

Vendor Selection Best Practices – An Industry Perspective and a Practitioner's Perspective?

Key Issues That Will Be Covered

Before addressing the issues of business domain knowledge and its importance for proper production and potential cost reduction, it is necessary that we re visit the criteria used to evaluate ESP's (External Service Providers).

Agenda: Key Issues That Will Be Covered

1. How to evaluate and select sourcing providers ?
2. What key factors must be examined when creating an evaluation process ?
3. Best Practices for Evaluating External Service Providers
4. Why business acumen will guarantee the desired business outcome, helping streamline production and reduce costs ?
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6. Introduction of **HNI's** business
7. **HNI's** IT snap shot and current needs
8. How **HNI** was able to leverage from the a provider that had business expertise
9. What were **HNI's** selection criteria for offshore location and service provider
10. Recommendations

1. How To Evaluate And Select Sourcing Providers ?

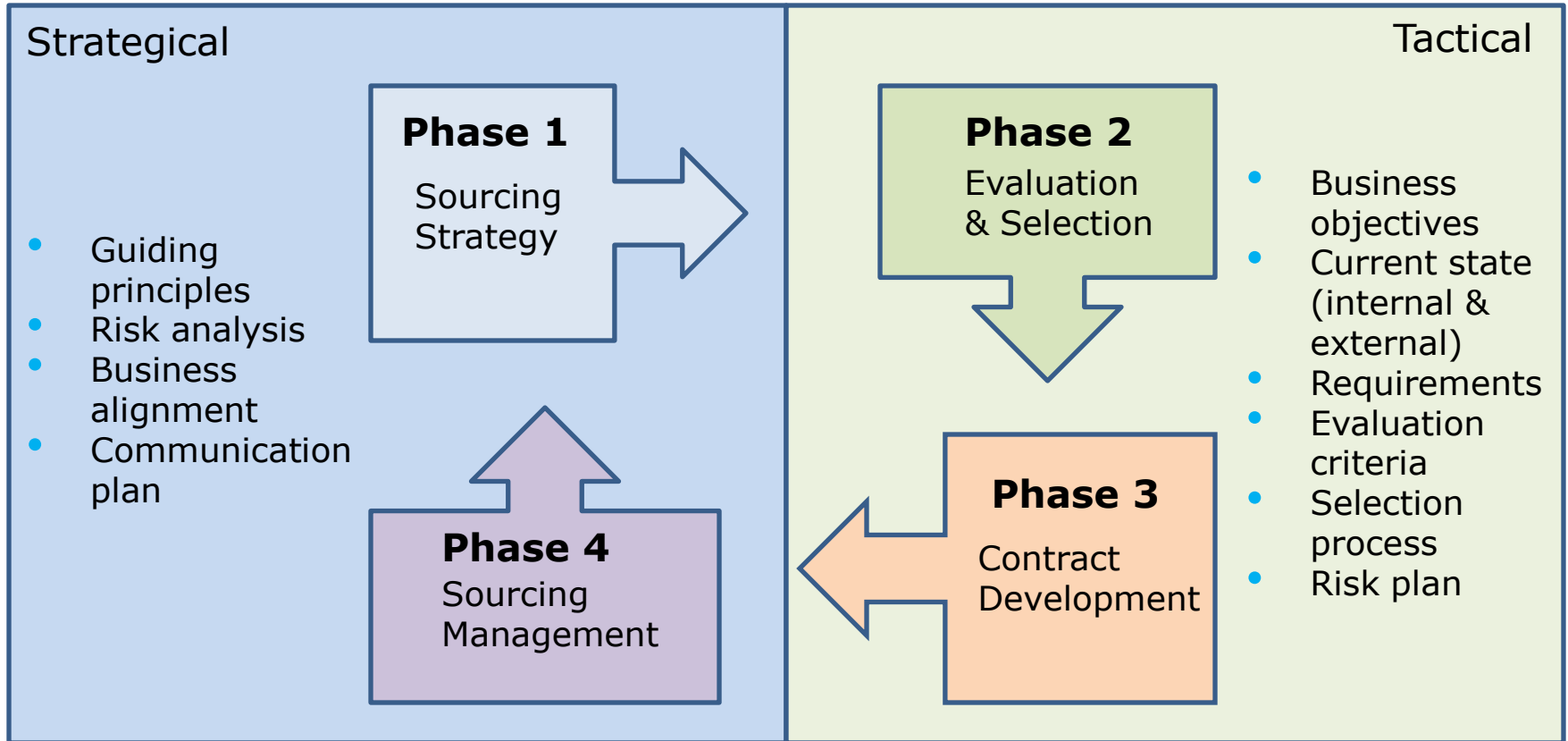
- ✓ *Sourcing strategy comes first and strategy feeds evaluation and selection.*
- ✓ *Enterprises will benefit from sourcing options, based on structured, repeatable evaluation processes of vendors business expertise, in order to benefit financially — and increase efficiency structured, repeatable evaluation processes.*
- ✓ *These processes must be based on foundation determined by the strategy supported by a structured analysis of the sourcing options against the objectives identified, and against evaluation criteria based on how well the sourcing options can work together from the business expertise standpoint, particularly when entering into highly strategic or long-term relationships.*

