# Vendor Sourcing and Management: Relationship Management in the 3rd Platform Era

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## IDC OPINION

The 3rd Platform is not business as usual. It is a disruptive force, through social, mobile, analytics, and cloud technologies that organizations must adopt to survive. The vendor sourcing and management office (VSMO) must work closely with technology vendors to manage the transition to the 3rd Platform. However, IDC predicts that by 2017, 35% of vendor sourcing relationships for 3rd Platform technologies will fail, causing organizations to roll out new sourcing processes (see *IDC FutureScape: Worldwide CIO Agenda 2015 Predictions,* IDC #252235, October 2014). The VSMO must determine which vendors can help in moving to and gaining business value from the 3rd Platform. In some cases, this may involve vendors that can assist with digital transformation within the organization (see *IDC MaturityScape: Digital Transformation,* IDC #254721, March 2015). The VSMO should then develop and manage relationships with selected vendors to gain maximum value from their products and services on the 3rd Platform. In addition, a VSMO should manage the transition by adopting an IT service management framework that focuses on aligning IT services with the needs of business (see *Service Management: 3rd Platform Services Driving CIOs to Innovative Service Management Strategies,* IDC #252682, December 2014). The framework, used through the vendor sourcing and management office, will minimize the impact of moving to the 3rd Platform. This study explores the significant challenge for the CIO posed by managing successful sourcing relationships, particularly in being able to address the following 3rd Platform issues:

- Dependency on external vendors and suppliers will continue to increase, requiring newly designed processes and procedures that facilitate integration of work delivered by multiple suppliers for a single project. IDC predicts that by 2016, 80% of the IT budget will be based on providing service integration for a broad portfolio of internally and externally sourced IT and business services.

- With the adoption of 3rd Platform, external spending will represent two-thirds of all IT expenses. An ever-increasing reliance on third-party partners for innovation mandates that enterprises establish vendor sourcing and management (VSM) as a core corporate capability.

## IN THIS STUDY

This study provides guidance to vendor and sourcing executives on avoiding potential failures of vendor sourcing relationships in the 3rd Platform era. With the increasing complexity of the 3rd Platform and the growing emphasis on organizational and industry digital transformation, the VSMO must establish and rely on beneficial relationships with key vendors. This study reviews the role of vendors in the 3rd Platform of social, mobile, analytics, and cloud technologies and provides a two-part model for managing traditional and emerging vendors. The vendor landscape is changing, and VSMO executives must anticipate new relationships with emerging vendors while evolving established relationships with existing vendors. New, emerging vendors, with no legacy to maintain, offer innovative 3rd Platform solutions that challenge incumbent vendors. At the same time, traditional vendors that have developed products and services for legacy platforms have made significant strides to replatform their products. For example, traditional ERP vendors now provide cloud-based services, with a new revenue model. Legacy firms such as IBM and Microsoft have adopted technology strategies to position their future growth on cloud-connected mobile platforms that leverage big data. The challenge from 3rd Platform vendors has forced many established vendors to adapt or decline.

## SITUATION OVERVIEW

Ultimately, the CIO role will shift from a primary IT management focus toward executing high-level organizational strategy to achieve business objectives. For example, the CIO will no longer have the responsibility of managing people and infrastructure to keep key systems running; that will be the responsibility of the 3rd Platform provider. However, the CIO will be responsible for making sure that data is securely exchanged between external providers and the enterprise.

The CIO will accomplish this by working closely with reliable external vendors that are engaged through the VSMO. The following are examples of the expanded VSMO role in managing external providers in the 3rd Platform in each of the specific elements of social, mobile, analytics, and cloud. These 3rd Platform technologies have created a new set of vendors and issues (see Table 1).

