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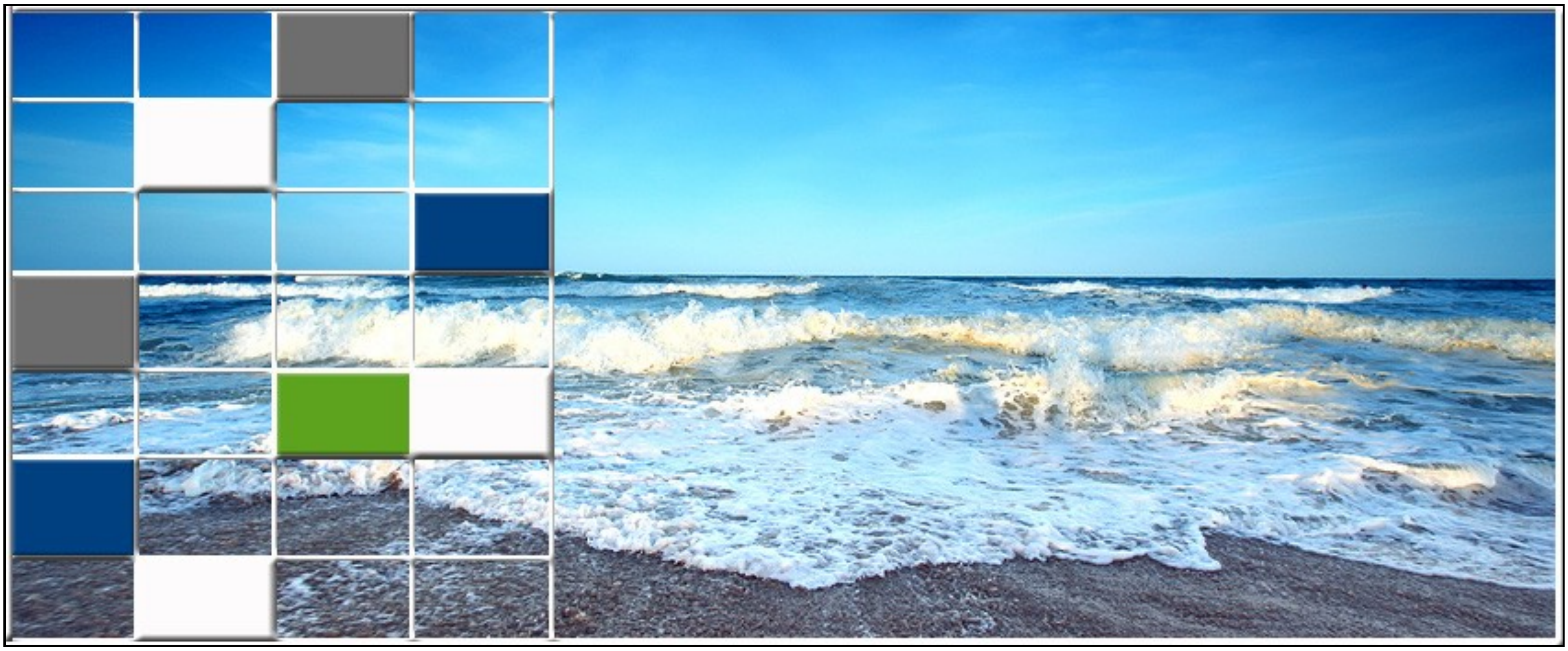


The Next Wave of Vendor Relationship Management

Provider Tiering in the New Multi-Vendor Environment

Introduction

Over the past three decades almost all companies, ranging from all sizes, have realized savings by applying strategic sourcing practices. These sourcing efforts frequently yielded remarkable reductions in cost; often in the range of 5 to 25% as spend was consolidated and resources were streamlined. These efforts demonstrated substantial returns on investment making many Chief Information Officers (CIOs) heroes in the boardroom. The question at top of mind today is: "What is the next wave of strategies for sustaining cost reductions and driving efficiencies in an intensifying and competitive business environment?" The answer is in how companies are pushing the boundaries of outsourcing in a quest for further cost reduction by creating incentives that leverage the capabilities of their current provider partners.