1. How To Evaluate And Select Sourcing Providers ?

The evaluation process of outsourcing vendors commonly adopted by organizations accounts for 4 continuous activities that are consistently checked against business objectives, according to the Gartner Institute:

1. Sourcing Strategy
2. Evaluation and Selection
3. Contract Development
4. Sourcing Management

1. How To Evaluate And Select Sourcing Providers ?



1. How To Evaluate And Select Sourcing Providers ?

Sourcing Strategy must be defined first. Is it going to be a

- ✓ Pure IT Build ? Captive Center ?
- ✓ Buy?
- ✓ Hybrid Option ? (*mix of outsourcing with insourcing*)

1. How To Evaluate And Select Sourcing Providers ?

- ✓ The formulation of a sourcing strategy needs to weigh the different balances between the options and underlying set of business drivers that contribute to the client's value and experience.
- ✓ All considerations return to the choice of buy versus build, as well as hybrid variations of the two. The buy option usually involves the use of a third party, which is legally and organizationally distinct from the service recipient's company. This is a form of outsourcing that a service provider usually delivers.
- ✓ The build option normally entails the internal, full-time equivalent of the company delivering the IT service. This has commonly been called a "captive center".
- ✓ The hybrid options represent some combination of insourcing and outsourcing based on legal, organizational or time-based resource shifts.

2. Key Factors Must Be Examined For An Evaluation Process

What are the approaches used to evaluate sourcing providers?

1. Award the deal to a single vendor
2. Fast-Track-Scenario
3. Request For Information (RFI)
4. Request For Proposal

2. Key Factors Must Be Examined For An Evaluation Process

What are the approaches used to evaluate sourcing providers?

- 1. Award the deal to a single vendor:** this approach, enterprises believe this will shorten the time to complete a deal. Although it does, it also can often lead to dissatisfaction. This approach is justified if a client is adding business to a vendor it already uses, or in "emergency" situations. However, in most cases, it does not provide a competitive deal.
- 2. Fast-Track-Scenario:** involves a more in-depth analysis of a much-smaller number of providers (two or three, at most). This has proved to create a more-balanced risk, while maintaining the lowest risk of selecting the wrong provider, but it requires the highest level of effort, due to its rapid nature.

