Vendor Centric

HOW TO KICK START YOUR VENDOR MANAGEMENT PROGRAM

A Practical Guide to Establishing an Effective, Scalable Vendor Management Program

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Getting Started with Vendor Management

Start Here

Effective vendor management is essential for any organization looking to optimize operations, reduce costs, and maintain a competitive edge in today's fast-paced business environment.

Boards, auditors, regulators, and customers are all pushing for standardized, effective vendor management practices that improve cost control, risk mitigation, business continuity, and compliance with a growing list of regulatory requirements.

Employees are also asking for clearer policies and simpler processes so they can quickly find and begin working with the vendors they need.

There are a variety of benefits effective vendor management provides, including:

- **Improving vendor performance and ROI**
- **Strengthening business continuity through better management of critical vendors**
- **Reducing cybersecurity risk with third parties**
- **Complying with a growing list of international and domestic regulations**
- **Controlling costs to improve the bottom line**

But establishing a vendor management program doesn't happen overnight. In fact, getting a new program up and running can be a challenge - especially when an organization has competing priorities and resource constraints.

That's exactly why we created this guide: to give you a little 'kick start' in your vendor management journey.

On the following pages, you'll find practical steps you can follow to get your vendor management program off the ground. Our approach is based on over a decade of hands-on experience helping organizations - like yours - establish, implement and optimize their vendor management programs.

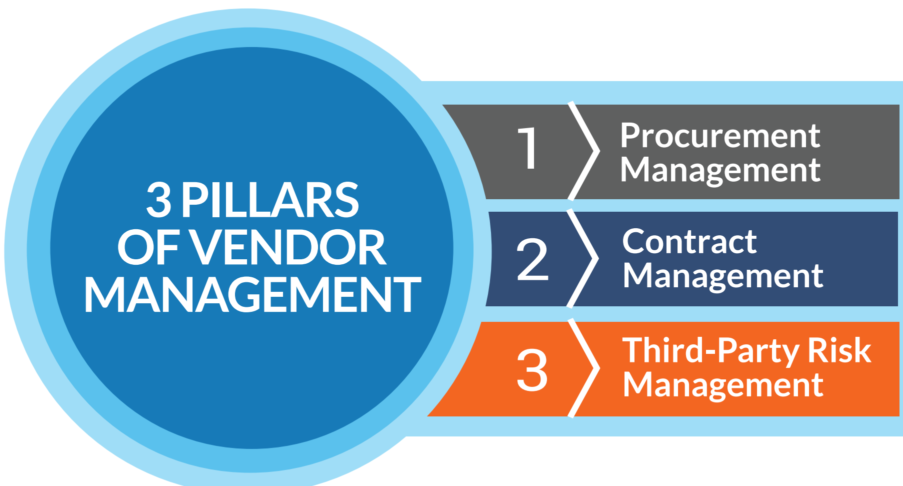
But before we get into the process, let's start by exploring some key vendor management fundamentals such as:

- **Establishing a definition for vendor management,**
- **Identifying your vendor management stakeholders,**
- **Clarifying your in-scope vendors, and**
- **Understanding the importance of adopting a vendor management framework.**

What Is Vendor Management?

One of the things that makes vendor management unique from business functions like accounting, IT, or HR is that it isn't isolated to a single department. Rather, it's a coordinated effort between the three operational areas that collectively encompass all of the key activities associated with managing your vendors.

- **Procurement Management:** Sourcing your vendors and buying goods and services.
- **Contract Management:** Executing and managing low risk, high value contracts.
- **Third-Party Risk Management:** Assessing, monitoring, and continually mitigating risk with vendors and other third parties.



Effective vendor management aligns all three operational areas - through coordinated governance - to enable an organization to maintain high-value and low-risk relationships with its ecosystem of third-party vendors.

Who Are the Vendor Management Stakeholders?

As mentioned above, vendor management isn't isolated to a single department in the organization; it requires coordination and collaboration between multiple departments.

So who's typically involved in vendor management activities? The diagram below highlights the key stakeholders that are often part of the vendor management process.

As you can see, there is a diverse group of stakeholders involved in vendor management. It will be important for you to engage all of the stakeholders applicable to your organization in the process of establishing your program. Each will bring a unique set of requirements that must be understood and integrated into your program, and roles and responsibilities that must be defined to provide clarity and accountability.

Which Vendors Should Be In-Scope?

