

# Overcoming the Value Gap in Outsourcing Engagements



THE SHELBY GROUP



SirionLabs



## INTRODUCTION

An evolving economic environment and ever-changing business priorities have radically transformed the nature of sourcing engagements for organizations. The overall sourcing spend has obviously increased, but more importantly, the nature of this spend has undergone significant transformation as well. In response to the increased significance of technology, increased expectations for responsiveness and personalization, and increased pressures for optimization, businesses are sourcing services, specialized as well as commoditized, at an unprecedented scale from a wide range of suppliers.

Outsourced services, such as ITO and BPO, have emerged as a significant spend category over the last two decades. In addition, the growing complexity of outsourcing, driven by trends like multisourcing and cloud computing, mandated the need for specialized disciplines to manage these engagements. Collectively, these disciplines are known by different names (supplier management, vendor management, supplier relationship management, supplier governance), but the common objective is to drive the highest value for the buyer organization and ensure alignment between the day-to-day operational objectives and the high-level strategic objectives for the engagement. Effective supplier management is critical for driving the full value in outsourced services engagements. Based on our experience of interacting with numerous buyer and supplier organizations, we realized that while many organizations have started their supplier management journey, there is a general lack of direction.

SirionLabs and The Shelby Group jointly conducted this survey to understand the significance of each of the supplier management disciplines and the corresponding capability to leverage these disciplines for effective management of outsourced services engagements. This survey intends to provide valuable insights to organizations that are looking to kick-start their supplier management journey. For organizations that already have supplier management programs in place, this survey will facilitate acceleration toward maturity.

The information and analysis presented in this report are based on the responses received as part of the survey, as well as proprietary research developed by SirionLabs through extensive interviews with existing clients and prospects. The demographics of the respondents cover a broad range of industries, firm sizes and roles, as subsequently detailed in this report.



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# Executive Summary

This section provides an overview of business challenges associated with the governance of outsourced services and a summary of survey results on the importance and perceived levels of maturity for key supplier management capabilities.





The emergence of services outsourcing over the past two decades has radically transformed the procurement portfolio for most organizations. Traditionally dominated by goods, procurement portfolios of large global organizations today are increasingly balanced between goods and services. Leading industry estimates suggest that the aggregate services buying by the Global Fortune 500 has nearly tripled, from \$750 billion in 1994 to \$2.1 trillion in 2013 (see Fig. 1). This means that over the past two decades, services procurement has grown five times faster than goods! As a result of this transition, the ratio of procured services to goods almost doubled over the past two decades, from 19% in 1994 to 35% in 2013.

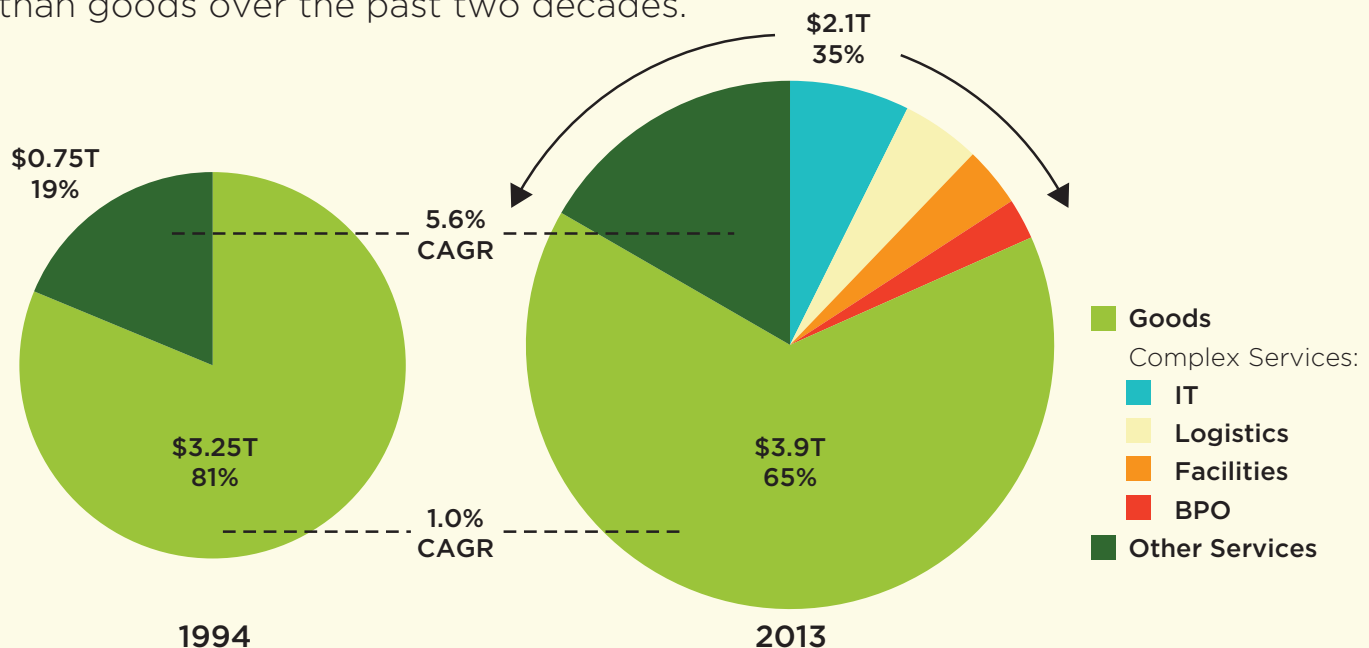
The procurement of goods is fundamentally different than the procurement of services. The former is heavily price sensitive and largely focused on the pre-award negotiations, while the ability to manage the engagement in the post-award phase is crucial for the latter. While the contracts for

goods are mostly standardized and rarely undergo changes in the post-award phase, complex services agreements are highly variable in their structure and continue to evolve through the duration of the agreement, making it difficult to manage these engagements during execution.

Within the overall trend of services procurement growth, another micro trend emerged recently that added further complexity to the management of services engagements. While there was a strong preference for long-term, monolithic, single-sourcing arrangements during the first decade of this century, the global recession has accelerated the paradigm shift toward higher deal volumes, lower contract values and multisourcing over the last five years or so. Everest has recorded this growth in multisourcing combined with decreased deal durations over the past five years (see Fig. 2).

Services procurement has grown five times faster than goods over the past two decades.

Fig. 1



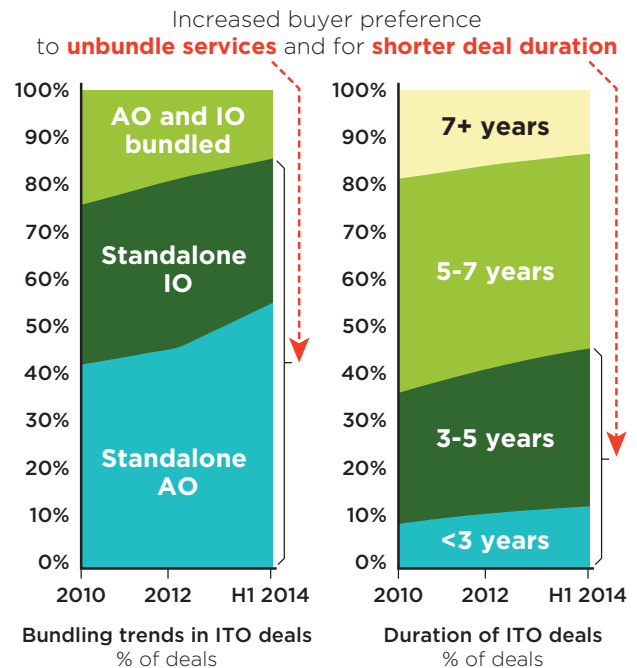
Sources: Gartner, Everest, TPI, Evaluateserve, Research and Markets, Zinnov, Global Industry Analysts Inc., Transport Intelligence



As a result of these factors, management of outsourced services engagements has become increasingly complex. The traditional supplier management approach has proved to be ineffective in managing services engagements, resulting in value leakage—the difference between the original business value expected from the engagement versus the actual value realized from the engagement.

