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Procurement Talks: An Interview with Microsoft



Getting more from what you spend. Receiving more for what you provide.

Maximizing the value exchanged.

Everyone wants it. Both sides of the fence: buyers and sellers, customers and contractors, procurement and vendors.

Everyone wants win-win partnerships, because each side gets more by working together. This month's Revenue-IQ article is an attempt to shed light on Procurement's side of the fence.



To do that, I've interviewed Tom Lencer, Procurement Manager for Microsoft. He currently supports the online service businesses, such as MSN, Windows Live, and Windows Operating Systems.

When Tom first joined Microsoft 15 years ago he re-engineered and re-negotiated the janitorial contract. Though he's no longer involved with facility services, he started his career in property management and janitorial service. Before Microsoft, Tom was with a premiere Seattle office developer and also worked for ABM Janitorial Services, learning both sides of the janitorial industry.

Several hours of interviews were squeezed into this article and I take responsibility for any compression side-effects. We've taken questions from the Revenue-IQ blog and added some of our own.

If you have more questions go ahead and post them to "[If you could ask Microsoft, Yahoo and Expedia...](#)". There are two more interviews coming up and your questions are helpful.

Chris Arlen, President, Service Performance

What is Procurement's role in contract governance, in validating performance?

Let's start with Procurement's goals at Microsoft, which are speed of business (getting to market as quick as possible), ensuring compliance (to contract terms, Microsoft policy, and regulatory issues), and lastly, to get the best deal with the right vendor to

perform the work.

For validating performance, the key thing is making sure we have clearly defined requirements, no surprises on the what the end deliverable is. Making sure we have Service Level Agreements (SLAs) and Key Performance Indicators (KPIs) baked into the legal document, or requirements, that are clearly defined-ensuring they are measurable and reportable.

From the Microsoft procurement perspective, we help the business owner define their deliverables. Ultimately, it's the business owner's responsibility to manage that vendor and contract performance.

After that we'd get involved if there were issues that can't be resolved, or the scope of work is extended. Whatever amendments, or changes to contract deliverables, time or money, then we'd get involved in an existing contract.

Does Procurement validate vendors' performance?

It depends. We validate vendor performance in high complexity deals and large vendor spend. Based on that, we'll have [contract performance reviews](#), also called Quarterly Business Reviews (QBRs).

With those strategic vendors we go over performance in general. We look for feedback from key spenders (business owners) and their vendors. We sit down to see how we did and how they did.

That's from Procurement's perspective. Business owners may also conduct QBRs on their own. However, Procurement's process is more formal, repeatable, a lot more mature-where business owners QBRs tend to be a little more ad hoc.

It sounds like Procurement does validate performance, but limits it to larger spends only.

Yes, that's right. Once we've helped the business owner make the buy, it's really their responsibility to manage the vendor and deliverable for their contract. We only step in as needed.

Is it important to rate vendors' performance and report it within your organization?

It is. However we don't have a system in place to facilitate that. It's on our future radar. When you think how big Microsoft is, the number of vendors we have, the type of spend, we've tried in the past but have not been successful to have a centralized vendor rating system.

We're working towards that system. It'll help us take the emotion out of the buy. To better facilitate the process and get the best vendor, pricing and deliverables. It's important to capture and make vendor performance available.

Why take emotion out of the buy?

A buy is a very emotional thing. A lot of time it's tied to the

success of a business owner's performance. When you think about it that way, when it hits somebody in their pocket book-it's not just what's happening with Microsoft, it's what's happening with that individual business owner. And it matters how successful that vendor is.

Also, when thinking about deliverables, sometimes personality conflicts can get in the way. Sometimes there may be an issue at the beginning but ultimately the deliverable met everyone's expectation. Like with janitorial, you go to a tenant and service is terrible and you spend the next four months fixing things up. Then you go back and meet with that tenant and they're right back at four months ago. That's emotion.

If somebody does a good job, just because you don't like them, that's no reason why they shouldn't work at Microsoft. We're looking for the best vendors to do the work at the best price and meet our deliverables.

READER QUESTION: What triggers would automatically put a bid out for an underperforming vendor?

There's not one automatic flag. Triggers are unique to A) how severe the issue is B) the impact on end-users, i.e. customer service, quality, etc. C) how vendors perform during service recovery opportunities and D) are these new or repeated issues.

When do you know your outsourced relationship is in trouble? What are the signs?

By very succinct measurables. You're going to know by seeing the measurements. Number of complaints, repeated complaints, not accomplishing periodic tasks on schedule, etc.

Is service contract pricing considered elastic-that it can be reduced year after year without scope reductions?

