

Is Your Sourcing Strategy Costing You Money?

TBM Can Help.



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One of the biggest shifts in business over the last 50 years is the move towards lean and agile operations, marked by the decided growth in strategic sourcing. Executives in the 1960s and 1970s boasted about their companies' strength and size pointing to the fact that they ran their own in-house print shop or their own fleet of trucks.

Today, CEOs boast about how they can generate more than a billion dollars in revenue with an in-house staff of only 10 people.

And the CEO with a staff of 10 may be justified in his boasting — but only if one of those 10 employees is dedicated to managing, monitoring and benchmarking what is undoubtedly hundreds of sourcing contracts.

A sourcing strategy that begins with the assumption that outsourcing will inherently save money is a flawed approach. Even those companies that do their due diligence at the outset may find their sourcing strategies falling short. Nothing ever stays the same, and a sourcing contract that delivered the desired results a year ago may not be delivering the desired results today.

Even if you are saving money by sourcing, you need to know how much you are saving compared to your peers in the industry.

We want something, but we can't tell you what it is until you bid

It all starts with the request for proposal (RFP). Today, we are seeing a tendency toward shorter, nondescript and even anonymous RFPs that offer very little in terms of expected results. Though enterprises may want to keep their sourcing requirements close to their vests, those that follow this approach will probably not get the most innovative bids without sharing the necessary information.

Technology Business Management (TBM) creates a transparent environment throughout the entire sourcing process—beginning with the RFP—and sets the stage for an enterprise to better evaluate and negotiate sourcing arrangements by increasing visibility into both internal and external costs. When the service provider has incomplete information, bids tend to be unrealistic, and, as a result, the enterprise may get what looks like an attractive bid but is likely to cause cost overruns down the road. Of course, it makes sense to describe the required services. But a complete bid must also include detailed information about what you need in the future, what you have now and what it costs.

No two companies ever pay the same amount

In the initial due diligence period of an RFP process, TBM methodology helps to compare the cost of a sourced service against what it costs to provide it in-house, but that's not the only benchmark to consider.

Even if you are saving money by sourcing, you need to know how much you are saving compared to your peers in the industry. Bids that are for bespoke services are offered on a customized basis, with bidders offering quotes based on two things: the information you provide and how much they think you are worth. Your competitor is likely paying either substantially more or substantially less for the same service. An essential element of a healthy TBM program is the regular practice of benchmarking against your peers as a way to gain more financial visibility throughout the sourcing journey.



When a picture isn't worth a thousand words

The typical "snapshot" analysis of a contract will show you the costs and the benefits at a given point in time. But, in an environment where things change on a daily basis, and macroeconomic events in China, Russia, or South America may have an unexpected impact on your costs or revenues, snapshots don't do much good. Continuous and automated monitoring is a critical part of a TBM-driven sourcing strategy. By collecting and analyzing data aligned to a standard taxonomy, the resulting analytics will show the continuing benefit of a contract and what happens to that benefit when an adjustment has to be made.

To read more about how TBM guides the sourcing process, download our white paper Strategic Sourcing and Technology Business Management.

About the Author: Alex-Paul Manders is a pioneer in the technology business management (TBM) space. As ISG's TBM Practice Lead for the Americas, he advises ISG's clients on TBM strategy and how to use this methodology to drive value in their organizations. ISG's TBM approach begins with fact-based, analytical strategies, supported by transformational IT initiatives that optimize the IT enterprise by running IT like a business. Manders has helped many clients use the TBM process, with a focus on transparency, to drive planning, forecasting, and budgeting activities in the realms of finance and IT. Contact him at Alex.Manders@isg-one.com.