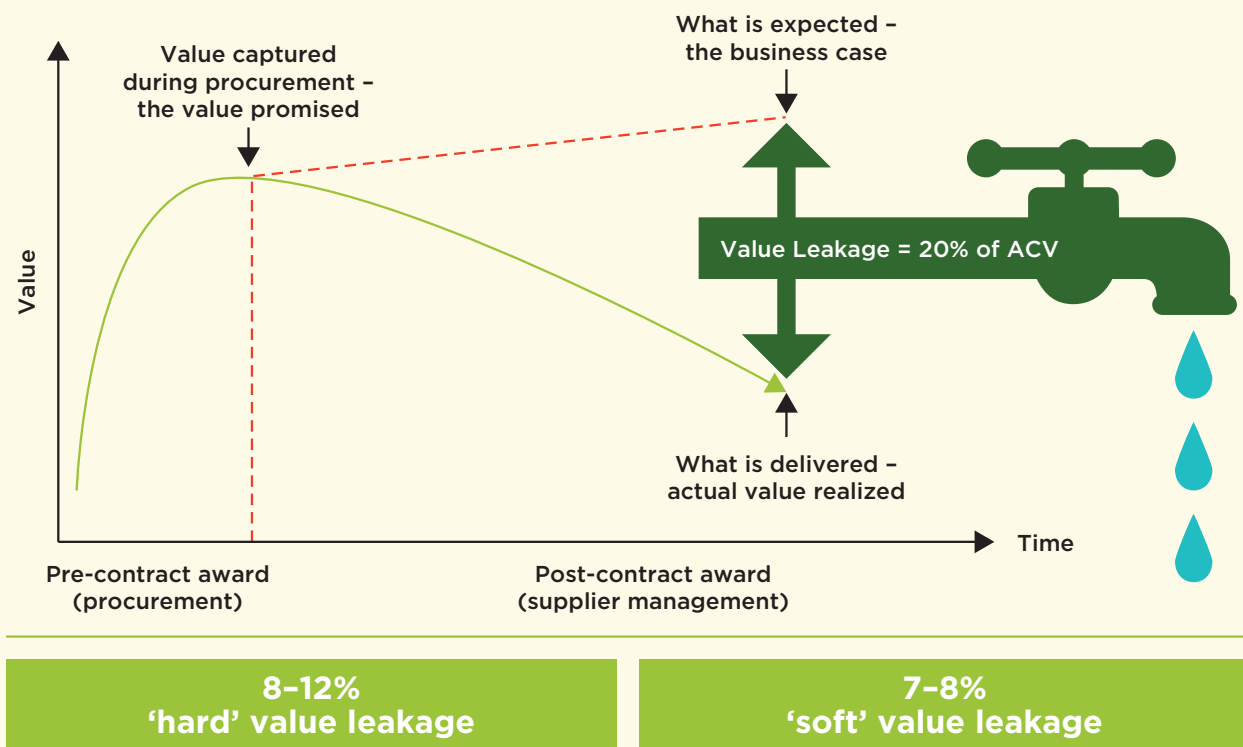
A comprehensive survey of more than 100 outsourcing arrangements at Global Fortune 2000 companies, conducted by a leading research organization between 2007 and 2012, concluded that there is a median value leakage of up to 20% of the annual contract value (ACV). This value leakage can be divided into two categories: hard value leakage and soft value leakage. Hard value leakage is observed in the form of invoicing errors, unrealized discounts and earnbacks. Soft value leakage refers to unrealized performance gains (e.g., the supplier does not meet the contracted service levels).

Fig 2. Global F500 Aggregate Sourcing 2004-13 | From Single Multisourcing: Everest Research (2014)



20% or more of services ACV is being lost through hard and soft value leakage.

Fig. 3





Value leakage in outsourcing engagements may not be apparent during the early stages, but if left unchecked, value leakage will push the engagement toward failure.

A whitepaper titled “Unpacking Outsourcing Governance,” authored by CEB, IACCM and the University of Tennessee, states, “Poor governance plays a role in outsourcing failures as much as 62% of the time.” It further adds, “A sound governance structure is needed for all agreements and contracts—but it is essential for large outsourcing contracts where the service provider becomes an extension to the firm to perform key tasks.”

Our experts have assisted a number of Fortune 500 organizations over the last decade in effectively managing their outsourcing engagements. Our experience indicates that approximately 15% of Fortune 500 organizations are early adopters of supplier management and have invested significant amounts of resources in this area. Through a combination of a well-defined supplier management organization, strong processes, external

expertise and appropriate technology investments, these organizations are ahead of their peers on the supplier management maturity curve. Through their proactive efforts in this direction, this group is typically able to keep the value leakage in their services engagements between 2% and 16% of ACV. In contrast, the remaining 85% of organizations that do not have strong supplier management capability typically witness value leakage of 15–20% of ACV in their services engagements.

**“Poor governance plays  
a role in outsourcing  
failures as much as 62%  
of the time.”**

*Unpacking Outsourcing Governance*  
CEB, IACCM, University of Tennessee

**Ensuring value in outsourced services requires a new and more comprehensive approach to supplier management.**



Fig. 4



## What are the key components of an ideal supplier management model that you can adopt?

Based on our research and the practical insights gathered by our experts from working with Fortune 500 organizations that have relatively mature supplier management environments, we recommend that a comprehensive supplier management program address the following disciplines: Contract Management, Performance Management, Financial Management, Risk Management and Relationship Management. The graphic above represents the key supplier management disciplines visually and lists the key subprocesses within each discipline.

Given the limited time and resources available in most organizations to pursue supplier management objectives, it is impractical to aim to achieve all of the above concurrently. So, a roadmap must be developed. Most organizations that we talked to cited limited availability of supplier management best practices and

benchmarking data as one of the key challenges in their ability to develop a useful roadmap for their supplier management journey.

Based on our interaction with these organizations, the following are some key answers companies seek while planning their supplier management roadmaps:

Are some supplier management disciplines more important than others?

Which gaps should be addressed as a priority to get the maximum value out of a supplier management program?

Are there any benchmarks to assess current preparedness?

What processes need to be in place to achieve the desired level of capability in each of the supplier management disciplines?

We conducted this survey in order to deliver information and insights that can help companies answer these questions.





## Survey Respondents by Revenue (USD)

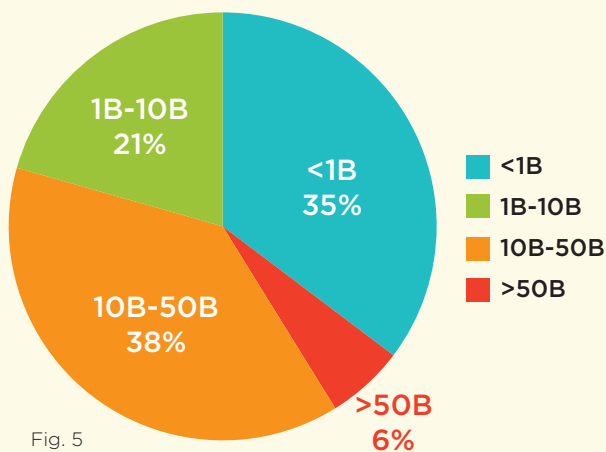


Fig. 5

## Survey Respondents by Industry

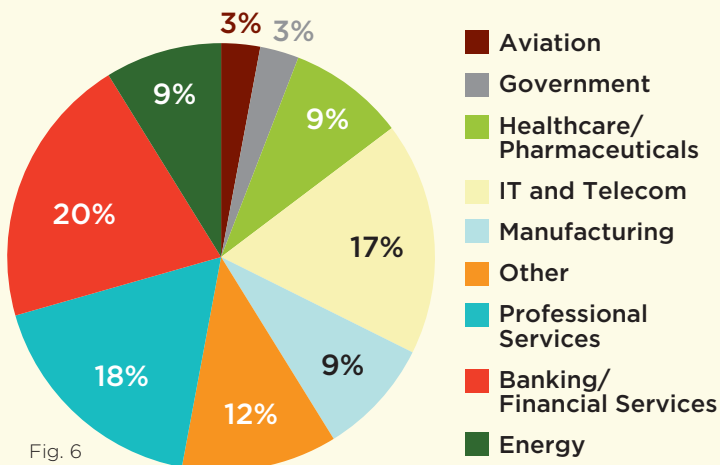


Fig. 6

## Survey Respondents by Function

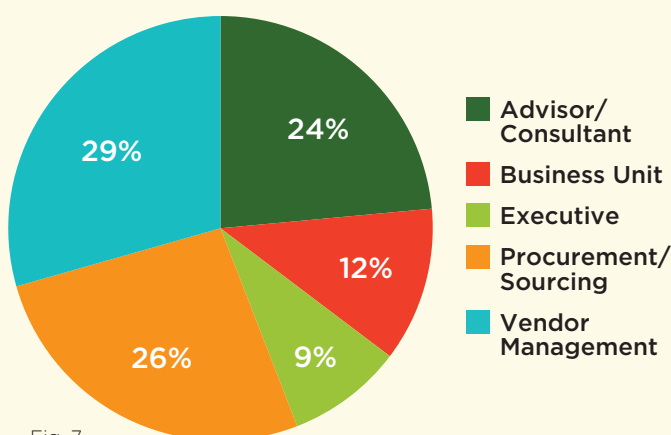


Fig. 7

The survey results presented in this report are based on responses received through the survey, as well as proprietary research developed by SirionLabs through extensive interviews with existing clients and prospects. Nearly 80 respondents completed this survey. The demographics of the respondents cover a broad range of industries, firm sizes and roles, as shown in Figs. 5–7.

