



Third-party manager coordinates external IT resources

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Companies are increasingly optimising their purchasing by leaving the management of external IT service providers on a time and material basis to a third-party manager such as emagine GmbH. This third-party manager takes charge of the search for an expert, taking care of the entire procurement processing and contract management - right through to invoicing and reporting.

Many tasks in the IT sector require specific expertise. To this end, freelancers or small IT firms are often engaged as service providers on a time and material basis that not only have a high degree of specialisation but are also extremely flexible. But where can such IT service providers be found? This is a question that companies are repeatedly being faced with. Because the jungle of offers is anything but transparent, orders are often assigned directly by the departments based on the idea of "if anyone knows anyone who knows someone...". Purchasing remains uninvolved. "Whether this delivers the greatest quality and best price is questionable, since there is no opportunity for comparison", says Dr. Thomas Gumsheimer, Partner at the strategic consulting firm Bain & Company in Munich.

The third-party manager provides the solution

With a high number of contracts, the problem is often that nobody really knows on what basis and at what price the contracts have been concluded, says Thomas Hoppe, Managing Director of emagine GmbH in Eschborn. Disadvantages such as a lack of transparency, absent control options and non-auditable contracts involving hundreds of contract partners offset the advantages of using freelancers. This contradiction is resolved by a third-party manager (TPM or Managed Service Provider) such as emagine GmbH. The GFT subsidiary centralises the management of external IT resources and takes charge of the entire procurement and administration process for customers.

A one-stop shop

The search for suitable IT service providers, their commissioning and the associated invoicing and reporting are part and parcel of emagine's role as a TPM. "We make life tangibly easier for purchasing", says Peter Eckert, Head of Operations at emagine. Albrecht O. Öhring, Purchasing Manager at ITERGO (a company in the ERGO insurance group) confirms this. Around 50 percent of all IT purchasing in his company involves services, with the total expenditure amounting to an average of hundreds of millions Euro. The original number of 300 external service providers was reduced over the course of the project to 50 strategic and 50 non-strategic providers.

"As the sole contact, emagine takes care of non-strategic IT service providers so that our scant resources in purchasing can be focused on strategic ones", continues the purchasing manager. Since this time, the company has benefited from tremendous time savings.

How the collaboration works

For companies with more than 50 external IT service providers, it is worthwhile engaging a third-party manager, explains emagine MD Hoppe, highlighting the considerable potential savings that come with such a move. It takes around three months for the concept to be implemented at the emagine customer's site, communications set up, the contractual principles put in place and processes defined. "Purchasing is generally our starting point at the customer's", says Eckert. In this role, emagine acts as contractual partner to the customer and the IT service provider. "For the commissioning company, this means centralisation with access to the entire market", explains Dr. Redmer Luxem, Head of the Sourcing Management Unit at Deutsche Bank, for whom emagine manages over 300 external providers a year. Often, the number of suppliers is also reduced through the process of outsourcing to a TPM, as was the case at ITERGO. This bundling led to greater scope for negotiation with the individual service providers and improved conditions thanks to larger order volumes.

Searching and finding

emagine first takes over the customer's existing pool of IT service providers. Secondly, the TPM renegotiates the contracts, taking recourse when required to their own pool of suppliers or searching specifically for further suppliers on the freelance market and among small IT companies. If a specific project is imminent, there are clearly-structured procedures. Before emagine provides the project manager with a pre-defined number of suitable profiles, usually within 72 hours, the TPM clarifies any further issues relating to the technical requirements on service providers. The decision is made following a personal discussion with the potential provider based on the information supplied regarding prices, services and market conditions. According to Öhring, there is more competition among these individual skill demands that ultimately bring about more favourable conditions for the company. emagine then draws up the service agreement. Moreover, standardising contract management increases transparency.

Trust is good, monitoring is better

Performance monitoring is performed by the customer. The project manager registers performance proofs or travel cost overviews. "We compare this information against the agreed contract and check whether the service provider is justified in invoicing travel costs, for example", says Eckert, describing how the process works. At the end of each month, emagine then presents the customer with invoices that represent the services actually delivered plus a flat-rate handling fee levied by emagine. The invoice layout and content are defined in advance with the customer. "Who is working in what sector for how long, how the price is developing and what changes are occurring in our situation are all questions that reporting can answer for us", says Deutsche Bank Sourcing Manager Luxem. The clearer the service providers and their services, the duration of their deployment and daily rates are mapped, the easier it is for customer to compare them.

Third-party managers on the up

Companies that engage a TPM can focus again on their core business and simplify their purchasing process. "This way, we cut our costs thanks to cheaper purchasing conditions and the reduction in procurement outlay", confirms Öhring, who continues to extol the advantages provided by emagine such as seamless controlling, improved comparability of conditions and greater transparency.

According to Gumsheimer, however, the increase in quality brought about by an optimised procurement process and the increased legal security made possible through standardised contracts should not be overlooked. The TMP concept is therefore a promising concept, although it is one that is still in its infancy in Germany. In the USA, it has already been in use since the 1990s with a much broader spectrum of services. "In future, the concept of 'onboarding', as will the handling of security checks and the creation of corporate passes for service providers, will also have a role to play in Germany", says Luxem. Yet at the moment, these are all visions of the future. According to Gumsheimer, only the fact that third-party managers are fundamentally on the way up is a given. He knows from experience that the trend towards process outsourcing in the fields of HR, procurement and financing is well underway and thus the framework for the provision of TPM services outlined.