Vendor Management
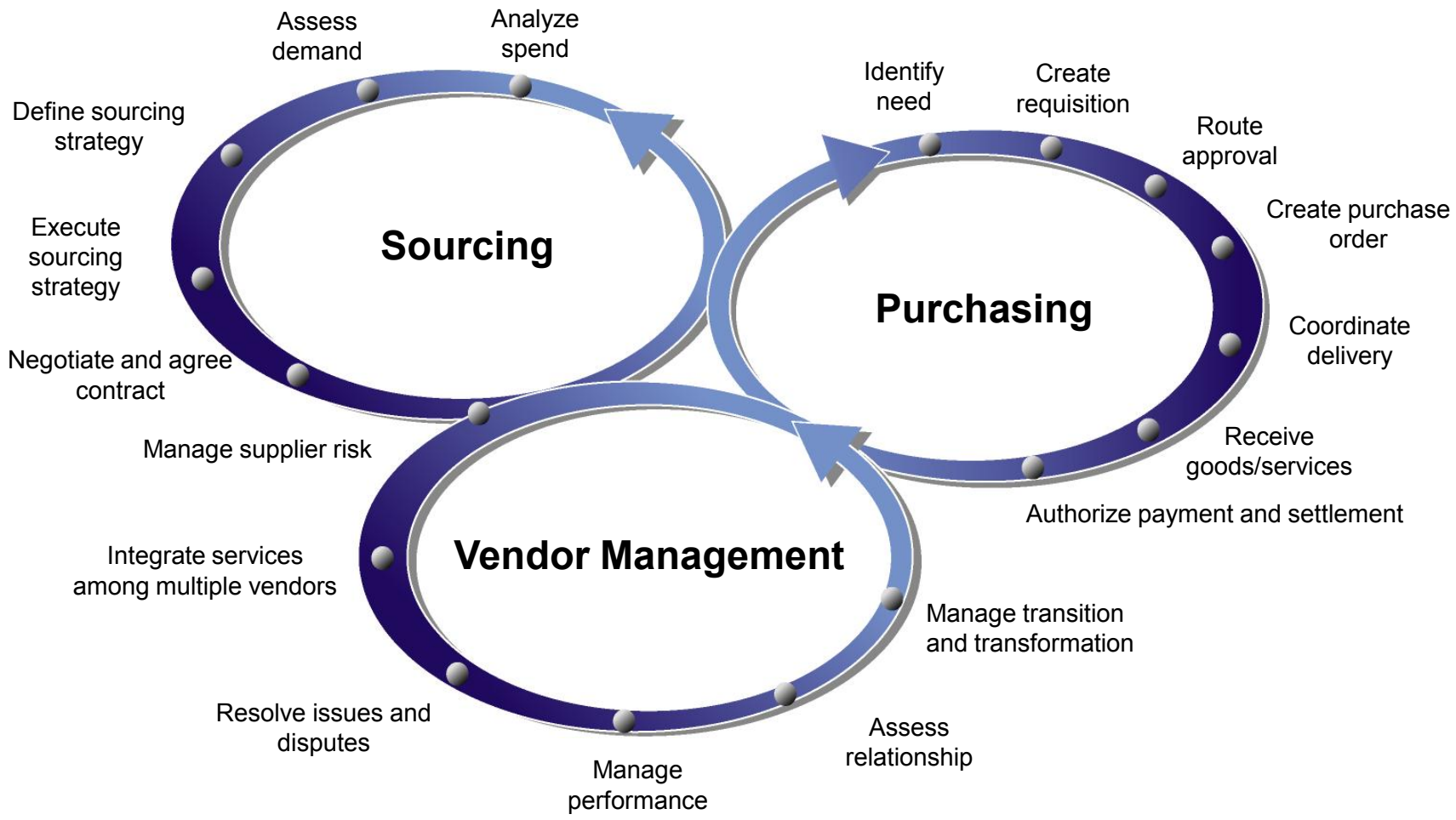
Minimizing Value Leakage