TABLE 1

## 3rd Platform Vendor Issues and VSMO Responses

| 3rd Platform Vendor Issue — Examples | VSMO Response |
|---|---|
| Digital agencies have become the hotspot for organizations wanting to engage customers using social media. Digital media suppliers tend to work exclusively with the sales and marketing LOB. The velocity of social media can severely affect an organization. | VSMO should work with the LOB to review vendors' capabilities to include security mechanisms through the social media platforms. |
| With the explosive growth of mobile devices, including smartphones, tablets, and phablets, there is no longer a strict demarcation between personal and business devices. More business transactions are occurring over these devices, and enterprises are being challenged to rapidly transform business services from Web to mobile application interfaces. | As data access through mobile devices becomes more ubiquitous, the VSMO should be directing vendors to provide a separate framework for managing data security from mobile devices, including mandatory encryption standards, to prevent data breaches in the event of loss or theft of devices. |
| The migration to the 3rd Platform reveals the huge potential of big data and analytics. Its future growth could develop in-house or externally with cloud suppliers or digital agencies. Ideally, there should be a shift from data analysis (what happened) to predictive analytics (potential outcomes and trends). | The VSMO needs to establish enterprise ownership and control of data, as well as of the transfer of data, in the event of security/privacy breach or change in supplier relationships through acquisition or partnership. There needs to be a key demarcation in the ownership of personal data storage and use and destruction as protocols dictate. Indeed, many governments and regulatory agencies require very clear data management of personal information. |
| With the migration to the 3rd Platform, the current deterrence against cyberattacks is increasingly ineffective. Cybersecurity is equally important to address with vendors. Many breaches have occurred through inadequate supplier controls. | The first priority of the VSMO is to ensure each vendor is fully compliant in securing its network and can provide a regular (minimum one year) audited assurance of compliance that should include a thorough review of security across physical and cloud domains. |

Source: IDC, 2015

## Two Models for Managing Vendor Relationships on the 3rd Platform

IDC suggests two vendor relationship management models. The VSMO must not develop vendor relationships that are equal across all suppliers. The focus of attention and energy should be restricted to those vendor relationships that will generate the most value and impact for the customer organization.

First, consider how traditional and emerging vendors support legacy and 3rd Platform capabilities. In Figure 1, we suggest the following:

- Traditional vendors on legacy platforms should be managed carefully because these platforms may be the systems and technologies, such as ERP systems, that provide the backbone of

organizational processes. However, these vendors and services may be ready for sunset, especially if the vendor has not demonstrated a willingness and ability to move toward the 3rd Platform. This can be a challenge for traditional vendors that may see their traditional in-house revenue model threatened by new models, such as cloud-based pay-as-you-go services.

- Traditional vendors that are able and willing to make the transition to the 3rd Platform should be cautiously managed: look for proof of commitment and be wary of being the first client on the new model.

- Emerging vendors, with newly designed 3rd Platform products, should be cautiously assessed. Consider how their product or service will enable your organizational strategy: What impact will this vendor relationship have on your organization's success?

## FIGURE 1

**Managing Vendor Relationships: Legacy and the 3rd Platform**



Source: IDC, 2015

Second, consider the management of relationships according to the strategic impact and the volume of spend (with expected value) to the organization. This is a standard vendor segmentation model; however, the ability of 3rd Platform vendors (traditional and emerging) alters the standard model (see Figure 2).

- Consider vendors with high impact and low spend volume. Emerging 3rd Platform vendors must be cautiously assessed to understand how they can support the organizational objectives now and in the future. Consider how your organization and your customers will embrace cloud, mobility, analytics, and social media and how these vendors can help achieve organizational goals.

- Invest proactively in both traditional and new vendors with demonstrated high strategic impact as well as a high spend volume.
- For those vendors with low strategic impact, regardless of the volume of spending, manage the relationship according to defined organizational procurement standards; these vendors tend to deliver products and services that are more commodity oriented. A fully developed vendor relationship is not important for this set of vendors.

## FIGURE 2

### Managing Vendor Relationships: Impact and Value



Source: IDC, 2015

## FUTURE OUTLOOK

An ever-increasing reliance on third-party partners for innovation requires that enterprises establish VSM as a core corporate capability (see *IDC MaturityScape: Vendor and Sourcing Management – A Framework to Maximize Value and Drive Innovation,* IDC #247458, March 2014). Also, as the volume of spending on technology vendors increases – expected to exceed $3.7 trillion globally in 2015 (see *Vendor and Sourcing Management: The Leadership Imperative,* IDC #257371, July 2015) – CIOs must develop a structured and disciplined approach through the VSMO to gain competitive advantage through focused vendor relationships.