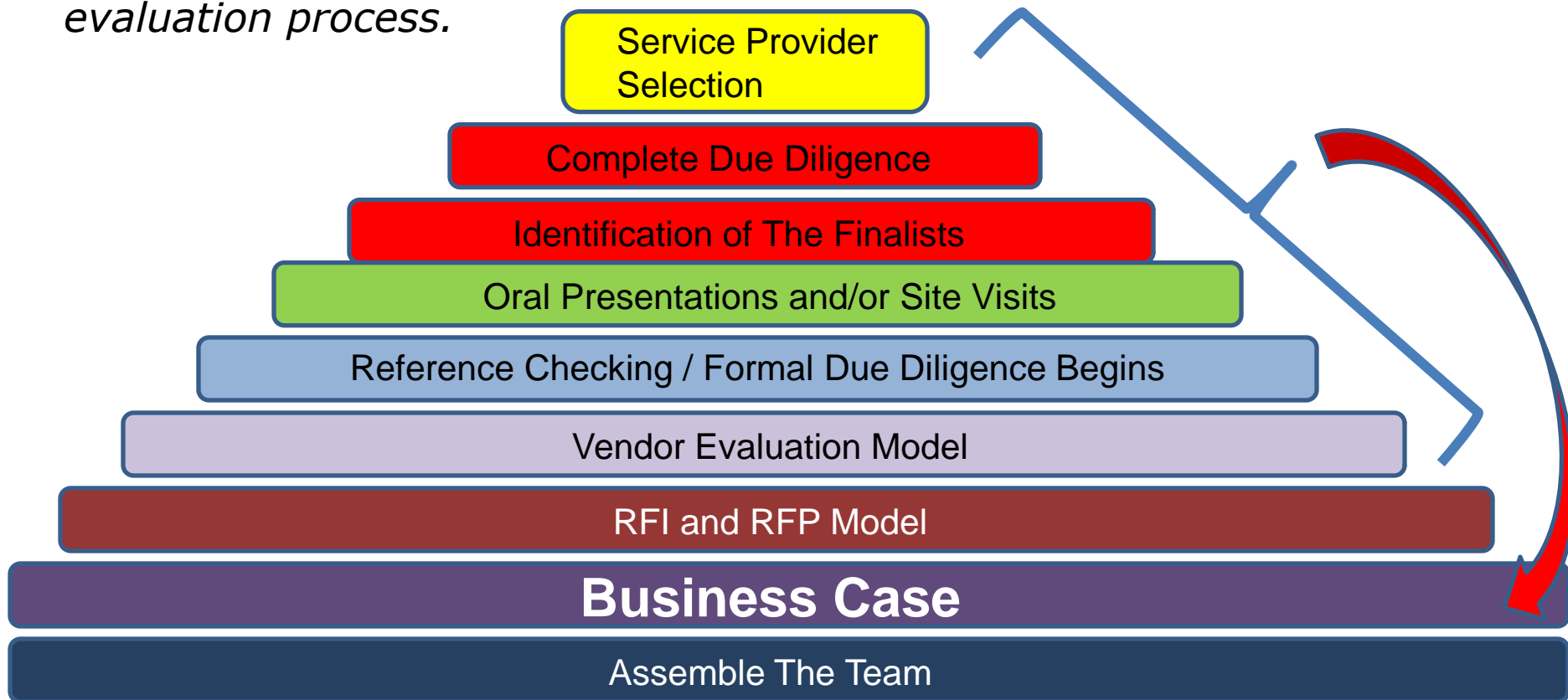
2. Key Factors Must Be Examined For An Evaluation Process

What are the approaches used to evaluate sourcing providers?

- 3. Request For Information (RFI):** This approach can be used to identify potential vendors that appear to have the capabilities to meet an enterprise's general requirements. It generally is used as a prelude to determine to which vendors to send a formal RFP. The RFI contains a brief description of the enterprise's needs, but it is very general and should not be used to obtain pricing.
- 4. Request For Proposal (RFP):** This approach is to develop a detailed scope of work that the enterprise needs. It should contain all constraints, legal and operational. It also should demand that all responses be put into a set format that, if not followed, would disqualify that vendor's response.

3. Best Practices in Evaluating External Service Providers

Overall best practices approach to engage service providers in an evaluation process.



4. Why business acumen will guarantee the desired business outcome ?

A service provider without industry specific business domain knowledge (business acumen) will ultimately provide the client with an experience which is just like a ship without a rudder. The ride might be "fun" but it's unlikely that the company will get where it needs to go.

