



# IT Vendor Consolidation – Sourcing More with Less



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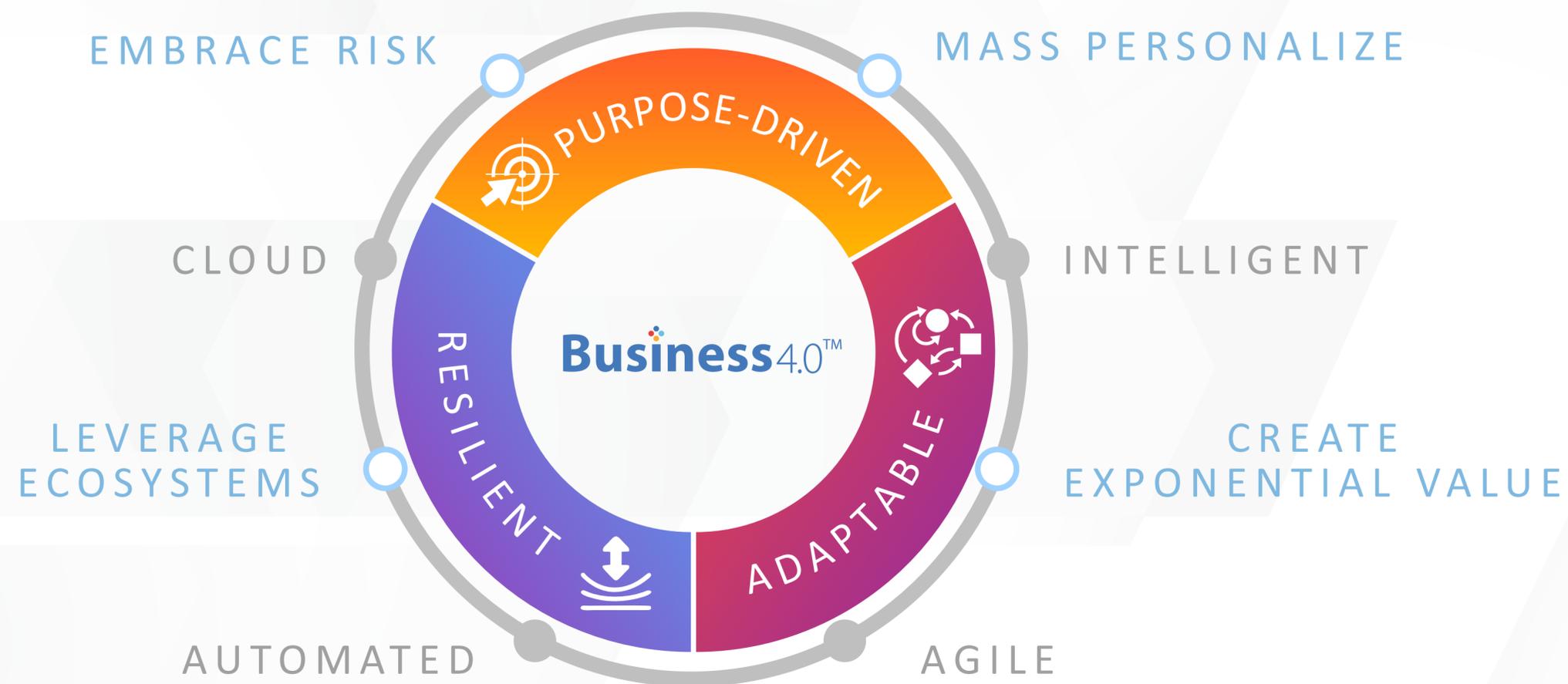
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## Executive Summary

Being resilient and adaptable are key to managing the fallout of the COVID-19 crisis. As organizations are embracing remote ways of working, accelerating the adoption of digital and strengthening their business continuity plans to meet immediate business requirements, they are re-examining their vendor landscape to determine the optimal number. This crisis has highlighted the perils of dealing with too many small vendors - mainly higher costs, increased exposure to risk and a slower pace of digital adoption. Organizations are now looking to re-imagine their relationship with vendors to drive lean and agile operations. There are three areas of improvement organizations are looking at:



- 1 Rapid cost take-out**  
Vendor consolidation could lead to up to 50% reduction in outsourced spend



- 2 Pandemic-proof resilience**  
Avoid risk posed by overdependence on individual vendors



- 3 Accelerated digital transformation**  
Focus on driving digitalization overcoming resistance of existing small contractors to change while onboarding new vendors to fast-track modernization

Rationalizing and consolidating multitude of vendors, however, is a complex task. It involves managing a smooth transfer of business-critical knowledge, calibrating the speed of transition and preparation for consolidation of vendors. A phased and well-planned approach is key to realizing its benefits.



