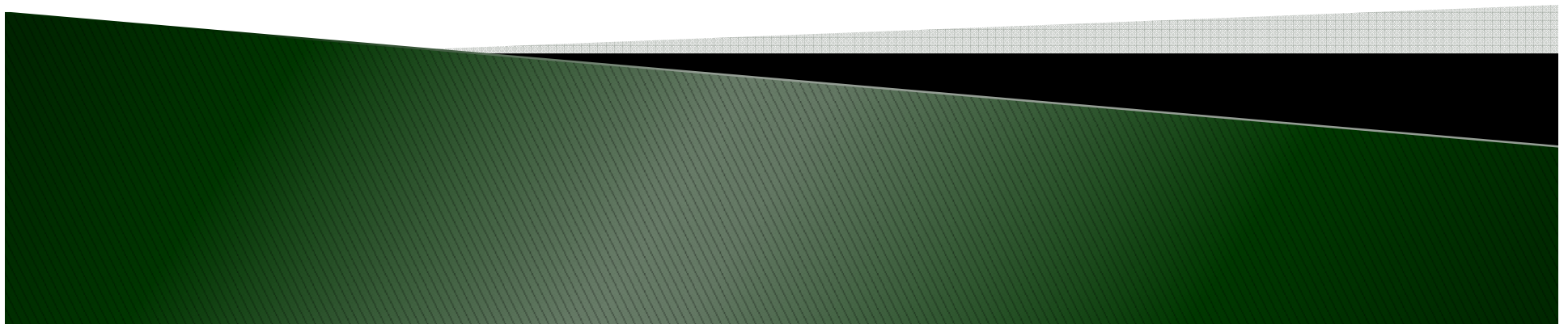




*Managing The Risks:
Vendors & Outsourced Relationships*
as Critical Components of an Enterprise-wide
BCP

Paul L. Striedl, CBCP



Agenda

- ▶ Discuss “real world” incidents to demonstrate the ever increasing reliance on vendors and third party relationships
- ▶ Why the trend toward outsourcing?
- ▶ Process to assess and mitigate supplier and outsourced relationship risks
- ▶ How to prepare appropriate documentation as well as how to analyze the responses
- ▶ Process for responding to requests for your BCP if you are the outsourced firm



Two companies, a common vendor, and a single incident

- ▶ The Source - Almar Latour, Wall Street Journal, 1/29/2001
- ▶ The Rivalry - Nokia (Finland) vs. L M Ericsson (Sweden)
- ▶ The Vendor - Phillips Electronics - manufacturer of cell phone microchips (Holland)
- ▶ The Incident: Albuquerque, NM: Friday, March 17, 2000, 8 pm
 - Lightning bolt hits electric power line, causes a fire in Phillips Electronics Fabrication Plant No. 22 – fire suppressed in 10 minutes
 - Phillips engineers conclude that cleanup will take a week, possibly more
 - 40% of plant's production was for Nokia and Ericsson



Phillips Immediate Follow-up

- ▶ Phillips contacts two top priority customers of Fab #22, Ericsson and Nokia, to inform them of the fire on Monday, March 20
- ▶ Nokia:
 - Knew immediately something was wrong – order numbers did not add up - “We were wondering why chip shipments slowed yesterday.”
- ▶ Ericsson:
 - “Thank you very much, keep us informed of the cleanup progress.”



Ericsson vs. Nokia: The First Week Response

► Nokia

- 5 components placed on “special monitor list”
- Offered to send Nokia engineers from their Dallas office to Albuquerque
- Daily calls to Phillips
- Nokia cell phone president alerted immediately
 - At meeting in Helsinki, Nokia president told Phillips executives “We need strong and determined action right now!”

► Ericsson

- Procurement staff waited on update calls from Phillips



Ericsson vs. Nokia: The Next Week's Response

- ▶ March 31 Update Call from Phillips - “Restoration is weeks away.”
- ▶ Nokia
 - CEO and cell phone President go to Holland, meet with CEO of Phillips Electronics – “We cannot accept the current status!”
 - Demand all Phillips production capacity world wide that can process needed chips
 - Initiate re-design of chips
- ▶ Ericsson
 - Staff informs head of mobile phone division that a fire had occurred, and plant wouldn't be up for several weeks – calls sounded like “One technician talking to another.”



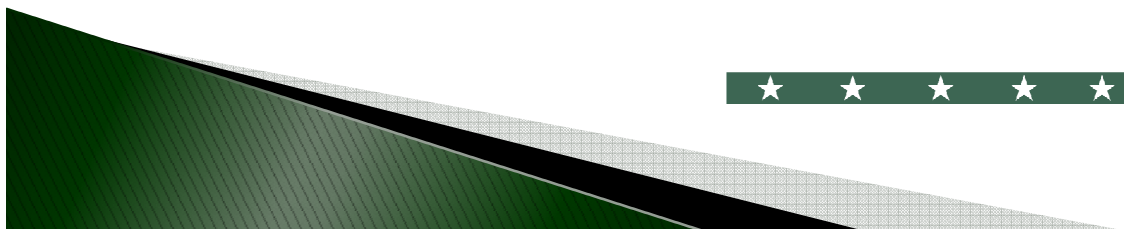
April, May, June : The Saga Continues.....