**Annual Revenue:** The majority of the respondents were from large organizations with annual revenue in excess of 1B USD (65%), while 35% of the respondents were from organizations with annual revenue of less than 1B USD.

**Sector/Industry:** The survey saw participation from a wide range of industries. The highest number of responses was received from the Banking and Financial Services, Professional Services, and IT and Telecom sectors, together representing 55% of the respondents.

**Role/Function:** The majority of the respondents belonged to Vendor Management (approx. 29%), Procurement/Sourcing (approx. 26%), and Advisor/Consultant (approx. 24%) functional groups; 12% of the respondents were from the Business Unit that outsourced the relevant services (e.g., IT).

## THE SURVEY QUESTIONNAIRE

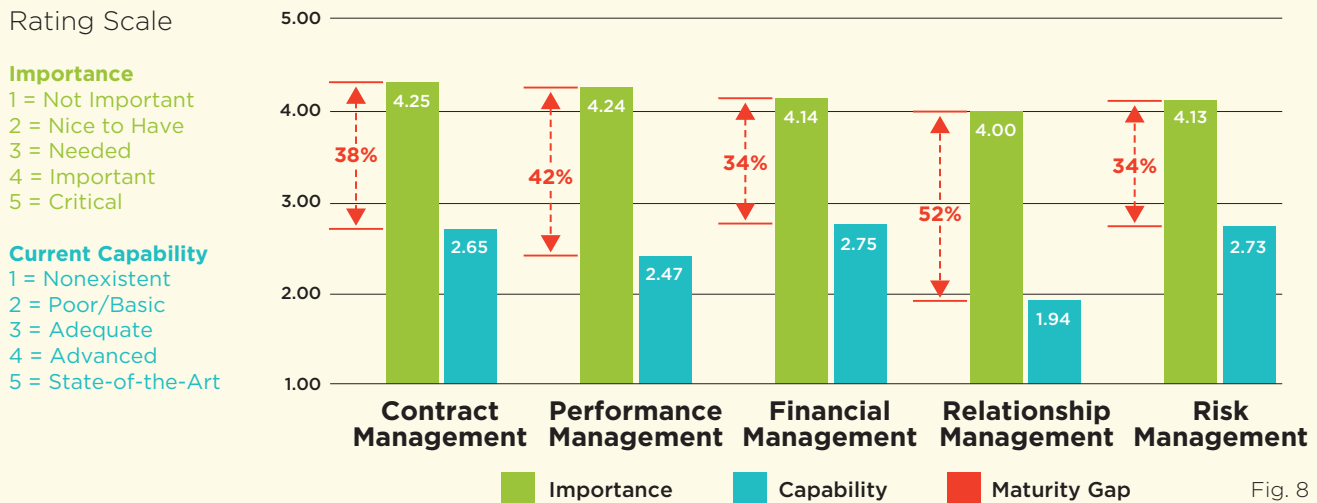
We asked the respondents to rate, on a scale of 1 to 5, individual processes under each of the five supplier management disciplines—Contract, Performance, Financial, Relationship and Risk Management—on two separate parameters:

**Importance:** The importance that the respondent ascribes to each of these processes for driving higher value in outsourced services engagements. Importance was ranked on a scale of 1 to 5. See Fig. 8.

**Current Capability:** The current level of maturity at the respondent's organization for each of these processes. Current capability was ranked on a scale of 1 to 5. See Fig. 8.



## Ascribed Importance vs. Current Capability Gap



The survey results indicate that a stark gap exists between where the industry wants to be in terms of supplier management maturity versus where it is today. These gaps exist in each of the five disciplines. We analyzed the survey data on three dimensions.

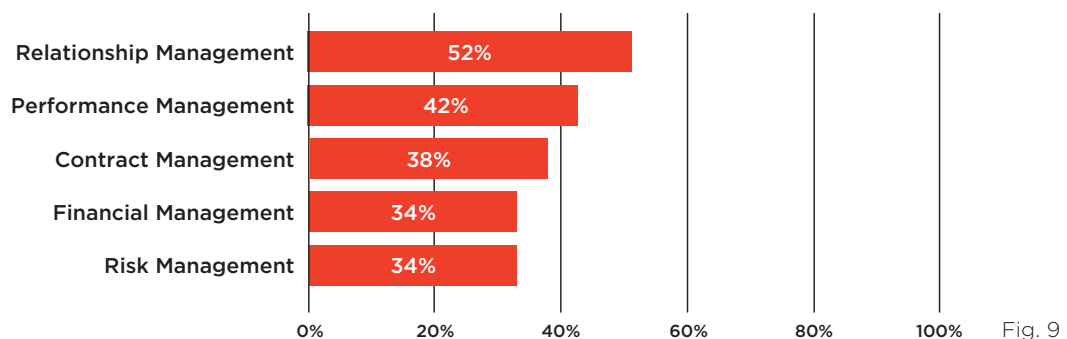
**Importance:** Based on the Importance scores ascribed at the individual process level, we analyzed the relative importance of the five supplier management disciplines. We found that although all five disciplines are considered important, Contract Management, Performance Management and Financial Management (in that order) were the three most important disciplines for driving higher value from outsourced services engagements.

**Current Capability:** Based on the Current Capability scores ascribed at the individual process level, we analyzed the relative maturity of the

five supplier management disciplines. We found that respondents rated their organizations' current capability in Relationship Management as the least mature of all the disciplines. This was followed by Performance Management. Contract Management, Financial Management and Risk Management were considered relatively more mature.

**Maturity Gap:** We then analyzed the survey data on a third dimension of the gap between the ascribed importance and the current capability for each of these disciplines. This gap is represented in the chart above. As the chart indicates, although there are gaps that need to be addressed in each of the supplier management disciplines, the respondents feel that this gap is widest in Relationship Management (52%), followed by Performance Management (42%) and Contract Management (38%).