Generally, vendors are the individuals or businesses that provide goods or services to your organization. These can include suppliers of raw materials, manufacturers of finished products, distributors of software, and service providers such as accountants, lawyers, and IT consultants.

In-scope vendors refers to those vendors you want to actively manage through your vendor management program. Depending on your organization's size and industry, you may have a few hundred to a few thousand vendors. Most organizations have a lot more vendors than they even realize.

When kick-starting a new program, you want to avoid the temptation to 'boil the ocean.' You really need to focus on getting traction with your most critical and your riskiest vendors first (see callout on the next page) - at least initially - then you can expand the program as you grow and mature.

A practical way to decide which vendors are in-scope is to start by defining and eliminating categories of vendors who are not in scope. These are typically vendors that are low-cost, low-risk to your organization.

Here are a few examples:

Transactional Vendors: Vendors that are used for one-time or infrequent purchases, and whose goods/services present little to no risk.

Low-Risk Vendors: Vendors that may be used on an ongoing basis, but provide routine or non-critical goods or services that carry little to no risk.

Internal Vendors: Vendors that are part of your organization, such as a subsidiary or affiliate company, that are subject to complying with your organization's own policies and procedures. (Note: These entities should still be subject to the same level of contract oversight, but generally don't need to be sourced and risk-assessed like external vendors.)

It's important to note that these are just examples. The specific types of vendors to exclude from your vendor management program will depend on your risk appetite, regulatory requirements, and business needs.

Tip:

One of the best ways to create a complete inventory of your vendors is to simply follow the money! There are generally two main sources of data. The first and primary source will be your accounts payable system. It lists everyone you pay. The second supplemental source is your credit card statements (if your company has a commercial card program). They house information on vendors you use that don't typically show in your accounts payable system.

Critical Vendors vs. Risky Vendors: What's the Difference?

It is a common misnomer that a 'critical vendor' and a 'high-risk vendor' are one and the same. They are not, and it's important to delineate between the two when establishing your program.

Critical Vendors

A critical vendor is one that you rely on heavily to support the most important operational strategies or functions (i.e., 'critical activities') within your organization. Critical vendors oftentimes include those that are:

- Instrumental to your supply chain,
- Essential to your day-to-day operations, or
- Necessary for you to comply with laws and regulations.

High Risk Vendors

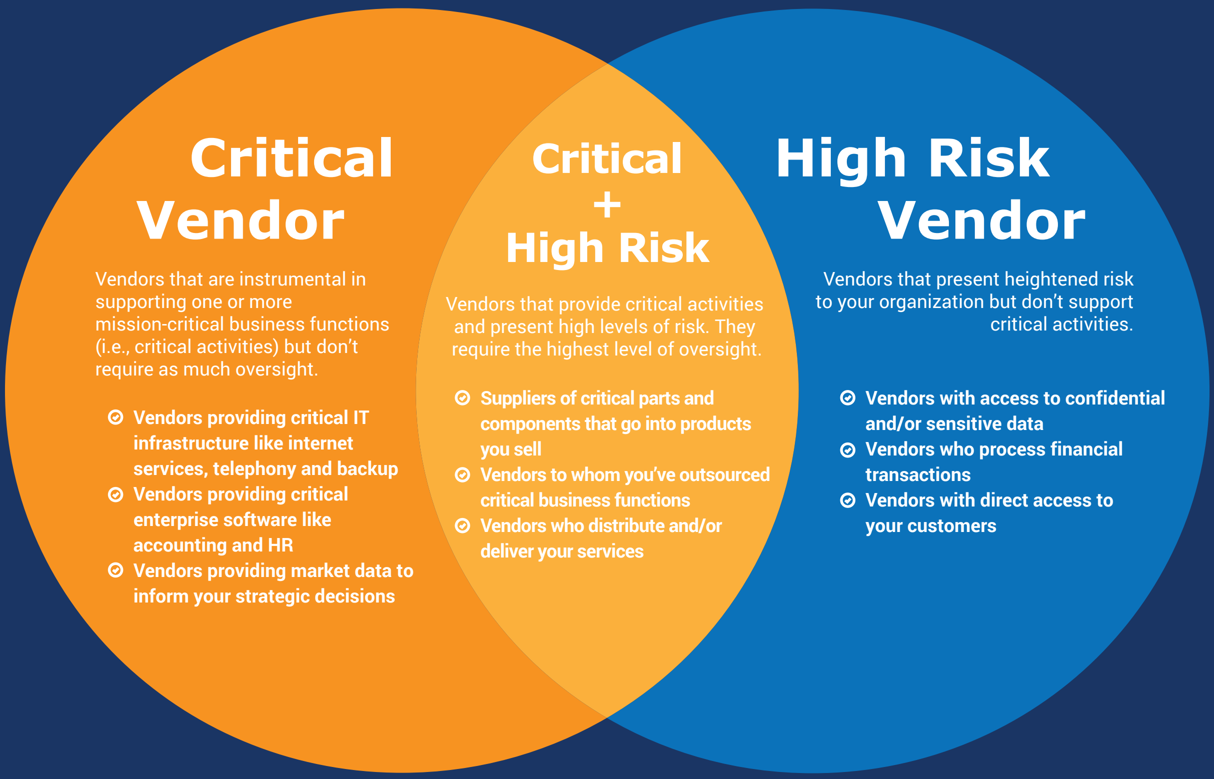
On the other hand, a high-risk vendor is one that presents a heightened level of risk to your organization regardless of how critical they are to your operations.