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## Vendor Consolidation on a Fast Track

Post COVID-19, CIOs are focusing on making IT more 'elastic' so that it can bend but not break in handling extreme uncertainties which are likely to be the hallmarks of the new landscape. They are looking to convert the current challenges into future opportunities.

### Challenge

- IT organizations had to embrace remote working. A survey found 84% of all IT employees were successfully working remotely compared to 9% pre-COVID<sup>1</sup>.
- Small boutique vendors face the risk of insolvency during prolonged lean periods of demand. In June 2020, 722 companies have sought bankruptcy protection in the U.S. -- a 48% increase over the same period a year ago<sup>2</sup>.
- The COVID crisis has underlined the need to accelerate digital transformation. Seventy five percent of Fortune 500 CEOs expect this pandemic to accelerate technology transformation<sup>3</sup>.

### Opportunity

- Organizations are looking to use the current investments in scaling up remote working to drive down costs in the longer term. In this context, CIOs are reviewing the need for onsite vendor resources.
- Organizations want to reduce the risk involved by minimizing dependence on small vendors. CIOs are re-evaluating their vendors' ability to survive this pandemic.
- CIOs are searching for optimized ways to fast-track digital transformation.

The common thread that ties these opportunities is a fundamental question

**What is the optimal set of vendors to mitigate risks, deliver immediate cost savings, and accelerate digital transformation?**

<sup>1</sup><https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/the-covid-19-recovery-will-be-digital-a-plan-for-the-first-90-days>

<sup>2</sup><https://www.cbsnews.com/news/bankruptcy-coronavirus-recession-2020/>

<sup>3</sup><https://fortune.com/2020/05/14/fortune-500-ceo-survey-coronavirus-pandemic-predictions/>



*A US-based food and beverages company was working with 50 vendors to support 2,000 applications consolidated its outsourced services to reduce cost by 50% over five years.*

## Pros and Cons of the Out-tasking model

Out-tasking or engaging a multitude of small vendors to source resources in a time and material (T&M) mode and in an onsite-centric manner has remained prevalent. The recent paradigm shift from managed services to agile operating models has also contributed to this trend. While the model is flexible and allows companies to procure the needed capabilities quickly, it suffers from key shortcomings which are amplified in the current scenario. These include:



### Higher costs

While out-tasking may seem to offer lower costs due to the cheaper rate-cards offered by local contractors, the true costs tend to be much higher. Lower offshoring, sub-optimized service delivery and higher retained management costs contribute to a significantly higher cost. In fact, consolidating these vendors can yield up to 50% saving in maintenance, 39% in development and 38% in transformation services over five years.



### Increased risk

The flexibility that out-tasking offers comes with an increased exposure to co-employment risk of contractors. As the labor market shrinks due to COVID-19, the risk of co-employment increases. Besides this, the model is also plagued by overdependence on individual contractor skills and knowledge. This risk is often most acute in legacy technology areas such as Mainframes, which still form the critical infrastructure backbone of many industries and are being served by an ageing workforce difficult to replace.



### Slower pace of digital transformation

Organizations where out-tasking is the predominant sourcing model tend to be slower to implement digital transformation and modernization initiatives. The T&M contractors, who become custodians of critical knowledge, often lack the incentive to drive change as it might impact their work. On the other hand, organizations need to put in significant time and effort to drive such transformations by sourcing new contractors at scale. It involves screening the market, evaluating individual candidates, negotiating the many contracts and finally managing them.



# Overcoming the Barriers to Vendor Consolidation

While most CIOs agree to the need for vendor consolidation, they are also well aware of the challenges it poses. However, two things have changed: the demands put forth by COVID-19 necessitate a re-look and advancements in the approach towards vendor consolidation. New process improvements address the key barriers to vendor consolidation.



## Business critical knowledge residing with contractors

The biggest perceived risk in vendor consolidation is its impact on IT operations due to loss of critical contractors. However, modern vendor consolidation approaches of assessment and contract novation address this concern.

- 1 **Assessment via FTE heatmap:** The criticality of each contractor is rated based on objective parameters such as seniority, criticality of tasks, availability of backup and perceived criticality. This allows informed decisions without bias stemming from personal relationships.
- 2 **Contract novation:** Some vendors play critical roles in IT operations and onboarding them through contract novation ensures continuity while strengthening processes like knowledge management, demand management and continuous service improvements.