## Ranking of Supplier Management Maturity Gaps





## How do perceptions of the importance of supplier management disciplines vary by function?

Importance ascribed to various supplier management disciplines by function

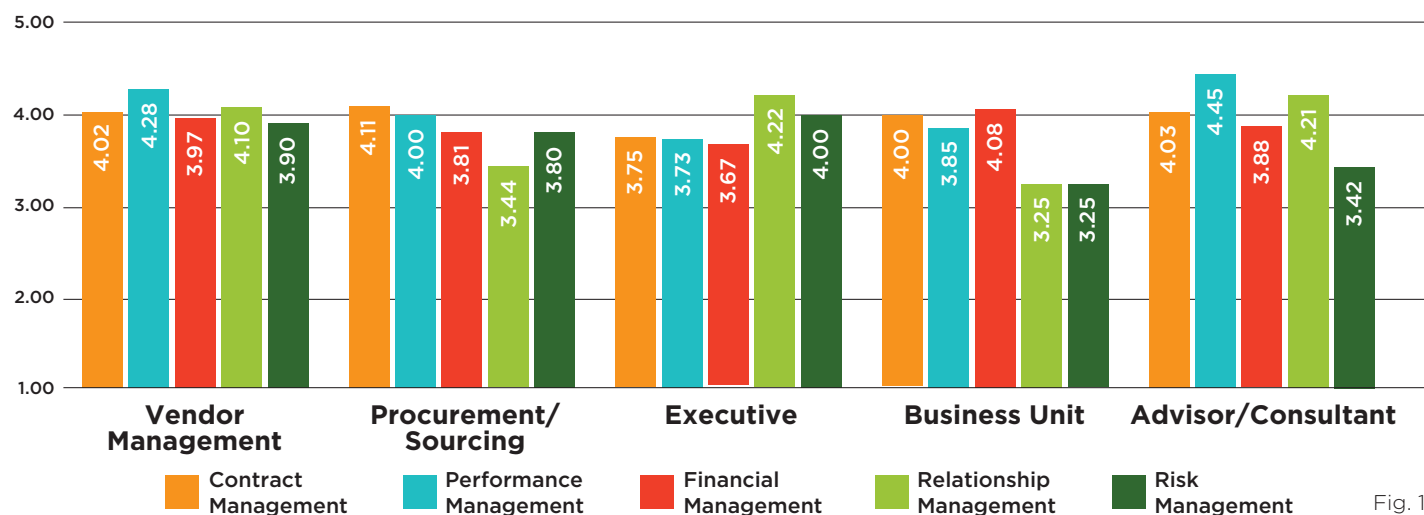


Fig. 10

### Supplier Management Priorities by Function

We looked at the survey data from the perspective of the five different functional groups represented by respondents:

**Procurement/Sourcing:** Representatives from the Procurement/Sourcing function responsible for identifying, selecting and on-boarding relevant suppliers to meet the enterprise's need for out-sourced services requirements

**Vendor Management:** Representatives in a Vendor Management role (formal/informal) responsible for managing supplier relationships to ensure alignment between day-to-day operations and the overall strategic objectives of the engagement

**Executive:** The Executive management group comprising CXOs

**Business Unit:** Resources who are part of the Business Unit that sponsors the outsourcing engagement (mostly included representatives from the IT Operations group)

**Advisor/Consultant:** Internal/external resources responsible for helping the enterprise drive higher value from outsourcing programs

The chart above depicts the relative importance assigned to each of the supplier management disciplines by the various functional groups.

The Vendor Management and Advisor/Consultant groups rated Performance Management as their top priority. This is consistent with the way these roles are defined at most organizations. As performance is a highly measurable metric, it is a highly visible way for these functions to showcase their contributions to the outsourcing program.

The Executive group respondents consider Relationship Management to be the highest priority. Vendor Management and Advisor/Consultant groups also accord high importance to Relationship Management.

Risk Management is considered of high importance by the Executive, Vendor Management and Procurement/Sourcing groups.

For Procurement/Sourcing, Contract Management is the most important discipline. Business Units assign the highest importance to Financial Management followed by Contract Management.



The background of the page features a stylized illustration. A large, thick orange arrow points diagonally upwards from the bottom left towards the top right. In the center, a black silhouette of a person in a business suit is shown in a running or jumping pose, moving upwards. Below the person is a bar chart with four green bars of increasing height from left to right. At the top of the tallest bar on the right is a yellow trophy with radiating lines above it, symbolizing success. The entire scene is set against a background of orange and yellow squares separated by thin yellow lines.

# Key Concepts and Insights

This section provides an overview  
of key concepts and insights for  
overcoming the value gap  
in outsourced services engagements.



The significant gaps in maturity that exist across key supplier management capabilities, regardless of industry sector or company size, reflect today's reality. As companies have increased their reliance on outsourced services, capabilities for managing the delivery of value from suppliers have not kept pace.

Large enterprises usually operate a multi-supplier outsourcing environment with supplier management performed in silos—segregated by department, contract, geography or type of service. Executives and operating managers lack an integrated view to accurately compare 'what was promised' against 'what is delivered' in terms of service levels, financial performance, and the overall value delivered by suppliers. This fragmented governance approach and the absence of integration between underlying support systems result in significant value leakage.

### **What can your company do to overcome the value gap in the delivery of outsourced services?**

Tighter controls, greater transparency, and better integration between systems of record are often cited as potential solutions. But these represent only tactical improvements in the battle against value leakage. Companies that depend on outsourced services to achieve and maintain competitive advantage need a more coherent strategic approach for moving beyond cost control to build partnerships for enhanced value creation.

In this section, we provide insights and recommendations, based on our experience over the past decade, for improving your company's strategy for the governance and management of complex outsourced services.





**Procurement of outsourced services  
has grown exponentially in proportion  
to goods over the past decade.**

**But project teams for managing  
outsourced suppliers have shrunk.**



The procurement of services versus goods is, of course, fundamentally different. The dynamic and constantly changing nature of complex services requires specific knowledge of the outsourced function, business and stakeholder objectives, and the operational needs and risks associated with service delivery.

The capabilities required for governance and management of value from outsourced services have not kept pace with growth. As companies consolidated their supplier bases with fewer, larger providers, the teams responsible for managing day-to-day relationships with suppliers became smaller. These teams are often overwhelmed with data and overmatched by suppliers in managing logistics associated with performance.

PMOs, once seen as part of the answer, have been less than successful. Gartner estimates that the correlated failure rate of PMOs since 2008 is 50%. A startling 68% of stakeholders perceive their PMOs as bureaucratic, and only 40% of projects met their goals in terms of schedule, budget and quality.





Outsourcing represents a fundamental component of an organization's cost management strategy. But in the delivery of complex outsourced services, there is often a disconnect between the prices negotiated during the procurement phase and the actual costs of what is delivered over the term of the contract.

Given the highly variable nature of complex services delivery, suppliers have a decided advantage. Take, for example, negotiated hourly rates. A "competitive" market rate perceived by sourcing as a cost-saving measure could actually result in substantially increased costs or reduced quality from an inefficient provider or one with suboptimal staffing. Such erosion of value is difficult if not impossible for most organizations to effectively manage today.

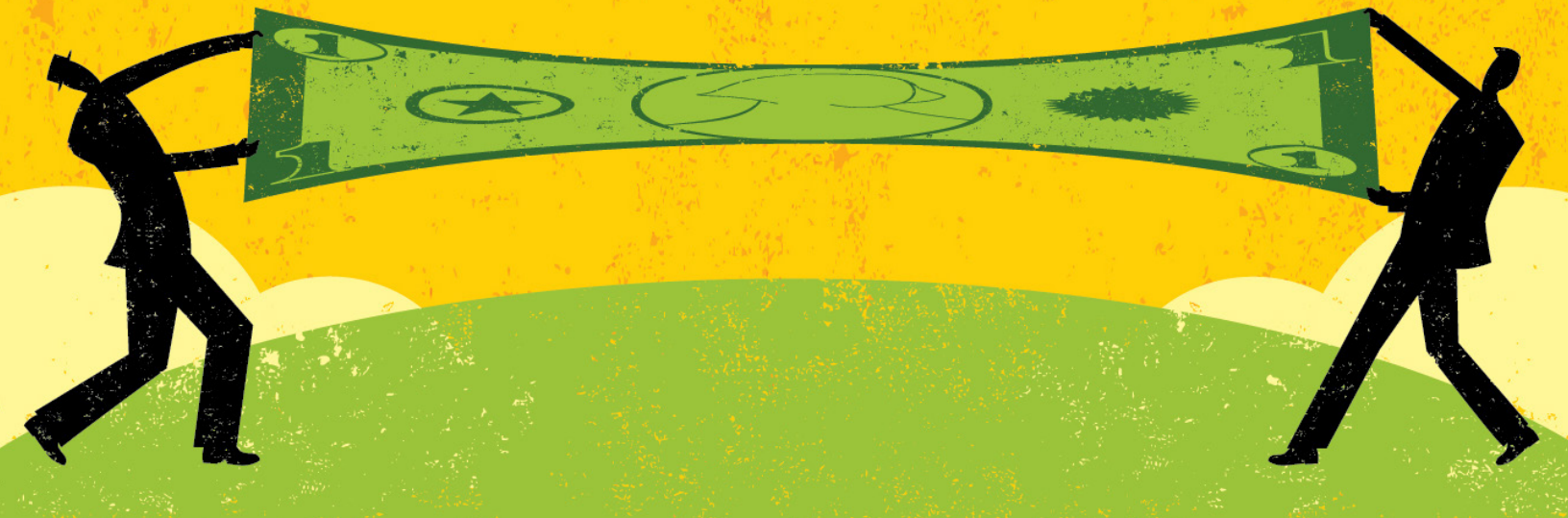
But the value gap between what is expected and what is delivered is not simply a matter of managing quality-of-service levels and associated costs. Problems that occur, for example, in on-time delivery rates or end-customer satisfaction can be caused by many factors that are beyond the control of the service provider.