A common example is a vendor that has access to confidential data. These vendors are at higher risk due to their access to your data, but they may not have a significant role in supporting your critical activities. Other factors that can elevate the risk of a vendor include:

- Access to your building/offices and direct contact with your employees,
- Direct interface with your customers, and
- If they rely on downstream contractors or service providers (i.e., Nth parties) to provide goods and services to you.

Is a Critical Vendor Always a High-Risk Vendor?

No. Every organization has a subset of vendors that are critical but also lower risk. Your internet services provider is a good example. While your internet connection is certainly critical to your day-to-day operations, the risks associated with most internet service providers are relatively low.



Identifying Your Critical Vendors

Defining your critical vendors begins with being clear about your own critical activities. These activities are unique to each organization, so you'll want to ensure yours are specific and applicable to you.

A good place to start is with your company's business continuity plan (BCP) which should already define critical activities for you. From there, it's about identifying and segmenting the vendors that are critical to supporting those activities.

Why You Need a Vendor Management Framework

Like with any business discipline, there are fundamentals you need to follow when setting up your vendor management program – you can't make up the rules as you go along. A vendor management framework provides the blueprint for the activities and governance you need to holistically manage vendors from start to finish.

Vendor Centric's framework consists of two main parts. The outer rings are the stages of the vendor management lifecycle that include all the activities that must be performed throughout the relationship with your vendors. The inner circle is the governance that must be in place to support an efficient, effective vendor management function.

Let's take a look at each.

Vendor Management Lifecycle Stages

Best practice is to take a lifecycle approach to managing vendor relationships. Adopting a lifecycle approach means your program incorporates all activities involved in managing vendors throughout the lifetime of their relationship with you – from sourcing to offboarding. There are costs, risks, performance, and compliance requirements to be managed along the way, and they all need to be considered. The lifecycle is pictured in the outer ring and includes:

- **Sourcing**
  Selecting the right vendor and solution for each unique set of requirements.

- **Risk Assessment & Due Diligence**
  Evaluating and mitigating potential risks before entering into a contract.

- **Contracting & Onboarding**
  Negotiating high value, low risk contracts and integrating vendors into your operations.

- **Purchasing**
  Buying the goods and services you need through efficient purchasing and spend control.

- **Ongoing Management & Monitoring**
  Managing vendor performance and compliance, and monitoring and mitigating risks.

- **Termination & Offboarding**
  Formally ending and de-risking the relationship, including a formal exit strategy for critical vendors.

Vendor Management Governance

Your vendor management governance (the inner circle) is the glue that holds your entire vendor management program together. It's your people, processes, systems and oversight. It's also your approach to continuous improvement and value creation, which ultimately enables your organization to save money, reduce risk, ensure compliance, and create high-value vendor relationships.

Governance is critical to the effectiveness of your vendor management program. We'll dive into it deeper in Step #2 later in this guide.

Tip:

The scope of your vendor management function should always scale to your organization's requirements, size, and overall risk appetite. But all components of the vendor management framework need to be in place for the function to be effective.

Vendor Centric's 3-Step Approach to Kick-Start Your Vendor Management Program

Implementing your vendor management program won't happen overnight. But it can be done in an efficient, process-driven way that will get you quick wins as you build out your fundamentals.