Even as they seek new opportunities in sourcing, leading companies are finding themselves dependent on an increasingly complex multi-sourcing provider base, with the need to drive further cost and performance improvements, manage provider risk, and streamline costs of vendor management. These companies are developing a new set of Vendor Relationship Management (VRM) capabilities – including processes, governance mechanisms and systems to manage vendors on a day-to-day basis over the full relationship lifecycle.

Early adopters of VRM are realizing savings in existing relationships, remediating relationships that are not working, working with vendors to build joint capabilities and improve joint processes, effectively managing vendor risk, and reducing internal costs of vendor management.

Typical benefits include:

- Maintaining negotiated savings and driving incremental savings of up to 5% beyond the initial sourcing transaction
- Streamlining relationship touch-points and processes by adopting standardized ITIL processes and aligning operationally with their vendors to eliminate non-value -added work and reduce associated FTEs by up to 10%
- Addressing lack luster vendor innovation performance by creating real accountability and incentives for vendors to deliver business value through joint innovation
- Maximizing relationship lifetime value by creating vendor tiering structures that effectively identify, manage and train vendors to align with the strategic focus of the company
- Adopting Service Management (ITILv3) practices that are transforming internal IT operations from a "Keep the Lights On" organization into a business-to-business provider of value added services

This paper describes the new vendor and service management environments, the challenges of extracting increased value from vendors, and the Vendor Relationship Management best practices that leading edge companies are applying to deliver maximum value from their multi-sourcing provider base.

The New Multi-Sourcing Provider Environment:

For organizations that are applying strategic low cost sourcing, the provider environment is changing dramatically. Most mature outsourced companies have now created a concentrated multi-provider base, often with a handful of large vendors playing a major role in supporting the organization. Further, these efforts have shifted business critical processes and value chain activities that had previously been performed internally to outsourcers creating new major provider relationships that are often vital to operational continuity. Accelerated software delivery life cycles, vastly more sophisticated infrastructure virtualization, rapid pace of process and technology convergence, and the need to work seamlessly with offshore vendors have made effective vendor relationship management more demanding and more critical than ever before. Common problems facing organizations with global multi-sourcing ventures include:

(See Figure 1)

Figure 1: Common problems facing organizations with global multi-sourcing ventures

Fragmentation	• Performing similar tasks in multiple locations • Not leveraging client scale in several areas • Limited sharing of best practices • Un-scalable delivery model resulting in "recreation of the wheel"
Regional Misalignment	• Differences in services, delivery model, philosophy between countries and regions • Differences in processes and systems leads to misalignment of priorities • Lack of regional sponsorship for cost mitigation globally, fear of central control
Cost Effectiveness/ Vendor Performance	• Ineffective SLAs and accountability for vendor performance • Areas of dissatisfaction with capability, cost, quality and speed of vendor delivery • Lack of consistent, enterprise wide strategic sourcing efforts
Lack of Standardization	• Non-standard processes across geographies and business units due to differing system platforms and business models • Proliferation of disparate systems with strategies for supplier portfolio management • Under-investment in governance, process and technology resulting higher costs
Sub-Optimization of Key Functions	• Ambiguous roles and responsibilities creating confusion regarding service line requirements • Lack of clarity on the roles of various functions regarding investment decisions • Unclear mandate to drive more effective spend through multi-sourcing supplier management

Simultaneously, for many companies, a large portion of external IT spend has reached a mature state after one or more waves of aggressive sourcing. Spend consolidation, improved vendor selection, and competitive tension through multi-sourcing have yielded some benefits. However, in categories where these techniques have been applied, further year-on-year improvements through repeated multi-sourcing are likely to provide diminishing returns. Fundamental improvement in vendor relationships and joint process alignment will be required to secure the next wave of operational efficiencies.

Along with the changes in IT outsourcing practices, there have also been major changes in procurement functions, which are now more involved in administration of vendor management practices. In many companies, the procurement function, traditionally the owner of transactional purchasing, has taken on a broader role by pushing for standardized demand management and forecasting practices along with contract management, financial management, relationship management and performance management protocols, spreading best practices that have been matured in IT across other operating functions. In addition, many companies have adopted best practice models for strategic sourcing and many have deployed vendor management organizations to support the sourcing process and streamline ongoing provider management activities.

However, procurement is rarely the gatekeeper for day-to-day IT multi-sourcing management processes – far from it. In most large organizations, individual functional groups, such as IT, HR, Finance, Procurement and Logistics, have now built their own sourcing skill sets and a deep understanding of the provider market.

