



Globalisation

SUPPLIER RELATIONS ON A GLOBAL SCALE

In this fourth instalment in our series on globalisation, *Lindsay Clark* examines the art of managing suppliers on a worldwide basis, and how best to negotiate and implement a global deal

They may seem to poach your best staff, change technology standards on a whim and make contracts impenetrable, but it is hard to run an IT department without talking to IT suppliers.

Since there are few with a worldwide reach, it is how a business chooses and manages its relationship that can make the difference between excellence and mediocrity in the global economy.

In the last article in this series we reported on Unilever's network outsourcing contract with BT. According to IT research firm Gartner, this contract provides an example of how important it is for businesses and IT suppliers to work on their relationships.

Unilever, one of the world's largest makers of consumer goods with annual sales of more than £27bn and more than 200,000 staff operating in 150

KEY POINTS

- ▶ Top-down commitment is needed to make global deals with suppliers work
- ▶ Good supplier relations are essential to improve global IT performance
- ▶ Flexible contracts are essential to enable you to manage change
- ▶ Offshoring has seen relations improve between users and suppliers

countries, signed a deal in December 2002 with BT to outsource its global communications network services. Worth nearly £100m a year, the deal was extended last year. Neither company had put together a global partnership of this kind before.

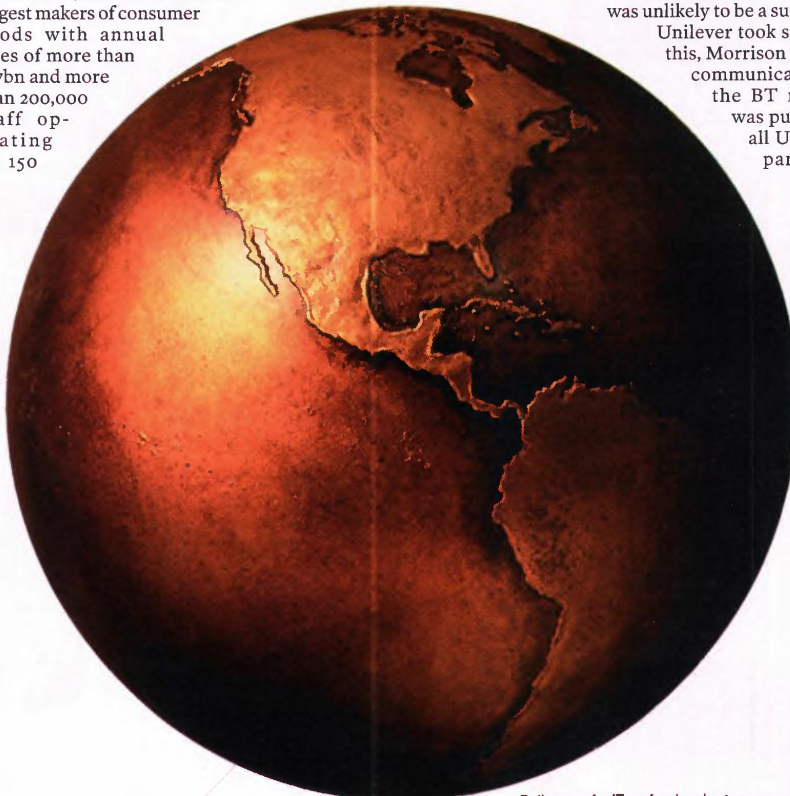
Gartner research director Scott Morrison, says that there was top-down commitment from senior management to making the rela-

tionship work, and Unilever had to ensure buy-in at all levels.

"Global deals need to be driven centrally, but must be communicated and enforced throughout the organisation," he says in a research paper. "Highly federated organisations should consider whether their structure lends itself to such global deals."

Both sides knew that, no matter what the intentions at the centre of Unilever, if local managers did not have the goodwill to co-operate with the supplier, the relationship was unlikely to be a success.

Unilever took steps to avoid this, Morrison says. "A clear communication plan on the BT relationship was put in place for all Unilever companies, telling





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them what was being done and why. This achieved far greater levels of buy-in at the local level than was previously the case."

Smaller firms too are finding relationships with suppliers are essential to improving their IT performance on a global level.

Earlier this year global law firm Eversheds built on its relationship with Computacenter and signed a £27m contract to accelerate its worldwide IT service improvement programme and undertake an immediate technology transformation.

