relevance for the future
- Whether changes are needed: services, products, contracts, agreements, targets
- What is the future outlook for the relationship – growth, shrinkage, change, termination, transfer, etc?
- Commercial performance of the contract, reviews against benchmarks or market assessments, suitability of the pricing structure and charging arrangements
- Guidance on future contract direction and ensuring best practice management processes are established
- Supplier and contract governance.

For high-value, lengthy or complex supply arrangements, the period of contract negotiation and agreement can be lengthy, costly and may involve a protracted period of negotiation. It can be a natural inclination to wish to avoid further changes to a contract for as long as possible. However, for the business to derive full value from the supplier relationship, the contract must be able to be regularly and quickly amended to allow the business to benefit from service developments.

Benchmarking provides an assessment against the marketplace. The supplier may be committed by the contract to maintaining charges against a market rate. To maintain the same margin, the supplier is obliged to improve its operational efficiency in line with its competitors. Collectively, these methods help provide an assessment of an improving or deteriorating efficiency.

The point of responsibility within the organization for deciding to change a supplier relationship is likely to depend on the type of relationship. The service provider may have identified a need to change supplier, based on the existing supplier's performance, but for a contractual relationship the decision needs to be taken in conjunction with the organization's procurement and legal departments.

The organization should take careful steps to:

- Perform a thorough impact and Risk Analysis of a change of supplier on the organization and its business, especially during a period of transition. This could be particularly significant in the case of a strategic relationship.
- Make a commercial assessment of the exit costs. This may include contractual termination costs if supplier liability is not clear, but the largest costs are likely to be associated with a transition project. For any significant-sized relationship, this typically includes a period of dual-supply as services are migrated. Any change associated with a change in supplier will increase costs, either immediately as fixed costs, or over time where borne by the supplier and reflected back in service charges.
- Take legal advice on termination terms, applicable notice period and mechanisms, and any other consequences, particularly if the contract is to be terminated early.
- Reassess the market to identify potential benefits in changing supplier.

A prudent organization undertakes most of these steps at the time the original contract is established, to ensure the right provisions and clauses are included, but this review activity needs to be reassessed when a change of supplier is being considered.

4.7.6 Triggers, inputs, outputs and interfaces

There are many events that could trigger Supplier Management activity. These include:

- New or changed corporate governance guidelines
- New or changed business and IT strategies, policies or plans
- New or changed business needs or new or changed services
- New or changed requirements within agreements, such as SLRs, SLAs, OLAs or contracts
- Review and revision of designs and strategies
- Periodic activities such as reviewing, revising or reporting, including review and revision of Supplier Management policies, reports and plans
- Requests from other areas, particularly SLM and Security Management, for assistance with supplier issues
- Requirements for new contracts, contract renewal or contract termination
- Re-categorization of suppliers and/or contracts.

The key interfaces that Supplier Management has with other processes are:

- ITSCM: with regard to the management of continuity service suppliers.
- SLM: assistance with the determining of targets, requirements and responsibilities and their inclusion within underpinning agreements and contracts to ensure that they support all SLR and SLA targets. Also the investigation of SLA and SLR breaches caused by poor supplier performance.
- ISM: in the management of suppliers and their access to services and systems, and their responsibilities with regard to conformance to ISM policies and requirements.
- Financial Management: to provide adequate funds to finance Supplier Management requirements and contracts and to provide advice and guidance on purchase and procurement matters.
- Service Portfolio Management: to ensure that all supporting services and their details and relationships are accurately reflected within the Service Portfolio.

4.7.6.1 Inputs

- **Business information:** from the organization's business strategy, plans and financial plans, and information on their current and future requirements
- **Supplier and contracts strategy:** this covers the sourcing policy of the service provider and the types of suppliers and contracts used. It is produced by the Service Strategy processes
- **Supplier plans and strategies:** details of the business plans and strategies of suppliers, together with details of their technology developments and plans and statements and information on their current financial status and projected business viability
- **Supplier contracts, agreements and targets:** of both existing and new contracts and agreements from suppliers
- **Supplier and contract performance information:** of both existing and new contracts and suppliers
- **IT information:** from the IT strategy and plans and current budgets

- **Performance issues:** the Incident and Problem Management processes, with incidents and problems relating to poor contract or supplier performance
- **Financial information:** from Financial Management, the cost of supplier service(s) and service provision, the cost of contracts and the resultant business benefit and the financial plans and budgets, together with the costs associated with service and supplier failure
- **Service information:** from the SLM process, with details of the services from the Service Portfolio and the Service Catalogue, service level targets within SLAs and SLRs, and possibly from the monitoring of SLAs, service reviews and breaches of the SLAs. Also customer satisfaction data on service quality
- **CMS:** containing information on the relationships between the business, the services, the supporting services and the technology.