Deloitte Consulting LLP

November 19, 2013

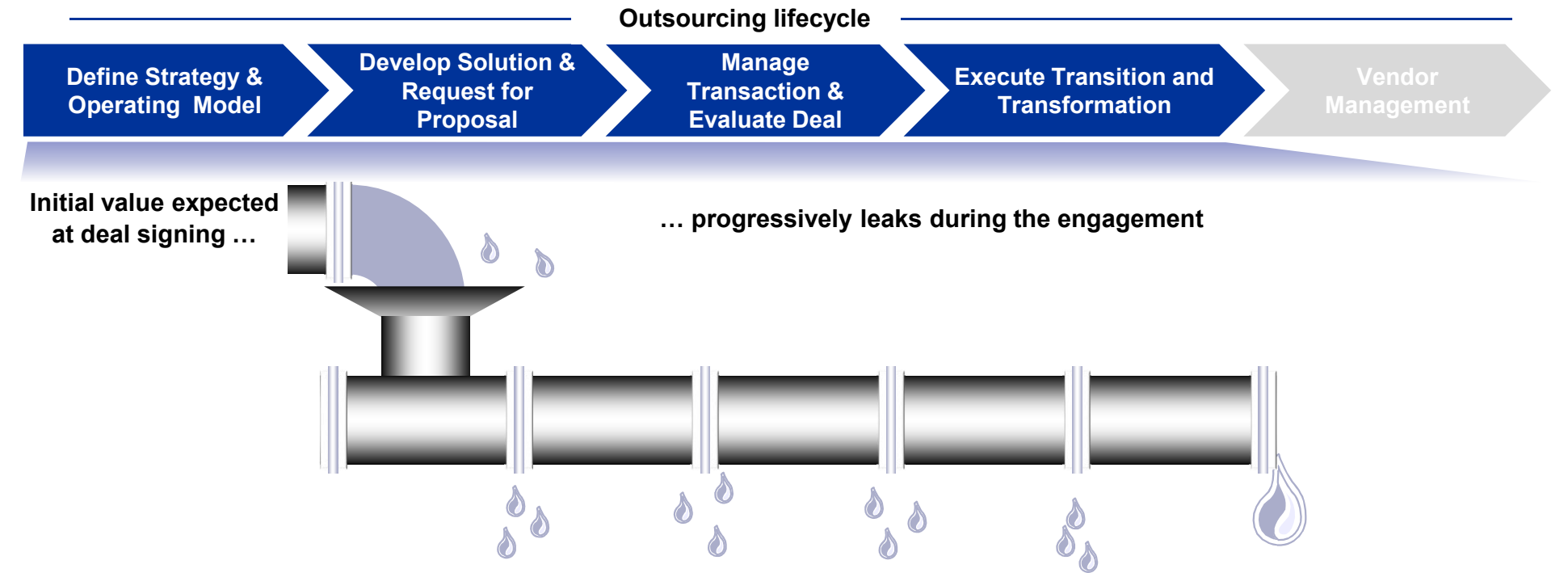# Vendor Management is a rapidly emerging business practice in the outsourcing industry

Sourcing
- Assess demand
- Analyze spend
- Define sourcing strategy
- Execute sourcing strategy
- Negotiate and agree contract

Purchasing
- Identify need
- Create requisition
- Route approval
- Create purchase order
- Coordinate delivery
- Receive goods/services
- Authorize payment and settlement

Vendor Management
- Manage supplier risk
- Integrate services among multiple vendors
- Resolve issues and disputes
- Manage performance
- Assess relationship
- Manage transition and transformation

Sourcing, Purchasing and Vendor Management processes are distinct but interrelated

IAOP Vendor Management Overview.pptx

IAOP

Companies invest heavily in structuring the right outsourcing deal, but even well-designed deals experience value leakage during the engagement
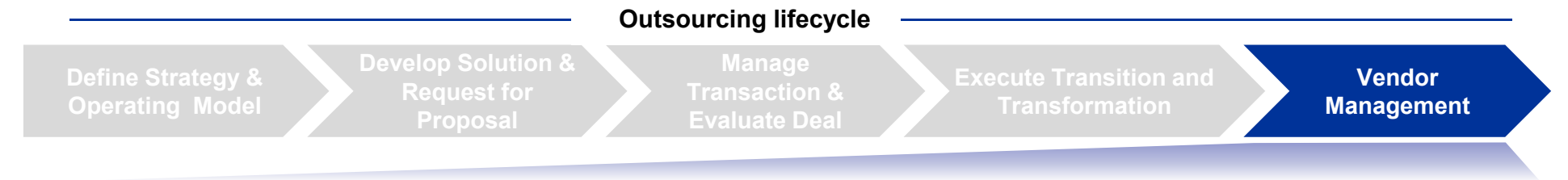
Outsourcing lifecycle

Define Strategy & Operating Model	Develop Solution & Request for Proposal	Manage Transaction & Evaluate Deal	Execute Transition and Transformation	Vendor Management

Initial value expected at deal signing …

… progressively leaks during the engagement

Drivers of value leakage

Lack Of Strategic Intent	Inadequate Expertise	Inadequate Financial Control	Lack Of Communication	Quality Of Service Delivery
Transactional relationship between the service provider and client due to Inefficient governance and ineffective relationship management	Lack of subject matter expertise, inadequate knowledge about the business, and inability to provide out-of-the-box solutions to address business needs	Lack of clarity over the pricing being charged by the service provider resulting in additional costs and value erosion for the business. Contracts are living documents	Inadequate level of communication between the retained client organization and service provider resulting in escalation of issues and ineffective reporting	Sub par performance and inability to meet service levels as defined in the contract by the service provider. Underestimate effort to effectively manage third party

Vendors must be actively managed to minimize value leakage

Deloitte.