Many organizations have been successful at establishing a Vendor Management Organization (VMO) and obtaining savings through improved vendor management and negotiation of new contracts. However, few organizations are adept at or prepared for managing the new set of multi-vendor relationships they have created.

"Many organizations have been successful at establishing a Vendor Management Organization (VMO) and obtaining savings through improved vendor management and negotiation of new contracts."

These management activities now include a broad array of critical business and operations functions to manage across the spectrum of multiple providers (See Figure 2).

Figure 2: Multi-Sourcing Vendor Management Tools and Processes

Multi-Sourcing Vendor Management Tools and Processes

Relationship Management	**Service Performance Management** Overarching ongoing service delivery management	**Sourcing Issues Management** Centralized view of sourcing issues, resolution plan, RACI accountability, and dates tickler	**COE – Enterprise Sourcing Strategy and Multi-Sourcing Governance** Regional leadership and business customer relationship management	**Relationship / VOC Management** Ongoing assessment of relationship effectiveness, and tools for assessing the Voice of the Customer
Performance Management	**CTQ Management** Conformance to Quality from business liability perspective - assessment of continued provider viability	**Supplier Portfolio Management** Global view of suppliers based on Spend, Service , Business Impact, Criticality and Risk	**Service/Process Management** Regional and global process tracking to achieve global standardization of sourcing practices	**Operational Performance Conformance** SLA and KPI tracking, reporting and compliance to contractual terms
Financial Management	**Financial Management** Cost leveraging – cost to value delivery assessment	**Demand Management** Business demand forecasting and visibility to providers	**Price Benchmarking** Integrated ProBenchmark market price analysis to audit and validate value exchange in the supplier portfolio	**Consumption Management** Evaluate and manage demand to consumption and the business case
Contract Management	**Contract Benchmark** Ability to evaluate the terms & conditions of the current contract against best contracting practices using MRA	**Contract / Document Management** Contract compliance with a focus on operational contract implementation not T&Cs	**Continuous Improvement Management** Alignment to strategy – economic value drivers – continuous improvement standardization	**Enterprise Contract Renegotiation** Contract renewal key dates and negotiation strategy and planning

Multi-Vendor Relationship Management Challenges:

Many companies that have adopted a VMO in recent years and advanced their vendor relationship management processes experience a common set of pain points and challenges:

1. Increasing reliance on vendors and exposure to vendor risks—While risk management has received significant boardroom attention, in most organizations, vendor risk remains largely unmanaged while reliance on vendors and exposure to vendor risk continues to increase dramatically. Increased focus on strategic outsourcing has transferred to vendors many of the activities that were previously performed in-house and has simultaneously driven consolidation in the provider base.

The result has been dramatically increased reliance on key vendors, often accompanied by development of more complex vendor interactions with growing numbers of operational alignment touch points and dependencies. While this rapid deployment of sourcing has increased most organizations' exposure to provider risks, mechanisms to enable visibility and management of these risks have not kept pace. Many companies do not have a comprehensive view of the risks associated with their multi-vendor structure, nor do they have a well thought out, repeatable approach to managing these risks. Furthermore, it is not clear who in the organization has the responsibility to evaluate and manage vendor risks, what risk conditions should trigger actions, or even what those actions should be.

2. Ill-defined post-contract vendor management processes and roles— Multi-vendor operational process alignment and roles post-contract signing are ill-defined, often inhibiting further performance improvements, limiting value from vendor relationships, and making performance gains difficult to sustain across a more complex vendor base. In many large and even mid-sized companies, the sourcing discipline is well established and repeatable enabling companies to lock in savings in category after category.

However, while typical sourcing methodologies provide guidance leading up to execution of a vendor contract, once a contract is signed and the relationship moves into ramp-up and operation phases, there is remarkably little clarity and definition around what management processes must be in place, who within the company is (and, equally importantly, is not) responsible, how executives should be involved, how management activities can be conducted in an efficient manner, how multiple vendors are to work together, and how the relationship can be managed. In such environments, vendor management activities are little more than a series of reactive firefighting exercises with duplicated effort across the organization, with little management transparency of what actions have been taken or will be needed. The result is relationships that are inefficient and fail to harness the full capabilities of the vendor translating into increased lifetime costs and little or no innovation.