**A significant value gap exists between what is expected in the procurement stage and what is actually delivered over the term of outsourced services agreements.**





**Brute-force attempts at achieving cost savings from suppliers backfire because many sellers have a decided advantage in maintaining desired margins.**



Faced with pressure to reduce costs over the past decade, companies have sought to exert control through a variety of measures, including supplier consolidation, increased reliance on SaaS solutions, higher deal volumes with savings clauses and multisourcing arrangements. However, such measures fail to address the root causes of value leakage from outsourced services.

In some cases, more drastic measures are taken to achieve cost savings. In the U.S., for example, several large national retail chains have simply decreased the frequency of preventive maintenance functions in brute-force attempts to achieve near-term cost savings—despite the longer-term negative impact on the total cost of operations.

Complex sourcing arrangements combined with manual governance make it impossible for organizations to stop the value leakage. Strategic sourcing contracts are complex, multilayered agreements containing many discrete, time-bound commitments. These commitments are obligations that buyers and sellers must understand to drive 100% value realization. Additionally, organizations must contend with a large number of amendments that have to be managed for Risk, Relationship and Performance Management. In today's environment, sophisticated sellers have a decided advantage in maintaining their desired profit margins in the delivery of outsourced services.





Current supplier governance/supplier management solutions can be divided into two broad overlapping categories:

- Manual onshore and offshore managed service solutions combined with limited technology integration
- Software products designed to partially automate or aid certain manual processes or focused on suboptimum subsets of the sourcing lifecycle

These solutions fail to offer companies a comprehensive and integrated approach to supplier management. It's not enough to put tools in place that enforce accountability for labor rates and contractually defined SLAs.

The still-evolving discipline of supplier management must move beyond an enforcement mindset to enable the teams that manage outsourced services delivery to measure, manage and improve value creation over the course of outsourced services agreements.



**To address the problem, executives from procurement, sourcing, supplier management, project management and shared services teams must move beyond an enforcement mindset to enable opportunities for value creation that yield benefits for all stakeholders involved in the value chain.**





## CONCLUSION

**Supplier relationship management and performance management, within which the greatest capability gaps exist, need to be viewed from a partnership perspective.**

**Buyers and sellers need access to a common source of truth in near real time with regard to accountability for performance and value creation.**



In order to overcome the value gap in outsourced services delivery, companies must implement a comprehensive approach to supplier management that:

- Enables integration of all key supplier management disciplines (Contracts, Performance, Finance, Relationship and Risk) on a single platform
- Provides configurable workflows for all key processes within each discipline and automates high-volume activities like performance and invoice validation
- Delivers advanced analytics and predictive insights in client-supplier relationships by normalizing the heterogeneous data with the help of smart taxonomies

Such a system will allow organizations to redirect their focus to supply chain value and Risk and Relationship Management while reaping productivity gains, improving performance visibility and forecasting expected outcomes.



# Detailed Survey Results

The following section provides detailed survey results on the importance ascribed to different supplier management disciplines and specific processes/capabilities that survey respondents consider important to reach the desired levels of supplier management maturity.



## What capabilities need to be in place to move toward the desired level of maturity?

In this section, we look at the specific processes/capabilities that respondents consider important to reach the desired level of maturity in each of the five disciplines.

### CONTRACT MANAGEMENT

Historically, the Contract Management efforts of organizations have remained limited to pre-award contracting activities such as authoring, negotiations, approval and execution. However, business leaders and practitioners are increasingly recognizing that there is a significant amount of untapped value that can be unlocked by effectively managing contracts in the post-award phase. This is driving business leaders to take a hard look at the available options to help them widen their capabilities across the contracting lifecycle. For example, the expectations from contract lifecycle management systems are quickly evolving, and CLM technology is now expected to play a proactive role in unlocking strategic value from contracts throughout the contract lifecycle, including the post-award phase.

Gartner's "Market Guide for Contract Life Cycle Management, 2015" report states, "CLM is evolving from an operational record-keeping system, primarily used for legal audit purposes, to an enterprise-level core system addressing business risk, costs and the pursuit of revenue maximization."

The survey focused on the following post-award Contract Management capabilities:

**Document Repository:** The ability to digitally maintain and manage the latest versions of contract and related documents in a centralized location

**Obligation Capture:** Granular visibility into suppliers' and your organization's contractual obligations, as well as keeping the obligations current throughout the term of the agreement

**Document Change Management:** The ability to maintain a current version of all contract documents

**Contract Interpretations:** The ability to eliminate ambiguity and align understanding within your own organization on contractual intent and terms

The following chart depicts the relative importance of the various Contract Management capabilities based on the survey response. Obligation Capture and Document Repository emerged as the most important capabilities for effective Contract Management. These were followed closely by Contract Interpretations. Contracts represent an economic source of value as the documents that define how services need to be delivered, by whom and when. According to IACCM's 2013 Value of Contract Management ROI survey, weaknesses in Contract Management impact bottom-line performance by 9.15%, on average. The focus on Obligation Capture, Document Repository and Contract Interpretations clearly brings out the emerging strategic importance of contracts.

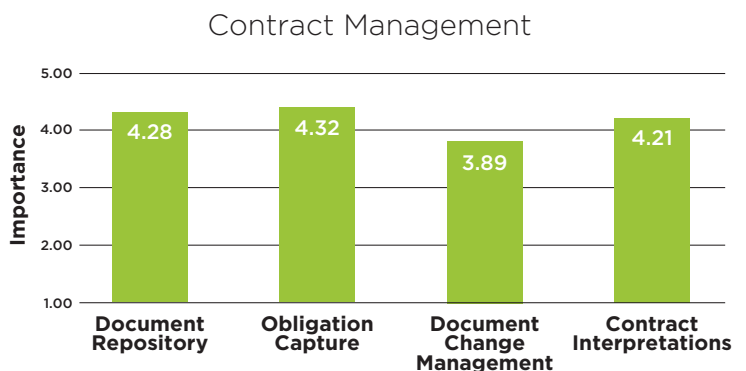


Fig. 11





The following charts display the distribution of the survey responses for each of the critical areas within Contract Management on both parameters—Importance and Capability.

