

Transformation Execution StrategiesSM

Insights to empower you to transform enterprise performance

TCOE: Supplier Governance Function

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Context:

In our weekly update of June 27, 2006 we described the trends driving the implementation of Transformation Centers of Excellence (TCOE) within SG&A domains in enterprises. We pointed out that a major driver for this is the need being recognized within enterprises to possess competency to rapidly implement newer, more innovative business-models by re-aligning capabilities continuously, faster and on a global-scale.

We also stated that, according to First Kernel, a robust TCOE must support, at minimum, the following functions:

1. Transformation Coordination
2. Performance Management
3. Supplier Governance
4. Complex Project Management
5. Process Life-cycle Management

Starting week of July 11, 2006, we began to explore each of these five TCOE functions in a little more detail. The first two of these, *Transformation Coordination* and *Performance Management*, were covered during the past two weeks.

This week, we will explore the third function, *Supplier Governance*.

Analysis:

With increasing use of, and reliance on outsourcing and globally dispersed resources (point: No single company has the resources or appetite to specialize in everything, build it all, master all the complexities), third parties are increasingly vital to the success of your enterprise. The focus of the *Supplier Governance* function within your TCOE is therefore to continually and intelligently integrate and evolve, in a win-win manner, the extent and nature of your firm's relationship with third parties pertaining to services, solutions and capabilities sourced from them, while aligning these with the changing nature of your business.

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A robust TCOE therefore has the staff, methodologies /IP /tools, processes and expertise to perform, on a day-by-day basis, the following key Supplier Governance roles:

1. Performance Governance
2. Contract Governance
3. Financial Governance
4. Compliance Governance
5. Relationship Governance
6. Knowledge Governance

First Kernel's Transformation Research update of May 2, 2006 (*please contact us if you need a copy*) covered each of these in fair detail and we'll spare you a re-run. We do, however, want to offer up some sound TCOE practices related to Supplier Governance:

Aim for collaborative arrangements:

Realize that suppliers tend to operate more effectively when their workflows are better integrated with your workflows. Information sharing is emerging as a key enabler to success in this regard.

View supplier capability in the context of longer-term needs:

As you evolve relationships with suppliers, watch how your suppliers' own investments, specialization and other competencies are progressing in support of emerging capability-needs of your business. The more convergence, the better.

Embrace a strategic view of price:

What exactly are you paying for? If you are trying to meet a point-in-time need to address a one-off requirement, perhaps cost is what you want to be focused on. On the other hand, if you are counting on market-dominance on the back of outsourced world-class CRM capability, then you really should be seeking a supplier that is passionate about CRM and is constantly ramping up its CRM capabilities. While this supplier's offering may appear to be somewhat expensive initially, a proper multi-year financial analysis may show otherwise.

Sustain a portable delivery model:

No matter how good the fit of your supplier /offering to your current need, at some point, by virtue of change, innovation and competition, there will be a need to disengage from your current provider and port the relationship to either an in-house entity or to another supplier. Structure the relationship with this in mind and codify it in the contract. Also, watch for contract drift that may gradually, over several T&C revisions, make a portable relationship quite non-portable.

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Insist on continuous improvement:

As services globalization marches forward, competition will bring newer suppliers and newer solution offerings to the market. Even though you are likely to have 3 to 7 year sourcing agreement, insist on enforceable continuous-improvement clauses in the contract to provide you with ongoing market based pricing.

Take Away:

While current Supplier Governance practices largely promote the use a big stick approach towards suppliers, progressive enterprises are gravitating towards collaborative, win-win models that align a supplier's ability to empower them to dominate their chosen market with their willingness to reward the supplier for that effort and commitment.

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About First Kernel Research

First Kernel Research is a unit of First Kernel Consulting, Inc. We are experts in Enterprise Performance Transformation. We help enterprises develop and execute exceptional performance transformation strategies and initiatives to continually align costs, service quality and capabilities with the overall strategy and imperative of the enterprise.

Our Clients leverage the integration of our expertise, intellectual property, tools and guidance to achieve or surpass their SG&A performance targets. First Kernel has developed the industry's first *Enterprise Performance Transformation System*TM, currently pending a United States patent.

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