> "Effective management of vendor service levels and performance is a critical element of VRM."

3. Vendors are not accountable for performance that is aligned with strategic business drivers—While Service Level Agreement (SLA) metrics and other vendor metrics are tracked and reported, performance problems can persist and organizations often do not recoup resulting costs. While contracting with a vendor after a major sourcing effort often locks in significant savings, it also locks in a number of headaches and challenges. A flaw in most companies' sourcing efforts is that they treat contracts as legal exercises or transactions. This results in contracts that do not align SLAs to business drivers.

Further, metrics do not motivate vendors to improve or to introduce innovations that may potentially erode their footprint in the company. As a result, many organizations find themselves with contractual Service Level Agreements (SLAs) that are not aligned with business value drivers, few, if any individuals that understand what vendors are actually accountable for, and a lack of clarity in what actions should be taken when issues occur. The result is significantly diminished value from the vendor relationships, lost opportunity in recouping costs from ill-performing vendors, and frustrated employees and business owners who know that vendors are under performing, but cannot correct the problem.

4. Strategic vendors are not truly strategic—Most organizations can not precisely identify which vendors are truly strategic or even how such strategic vendor relationships should be managed, leading to an inability to effectively focus resources or realize strategic value from the multi-vendor base. When managed effectively, strategic relationships can deliver impressive returns and competitive advantage to both companies and their vendors. Through strategic relationships, companies and their vendors can drive lower total lifetime costs while allowing vendors to profit. Strategic relationships can also reduce risk for both parties, help create advanced joint capabilities not available to other competitors, and provide strategic options for additional value for both parties. Sadly, the word "strategic" is often overused when it comes to vendors.

While most organizations are proud to declare they view some vendors as strategic, few organizations can describe the implications of making a vendor strategic. Many organizations have not formally spelled out a set of expectations for what makes vendors strategic, how such vendors will be managed differently, and what vendors must deliver in return to maintain their strategic status. As a result, many organizations manage strategic and non-strategic vendors in an undifferentiated fashion, which leads to wasted time on non-strategic vendors, and little strategic value derived from strategic relationships.

5. Companies should manage vendors vs. having vendors manage the organization to extract profits—In the absence of a clear set of vendor management processes and roles in the organization, vendors are often able to set the agenda and canvass the organization to increase their footprint and secure added revenue. Major vendor relationships tend to have multiple facets and touch points – operational, contractual, financial, executive-to-executive, etc. Through multiple touch points, vendor account teams often "work the relationship," seeking to protect their existing business with the organization and make inroads into new areas to build further sales. While the organization can gain value from consolidating business with key vendors and forming strategic, multi-faceted relationships, such relationships should be defined in a structured transparent manner rather than through a free-for-all sales frenzy based on a relationship without a business case.

6. Diminishing sourcing returns and lack of multi-vendor operational alignment—While initial aggressive sourcing has, for many companies, yielded dramatic savings and other benefits, sustaining those benefits and attaining further reductions can be difficult without effective VRM. This is because once spend is consolidated, non-critical functions are sent offshore and excess vendor profit margins are removed, sourcing offers little on-going opportunity. In order to unlock the next layer of savings, companies are finding that they must address the structural, operational alignment and process inefficiencies in multi-vendor relationships, as well as collaborate with vendors and get vendors to collaborate with each other so they can improve joint capabilities.

7. Functional or procurement employees are not equipped to effectively manage vendors in a complex multi-vendor environment—While procurement function may bring resources with transactional or sourcing skill sets, and IT, HR, or Finance operations brings resources with functional and people management skills – none are the best fit for day-to-day vendor management. In most organizations, the personnel responsible for ongoing vendor management are the same individuals who drove strategic sourcing and those who managed internal functional departments before they were outsourced. In both cases, such individuals often lack both the knowledge and the skills required to manage vendor relationships effectively. Procurement personnel are trained in sourcing methodologies, negotiation, and other procurement skills. Operational personnel have a deep functional understanding and can be excellent people managers; however, they often lack the understanding of what is required to operate in a complex multi-sourcing environment.