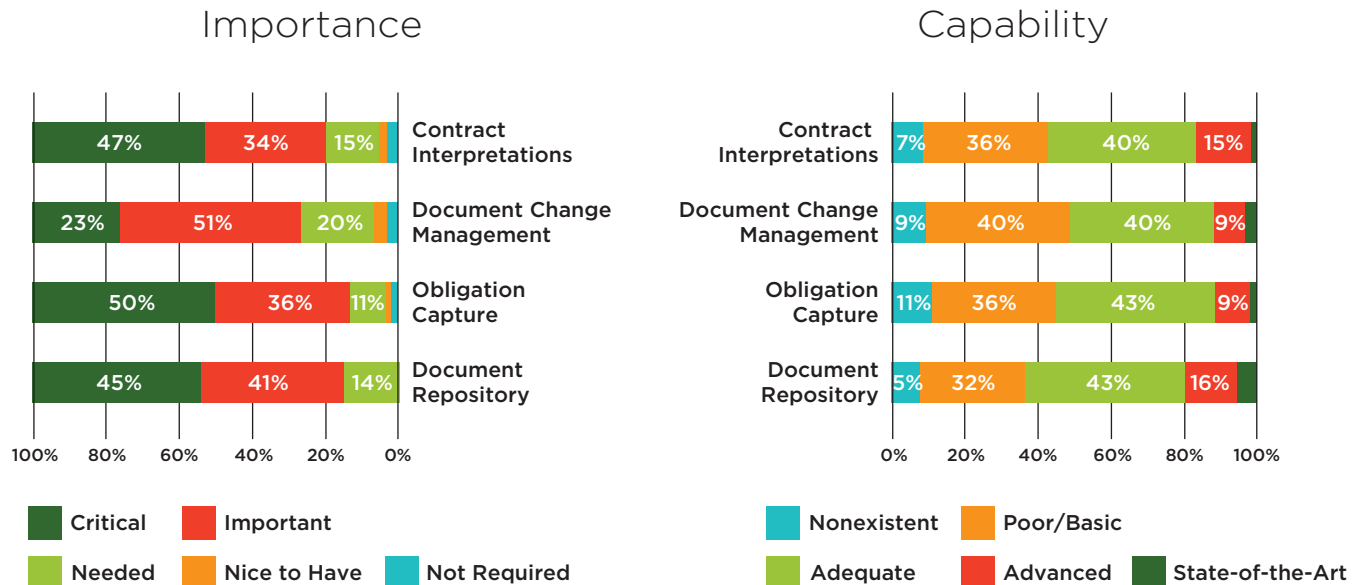


Fig. 12

## Key Takeaways: Contract Management

- While 86% of respondents consider Document Repository to be Important or Critical for effective supplier management, 37% rated their current Document Repository capabilities as weak (Nonexistent or Poor/Basic). According to a report in the *Journal of Contract Management*, 71% of companies couldn't find at least 10% of their contracts. In today's world, where responsiveness is one of the key elements of running a successful business, the importance of Document Repository cannot be overemphasized.
- While 86% of respondents consider Obligation Capture to be Important or Critical for effective supplier management, 47% rated their current capabilities as weak (Nonexistent or Poor/Basic).
- While 81% of respondents consider Contract Interpretations to be Important or Critical for effective supplier management, 43% rated their current capabilities as weak (Nonexistent or Poor/Basic).



## PERFORMANCE MANAGEMENT

Performance Management, described as “the ability to continually and accurately monitor supplier performance against business-critical service obligations and ensure that service delivery levels meet business unit expectations,” lies at the heart of effective management of outsourced services.

Performance Management is critical to ensuring alignment between vendor performance and business objectives. Managing supplier performance in outsourced services contracts is a complex task that requires dynamic alignment of supplier performance with the changing baseline as the contract evolves through the tenure of the engagement.

The survey focused on the following Performance Management capabilities:

**Service Level Management:** The ability to effectively manage service delivery through accurate and timely monitoring of supplier performance against specific service level obligations in the contract

**Obligation Compliance:** The ability to ensure compliance against all non-service level obligations, including but not limited to risk obligations

**SOW/WO/PO Management:** The ability to effectively incorporate obligations stemming from SOWs/work orders/purchase orders into the overall contractual obligations over the term of the agreement

**Credits and Earnbacks:** The ability to accurately track credits and earnbacks over the term of the agreement

**Customer Survey Management:** The ability to assess business unit expectations and satisfaction levels, and analyze survey results against supplier performance metrics

The following chart depicts the relative importance of the various Performance Management capabilities based on the survey response. Service Level Management, Obligation Compliance, and Credits and Earnbacks are all considered highly important for effective Performance Management.

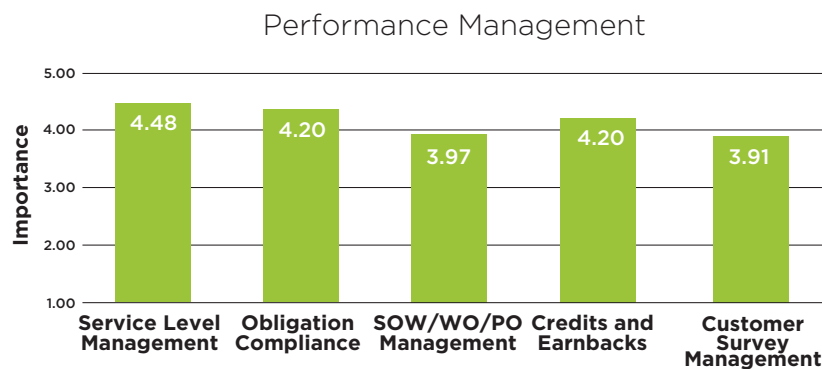


Fig. 13



The following charts display the distribution of the survey responses for each of the critical areas within Performance Management on both parameters—Importance and Capability.

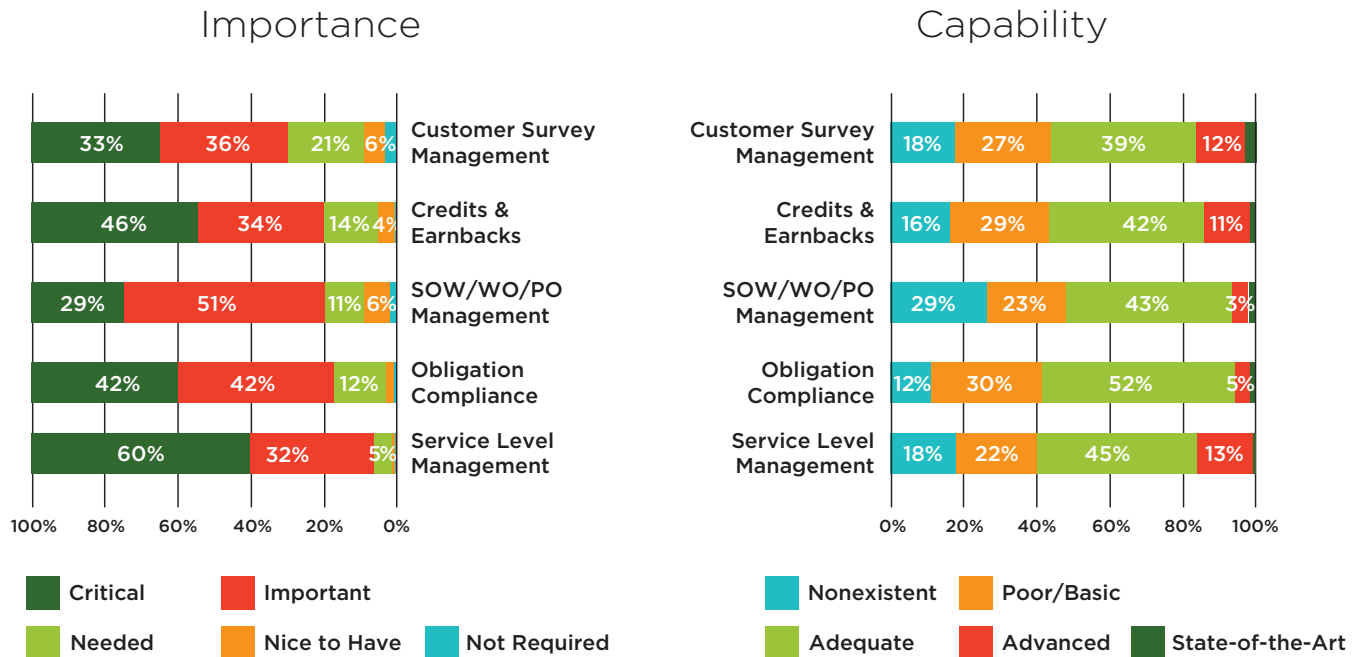


Fig. 14

## Key Takeaways: Performance Management

- A significant number (92%) of respondents consider Service Level Management to be Important or Critical for effective supplier management, yet 40% reported weak current capabilities in this area.
- More than 50% of respondents reported their SOW/WO/PO Management capabilities were Nonexistent or Poor even though 80% consider this to be Important or Critical.
- While 84% of respondents consider Obligation Compliance as Important or Critical, 42% reported Poor/Basic or Nonexistent capability in this area.
- Service Level Management was accorded the highest importance among all processes across supplier management disciplines. Industry research shows that 66% of suppliers believe they meet service levels more than 90% of the time, while only 40% of service consumers agree. This huge difference between the buyers' and suppliers' view indicates that a significant improvement is required in the way service level performance is monitored and analyzed today so that both parties have visibility into what is expected and where the gap exists.





## FINANCIAL MANAGEMENT

Financial considerations form an essential part of the business case for an outsourcing relationship. Hence, it is important that financial matters (strategic as well as transactional) are handled efficiently and effectively. For example, failure to ensure accurate invoicing and payments may have an adverse impact on more than buyer-supplier relationship health. The impact on the bottom line could pose a threat to the success of the overall outsourcing strategy.