The vendor sourcing model helps build a strong vendor relationship. This is especially effective during the 3rd Platform transition. The goal is to create a comprehensive due diligence process and standards to identify and mitigate the technology, financial, and security risks of the 3rd Platform

technologies. The vendor sourcing model assists the enterprise in contract design, due diligence in vendor selection, and ensuring targets are met through regular audits.

The CIO and vendor sourcing professionals will need to address the following questions related to social, mobile, analytics, and cloud transition:

- Which suppliers are willing to work as partners in developing an organization's marketing strategy toward digital media? [Social]
- Are third-party vendors able to cope with the growing platforms of accessibility and the rising use of mobile devices such as smartphones, tablets, and the hybrid phablets? [Mobility]
- Are current suppliers able to translate collected data into business value? [Analytics]
- What assurances are in place that a third-party vendor will maintain regulatory compliance regarding privacy, data protection, and security? [Cloud]

## ESSENTIAL GUIDANCE

IDC recommends the following actions for the VSMO to proactively manage strategic vendor relationships.

### In the next six months:
- Assess every IT vendor using the models in Figures 1 and 2 to understand which traditional and emerging vendors are best positioned to help your organization gain advantage on the 3rd Platform.
- Require all key vendors, legacy and new, to describe and demonstrate their 3rd Platform capabilities. Rate the vendors, discuss the evaluation with the vendor, and plan to revisit in one year.

### In the short term (6–18 months):
- Focus on key vendors, both traditional and emerging, to develop strategic relationships that require mutual investment of time and commitment.
- Monitor the value from emerging vendors with 3rd Platform capabilities.

### In the long term (beyond 18 months):
- Within the VSMO, create a regular review and refresh cycle for evaluation of vendor capabilities. Consider replacement of vendors that are not able to make the transition to 3rd Platform.

## LEARN MORE

### Related Research

- *Vendor and Sourcing Management: The Leadership Imperative* (IDC #257371, July 2015)
- *IDC MaturityScape: Digital Transformation* (IDC #254721, March 2015)
- *Service Management: 3rd Platform Services Driving CIOs to Innovative Service Management Strategies* (IDC #252682, December 2014)
- *IDC Predictions 2015: Accelerating Innovation – and Growth – on the 3rd Platform* (IDC #252700, December 2014)
- *IDC FutureScape: Worldwide CIO Agenda 2015 Predictions* (IDC #252235, October 2014)

- *Vendor and Sourcing Management: Anticipate and Avoid Risks in Cloud Sourcing* (IDC #250665, September 2014)
- *IT Security: Improving Infrastructure Cybersecurity – A Practical Approach* (IDC #249417, June 2014)
- *Vendor and Sourcing Management: Sourcing to the Cloud* (IDC #247504, March 2014)
- *IDC MaturityScape: Vendor and Sourcing Management – A Framework to Maximize Value and Drive Innovation* (IDC #247458, March 2014)
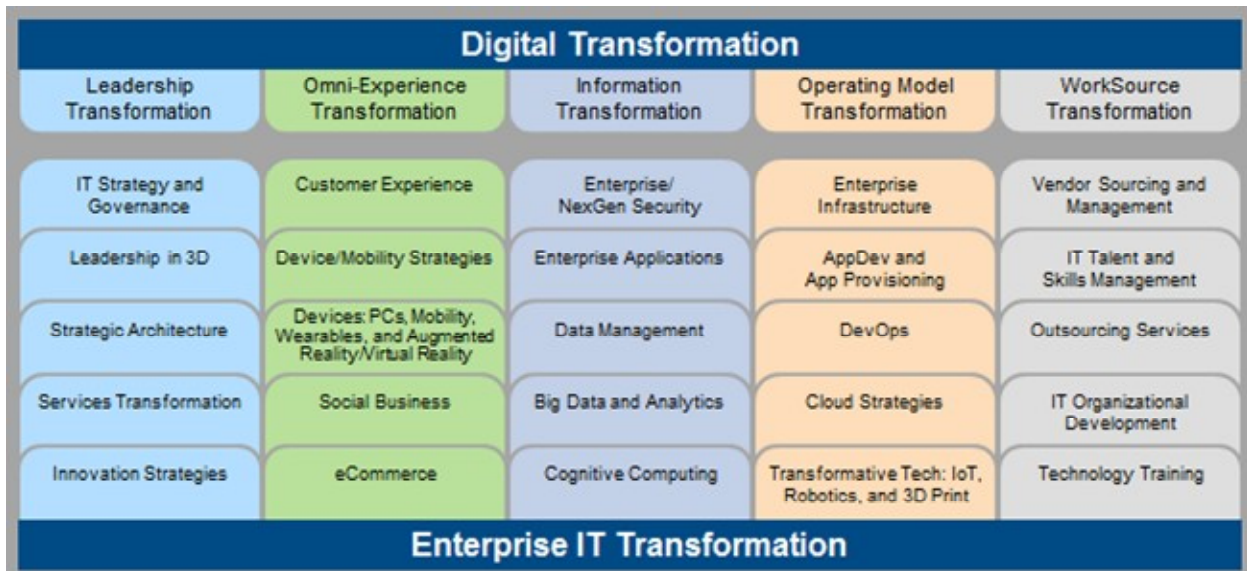
## Appendix

