DigitalFuel

10 Best Practices for
IT Vendor Financial Management

July 2010

....

Table of Contents

DigitalFuel

10 Best Practices for IT Vendor Financial Management

Moving Toward Win-win

Building a win-win relationship with your IT vendors is the key to successful delivery of IT services across your enterprise.   Today's enterprise IT organizations recognize the importance of collaborating with their IT vendors, and they know that success requires careful attention to key financial and value metrics. With a common view of the facts, both IT organizations and their vendors can have confidence in the business results that are delivered.

Through nearly a decade of serving IT vendors and enterprise IT organizations, Digital Fuel has developed a deep understanding of the IT financial management processes needed in vendor relationship management. The company has identified the following 10 best practices as key ingredients in successful IT Vendor Financial Management arrangements.

1. Invoice Management

Ongoing tracking and management off all invoices received from vendors offers greater visibility into the spending patterns of the enterprise. In addition to being tracked against expected and planned contract value, invoices can be validated against contract terms and actual spending can be mapped to service performance metrics. With the right tools, much of this can be automated, saving time and helping to avoid errors and omissions that can occur with manual processes and spreadsheets.

2. Performance Credits, Earnbacks, and Critical Milestones

Performance-based credits and earnbacks should be forecasted regularly. This data should be shared with IT vendors so that they can proactively avoid performance penalties and attempt to reach the performance goals needed for earnbacks. Actual credits and earnbacks can also be tracked on an ongoing basis to provide a record for contract payments and a history file for audit or compliance requirements.

3. Financial Analysis and Planning

IT demand information from business units should be systematically collected so that future demand can be forecasted based on past activity as it relates to business parameters such as revenue and headcount. Variances for unit costs should also be calculated based on forecasted demand. If there are significant variances from contract-based unit costs, these can then be factored into the

DigitalFuel

demand plan and budget. This proactive tracking of actual versus budget trends can identify potential overruns and their causes, enabling business units to adjust their budgets ahead of time or make changes to reduce service consumption.

4. Procurement

The procurement organization should be involved on an ongoing basis to track all purchases of IT equipment, services, and other IT related goods to ensure that formal approval processes are applied, and to prevent overspending. This involvement is particularly important with strategic vendors, such as outsourcing providers. Procurement will be heavily involved during the upfront vendor selection and contract negotiations on the service contract. They should also remain actively engaged during the ongoing implementation of the outsourcing agreement to manage program issues such as ensuring that the company is getting the services they are paying for, driving the organization to promptly address business changes that impact the agreement, capturing operational issues early before problems arise, and resolving concerns with the vendor in a collaborative manner.

5. Contract Pricing Adjustments

There should be a collaborative effort with the IT vendor to make adjustments to contract pricing based on actual unit costs and volumes delivered. Unit cost and volumes should be tracked and the appropriate persons should be automatically notified in the event that cost or volume levels reach a point where contractual changes are justified. An ongoing effort should also be made to compare alternative options and to benchmark pricing so that pricing can be adjusted when applicable.

6. Value Leakage Mitigation

When value metrics are easily accessible by both the enterprise and the IT service provider, this creates a fertile ground for a collaborative relationship in which both parties win. The enterprise can use the performance metrics to monitor the value received from the vendor services. They may set value goals such as reducing time to completion for Web transactions or improving performance on certain Key Performance Indicators (KPIs). When these performance targets are consistently met, both parties win. The enterprise receives the benefit of high service levels on key services, and the IT vendor is likely to get paid more quickly because the enterprise will not be tempted to

hold their payment until a service issue is remedied. It is therefore in the best interest of both parties to collaborate on value leakage mitigation.

7. Chargeback

Actual usage of services should be tracked and mapped to different business units, P&L centers, or geographies. This enables usage-based cost allocation and provides an incentive for business users to collaborate on reducing IT costs by changing their usage behavior. Chargeback audit trails are very important for tax and regulatory compliance purposes, especially in companies that contain multiple legal entities or multiple P&L centers. For companies with a more simple structure, it may be sufficient to use showback, a lightweight, less formal version of chargeback in which business units are informed of their portion of IT spending without actually transferring funds to charge them.

8. Performance Analysis and Service Delivery Management

SLAs and KPI commitments are generally defined in the vendor contract. However, they must be tracked on an ongoing basis to monitor performance for financial management purposes. Service delivery and financial performance can be improved by using performance analysis tools to identify the root cause of unmet objectives and to spot negative trends. Enterprises should also have a formal process for Service Requests and Authorizations to prevent unauthorized access to service tools and performance data. Other service level management principles such as tracking and managing assets, systematically resolving problems, and consistently reporting progress should also be followed.

9. Survey-based Customer Satisfaction Management

Getting input directly from the user community can help you identify issues before they result in contract breaches or service failures. It is recommended to regularly ask the actual users how happy they are with the service, where it can be improved, and what are their priorities for improvements.

10. Contract Administration

Contract administration goes beyond managing the physical contract document and includes management of the KPI data sources that are used to track contract obligations. It is important to perform functions such as

document Contract Change Management, Contract Issue Management, Service Provider Audits, and maintaining a Governance Library. In addition, the parties must also agree on how the contract is translated into service obligations and what data sources will be used to enforce those obligations. These operational data sources must then be documented and managed with the same rigor as the contract documents themselves.

Digital Fuel Makes it Easy

Digital Fuel provides IT financial management solutions that enable enterprises to quickly and easily implement the above listed best practices for IT Vendor Financial Management. Digital Fuel's on-demand business application delivers detailed visibility into IT spending and performance management, enabling enterprise customers to implement processes that drive greater results in their IT vendor relationships.

Get Started Now

To find out more about how Digital Fuel can help you realize greater benefits from IT Vendor Financial Management, contact a local Digital Fuel representative to ask for a free IT financial management assessment.

Learn more at www.DigitalFuel.com.

Experience with More than 500 Customers Worldwide

Digital Fuel's depth of experience in IT Vendor Financial Management stems from a decade of service to a long list of customers from around the globe. A few of our key customers include: ACS, BASF, BBC, BT, Capgemini, Cisco, Capital One, Deutsche Bank, Estee Lauder, Global Crossing, Hospira, IBM, Metro Group, Nestle, P&G, Schneider Electric, Telus, and VW.