The result is that the best skills and knowledge are not brought to bear in managing vendor relationships. In addition, these legacy skill sets combined with individuals' desire to do what is best for the company actually prevent vendors from being held accountable for performance and increased internal costs. Employees that are accustomed to being responsible for a function's performance will often take on the responsibility of solving issues and will apply internal resources even when the function has been outsourced. Most organizations have experienced the emergence of a shadow IT function post outsourcing. The result is that vendor accountability is diminished, companies pay double for functions the provider should be delivering, and internal costs rise.

8. Formal vendor performance management and development programs are lacking or ineffective—Formal programs for vendor development often do not exist, limiting the organization's ability to create win-win value improvements with the multi-vendor base. When a company's vendors develop capabilities to perform valuable new services, expand coverage to regions where the company has locations, improve processes and technology to deliver better performance and lower total cost, both the company and the vendor benefit. However, most companies lack effective programs for vendor performance management and development.

Without formal criteria for selecting the vendors for development, incentive structures that increase the strategic vendor footprint, gain sharing possibilities, pre-defined development "tracks" that accelerate specific development techniques, and standardized vendor development management tools, companies must rely on the blunt instruments of contract negotiation and performance penalties to drive improvements.

9. Too many vendor managers—Inefficiency introduced as too many employees spend time on unnecessary or redundant interactions with vendors. As companies outsource more activities to vendors, they often find that not all the internal work goes away – an alarming number of employees across the organization end up spending time and effort managing and interacting with the vendor. This overhead is exacerbated by the duplication of vendor management effort that typically occurs across different corporate functions, business divisions, multiple vendors and geographies. Because internal roles and responsibilities are not clear, because many aspects of the relationship are ill-defined, and because vendors make every attempt to spread their relationship footprint, too many employees become involved in performing vendor management tasks that are often redundant, inefficient, unnecessary, or even competing. In our experience this can translate into dozens or even hundreds of employees involved with tracking vendor activities, dealing with issues, interacting with vendor personnel, etc.

This "vendor management creep" can lead to increases in retained organization cost of 10% or more.

10. Procurement gets in the way rather than becoming a conduit for vendor management alignment—While the procurement function has played a leadership role in sourcing and outsourcing activities, as sourcing matures in an organization, the objectives and value proposition of the procurement function need to evolve. In many organizations, the procurement function has played a leading role in deploying strategic sourcing, outsourcing, and low cost country sourcing. However, as sourcing has become mature in many organizations, as the key categories have already been sourced, as sourcing practices have been institutionalized, and as many functions and business groups have become more or less self-sufficient when it comes to further sourcing, procurement organizations are finding that they must develop a new value proposition. One path is for procurement organizations to champion effective VRM become centers of excellence, not just of strategic sourcing, but of on-going VRM across the entire lifecycle of vendor relationships. The procurement function can add significant value by spreading VRM best practices, by helping to add structure to the organization's existing key relationships and by helping to flush out excess retained costs in the form of multiple redundant vendor management roles across the organization.

11. System support for end-to-end vendor management is not effective—Many organizations lack the systems capabilities needed to support day-to-day vendor management across multiple contract lifecycles. The result is excessive manual effort, lack of a single view of vendor impact on the organization, and reduced ability to improve vendor performance. While many large organizations have deployed systems for e-procurement and ERP systems to manage purchasing transactions and accounts payable (AP), vendor data remains fragmented between corporate systems and desktop hard drives and system support for VRM across the entire relationship lifecycle is often minimal. Instead of a single source of vendor information, most companies have "islands" of data with minimal integration of vendor performance data which most often resides in one-off standalone spreadsheets on user desktops. Forming a single picture of a vendor relationship is not easy. In addition, very few companies have systems that support day-to-day VMO activities such as relationship governance, SLA management, joint process improvement, and multi-vendor alignment. Where such system capabilities exist, they are fragmented leading to inefficient processes.

To address these challenges, companies are adopting VMO capabilities and revisiting their processes, organizations and metrics to improve vendor management in their new multi-vendor environments.

