

Building a Sourcing Strategy for Enterprise Software



Enterprise software companies with solutions that require extensive configuration and customization face challenges scaling their business. For many companies, growth in customer acquisitions outpaces the growth of internal configuration and implementation staff, creating a greater risk of failed implementations and/or foregone revenue. The bottleneck for many software implementations resides in personnel constraints. Hiring additional “right-skilled” employees to meet these requirements presents challenges in recruiting, training, managing, and most importantly keeping employees utilized.

Because of the complexities of enterprise software implementations, system implementations require specific personnel skill sets, capabilities and organizational and enterprise knowledge. In order for any software solution to be implemented, there is a lengthy value chain with various personnel and skillsets required. After the sales and discovery process, an internal or third party software implementation team typically configures and customizes the solution to meet the end user business requirements of the customer. In many cases software companies will continue to support customers through software maintenance, updates and customer support, but may also seek to leverage a systems integrator or third party vendor to do this. Today, software companies, in an effort to meet both customer and internal capacity requirements, are seeking partnerships to help execute the implementation of a new system, outside of the traditional use of a systems integrator.

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Kenny & Company is a management consulting firm offering Strategy, Operations and Technology services to our clients.

We exist because we love to do the work. After management consulting for 20+ years at some of the largest consulting companies globally, our partners realized that when it comes to consulting, bigger doesn't always mean better.

Instead, we've created a place where our ideas and opinions are grounded in experience, analysis and facts, leading to real problem solving and real solutions – a truly collaborative experience with our clients making their business our business.

We focus on getting the work done and prefer to let our work speak for itself. When we do speak, we don't talk about ourselves, but rather about what we do for our clients. We're proud of the strong character our entire team brings, the high intensity in which we thrive, and above all, doing great work.

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Companies turn to external partners for the cost benefits and flexibility of engaging personnel on projects as needed. Companies that outsource implementation and support responsibilities can reduce costs (using both onshore and offshore personnel), improve service levels, access leading implementation and support processes, and increase the availability of key internal skilled personnel. Partnerships can enable smaller software companies to attain greater capacity to implement more customers, thus allowing new sales to increase and potentially expand into new verticals and solutions areas. Additionally, some software companies prefer focusing their efforts on developing new software solutions rather than managing a professional services offering.

Meeting the proper personnel requirements for a software implementation through outsourcing requires an in depth look at a company's core competencies and priorities. For this discussion, we present two approaches to solve the scaling problem for small to mid-sized enterprise software companies: the Systems Integrator approach or the Partner Network Development approach.

Systems Integrator

A systems integrator typically offers an end-to-end solution for software implementations by combining skilled personnel and services sourced internally and through other outside vendors. According to Gartner, the systems integration landscape is evolving further to include a multi-sourcing approach, where companies are using multiple vendors to blend together an optimal set of internal and external providers.^[1] In any engagement, the systems integrator bears the risk and responsibilities associated with outsourcing different roles and functions in an implementation and therefore collects a premium for these services. Services offered by systems integrators include implementation and development (configuration), program and project planning, multiple work stream coordination and scheduling (project management), code and functional testing, quality assurance and customer and production support.

Examples of larger systems integrators include Accenture, Deloitte, HP, Cisco, Unisys, IBM, Oracle, and Infosys. Systems integrator service offerings typically include:

- Systems architecture
- Integration strategy and road map
- Application development
- Quality management and testing
- Business process management
- Project and portfolio management

Systems integrators enable software companies to allocate key internal personnel more effectively. In addition, the systems integrator bears the risks for any implementation issues and/or failures – ultimately “owning” the customer relationship. For the software company, this single point of accountability from the integrator serves to protect and shield the company from project issues and failures. A systems integrator can also offer a larger network of vendors and personnel/resource pool – this ability to increase capacity with short lead times can significantly reduce implementation times and dramatically improve resource planning and capacity.

Strengths

- Enables scalability and leading resource capacity management – the systems integrator manages capacity planning, supply and demand for skilled personnel
- Enables software companies to focus on other key business functions like new business development and product development – in many cases systems integrators are also an additional sales and distribution (VAR) channel
- Requires less project management and oversight – the systems integrator bears most if not all of these responsibilities
- Reduces effort and expenses related to implementation overhead and administration
- Mitigates a portion of the risk by passing ownership of implementation to the systems integrator

Weaknesses

- Increases overall implementation costs to the end customer – systems integrators charge a premium for management and overhead
- Eliminates a majority of the company revenue from implementation
- Reduces the company's quality control in solutions delivery
- Introduces added customer relationship management complexities – additional sales and product platform implementations are subject to systems integrator involvement and interactions
- Reduced flexibility and bargaining leverage because the vendor is single sourced (v. multi-sourced)

Partner Network

Alternatively, an enterprise software company can develop and manage its own network of partners that will provide the personnel and services required in a software platform implementation. This approach allows companies to select the best partner for each role and function of an implementation. The involvement of internal SMEs, managers, executives, and other internal personnel working closely with the selected partners can improve the quality of implementations and can reduce the risk of project failure. Companies exploring this model weigh these benefits against the additional costs from professional services overhead costs and the opportunity costs of devoting valued internal personnel to implementations rather than other key business functions like product development:

Strengths

- Leaves direct control over the customer relationship and quality of the solution delivered to the software company
- Reduces the risk of a single partner or systems integrator failure by spreading responsibilities across multiple partners
- Strengthens internal company alignment among core business functions from sales, and product development to professional services and customer support – managing implementations internally allows company personnel to collaborate and leverage expertise and knowledge quickly

- Provides an additional source of revenue – implementation services can be billed to customers with margins that result in net profit
- “Right” sources partners with specific expertise for each role and function required in implementations

Weaknesses

- Necessitates collaboration among multiple partners for implementation success – which is not easily forecasted, governed, or controlled
- Adds internal overhead costs to manage the network of partners: contract management, program/project oversight and governance, and communications and coordination, for example
- Limits capacity and bench size to internal personnel and partner personnel availability – also increases the burden of capacity planning and management for the software company
- Increases the risk of partner conflicts and relationship issues
- Places ownership of risk and responsibility for implementation failures and issues on the company

Best Strategy for an Enterprise Software Company

We have developed an assessment matrix that seeks to aid software companies in their analysis of which approach will work best for their businesses. The assessment matrix identifies the top priorities that should be evaluated and weighted when deciding on the appropriate model for scaling. Weighting of each priority will be largely dependent on a company's software delivery model (SaaS vs. Software as a Product), core competencies, and business strategy.

Partner Network vs. System Integrator Assessment Matrix

	Priority	Partner Network	System Integrator (SI)	Explanation
1	End user Customer Relationship Management	●	●	Partner Network: Software company keeps and maintains the customer relationship SI: SI owns the customer relationship and works directly with the customer
2	Implementation Product Quality Control	●	●	Partner Network: Software company engages the best partner for each service, engages company management/experts SI: Minimal software company management/expert involvement (on an as needed basis e.g. Oracle consulting group)
3	Enterprise Software Company Overhead and Management	●	●	Partner Network: Software company manages all partners and acts as integrator for all services SI: SI manages all services, duplication of responsibilities among partners eliminated
4	Single Source Risk Mitigation	●	●	Partner Network: More flexibility and bargaining power working with small partner/vendor SI: Locked into one partner, less bargaining power, potentially greater risk
5	Project Delivery and Execution Risk Mitigation	●	●	Partner Network: Software company controls partner collaboration and delivery of the project SI: SI takes ownership and accountability for implementation

Most Preferred ●
Least Preferred ●

Sourcing Strategy Framework

Whether a company decides to pursue a Systems Integrator or a Partner Network development approach, we recommend using a structured model when designing and creating a sourcing strategy. We have developed a framework for building a sustainable service provider relationship to maximize benefits while minimizing risks and time to engagement.

In our framework, we define five phases of building an optimal sourcing strategy:

- Gather Requirements
- Research and Assess
- Gather Information
- Evaluate and Select
- Engage and Manage

For each phase, we address the key activities that are performed to help establish a sourcing strategy as well as key questions and recommendations along the way:

Partner Network / System Integrator (SI) Development Framework

	Gather Requirements	Research and Assess	Gather Information	Evaluate and Select	Engage and Manage
Key Activities	<ul style="list-style-type: none"> • Performance gap analysis on implementation roles to identify personnel requirements • Define required roles and functions in detail • Develop a detailed RFI with partner requirements, partnership logistics, and questions 	<ul style="list-style-type: none"> • Seek industry expert recommendations for prospect references • Research prospects by role and function • Assess prospects and identify short-list of prospects to send RFI to 	<ul style="list-style-type: none"> • Send RFI packet including RFI, NDA, and FAQs to prospects • Collect references from prospects and survey references provided • Invite short-list of prospects for presentation and onsite meeting 	<ul style="list-style-type: none"> • Develop a scorecard template with clearly defined measurement criteria • Review gathered information and complete/evaluate each prospect • Compare prospects and make final selection of partners 	<ul style="list-style-type: none"> • Identify and establish required training for partner(s) • Define a communications and issue resolution strategy for partner(s) • Develop a process for onboarding and managing partner(s)
Key Questions	<ul style="list-style-type: none"> • What activities should be internal and what should be sourced through the SI/partner network? • What is the perceived level of importance and urgency within the organization? • Who are the stakeholders that should be involved in the RFI process? 	<ul style="list-style-type: none"> • What is the perceived capability set of each prospect? • What is the prospects level of confidence, enthusiasm and commitment? • Is the prospect's core competency, experience and profile aligned with the requirements? 	<ul style="list-style-type: none"> • Has the NDA been executed by both parties? • Is the RFI process and expectations clearly communicated and understood? • Does the reference survey provide quantifiable and objective responses? 	<ul style="list-style-type: none"> • Does the scorecard provide quantifiable and actionable results? • Does the prospect's experience, skillset, target market and culture align with the organization? • How does the prospect fit into the long-term strategy of the organization? 	<ul style="list-style-type: none"> • Are accountabilities clearly defined in the MSA and/or SOW and understood by all stakeholders? • Is there a clear plan for integrating into current processes? • What are KPIs, risk assessment frameworks, and controls in place during initial engagement and beyond?
Recommendations	<ul style="list-style-type: none"> • Set phase milestones and deadlines that are achievable by all stakeholders and communicate key dates internally • Involve key decision makers for their expertise, influence and sponsorship • Engage internal SMEs to assist in developing RFI and documenting requirements 	<ul style="list-style-type: none"> • Determine prospect appetite for the RFI during an introductory call to help develop the short list • Document FAQs during conversation with prospects that can be distributed to manage RFI quality upfront • Engage SMEs and industry experts to gather initial feedback on prospects 	<ul style="list-style-type: none"> • Invite RFI recipients to an explanatory Q&A web meeting to optimize time answering FAQs • Develop a reference survey that is measurable for ranking prospects • Cap short-list of prospects based on constraints (e.g., timeframe of engagement and dedicated resource) 	<ul style="list-style-type: none"> • Use SWOT analysis, objective criteria, and weight-based decision analytics • Select firms that have a history of working collaboratively with other firms • Select multiple partners for each role to mitigate poor performance risk and facilitate transitions 	<ul style="list-style-type: none"> • Pay attention to areas prone to gaps in service (e.g., deliverable handoffs between partners) • Avoid engaging multiple partners in the same role at the same customer • Develop a Partner Certification Program