- ▶ Nokia maintained production of chips and sales of cell phones
 - Seized all available Phillips fabrication capacity world-wide (Eindhoven – 10 million chips, Shanghai freed up)
 - Contracted with 2 vendors to supply millions of chips with only 5 day lead time
- ▶ Ericsson looked for replacement chip fabrication capacity, can't find any - Nokia “got there first”
 - “Simplified” supply lines weeded out back up suppliers
 - Sales are lost



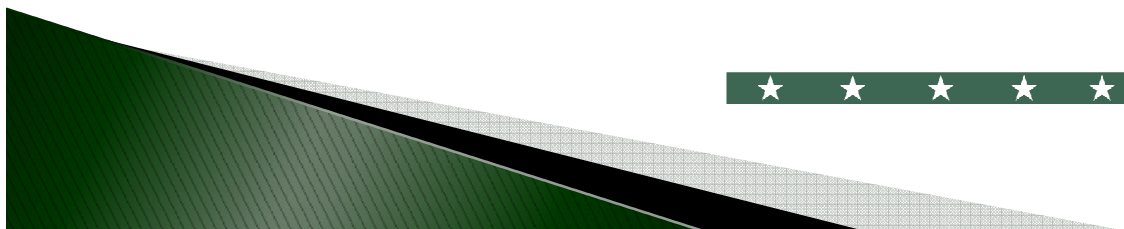
The Finale

- ▶ Nokia's cell phone market share rose from 27% to 30%
 - “Textbook example of crisis management.”
- ▶ Ericsson – “We did not have a plan B.”
 - July, 2000: announced loss of production, \$400 million (insurable) loss
 - Stock price fell 14%
 - Cell phone market share dropped from 12% to 9%
 - January, 2001: abandoned production of cell phones altogether - it's now “Sony Ericsson”



Why do companies rely on vendors / outsource critical processes?

- ▶ Economies of Scale
- ▶ Better Service and Customer Retention
- ▶ Fixed Costs can be transferred into a Variable Cost Model
- ▶ Increase Speed to Market
- ▶ Facilitate Scalability and Reduce Risk
- ▶ Focus on Core Capabilities / “Niche” Players
- ▶ Partnerships / Joint Vendors / Mergers / Acquisitions



Why partner with vendors/outsourcers?

- ▶ Vendors:
 - Critical processes are dependent upon vendors
 - Cheaper to eliminate redundant vendors / bulk pricing
 - Priorities are often unclear in a regional disaster
- ▶ Outsourcing:
 - Risk isn't reduced – it is shifted!
 - Negotiated Service Level Agreements (SLA's) do not necessarily cover disasters – force majeure
- ▶ Both:
 - Interdependent World / Global Economy – the jigsaw puzzle
 - Risk might be greater if THEY have a disaster, not you!
 - Internal Audit will include this in their scope



What should I do?

- ▶ Determine if they are a Certified Business Continuity Vendor (CBCV) – <https://www.drii.org/bccommunity/cbcvdirectory.php>
- ▶ At least once per year, analyze an “inventory” of all relationships
- ▶ Differentiate “vendors” from “third parties”
 - Vendors supply “inputs” to critical business functions
 - Third parties actually perform the business function
- ▶ Draft / distribute letters (vendor endorsements, BCP requests) for each
 - Advise management of process before letters go out
- ▶ Track sent out and received dates
- ▶ Follow up on questions and non-responses
- ▶ Analyze results



Vendor Endorsements.....

what should go in an endorsement?

- ▶ Reason for request – mitigation of regional disasters
- ▶ Appreciation of their support
- ▶ Not a contract
- ▶ Need product/service within standard timeframe
- ▶ Form
 - Name and contact information
 - Time to deliver product/service
 - Indication if they are a Certified Business Continuity Vendor (CBCV)
- ▶ Date to return by

If the relationship is significant enough, you might want to consider the contract route



Vendor Endorsement – Page 1

Company Logo

Name of Company
Street Address
City, State, Zip

Month, Date, Year

Dear Valued **Name of Company** Supplier:

As a supplier to **Name of Company**, we commend your commitment to serving our needs.

Name of Company has begun its review of our suppliers and their plans for continuing supplying and or supporting their products and services used by **Name of Company**.

We appreciate your past service and request your support of our efforts to ensure Business Continuity in the event of a disaster. Due to the possibility of widespread devastation affecting numerous companies at the same time, we are asking your support through your plans to continue to provide the necessary services needed for **Name of Company** to service our clients. Ideally, we would desire material / service from you within 24 hours of notification by **Name of Company**. However, we understand your limitations and would like to meet and discuss how we can partner together to achieve this important goal.

Please review the enclosed Endorsement Letter, complete, sign and date it, and return the letter to me by **April 11, 2002** acknowledging your support and indicating a convenient date and time to meet and discuss the overall Business Continuity Partnership Program. For your convenience you may fax your endorsement to **xxx-xxx-xxxx**.