The firm, which is one of the largest full-service law firms in the world, outsourced its UK service desk, desk-side support and data-centre hosting and management to the IT services firm. Computacenter will manage and host the firm's datacentre environments and provide 24x7 IT support services to 4,000 users across Europe and Asia. Eversheds is also embarking on a server consolidation programme across Europe.

Conor O'Brien, head of IT service delivery and operations at Eversheds, said the firm had drawn lessons from its contract negotiations with IT services firms.

"You have to be absolutely clear what it is you are looking to get out of the relationship. Are you looking for a steady state or something more innovative? From our point of view, we wanted Computacenter to achieve a transformation quicker than we could have done ourselves."

Although Eversheds wanted to make its current global IT services more efficient and effective, it was also looking for help in bringing new services to the business. This was reflected in the contract, O'Brien says.

"We have a blended contract. We have service level agreements, but we also have a method for focusing the supplier on innovation. That is the big benefit for us. It is something that Computacenter has embraced and is not afraid of."

Although innovation may be

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seen as quite an abstract, qualitative term and difficult to capture in a contract, O'Brien says the key to translating it into reality comes from knowing what it means to your business and letting the supplier know that.

"We are very clear about what our business strategy is: how IT can live up to that comes from Computacenter."

The contract was also structured to ensure it could meet the needs of Eversheds' future global ambitions. "In the future, we will want services in other offices. The ability of the organisation to grow is essential. That is not in the scope of the contract, but we are able to develop it."

O'Brien said the law firm's experience in putting together contracts for its clients helped it in building on its relationship with Computacenter.

"As a law firm we know you have to live up to the claims you make to clients," he says. "You cannot just put a contract in a draw and hope it will find its own way to come to life. It needs energy, focus and the right people to ensure it works in reality."

"From a user's perspective, it is easy to see what is in it for you. But you have to understand and help the supplier get what it is looking for in

order to get what you want from the relationship."

Finding the people with the right mix of technical, communication and negotiating skills to manage these deals was difficult, but essential, O'Brien says. "Negotiations have their ups and downs. You have to be able to have up-front conversations about what is acceptable and what is not, but also help in the understanding of the way to make it right. Suppliers want to understand and they want to make money - if you both understand that it is mutually beneficial."

Another benefit of being in the legal sector is that the firm has witnessed how other contracts struggle with change such as mergers and acquisitions, which have been rife as companies seek to grow and globalise.

"We are lucky, we give a lot of advice on mergers and acquisitions so we have the expertise in-house and we use that to help understand our

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contract with Computacenter. We have put as much flexibility as we could into the contract. If a merger arises, we have a way of dealing with it."

But to make a contract more flexible, it increases its cost. Finding the right balance between flexibility and cost was one of the keys to getting the right contract for the purpose, O'Brien says.

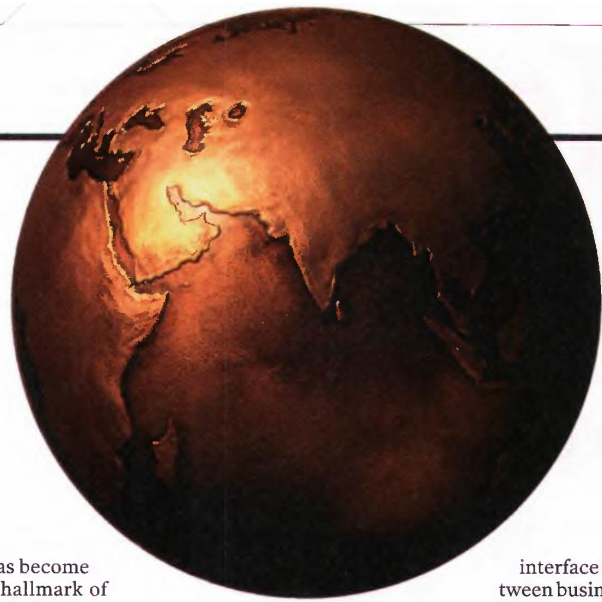
Outsourcing suppliers and other IT service partners have become more adept at managing change within their contracts, according to Phil Morris, managing director Europe at EquaTerra, which incorporates IT outsourcing advisors Morgan Chambers.

"There has been a massive change in attitude from IT service suppliers," he says. "Before they might see a merger and acquisition as an opportunity to make more money."