Gather Requirements

A review of the roles and responsibilities required for a successful implementation should be performed to identify opportunities and requirements for the sourcing strategy. A solid understanding of the company's needs and requirements will form the baseline of the detailed analysis performed in the later phases. It is critical to involve key decision makers for their expertise, influence and sponsorship and maintain ongoing communication of key dates and milestones to all stakeholders.

Research and Assess

Our experience shows that managing the quality of the partner or systems integrator short list upfront saves time and prevents rework. Initial research can be gathered through conversations with industry experts and references. Furthermore, each conversation provides feedback in evaluating the prospect's appetite for the RFI through demonstrations of enthusiasm, confidence, and commitment.

Gather Information

The Request for Information (RFI) standardizes the process for gathering information from each potential partner or systems integrator. It documents required roles and responsibilities in detail and supports a valid comparison of proposals with a prioritized set of questions beyond just the price tag or rate tables. Managing the inevitable questions upfront with an explanatory Q&A session reduces time spent on redundant questions and demonstrates to potential vendors that there is a firm commitment from the company's leadership team behind the initiative.

Evaluate and Select

Considerable effort is required to select the right partner or systems integrator. It is critical to develop a selection process that focuses on a company's priorities to ensure that there is mutual alignment between the parties. The scorecard should take into account the company's priorities with weight-based decision analytics, producing objective, quantifiable, and actionable results.

Engage and Manage

The company's leadership team should maintain involvement both at engagement of a partner or systems integrator and during the management phase. In both sourcing models, accountabilities should be clearly defined and understood by all stakeholders. Consideration should be given to integration of the

sourcing activities with existing processes to avoid common pitfalls. For example, training/onboarding should be tested for relevance to external service providers and special attention should be paid to handoffs between internal/external service providers. In our experience, a central library on a shared site streamlines the information sharing, permissions management, and communication of process documentation and tutorials to be leveraged by external service providers.


A recent Gartner report identifies that 55% of companies focus on managing sourcing activities at a tactical level and come up short on in the areas of development and strategic management.^[2] Aligning business goals, such as customer satisfaction and measurable business benefits, with governance frameworks and training processes is critical to a continued and successful sourcing strategy for both the Partner Network and Systems Integrator models.

Furthermore, continued relationship management and demand management should emphasize flexibility, agility and transparency between the company and its service provider(s) for long-term success beyond current project performance. Leading companies look to constantly evolve the sourcing relationship to support business goals and drive the necessary mechanisms of risk management and strategy alignment to scale most effectively.

Conclusion

Today, enterprise software companies face the inevitable question of how to scale effectively, improve product implementation time to market, and increase capacity in an increasingly global and competitive environment. Partners can offer companies a utility like solution where they can scale up and scale down based on business conditions and market demand. Our structured process for assessing the strengths and weaknesses of various sourcing models drives an insightful look at how to capture the strategic value of a systems integrator or partner relationship based on business objectives and weighted priorities. Our framework for building a sustainable service provider relationship looks to harness key activities, questions and recommendations to maximize benefits while minimizing risks and time to engagement. Software companies should use partners whether it is a single partner acting as a systems integrator or a network of multiple partners to grow their business efficiently, economically, and most importantly, profitably.

About the Authors



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Notes

1. Petty, Christy "Gartner Highlights Three Pitfalls to Multisourcing" 2009
2. "Gartner IT Key Metrics Data: 2013 IT Outsourcing Summary Report" 2013

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Our Partners are personally committed to our clients and lead every engagement.

Experience, Perspective and Passion

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We work side-by-side with our clients in highly focused teams to solve complex business problems.

Client First

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We guarantee our clients complete satisfaction every engagement every time.

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