IAOP Vendor Management Overview.pptx

IA OP

A VMPO can limit value leakage and maximize business case savings in addition to providing significant additional benefits

Outsourcing lifecycle

Define Strategy & Operating Model	Develop Solution & Request for Proposal	Manage Transaction & Evaluate Deal	Execute Transition and Transformation	**Vendor Management**

VMPO role in limiting value leakage

Strategic Intent	Expertise	Financial Control	Communication	Quality Of Service Delivery
■ Support or lead articulation of outsourcing strategy and operating model ■ Support business unit in consistent execution of strategy	■ Provide dedicated staff with subject matter expertise, tools and templates ■ Use market knowledge to align business requirements to service solutions	■ Establish baseline and track benefits against business case ■ Establish and enforce financial and contractual authorities ■ Ensure that invoices accurately reflect services received	■ Establish and manage governance forums ■ Establish and enforce escalation mechanisms ■ Track issues, disputes and actions through to closure	■ Track, monitor and report on service levels ■ Encourage, plan and measure continuous improvement activities ■ Advise on appropriateness of service level

Additional benefits provided by VMPO

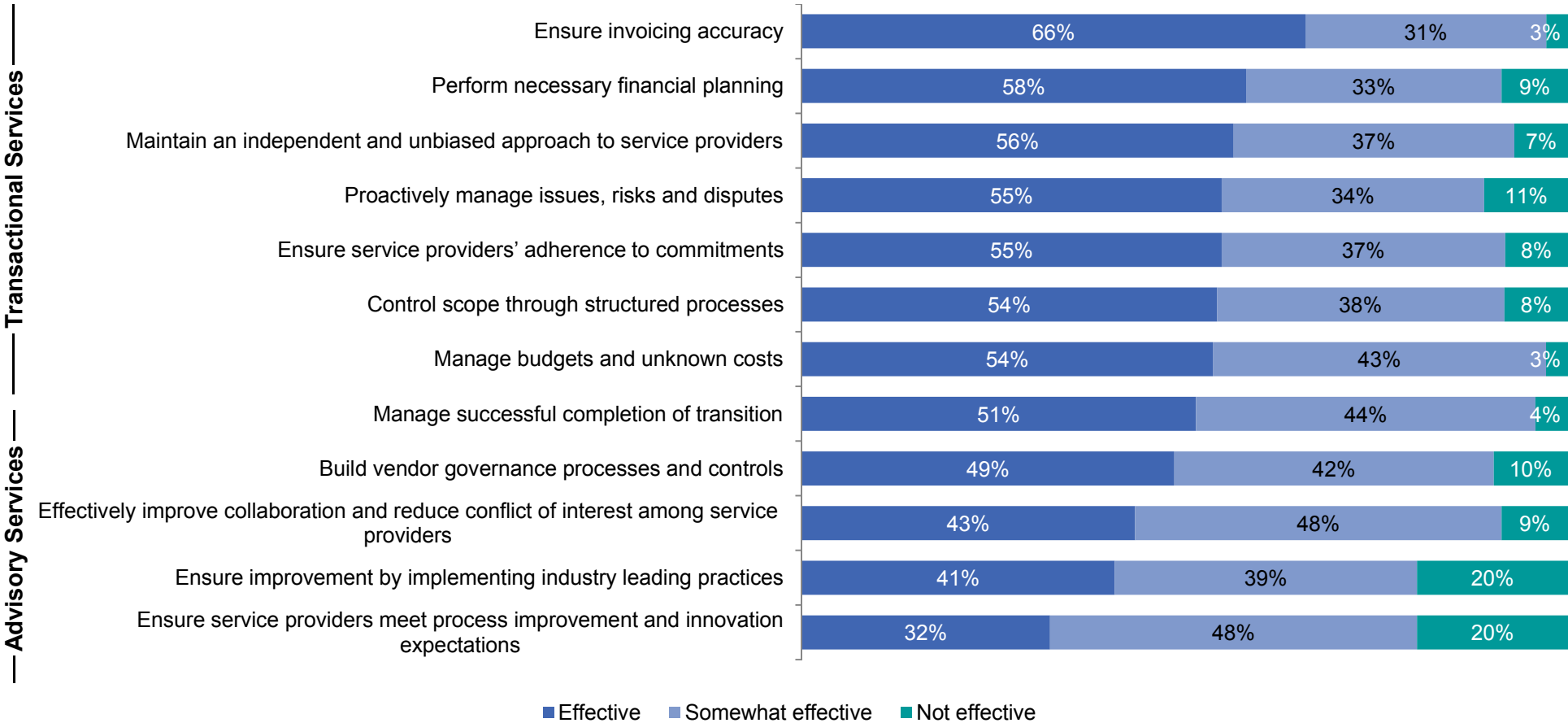| Multi Service Provider Integration	Transition & Transformation Oversight	Transparency & Auditability	Service Provider Risk Management
■ Improve service mix between multiple service providers ■ Develop and maintain cross-service provider standards and procedures including Operating Level Agreements	■ Enable transition stability via planning, monitoring & reporting ■ Support change management and business unit training and education	■ Documentation and storage of all vendor-related artifacts (e.g., change orders) ■ Documentation of key decisions and approvals	■ Drive consistency in identification, measurement, and management of service provider risks