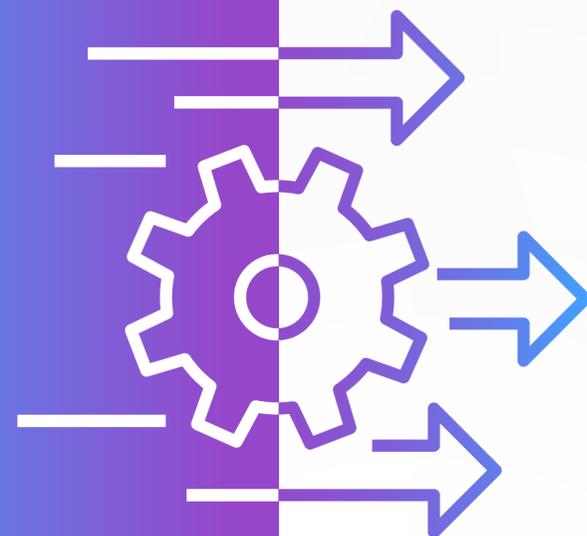


## Quality and speed of ramp-ups

Another reason often cited to continue with out-tasking is that it provides access to better quality talent faster. Talent is sourced locally, avoiding relocation or visa delays. Now, however, COVID-19 has made remote working the norm, and the constraint of sourcing locally needs to be re-visited. Global Workforce Analytics<sup>4</sup> estimates that the average employer saves about \$11,000 annually for each worker who operates remotely half the time.

The second perception is that out-tasking gives access to better quality talent. However, this could be the result of a choice supportive bias; the perception can be attributed to managers being engaged in the selection process. TCS' FTE heat map analysis collected from vendor consolidation initiatives reveal that the quality of resources from out-tasking is similar to that in organizations with consolidated vendor landscape.

<sup>4</sup><https://globalworkplaceanalytics.com/telecommuting-statistics>



### Preparedness for vendor consolidation

Many managers cite the significant internal change management required as a further impediment to vendor consolidation. Having benefited from the flexibility out-tasking offers, many managers are reluctant to lose it. They are more comfortable placing their trust on individuals and relationships than on a set of KPIs and SLAs. Modern vendor consolidation approaches address this concern by proposing a phased approach, which gives time for internal organizations to adapt to the new ways of working.

A phased approach begins with establishing the business case for vendor consolidation through an assessment. This is followed by the actual vendor consolidation activity, during which knowledge is transitioned to incoming teams and critical vendor contracts are novated. Post-transition, a managed workbench is established, which helps ease the change management required for moving from out-tasking to other sourcing models.

During this phase, organizations source a pool of hours from a 'managed workbench' instead of sourcing individual contractors. This minimizes the risk of co-employment as the large service provider assumes delivery ownership. This also paves the way to scaling skills necessary for driving digital transformations and other operating models such as managed services and agile.

Assessment	Consolidation/transition	Managed Workbench	Final State
<p><b>3 weeks</b></p> <ul style="list-style-type: none"> <li>■ Evaluation of vendors, FTEs, skills, demand-supply governance, among others</li> <li>■ Analyze the operating model and transition needs</li> <li>■ Evaluate contracting options</li> <li>■ Prepare a business case</li> </ul>	<p><b>3 months</b></p> <ul style="list-style-type: none"> <li>■ Contract novations based on the FTE heatmap</li> <li>■ Knowledge transition for the non-critical contractors</li> <li>■ Set up knowledge database and demand management process</li> </ul>	<p><b>6-12 months</b></p> <ul style="list-style-type: none"> <li>■ Source work hours from a pool of resources</li> <li>■ Strengthen knowledge management</li> <li>■ Optimize the location model</li> <li>■ Drive productivity improvement initiatives</li> </ul>	<ul style="list-style-type: none"> <li>■ Managed Services   Product Operating Model   Co-Managed Services</li> </ul>

This phased approach to vendor consolidation not only ensures a smooth transition but also results in exponential benefits. For instance, a German insurance firm reduced costs, established managed services and increased flexibility by consolidating 27 small vendors through a role-based transition in all departments, implementing a workbench model, and using four strategic partners for onsite resources and offshoring 60% of the services – all within nine months.



## Service Delivery Transformation through Vendor Consolidation

To summarize, such a risk-mitigated phased optimization of vendors and headcount supports a service delivery transformation, including right shoring, managed workbench with service catalogs and demand-capacity planning. The retained organization typically focuses on delivering value through transformation and governance. The service provider, in fact, becomes a strategic partner concerned with ensuring outcomes and not just completing tasks.

Thriving in the post-COVID world requires organizations to explore all opportunities to become adaptable by driving down costs, minimizing risks and accelerating their digital transformations. Vendor consolidation presents one such opportunity.