Here's the three step process we follow when helping our clients create a new vendor management program.

- **Step #1: Baseline Your Current Operations**
  Establishing a baseline is crucial to achieving the goals of your vendor management program. If you want to increase efficiency, improve ROI, and strengthen vendor relationships, you have to know where you're starting from.

  In this step, you will evaluate how you currently manage vendor activities and identify areas of improvement. Armed with this information, you can create the overarching strategy and roadmap for your vendor management program.

- **Step #2: Establish Your Governance Infrastructure**
  Creating a strong governance infrastructure is essential for moving forward with your vendor management strategy. After all, if you don't have policies, procedures, resources, technology, and oversight in place, your vendor management program will quickly fall apart.

  In this step, you will begin to set up each component of a strong governance infrastructure and determine how your vendor management operations will flow on a day-to-day basis. Doing so will create efficiency and make your program more effective.

- **Step #3: Pilot Test, Refine, and Start Creating Value**
  This is where the rubber meets the road. Only by beginning to implement your vendor management program with your initial in-scope vendors will you be able to determine where the program succeeds and where improvements need to be made.

  In this step, you'll run a pilot test of your program, gather valuable data, analyze the results, and make decisions on how to move forward. As you iterate this process, you will refine your operations and start creating real value with your vendor management program.

Throughout the rest of this guide, we'll walk you through each step and set you up for success.

Step #1: Baseline Your Current Operations

The first step to kick-starting your vendor management program is to understand your starting point, which you can do by performing a baseline assessment of your current operations.

Establishing a baseline is important for several reasons:

1. **It gets you organized.**
A baseline allows you to identify and organize all of the disparate policies, processes, systems, and people currently involved in vendor management activities. It provides real clarity about what you are currently doing to manage your vendors.

2. **It enables you to set goals and priorities.**
By knowing your starting point, you can establish goals for improvements you want to make across procurement, contract management, and third-party risk operations. Then, based on the number and difficulty of executing those improvements, you can prioritize which are most important to tackle in your initial vendor management program. This allows you to focus your efforts on the most pressing issues and make the most impactful changes.

3. **It provides a benchmark for measuring your progress:**
A baseline serves as your starting point against which future progress can be measured. It allows you to track the impact of any improvements you make, determine whether they are having the desired effect, and hold everyone accountable for results.

4. **It allows for effective resource allocation:**
By using your baseline to establish priorities for your initial vendor management program, you can make informed decisions about how to allocate resources for establishing and implementing it.

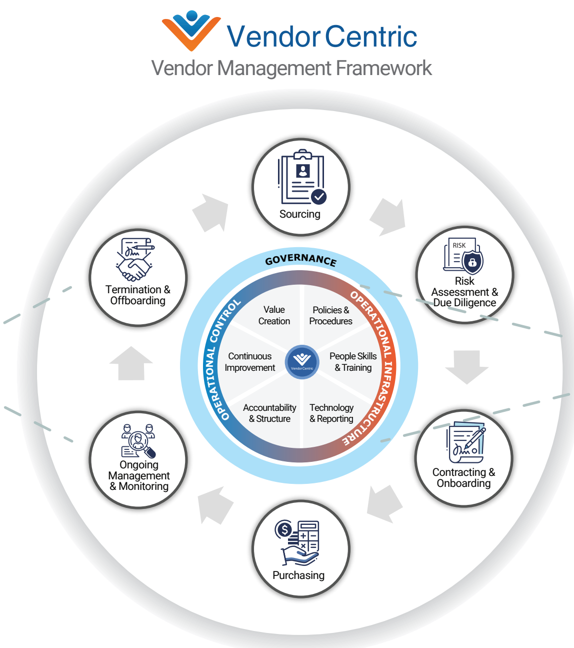
5. **It enables data-driven decision making:**
Baseline data provides a foundation for making data-driven decisions. Without a baseline, it can be difficult to determine what changes are having a positive impact and which are not. With a baseline in place, you can use data to make more informed decisions and optimize your vendor management operations.

How to Perform Your Vendor Management Baseline

Your baseline should include an assessment of the activities you currently perform to manage vendors throughout the lifecycle (outer ring of our framework) and the infrastructure you have in place to provide effective governance for your program (inner circle of our framework).