### IT Executive Program Research Agenda

This IDC continuous research program focuses on the issues, challenges, and opportunities confronting business and IT practitioners. Our research agenda is founded on the understanding that technology leaders must stay abreast of technology initiatives that are influencing and disrupting their business ecospheres – balancing the state of established best practices and emerging technology management challenges. Our agenda is organized around 32 essential themes (see Figure 3). This report focuses on Vendor Sourcing and Management, Outsourcing Services, and WorkSource Transformation.

## FIGURE 3

**IT Executive Program Research Agenda Themes**

| Digital Transformation | | | | |
| --- | --- | --- | --- | --- |
| Leadership Transformation | Omni-Experience Transformation | Information Transformation | Operating Model Transformation | WorkSource Transformation |
| IT Strategy and Governance | Customer Experience | Enterprise/ NexGen Security | Enterprise Infrastructure | Vendor Sourcing and Management |
| Leadership in 3D | Device/Mobility Strategies | Enterprise Applications | AppDev and App Provisioning | IT Talent and Skills Management |
| Strategic Architecture | Devices: PCs, Mobility, Wearables, and Augmented Reality/Virtual Reality | Data Management | DevOps | Outsourcing Services |
| Services Transformation | Social Business | Big Data and Analytics | Cloud Strategies | IT Organizational Development |
| Innovation Strategies | eCommerce | Cognitive Computing | Transformative Tech: IoT, Robotics, and 3D Print | Technology Training |
| Enterprise IT Transformation | | | | |

Source: IDC, 2015

## Synopsis

This IDC study guides CIOs and vendor and sourcing executives on how to get best value and minimize risk from vendor sourcing relationships in the 3rd Platform era. With the increasing complexity of the 3rd Platform and the growing emphasis on organizational and industry digital

transformation, the CIO must establish and rely on beneficial relationships with key vendors. No CIO can digitally transform an organization alone.

This study reviews the role of vendors in the 3rd Platform of social, mobile, analytics, and cloud technologies. It also provides a two-part model for managing traditional and emerging vendors. The vendor landscape is changing, and CIOs must anticipate new relationships with emerging vendors while maintaining established relationships with existing vendors. New, emerging vendors, with no legacy to maintain, offer innovative 3rd Platform solutions that challenge incumbent vendors. At the same time, traditional vendors that have developed products and services for legacy platforms have made significant strides to replatform their products.

"Ultimately, the CIO role will shift from a primary IT management focus toward executing high-level organizational strategy to achieve business objectives," says Ron Babin, adjunct analyst with IDC's Research Network. "The CIO will accomplish this by working closely, and systematically, with reliable external vendors."

## About IDC

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