World Class Vendor Relationship Management:

Vendor Relationship Management (VRM) is a set of principles, processes, templates, and tools to maximize relationship value and minimize risk and management overhead over the entire vendor relationship lifecycle. VRM enables organizations to effectively:

- Stratify vendors based on importance and define relationship expectations
- Establish the governance structure and process for internal and vendor interactions across the lifecycle of the vendor relationship
- Define formal processes for management involvement in the relationship
- Clarify internal roles and responsibilities to achieve operational alignment
- Secure required vendor management tools and skills
- Put in place processes to effectively manage vendor performance and develop vendor capabilities to continuously drive innovation and improve value

World Class Vendor Relationship Management includes five key practices:

1. Vendor Tiering—Effective VRM requires a clear company-wide understanding of which vendors are the most strategic to the organization and which are less important. However, in the absence of balanced, formal criteria for vendor tiering, vendors on which the organization spends the most are inevitably viewed as the most important and tend to capture the greatest relationship focus and effort. Factors such as business criticality, operational / technical integration, alignment with business strategy, conformance to quality and long-term cultural fit with the organization are often ignored, reducing the organization's vendor management effectiveness. In addition, effective vendor tiering requires a set of common definitions of how vendors in strategic and non-strategic tiers should be managed.

> "Vendor Relationship Management (VRM) is a set of principles, processes, templates, and tools to maximize relationship value and minimize risk and management overhead over the entire vendor relationship lifecycle."

This common set of definitions enables companies to: (See Figure 3)

- Optimize resource allocation across a broad multi-vendor base
- Establish and manage relationship expectations by vendor tier, providing a common reference point for what it means for a vendor to be strategic
- Define for vendors what financial and non-financial benefits can be realized from moving up the vendor tiering ladder
- Provide functional and business groups with consistent partnering strategies within their multi-vendor bases
- Provide functional and business groups with a fresh view of their vendor portfolios based on relationship value, enabling improved decisions on further vendor consolidation and leading to further strategic sourcing opportunities
- Create incentives to motivate vendors to strive for advancement across vendor tiers

Figure 3: Supplier/Provider value opportunities

2. **Vendor Management and Governance Organization—**Once the importance of a strategic vendor to the organization is established via Vendor Tiering, the next step is for the organization to define the team structure that will be required to manage the vendors on a day-to-day basis and how to establish a Vendor Management Organization with the right roles, activities, skills and knowledge needed for effective multi-vendor management. Formalizing these definitions across the organization can reduce duplication of effort confusion within the company and among vendors and inefficiency. In addition, a VMO structure eliminates many of the dropped hand-offs and helps operationally align among business functions and among vendors to make vendor management more proactive (See Figure 4).

Figure 4: Vendor Relationship Management Roles

Once a team structure with roles and responsibilities is defined, the next step is to formalize the on-going governance processes to make vendor management repeatable, transparent to management, and consistent throughout the organization. An effective set of governance practices is defined:

- Schedules, attendee lists, and agendas for key vendor relationship review meetings
- Templates for vendor relationship reviews
- Detailed designs of day-to-day vendor management activities such as contract management, performance management, financial management, and relationship management
- Triggers and escalation paths for vendor issue resolution

The day in the life of a vendor management function can be quite challenging as shown in the chart below (See Figure 5):

Figure 5: Day-to-day operational activities of a vendor management function

3. Vendor Training and Development—Due to increasing multi-vendor sourcing, a company's overall performance and efficiency is more and more dependent on the capabilities of its vendors. An organization benefits greatly when key vendors dramatically reduce costs, introduce innovation and new services designed to address the organization's needs, expand their footprint to provide seamless coverage in multiple regions, and work with the organization to operationally align and streamline joint processes.

Benefit to Organization:

- Develops new services and innovations that can drive competitive advantage
- Closes capability and performance gaps
- Provides access to operational best practices tried and tested with the provider's client base
- Prioritizes capability development and vendor investment

Benefit to Vendor:

- Creates additional revenue generation opportunities
- Enables the development of a long-term relationship
- Creates opportunities for joint investments
- Provides opportunity for vendor to advance to next tier
- Gives insight into customer organization's business needs

Overall benefits eclipse even strategic sourcing benefits by creating true partnering and by driving strategic breakthrough innovations and vendor capability improvements. Many vendor development gaps are prevalent in multi-vendor outsourced environments. These include:

Capability Gap Closure:

- Vendor services have not evolved with the needs of the organization
- Vendor does not have the global capabilities to meet the organization's objectives
- Vendor has capabilities that require further development to meet the organization's requirements
- Vendor resources do not have the level of skills required to perform the services adequately to meet client conformance to quality requirements

Continuous Improvement:

- Corporate/Functional objectives require year-on-year cost and/or service level improvements
- Competition drives need to identify and implement best practices
- Ineffective processes and systems in relationship drive increased costs and reduce performance

Value Creation:

- Few contracts encourage vendors to identify opportunities for innovation where value can be added
- Contracts do not require SLAs to be aligned with business objectives

Companies can address these vendor development needs by establishing a formal vendor development program that first selects vendors where development effort will have the highest value to the organization, determines the specific development needs, and applies the appropriate development techniques. Sample development techniques include:

- Joint investment in new capabilities
- Intellectual capital sharing
- Joint value creation opportunity identification
- Joint process mapping and improvement
- Vendor capability acquisition
- Multi-vendor cross functional collaboration
- Joint client and vendor training
- Operational alignment across vendor service processes
- Tools, systems and process integration

However, without pre-defined "tracks" for development, including guidelines for identifying developmental needs – toolkits for development activities and program management – organizations can find it difficult to scale vendor development efforts across functions and business groups.

Effective management of vendor service levels and performance is a critical element of VRM. Organizations that measure the vendor impact on business value drivers, hold vendors accountable for poor performance, and provide incentives for outstanding performance, benefit by:

4. Service Level and Performance Management:

- Enabling continuous improvement in supply performance and efficiency
- Ensuring adherence to contractually defined SLAs and performance targets
- Providing improved visibility and documentation to vendor performance issues
- Supporting vendor governance by providing data on vendor performance and value added to the organization

In most organizations vendor performance management, in its current form, falls short of achieving this ideal, amounting to a mere tactical SLA reporting exercise. If service level and performance management is to maximize value to the organization, the first step is to identify the function's key business value drivers and to understand how the vendor can impact those as well as the target performance levels and tolerance ranges. In some cases it may even be advantageous to redefine the scope of the vendor relationship to ensure that the vendor can truly impact business value.

The next step is to establish a contractual agreement that clearly defines vendor performance expectations, target levels and tolerance ranges. In addition, it is critical to formalize the consequences of underperforming or over-performing to an agreement, the specific trigger points and conditions for remediation once an SLA breach occurs, the process for remediation, and ownership for vendor performance within the organization.

To enable truly effective performance management, the resulting relationship agreement elements must be captured and presented in an integrated fashion. This is typically accomplished by creating a "performance map" that outlines what the vendor is truly accountable for, what specific steps must occur as consequences of the vendor's non-performance, and what rewards are available to vendors who become strategic partners.

In many cases, after examining existing SLAs and performance measures and developing a performance map for the relationship, organizations implementing VRM find that they must go back and re-define contractual SLAs. However, even where SLAs are already effective, developing and using a performance map ensures that all parties involved in the relationship understand how performance will be managed and who will manage it. The result is a dramatic improvement in performance.

5. Vendor Relationship Data Management—Few organizations have a common repository for vendor performance data and hence relegate performance management to a fragmented set of low quality data that renders little visibility into what is really going on in the multi-sourced environment. The following benefits can be derived from improved data management:

Single Source of Truth:

- A single source of data that allows everyone involved in the relationship to access common and consistent information
- Common repository of vendor relationship information (versus use of individuals' hard drives) enables common understanding of status and current relationship activities
- Secure storage and maintenance reduces the risk of data loss

Relationship Visibility:

- Availability of all relevant relationship information allows staff to manage and audit vendor relationships more proactively
- Access to consistent reports facilitates executive and management reviews of vendor performance and status across vendor relationships

- Roll-up capability enabling visibility of overall relationship factors such as risk, performance, spend, conformance to quality, resource allocation and alignment to business drivers.

Standardized Tools and Processes:
- Common VRM tools and templates facilitate VRM adoption across the company
- Common VRM model, through an easily accessible system, reduces reliance on individual development of VRM processes and tools and facilitates training.

Benefits of Effective VRM:

Companies that have adopted VRM best practices are realizing a number of important benefits:
- Improvements
  - Streamlined vendor management processes to reduce internal costs
  - Improved ability to concentrate spend with "strategic" partners resulting in further leverage and efficiency
  - Accelerated development of vendor capabilities and improvement in value delivery
  - Greater vendor accountability for business results in reducing non-performance and improving recovery of non-performance costs
  - Alignment of vendor agreements with business performance and cost objectives
  - Performance visibility to allow for continuous improvement of vendor relationships
- Benefits
  - Innovations and technology convergence resulting in 5% - 10% IT cost improvement
  - Improved multi-vendor operational alignment
  - Improved execution against delivery schedules and quality standards
  - Improved joint objective setting, planning and collaboration with vendors
  - Improved visibility and manageability of sourcing risks and information.