Lifecycle Stages

Baseline the activities you currently perform from the very beginning (sourcing) all the way through the end (termination and off boarding).



Governance

Also baseline your current policies, procedure, systems, and roles/responsibilities - your infrastructure.

Performing your baseline will require you to break down the components you need to assess across all stages of the lifecycle and all components of governance. You'll then need to identify the stakeholders to engage in the baselining process, and collect the necessary information to perform the baseline. This should include your current policies, procedures, forms, and templates used in vendor management.

Once you've completed your baseline, you can use it to define and prioritize the improvements you want to make, and to create a roadmap with milestones to establish and operationalize your vendor management program. The roadmap becomes the compass for your journey.

Get Your Baseline Assessment and Operational Roadmap in as Little as 8 Weeks

Vendor Centric will baseline your current operations against 50 best-practice components of vendor management, and create a prioritized operational roadmap you can use to start building out your program.

Click to schedule a call to learn more

Step #2:
Establish Your Governance Infrastructure

With your baseline and roadmap in place, you'll now have a clear plan for priorities and understand the size and scope of the vendor management program you want to create. Which leads you to step #2 - building out your governance.

The scope and complexity of your governance should scale to your organization's priorities, resources, and overall risk appetite. However, all components of the governance framework ***must*** be in place for vendor management to be effective over the long-haul.

Here is a breakdown of the six governance components you'll need to establish.

1 **Policies & Procedures**
Policies and procedures provide guidelines for decision-making and actions within your organization, making operations more consistent, compliant, and efficient.

2 **People, Skills & Training**
Aligning people, skills, and training ensures that the organization has the necessary human resources with the right knowledge and skills to govern, manage, and implement policies, plans, and procedures in line with the organization's goals and objectives.

3 **Technology & Reporting**
Technology and reporting are critical for governance as they provide the tools and data necessary to monitor and measure performance, identify risks and issues, and make informed decisions to support the organization's overall success.

4 **Accountability & Structure**
Accountability and oversight ensure that actions and decisions are taken in line with the organization's values, policies, and objectives, and that there is transparency and responsiveness to stakeholders' needs and concerns.

5 **Continuous Improvement**
Continuous improvement involves regularly reviewing and updating policies, procedures, and practices so they remain aligned with the organization's goals and objectives, and the organization can consistently improve its performance while addressing any identified issues or risks.

3

Value Creation

Value creation is the end goal for every vendor management program. It ensures the management of vendors is continuously aligned with changing business strategies and goals, and produces measurable value through business continuity, risk reduction, cost savings, and other impactful outcomes.

Establishing your governance infrastructure isn't easy. It requires careful planning, stakeholder engagement, and a lot of key decisions along the way that will shape the ultimate design of your vendor management program.

To help you out, we created a Vendor Management Governance Checklist you can use as your guide for the process. It defines all of the components and subcomponents you'll need to have in place as you build out your vendor management governance.

The checklist is included for you in the back of this guide!

Step #3: Pilot Test, Refine and Start Creating Value

For example, when creating a due diligence questionnaire for the first time, you want to test the questionnaire to see how vendors respond. You may learn that certain questions were confusing, or perhaps you didn't collect all of the information you thought you wanted.

Pilot testing enables you to test processes and forms, and make refinements, before rolling them out to the entire organization. Additionally, pilot testing can help you gather data and feedback from your employees, leading to improvements simplification and improvements to processes. Overall, pilot testing will help you save time and resources by identifying and addressing problems early on and increasing the chances of success for the new process.

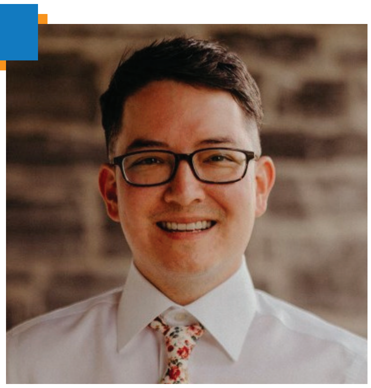
Pilot testing a new process includes the following steps:

- **Define the goals and objectives for the pilot test.** Identify what the organization hopes to accomplish with the new process and what specific metrics will be used to evaluate its success.
- **Develop a plan for the pilot test.** Outline the specific steps of the new process, identify the people and resources needed to execute it, and determine the timeline for the pilot test.
- **Select a pilot group.** Identify the specific individuals or teams who will participate in the pilot test and ensure that they have the necessary skills and resources to execute the new process effectively.
- **Implement the new process.** Provide any necessary training or resources to the pilot group and closely monitor and document the progress of the pilot test.
- **Evaluate the pilot test.** Analyze the data and feedback gathered during the pilot test and determine whether the new process was successful in meeting its goals and objectives.
- **Make decisions on the next step.** Decide whether to fully implement the new process, make adjustments and retest, or scrap it altogether.
- **Communicate the results.** Share the results of the pilot test with relevant stakeholders and discuss any next steps or decisions that have been made.