> **A critical role of the VMPO is minimizing "surprises" to business users and executive leadership**

IAOP Vendor Management Overview.pptx

IA OP

Typical vendor management functions that enable clients to effectively realize value from third party relationships

CONTRACT MANAGEMENT

- Manage & track obligations, manage contract compliance
- Process contract changes

FINANCIAL & COMMERCIAL MANAGEMENT

- Verify rate and volume invoice charges / recommend payment
- Track service credits

ISSUE & DISPUTE MANAGEMENT

- Track resolution / report / archive issues
- Create and manage dispute management process

SERVICE PERFORMANCE MANAGEMENT

- Provide dashboard reporting
- Perform service level monitoring and trending

GOVERNANCE

- Establish and manage internal and external governance forums

MULTI SERVICE PROVIDER INTEGRATION

- Develop and maintain supplier standards and operating procedures
- Develop, negotiate, draft and execute supplier operating level agreements

TRANSITION & TRANSFORMATION OVERSIGHT

- Provide transition and transformation planning
- Provide transition and transformation monitoring and reporting

DOCUMENT MANAGEMENT

- Maintain repository of contractual artifacts
- Perform auditing / updating / archiving of agreements

SERVICE REQUEST MANAGEMENT

- Manage process for new service requests
- Analyze new service requests against the contract

SERVICE PROVIDER RISK MANAGEMENT

- Determine risk analysis approach, methodology and tools
- Recommend key risk indicators to manage, track and report

IA⊕P

IAOP Vendor Management Overview.pptx

A Global 2012 Deloitte Survey revealed that investing in a VMPO helps clients address important non-financial issues and challenges

Based on a 2012 Global Outsourcing survey executed by Deloitte, the data represents responses to the question "How effective is your vendor management organization/function in meeting the following objectives?"

Transactional Services

Objective	Effective	Somewhat effective	Not effective
Ensure invoicing accuracy	66%	31%	3%
Perform necessary financial planning	58%	33%	9%
Maintain an independent and unbiased approach to service providers	56%	37%	7%
Proactively manage issues, risks and disputes	55%	34%	11%
Ensure service providers' adherence to commitments	55%	37%	8%
Control scope through structured processes	54%	38%	8%
Manage budgets and unknown costs	54%	43%	3%

Advisory Services

Objective	Effective	Somewhat effective	Not effective
Manage successful completion of transition	51%	44%	4%
Build vendor governance processes and controls	49%	42%	10%
Effectively improve collaboration and reduce conflict of interest among service providers	43%	48%	9%
Ensure improvement by implementing industry leading practices	41%	39%	20%
Ensure service providers meet process improvement and innovation expectations	32%	48%	20%

■ Effective   ■ Somewhat effective   ■ Not effective

Vendor management organizations are viewed as being highly effective at "transactional services" however, our experience indicates clients are also seeking additional value added services from VMPOs

Source: 2012 Global Outsourcing and Insourcing Survey Results

IA OP

IAOP Vendor Management Overview.pptx

Panelist perspectives

- What constitutes an effective VMPO? What is the significance of VMPO in realizing value from service providers across the enterprise?

- What is the difference in role between a VMPO and a PMO? Where does / should this group report within the organization?

- What are emerging trends (e.g., regulatory, third party compliance, insourcing, divestitures) that impact how a VMPO manages third parties?

- How are organizations responding to these trends? How is this impacting service providers?

- What are the common challenges to implement a VMPO and evolving the VMPO to play a strategic role across the enterprise?

IAOP Vendor Management Overview.pptx

IA P

Deloitte.

Member of
Deloitte Touche Tohmatsu