If the recommended 24-hour time frame (of service availability noted in the Endorsement Letter) is not acceptable or not achievable, please note what scope of availability **Name of Company** can expect. If you are uncertain, please indicate that as well. Your answers are not considered to be commitments. They will be used to examine our interdependencies and to develop an overall Business Continuity Program that will assure our mutual success.

Once again, this letter is not intended as a contract, but merely to serve as a plan of action during a disaster.

Your support in this process is very much appreciated. If you have any questions, please feel free to call me at **xxx-xxx-xxxx**.

Sincerely,

Your Name
Business Continuity Specialist
Name of Company – IT Operations

Vendor Endorsement – Page 2

First Endorsement

Vendor agrees to provide First Priority to the recovery efforts of **Name of Company**. Service/material can be provided to **Name of Company** within 24 (note estimated hours if different than 24 _____) hours of notification. Request for disaster recovery assistance should be made through:

Vendor Name: _____

Primary Contact: _____

Phone Number: _____ Cell Number: _____

Mailing Address: _____

City, State, Zip: _____

CBCV Number (if applicable): _____ Contract Number: _____

E-mail and/ or Internet address: _____

Comments: _____

Dates and Times that are convenient to meet and discuss the Business Continuity Program:

Signature

Date

Printed Name

Return to:
Your Name
Name of Company
Street Address
City, State, Zip

BCP requests..... what should they contain?

- ▶ Be very specific (function, platform) about what you are asking for!
- ▶ Request information about last exercise/test
- ▶ Reason for request
 - Identify the significance of the service provided to your customers
- ▶ Appreciation of their support
- ▶ Date by which it must be returned



BCP Request

Company Logo

Company Name
Address
City, ST, zip code

Month, Date, Year

Enter Point of Contact Name
Name of Company
Address
City, ST, zip code

Dear Enter Name:

As a strategic third party provider of critical services to Requestor, we would appreciate receiving a copy of your business continuity / disaster recovery plan that specifically addresses the monitoring/ technical support of Triton Connect, Triton Connect Error Manager, Triton Connect service, Triton Error Manager 1 service, and Triton Error Manager 2 service.

As you are aware, this process is a critical part of Requestor's ability to meet the needs of our customers. Having knowledge and understanding of the contingency plans for your company and the service(s) you provide REQUESTOR are important to our ability to continue to serve our customers. Upon receiving your information, our staff will review your plans and integrate your coverage process into the plans for REQUESTOR.

Please respond to my request by Month/Date/Year. If you are not the correct individual to handle this request or should you have any questions, please call me at XXX-XXX-XXXX.

Sincerely,

Name
Title
Company Name
E-mail Address

What should I expect in return?

► Vendor Endorsements

- Signed endorsement, CAN supply service/product within timeframe (additional contacts, phone numbers)
- Signed endorsement, CAN'T supply within timeframe
- Promise to deliver within timeframe, but refuse to sign
- No response

► Requests for BCP's

- Complete or partial plans - not the norm
- "Executive Summaries" or scheduled site meeting
- Statement on Auditing Standards (SAS-70)
- No response



What do I do with all this documentation?

- ▶ Review and analyze – can RTO's still be met?
- ▶ Create and present report for BCP Steering Committee
 - identify who provided what when and who didn't provide
 - document risks inherent in provided material
 - suggest alternate vendors if necessary
 - place the onus on senior management (responsibility vs. authority)
- ▶ Provide information to your “risk partners” in internal audit



What should I do to follow up?

- ▶ Ensure this becomes (at least) an annual process
- ▶ Include vendor endorsements as part of BCP exercises
- ▶ Participate in “significant” third party relationship BCP testing
- ▶ Become a partner in the “business expansion” process by including BCP requirements up front in SLA’s / contracts / RFP’s / SOW’s
- ▶ Build partnership w/ Legal as another “catch all”



What should I do if I am asked to provide a copy of my BCP?

- ▶ Don't provide actual BCP's – they are confidential and proprietary to your organization. Develop and provide only the “Executive Summary” which should include:
 - High level recovery strategy
 - Facilities / functions covered
 - Hot site providers, if any, and #'s of seats
- ***NEVER include staff names / phone numbers***
- ***Have your Legal Department review the document before you deliver it to the requestor***
- ▶ Allow requestor to come on site and view plans in person; however, DO NOT let them copy or remove documentation from your facility!
 - ▶ Permit requestor to partner and participate in testing
 - ▶ Provide SAS-70 (if BCP is mentioned)



What else should I consider?

- ▶ Understand who is asking for a copy of your BCP (or summary) and why?
 - Corporate Espionage is a real threat
- ▶ Document who is requesting this information and ensure that this is provided to your Internal Audit department
- ▶ Provide Executive Summary of your BCP in written form ONLY
 - No fax, no e-mail (not even .pdf!) Delivery should be via designated carrier (e.g., U.S. Postal Service, UPS, Federal Express, DHL)
- ▶ Update summary regularly. It **MUST** remain current with your BCP!



Any questions?

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