Case Study: How Legal & General Took Vendor Management from Vision to Value

Legal & General America ("LGA") has provided financial protection to American families for nearly 70 years. They are one of the top five life insurance providers in the United States.

In 2018, with compliance deadlines looming, LGA began working with Vendor Centric to quickly establish a compliant, scalable vendor management program. In six months, Vendor Centric helped LGA design, document, and operationalize their initial vendor management program, which included implementing vendor risk management software and creating a new vendor management office.



Vendor Centric helped us design and operationalize our end-to-end vendor management program. We now have policies, procedures and a system to support all of our activities, and a program that complies with regulations.

Justin Holden
VMO, Legal & General America

With a compliant program in place, Vendor Centric worked with LGA over the next several years to mature the program with an eye toward value creation for the business. Key initiatives included expanding the program to more third parties, implementing more robust technology and data intelligence solutions, and strengthening relationships with LGA's most critical vendors.

Vendor Centric has been a strategic partner throughout every step of LGA's vendor management journey and continues to provide strategic guidance and tactical support.

Click here to learn more about LGA's journey to create a compliant, scalable vendor management program.

Bonus: Checklist for Establishing Your Vendor Management Governance

This ebook has covered the many elements of establishing and implementing a new vendor management program. There's a lot to do, so we created this checklist to help identify and organize all of the components you'll need to have in place as you build out your vendor management governance.

Policies and Procedures

- ◯ Policies – Document the overarching rules, guidelines, and expectations for vendor management standards of conduct and conformity with legal responsibilities. Policies should define 'what' employees are expected to do and 'why' they are required to do it.
- ◯ Procedures - Document the operational controls for day-to-day vendor management that define what employees must do to comply with the policy. Procedures define 'how' things get done.

People, Skills and Training

- ◯ Roles & Responsibilities – Identify all stakeholders who participate in vendor management, and define their roles and responsibilities.
- ◯ Skills & Training – Define the core capabilities and expertise required by all stakeholders, and establish a process to periodically assess capabilities and close skill gaps through training.
- ◯ Resourcing – Define and integrate the resources (internal/external) you'll need to support ongoing vendor management operations.

Technology & Reporting

- ◯ Core Platforms – Select and implement core platforms to support efficient day-to-day procurement, contract management, and third-party risk management operations and reporting.
- ◯ Reporting – Define key performance and risk indicators and reporting metrics, and develop standard reporting for each group of stakeholders.
- ◯ Data – Establish data governance to support timely, complete, and reliable reporting.
- ◯ Integrations – Integrate core platforms with complementary systems (if necessary) to provide efficiency and strengthen data governance and enrichment.

Continuous Improvement

- Internal Controls – Establish a process to periodically test controls to ensure they are sufficient and operating as designed, and make improvements when needed.
- Operational Efficiency – Establish a process to periodically assess vendor management operations for efficiency, scalability, and speed, and make improvements when needed.
- Program Maturity – Establish a process to periodically assess policies to identify and implement opportunities to strengthen and mature the program.

Value Creation

- Strategic Alignment – Establish a process that enables the vendor management office to communicate and coordinate with other lines of business to understand strategic priorities that impact vendor management.
- Value Creating Initiatives - Establish a process to continually drive measurable value from the vendor management function through performance improvement, risk reduction, and cost control with vendors.

There's a lot to do when establishing a new vendor management program.

Vendor Centric is here to help.

We've helped organizations large and small establish, implement and optimize their vendor management programs. **Contact one of our specialists today to learn how we can help.**

Ready to Kick-Start Your Vendor Management Program?

Vendor Centric has helped organizations of all sizes across multiple industries establish their vendor management programs efficiently and cost-effectively. We can help you too.

Visit our website to learn more,
or contact us to set up a free consultation.

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