No, but it's a way to force innovations. Reducing costs can drive innovation. This is where most vendors fail. Just because I ask for a cost reduction without scope change, doesn't mean the vendor has to accept it. Vendors can come back with a realistic counter proposal. Our goal is not to put a vendor out of business. That doesn't help anyone.

But vendors should always be looking for something new. And if they have a better idea of doing something, then bake it out first. Put structure around the idea: What's the cost? What's the benefit to customers? What's the ROI? Come in with a full proposal instead of a concept.

READER QUESTION: I would like to know how they break down the decision making process. Do they use a matrix with associated points and are all items equally important, or weighted?

At the beginning of any RFP we try to define the most important aspects for that vendors' category of work. With the business owners we weight the factors. For example, in one contract, cost may be an important factor. But in another case, quality's more

important, or the latest technology. I've never seen one go solely with the low bidder, not one contract where price is the only important factor. And I've seen many different types of bids.

READER QUESTION: What generally is most important to them and what really gets the most points on a weighted scale?

It really does vary. Again, think about the types of contracts out there, each has different business owners and unique criteria that can be weighted differently each time.

READER QUESTION: Is reputation truly the biggest buying plug?

It holds some weight. Not necessarily reputation as a vendor in the marketplace, but a vendor's reputation with work at Microsoft.

What if they haven't worked with Microsoft before?

It's rare we award high-cost (million plus) contracts to new vendors. Unless they have a unique technology or process. Typically, we start a new vendor with a lower cost, non-strategic contract as a testing ground.

Would you break apart a large contract to give a new vendor a small contract?

Breaking up a contract is something we do all the time. For example, outsourced product support had one vendor who began to slip. After we gave the original vendor a chance to improve, we then gave a small sliver to a new vendor. That got the original vendor's attention. It also made it easier if we had to transition in the future.

READER QUESTION: I am interested in hearing from you about how a company can work around the standard directive of registering on-line as a potential supplier, and then never hearing back. These large companies (Microsoft) are very protective of these departments, and there is not a way to "personalize" or to find out where you stand and who the decision maker is.

Facility services at Microsoft are controlled by outsourced vendors. We hire a vendor and they self-perform, or they subcontract a portion out to another vendor. Facility services aren't our core competencies, they're not strategic to Microsoft, and therefore not really worth our spending a lot of time on. So we outsource. We hand specs to our 3rd party vendor. They go out to bid, get the right price, and manage it. But we have very little involvement.

READER QUESTION: There has to be a way to break the "vault" when you have something of value to bring to an organization. What is it?

It's like any other sales process. Do I get unsolicited proposals? Yes. Do I spend a lot of time with them? No.

Procurement listens to our customers, who are Microsoft business owners. When they find a vendor at a tradeshow and then pass

them on to us, we listen.

We also find vendors through benchmarking, by talking to our competitors. We ask "How are you doing this? "Who have you used". And then checking references-you'd be surprised what dirty secrets are shared by some vendors' "golden references". There's a lot more info sharing than you might think.

Sales hasn't changed much over the years. Finding that crack, having a unique way of doing of business, ie. a better process. Getting that first contract, doing a good job when given the chance, and then you're ready for the next larger job.

What's the best way for vendors to make their first initial contact with you (drop in, phone, email, letter, referral, etc.)?

Have a business owner come to me with a new vendor, one who's unique compared to other vendors.

What makes you return a vendor's cold call left on voice mail?

I do return cold calls, but mainly to tell them we're not interested. Or, I'll ask them to send material, as a courtesy. A lot of people I work with don't even return calls.

What vendor information do you want up front before the next step?

If you're going to send me info, you need to highlight what makes you unique compared to your competitors. Has that happened? Rarely, but it has happened more with technology vendors. That's what I tell vendors to do when I return their calls.

Also, no vendor has told me in an introduction how much money they've saved a client. And then gave me a contact's email and phone number to verify it with them.

What do vendors do that absolutely drives you mad?

Tell me they're the best at everything. "We've got the best training, employees, managers" Nobody says we're terrible at it.

Has your work at Microsoft shaped your understanding and expectations of outsourcing? If so, how?

Microsoft is the innovator, it sets the standards, so outsourced vendors don't always bring the leading edge, or have the desire to be innovative. Microsoft is pulling the vendor forward. It should be the otherway around. The vendor should be pulling Microsoft ahead.

Have you read the [Service Contract Manifesto](#)?(trick question)

Not sure, I may have. Should I?

Absolutely. Thank you for your time answering our questions.

About Service Performance

We help customers and contractors get the most out of their service contracts.

- For more info on managing service contracts call Chris Arlen @ 206-780-2963, or email carlen@serviceperformance.com
- More contractor insights, visit: <http://www.serviceperformance.com/blog>
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