## About the Authors

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**Vikramjit Singh Grewal**  
Director,  
Strategic Solutions

Vikramjit Singh Grewal is a Director for Strategic Solutions, and is responsible for leading strategic pursuits for TCS across operating model transformation, digital

and multi-service line initiatives.

Earlier, Vikramjit was the Country Manager for Tata Consultancy Services, Norway.

He has 20 years of experience in the IT sector and holds a degree in Electrical and Electronics Engineering from NIT Surathkal and an MBA from Indian School of Business, Hyderabad.



**L.C. Manoj**  
Solutions Architect,  
Strategic Solutions

Manoj is a solutions architect advising organizations on IT operating model transformation, agility and outsourcing.

He has 22 years of experience in the IT industry working with customers across geographies, in the areas of application and product engineering services, pre-sales, program management and architecture.

Manoj holds a degree in Electrical and Electronics Engineering from College of Engineering, Trivandrum, India.

## Contact

For more information on vendor consolidation,  
please reach out to [eom.contacts@tcs.com](mailto:eom.contacts@tcs.com)

## About Tata Consultancy Services Ltd (TCS)

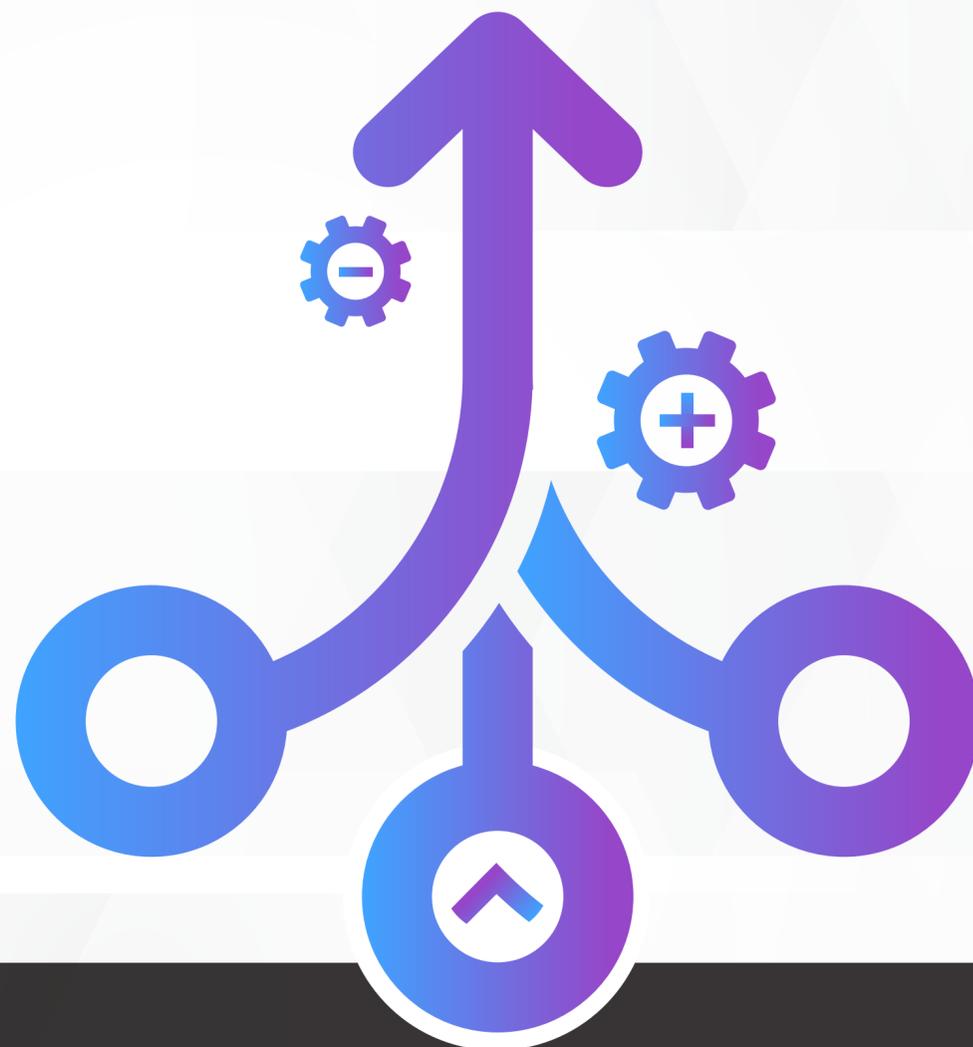
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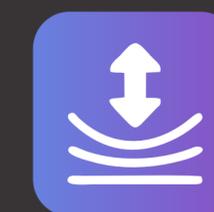
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