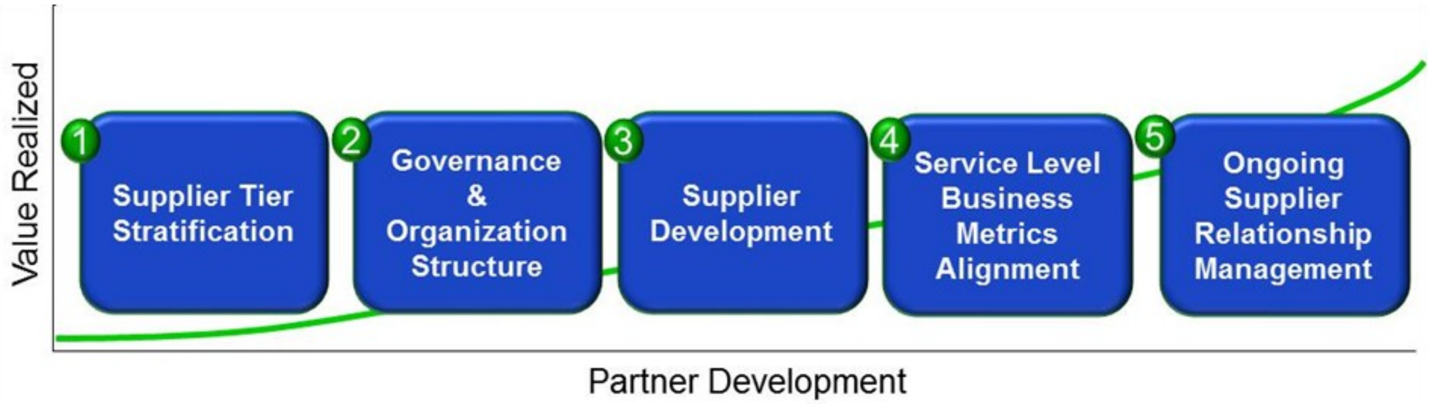
Conclusion and Next Steps:

To realize the full benefits of strategic sourcing, leading organizations need to build the capabilities required to effectively manage the resulting multi-vendor base by deploying VRM best practices. To define a starting point and prioritize VRM activities, companies should consider the following questions:
- What are the pain points and opportunities related to the organization's multi-vendor base and vendor relationships?
- Are vendors able to bring innovation to the organization through a jointly establish process?
- Are vendors motivated to introduce innovations that will benefit the company, but may erode their revenue base?

- Does the organization have a well-established definition /vision of VRM and a common understanding of the scope of needed VRM practices?
- Is there a clearly defined, common set of processes, policies, and tools governing the ongoing day-to-day management of vendors?
- Are the roles and responsibilities for the various aspects of vendor management clearly defined to bear the right skills and focus and to avoid redundant, non-value-added activities?
- Has the VMO function evolved from having a transactional or sourcing capability-set to becoming a Center of Excellence for ongoing VRM capabilities?
- Does the staff that interfaces with vendors on a day-to-day basis have the skills to manage vendors effectively to maximize value?
- Are strategic vendors delivering strategic value? Is there clarity around who the strategic and non-strategic vendors are and how those groups should be managed differently?
- Does the organization have the processes in place to develop the capabilities of important vendors to boost vendor performance or direct vendor investment toward new services?
- Are vendors truly accountable for performance in areas that drive the most value for the organization?

For organizations that are in the midst of a multi-vendor sourcing environment and need to initiate a VRM structure, an effective first step is to begin with a vendor tiering exercise that defines which vendors fall into which vendor stratification categories. The steps may include (See Figure 6):

Figure 6: Steps for vendor tiering



While all the data may not be available to complete a fully objective assessment, it will become very clear once the discussion begins concerning which vendors are and are not aligned with the sourcing strategy and the business objectives. The vendor stratification can then guide the definition of VRM scope, the vision, the business case, the needed VMO and the VRM deployment program going forward.