The survey focused on the following Financial Management capabilities:

**Invoice Auditing:** The ability to audit invoice data against raw performance data and the underlying contract obligations

**Spend Pool Management:** The ability to effectively track spending against spend pool allocations

**Financial Analysis and Planning:** The ability to analyze and forecast spending against the contract and contract components

The following chart depicts the relative importance of the various Financial Management capabilities based on the survey response. Invoice Auditing and Financial Analysis and Planning were reported as the most important capabilities for effective Financial Management.

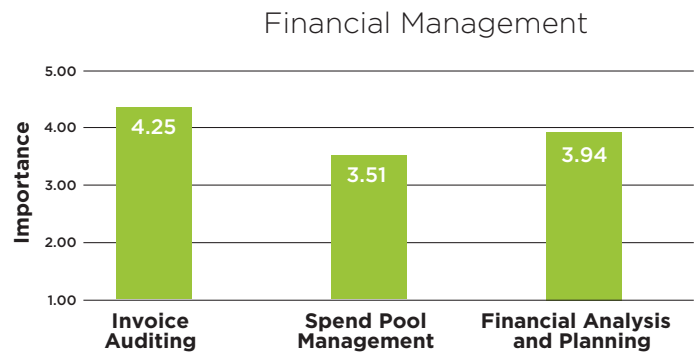


Fig. 15

The following charts display the distribution of the survey responses for each of the critical areas within Performance Management on both parameters—Importance and Capability.

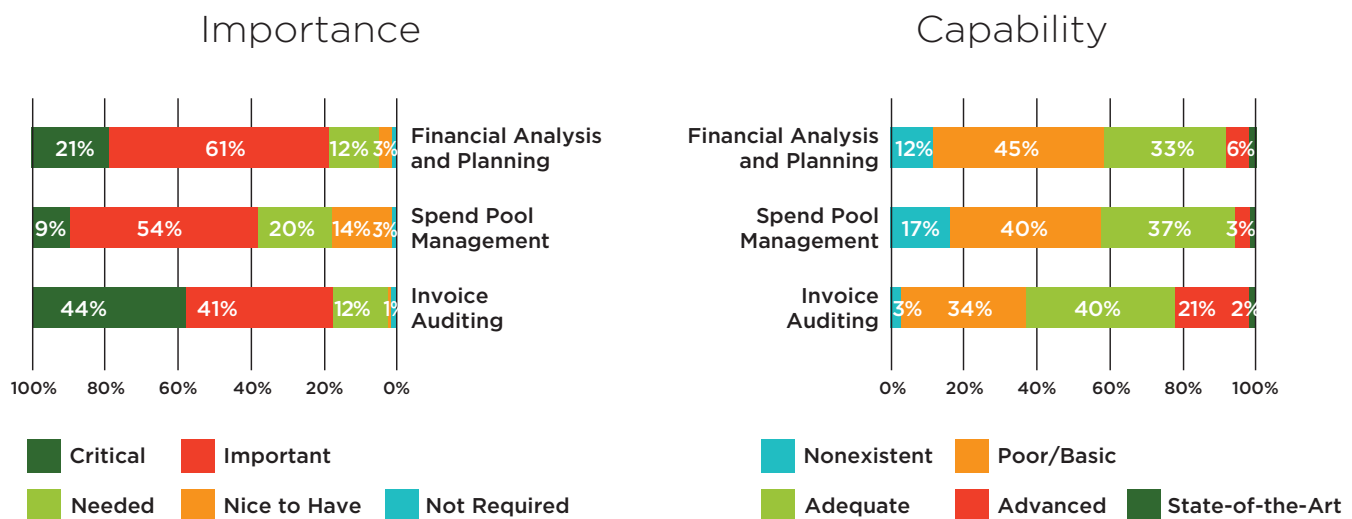


Fig. 16



## Key Takeaways: Financial Management

- Research has shown that there is a median value erosion of up to 20% of ACV in services outsourcing engagements. This includes 8-12% of hard value leakage, primarily comprised of invoicing errors and unrealized discounts and earnbacks. So, while 63% of respondents rated Invoice Auditing capability as Adequate and above, we conclude that this satisfaction can likely be attributed to the fact that most organizations are not aware of hard value leakage until a thorough monitoring program is implemented.
- 82% of respondents consider Financial Analysis and Planning Important or Critical for effective governance, but 57% reported Poor or Nonexistent Financial Analysis and Planning capability.

### RELATIONSHIP MANAGEMENT

Lack of alignment between buyers and suppliers is one of most frequently cited reasons for failure of outsourcing engagements. According to a survey conducted by Vantage Partners, at least 30% of the contract value is in jeopardy in a poor buyer-supplier relationship. Hence, it is critical for buyers to effectively manage the relationship's health to realize the full value of outsourcing.

The survey focused on the following Relationship Management capabilities:

**Governance Forums:** The ability to evaluate the effectiveness and efficiencies of ongoing governance forum(s) activities

**Issue/Action Item Management:** The ability to ensure timely follow-up, escalation and tracking to closure of governance-related issues and action items

**360° Surveys:** The ability to collect and analyze feedback between the supplier and client organizations on an ongoing basis

The following chart depicts the relative importance of the various Relationship Management capabilities based on the survey response. Issue and Action Item Management capability is considered the most important for effective Relationship Management.

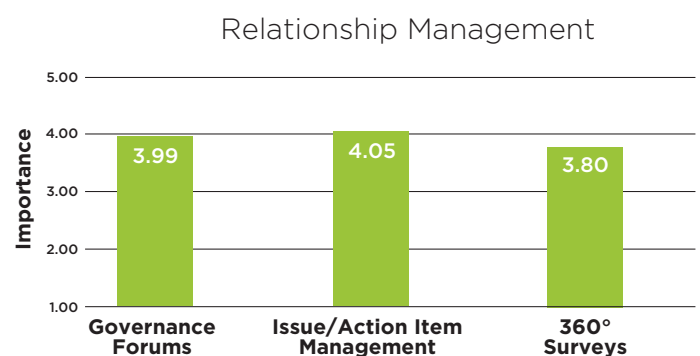


Fig. 17



The following charts display the distribution of the survey responses for each of the critical areas within Relationship Management on both parameters—Importance and Capability.