1. What happen if this ship is in a race with other ships and the stakes are its actual survival ?
2. How much effort will the ship crew need to make for the absence of a rudder ?
3. How much does this additional effort cost the organization ?
4. What is the opportunity cost ?

4. Why business acumen will guarantee the desired business outcome ?

According to recent market research conducted with organizations that utilize ESP's to support critical business processes:

1. After switching to ESP 's with business domain knowledge, the production time was reduced approximately 20 %;
2. Time spent discussing business requirements were reduced more than 35 %?
3. Time spent in testing was reduced around 15 % ?
4. Over all interaction quality between the organization's and the ESP's teams was improved ?

4. Why business acumen will guarantee the desired business outcome ?

The collaborators that belong to the teams of the organizations researched also mentioned:

1. "My counterpart at the ESP will get what I meant the first time";
2. "Having a colleague on the other side that understands the nature of your business is the utmost experience of talking turkey"
3. "I believe that I saved many hours at the end of the project by having to type less email messages and spend less time over the phone"
4. "My team kept a higher level of energy throughout the project because they felt completely in synch with the ESP's team".

5. Key Factors Must Be Examined For Evaluation of External Service Providers' Business Domain Knowledge

1st Critical Success Factor: For a successful outsourcing relationship, senior executives, who are the ones that have the ***business bird's-eye-view strategy*** must be committed and involved in outsourcing vendor evaluations

2nd Critical Success Factor: IT organizations must ensure that vendors understand the importance of ***business requirements***. The enterprise's requirements document (the RFP, which, in turn, will become elements of the SOW) plays a critical role in understanding how well service providers do have the ***industry specific business domain knowledge***.

3rd Critical Success Factor: Best practices to ensure the service provider does have the needed business acumen, uses the RFI process followed by the RFP process.

6. Introduction to HNI's Business



HNI Corporation is the second-largest office furniture manufacturer in the world, and the nation's leading manufacturer and marketer of gas- and wood-burning fireplaces

- **HNI** was founded in 1944
- **HNI** is one of the United States' 1,000 largest publicly held companies, according to Fortune magazine ;
- Average annual revenue: US\$2.8 Billion;
- 14.000 employees in the USA

In 2008 the Corporation was recognized by Fortune Magazine as one of **America's Most Admired Companies** in the furniture industry. The Corporation was also recognized by IndustryWeek in 2007 as one of the **50 Best Manufacturing Companies** for the fifth consecutive year.

7. HNI's IT Snap Shot and Current Needs



HNI Corporation

HNI IT department has a staff of 200 professionals and uses leading technologies such as:

- Cognos
- JDEdwards
- Peoplesoft
- NET

And also uses some older technologies like:

- Progress
- Xgen

HNI's needs are:

- Efficiently manage maintenance for the vast and diverse application portfolio (business expertise very important);
- Recruit and retain qualified IT staff;
- Maintain costs in control.

8. How HNI was able to leverage from the a provider that had business expertise



HNI was able to leverage Stefanini's business experience in manufacturing on both the customer facing front end services and the supply chain and logistics of the manufacturing and delivery processes.

HNI was also able to leverage from their service provider a software development process to improve out application delivery.

9. What were HNI's selection criteria for an offshore location and service provider ?



Offshore Location:

- Excellent cost and communication infrastructure;
- High quality providers;
- Convenient location/time zone;
- Similar business culture.

Service Provider:

- Proven Market (business expertise) reputation;
- Nearshore IT Outsourcing expertise;
- Well established in the USA;
- Flexibility and commitment to quality
- Ability to support all **HNI's** technical requirements

10. Change the weighing criteria and account for a greater importance on industry specific business domain knowledge.

Criteria of Evaluation	Market Practiced Weight	Proposed Weight
Industry Specific Business Domain Expertise	20	40
Technology Expertise	20	15
Critical Success Factors (cultural fit, contracting practices, key personnel, Time to market, financial viability)	20	15
Project Specific (RFP adherence, price points)	20	15
Vendor Organizational Profile	5	5
Reference Checks	15	10
Totals	100	100