4.7.6.2 Outputs

The outputs of Supplier Management are used within all other parts of the process, by many other processes and by other parts of the organization. Often this information is supplied as electronic reports or displays on shared areas or as pages on intranet servers to ensure the most up-to-date information is always used. The information provided is as follows:

- **The Supplier and Contracts Database (SCD):** holds the information needed by all sub-processes within Supplier Management – for example, the data monitored and collected as part of Supplier Management. This is then invariably used as an input to all other parts of the Supplier Management process.
- **Supplier and contract performance information and reports:** used as input to supplier and contract review meetings to manage the quality of service provided by suppliers and partners. This should include information on shared risk where appropriate.
- **Supplier and contract review meeting minutes:** produced to record the minutes and actions of all review meetings with suppliers.
- **Supplier Service Improvement Plans (SIPs):** used to record all improvement actions and plans agreed between service providers and their suppliers, wherever they are needed, and should be used to manage the progress of agreed improvement actions, including risk reduction measures.
- **Supplier survey reports:** often many people within a service provider organization have dealings with suppliers. Feedback from these individuals should be collated to ensure that consistency in the quality of service provided by suppliers is provided in all areas. These can be published as league tables to encourage competition between suppliers.

4.7.7 Key Performance Indicators

Many KPIs and metrics can be used to assess the effectiveness and efficiency of the Supplier Management process and activities. These metrics need to be developed from the service, customer and business perspective, such as:

- Business protected from poor supplier performance or disruption:
  - Increase in the number of suppliers meeting the targets within the contract
  - Reduction in the number of breaches of contractual targets.
- Supporting services and their targets align with business needs and targets:
  - Increase in the number of service and contractual reviews held with suppliers
  - Increase in the number of supplier and contractual targets aligned with SLA and SLR targets.
- Availability of services is not compromised by supplier performance:
  - Reduction in the number of service breaches caused by suppliers
  - Reduction in the number of threatened service breaches caused by suppliers.
- Clear ownership and awareness of supplier and contractual issues:
  - Increase in the number of suppliers with nominated supplier managers
  - Increase in the number of contracts with nominated contract managers.

4.7.8 Information Management

All the information required by Supplier Management should be contained within the SCD. This should include all information relating to suppliers and contracts, as well as all the information relating to the operation of the supporting services provided by suppliers. Information relating to these supporting services should also be contained within the Service Portfolio, together with the relationships to all other services and components. This information should be integrated and maintained in alignment with all other IT information management systems, particularly the Service Portfolio and the CMS.

4.7.9 Challenges, Critical Success Factors and risks

Supplier Management faces many challenges, which could include some of the following:

- Continually changing business and IT needs and managing significant change in parallel with delivering existing service
- Working with an imposed non-ideal contract, a contract that has poor targets or terms and conditions, or poor or non-existent definition of service or supplier performance targets
- Legacy issues, especially with services recently outsourced
- Insufficient expertise retained within the organization
- Being tied into long-term contracts, with no possibility of improvement, which have punitive penalty charges for early exit
- Situations where the supplier depends on the organization in fulfilling the service delivery (e.g. for a data feed) can lead to issues over accountability for poor service performance
- Disputes over charges
- Interference by either party in the running of the other's operation
- Being caught in a daily fire-fighting mode, losing the proactive approach
- Communication – not interacting often enough or quick enough or focusing on the right issues
- Personality conflicts
- One party using the contract to the detriment of the other party, resulting in win-lose changes rather than joint win-win changes
- Losing the strategic perspective, focusing on operational issues, causing a lack of focus on strategic relationship objectives and issues.

Key elements that can help to avoid the above issues are:

- Clearly written, well-defined and well-managed contract
- Mutually beneficial relationship
- Clearly defined (and communicated) roles and responsibilities on both sides
- Good interfaces and communications between the parties
- Well-defined Service Management processes on both sides
- Selecting suppliers who have achieved certification against internationally recognized certifications, such as ISO 9001, ISO/IEC 20000, etc.

The main CSFs for the Supplier Management process are:

- Business protected from poor supplier performance or disruption
- Supporting services and their targets align with business needs and targets
- Availability of services is not compromised by supplier performance
- Clear ownership and awareness of supplier and contractual issues.

The major areas of risk associated with Supplier Management include:

- Lack of commitment from the business and senior management to the Supplier Management process and procedures
- Lack of appropriate information on future business and IT policies, plans and strategies
- Lack of resources and/or budget for the ISM process
- Legacy of badly written and agreed contracts that don't underpin or support business needs or SLA and SLR targets
- Suppliers agree to targets and service levels within contracts that are impossible to meet, or suppliers fail or are incapable of meeting the terms and conditions of the contract
- Supplier personnel or organizational culture are not aligned to that of the service provider or the business
- Suppliers are not cooperative and are not willing to partake in and support the required Supplier Management process
- Suppliers are taken over and relationships, personnel and contracts are changed
- The demands of corporate supplier and contract procedures are excessive and bureaucratic
- Poor corporate financial processes, such as procurement and purchasing, do not support good Supplier Management.