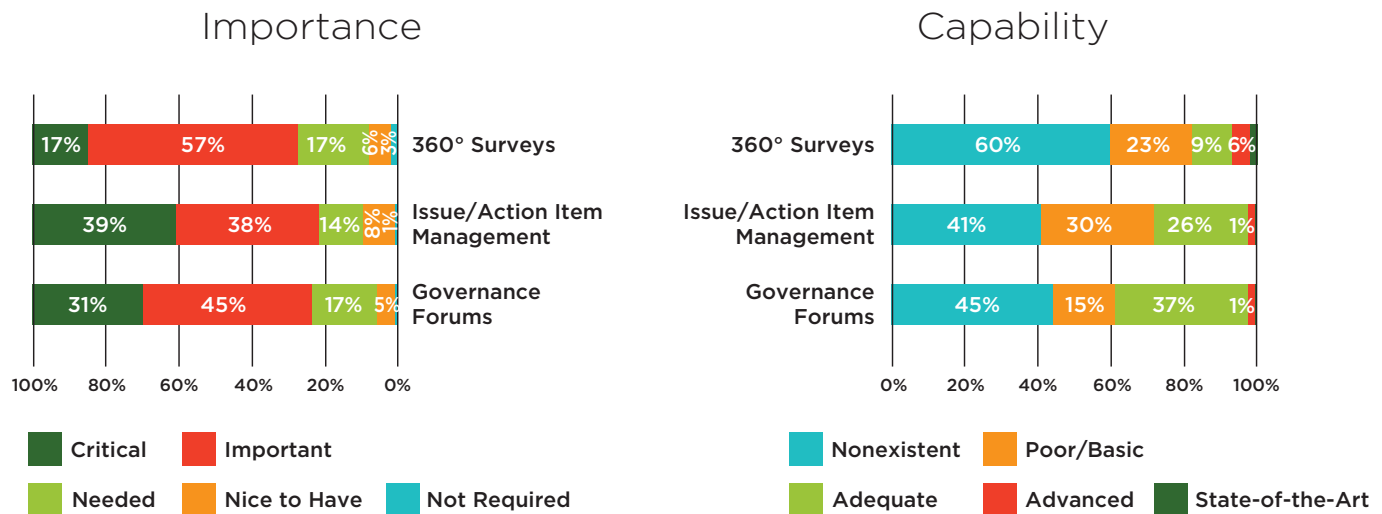


Fig. 18

## Key Takeaways: Relationship Management

- While 77% of respondents rated Issue and Action Item Management as Important or Critical, 71% rated their current capability as less than Adequate. This is similar to the results obtained in Deloitte's 2014 Global Outsourcing and Insourcing survey, in which respondents reported that they are the least mature in Issue and Dispute Management, with nearly 26% indicating that they are below the market.
- While 74% of respondents rated 360° Surveys as Important or Critical, 83% rated their current capability as less than Adequate.
- At the discipline level, respondents reported the highest (52%) capability gap in the area of Relationship Management. Low supplier relationship management (SRM) maturity was noted in a study conducted by PwC titled "Supplier Relationship Management: How Key Suppliers Drive Your Company's Competitive Advantage." Approximately 23% of the respondents reported the absence of SRM initiatives, with 64% reporting they were in the exploratory stage. The other two maturity levels used in the survey were Established and World Class, which together represented 13% of the responses. Clearly, while we continue to talk about the importance of buyer-supplier collaboration, much of this discussion exists on paper.





## RISK MANAGEMENT

The increased dependence on suppliers to achieve business objectives and the enhanced complexity of multisourcing engagements have left buyer organizations exposed to a new set of risks arising out of their association with various third-party providers. Once limited to financial and reputational aspects, Risk Management as a discipline has evolved over time to include Performance Risk and Policy and Regulatory Compliance as well. If not managed effectively, these risks can result in serious consequences, ranging from penalties to business disruption.

According to IACCM research, the traditional “risk avoidance” approach to contracting has been increasingly questioned in recent years. The focus is shifting away from avoiding potentially risky relationships to managing those relationships closely to ensure maximum contract benefit. Hence, it is important for organizations to enhance their focus on Risk Management and implement robust processes to address all potential risks comprehensively.

The survey focused on the following Risk Management capabilities:

**Supplier Registration:** The ability of suppliers to register, enable access to their catalogs and pricing, and complete initial assessments, ensuring readiness for service contracting

**Due Diligence:** The ability to perform due diligence assessments on an ongoing basis, track them to closure, and make this data amenable to reporting and analytics

**Supplier Audits:** The ability to effectively utilize supplier audit provisions in the contract

**Performance Risk:** The ability to report and evaluate performance risk based on historical performance data, including service levels, milestones and customer surveys

**Policy Compliance:** The ability to effectively manage supplier compliance with policy requirements

**Regulatory Compliance:** The ability to effectively manage supplier compliance with regulatory requirements

The following chart depicts the relative importance of the various Risk Management capabilities based on the survey response. Regulatory Compliance and Supplier Audits were rated as the most important Risk Management activities. Survey data indicates that the respondents agree that supplier Risk Management must be an ongoing and continuous process so that potential failures and risk areas can be identified and mitigation planning can be done well in advance.



Fig. 19



The following charts display the distribution of the survey responses for each of the critical areas within Risk Management on both parameters—Importance and Capability.

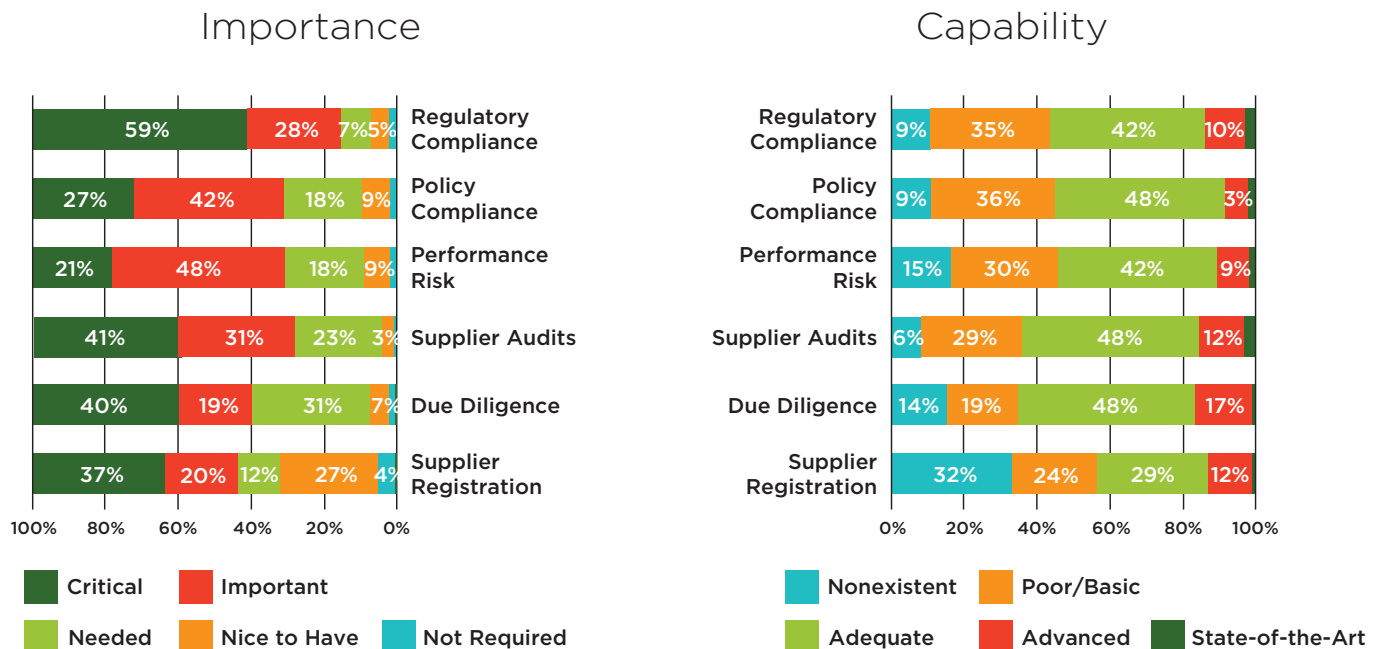


Fig. 20

## Key Takeaways: Risk Management

- Respondents reported relatively higher capability maturity in Due Diligence and Supplier Audits than in their ability to manage Policy and Regulatory Compliance.
- 87% of respondents consider Regulatory Compliance a Critical or Important capability. At the same time, 44% reported less than Adequate capability in this area.
- While global regulators have come to terms with the reality of outsourced functions, they have asserted that corporations bear liability for safeguarding their customers and will be held strictly accountable for third-party missteps. This assertion has manifested itself in a range of new regulations that require the corporation to have sufficient monitoring processes in place to manage the outsourcing of material business activities. Hence, it is critical for organizations to address any capability gaps that exist in the area of Policy and Regulatory Compliance. At the process level, Regulatory Compliance was rated as the second most important process across governance disciplines. This clearly reflects the increasing importance of Regulatory Compliance amid the increasingly stringent and ever-evolving regulatory framework.



### About SirionLabs

SirionLabs is the leading provider of enterprise SaaS products focused on the post-signature management of complex services contracts. SirionLabs' proprietary suite, Sirion, significantly reduces the cost of the supplier governance function by automating complex procedures across key governance disciplines—contract, performance, financial, relationship and risk management. Its embedded workflows facilitate intricate real-world buyer-supplier interactions within the system by using contractual obligations as the core language. The high level of process automation cultivates trust, transparency and authenticity in sourcing transactions leading to strengthened buyer-supplier relationships, reduced value leakage, enhanced compliance, and deeper insight into performance levels.

**For more information, visit [sirionlabs.com](http://sirionlabs.com)**



### About The Shelby Group

The Shelby Group is a SirionLabs-Certified Implementation Partner. We help companies maximize their return on investment in supplier governance platform investment with expert support for the business process, technical and change management functions that are critical to success. Shelby leverages its deep understanding of enterprise procurement processes and technology to maximize savings and optimize business results throughout the procurement lifecycle. The company has an extensive track record of working with Fortune 500 and mid-tier clients across a wide variety of industry sectors.

**For more information, visit [theshelbygroup.com](http://theshelbygroup.com)**