Communications between CIOs at a global level has meant that outsourcing providers who are awkward or opportunistic during mergers and acquisitions will find it more difficult to win new contracts. This has driven suppliers to use flexibility as a selling point, Morris says.

Offshoring has been another area that has seen improved dealings between IT suppliers and business users, Morris says. The trend, which allows applications development, support or even business processes to take place far from the main users,

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has become a hallmark of globalisation.

Offshoring has been growing for about 10 years and businesses are now learning from their earlier mistakes, Morris says.

"The people that have risen to the challenge have done so in applications. The processes have changed and resulted in much stronger specifications and a higher view of outcomes. It was once rubbish in and rubbish out, but the understanding of specs has become better on both sides."

Whether outsourcing or offshoring, companies face exposing their internal weaknesses if they do not get the relationship right by doing the groundwork, Morris says. "The biggest challenge has been the change in the governance of the

interface between business and IT," he says.

"Historically, that has been the pinch-point for CIOs, but when you engage with offshoring or outsourcing on a large scale, if the governance is not right, sooner or later you are going to have a major problem."

As Morris suggests, despite global businesses spending billions on IT service providers to meet their global needs, success or failure is likely to depend as much on internal processes as the performance of the supplier.

Maintaining outsourcing relationships

→ www.computerweekly.com/226706

Eversheds outsources IT delivery

→ www.computerweekly.com/224576

Unilever signs extension to BT contract

→ www.computerweekly.com/215973

THE CHALLENGES OF GLOBAL SOFTWARE LICENSING

Software licences have been the bane of IT for many years because contracts can be complex, difficult to compare and are often not well-suited to change. Globalisation presents a challenge on two fronts.

First, businesses can struggle to take advantage of their size because software firms are unable to create effective global licence agreements. Second, suppliers' contract may be too rigid to cope with the rapid change that accompanies globalisation, particularly in mergers and acquisitions.

During the merger boom over the past five years, users said software suppliers might take the opportunity to increase licensing fees, although the use of software might not have changed significantly.

At the height of the boom, during 2006, Peter Monk, technical strategy consultant at the Strategy Supplier Relationship Group, an umbrella body for leading UK user groups, said, "If there is a higher rate of mergers and acquisitions, that increases the

opportunity for suppliers to say, 'that is outside the existing agreement'."

Monk added that users could get nasty surprises from software licences during a merger, although suppliers were acting within the law.

However, software suppliers have been working to improve contracts to allow more flexibility, according to Carrie Hartnel, programme manager for transformational business with Intellect, an organisation that represents IT suppliers in the UK.

"Flexibility is something suppliers now need for competitive advantage and we are seeing a lot more of it," she says.

However, it is also down to users to ensure they know what they want from licences and how much contracts need to allow for changes in the business, she says. "Customers need to understand why they are buying the licence and where they will need it and if they will need flexibility in the future.

"Do you want to buy by country or do you want to buy globally? Sometimes it is not the best decision

to buy at a global level. If you buy globally make sure the contract works for you. Remember, suppliers do not know the business case for buying the software."

Business should have an open and wide-ranging discussion with their main software suppliers to ensure they are including all eventualities in the deal. "That is the whole point of a user-supplier relationship. We always see users who have not thought of everything when they are buying the software," Hartnel says. "It is the responsibility of the user to have an idea of what they are looking for."

Ben Booth, chief technology officer with international market research firm Ipsos-Mori, says it is possible to negotiate global deals with suppliers, but there can still be difficulties. "With the global software players, although they have resellers around the world, you can do a global deal with them that resellers will respect.

"Some of the others are more difficult; you work out how many you want in each country and then have to

work out how to export the licences, then reciprocal VAT can be difficult."

There is the possibility that rogue resellers and country managers will get together and undermine global deals, says Booth, who is also vice-chairman of Elite, the IT directors' group with the British Computer Society.

"You can get sales people trying to offer you different deals and other shenanigans. There is an awareness that there is an opportunity there that they can sell to the whole of the business, but at the local level the man selling in Turkey might try to do a deal to keep his commission and stop the money going back to head office."

In the end, enforcing global licensing deals helps businesses ensure consistency in technology standards. "If you can stop this rogue dealing, you can actually help your business get some control. It makes sure everyone stays on the right version of the software."

M&A boom leads to licensing headache

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