3 Steps to Extract More Value From Your Strategic Vendors

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Initiatives:Sourcing, Procurement and Vendor Management Leaders

Strategic vendors are critical to business success. Sourcing, procurement and vendor management leaders should use this three-step process to regularly evaluate how well these strategic relationships align with their business objectives.

Overview

Key Challenges

- Sourcing, procurement and vendor management (SPVM) leaders struggle to measure the value of their strategic vendor relationships beyond operational and cost performance metrics.

- Large, strategic vendors can become complacent, slow-moving and intractable if SPVM leaders fail to provide a formal program for evaluating their relationship and value.

- SPVM leaders are searching for the right ways to influence their strategic vendors to be proactive, collaborative and innovative within a dynamic ecosystem.

Recommendations

Sourcing, procurement and vendor management leaders must:

- Ensure a strong vendor management relationship by creating a definitive strategic vendor management program that analyzes relationship performance in addition to cost, operations and risk metrics.

- Drive continuous improvement and keep strategic vendors aligned with your business strategy by developing a governance program that includes periodic evaluation, reviews and action plans.

Introduction

Too often, the most critical vendor relationships are managed tactically, in reaction to events, or focused on what the vendor is delivering, rather than on how the vendor is impacting your business. These strategic relationships are increasingly key components and influencers to business performance. Managing these relationships requires a strategic approach that changes
the dialogue, the control and the focus to directly impact their performance and compel them to exhibit partnerlike traits.  

Improving strategic vendor relationships requires three fundamental steps (see Figure 1). The first involves identifying, collecting, aggregating and presenting vendor profile, performance and market data to provide a holistic picture of the vendor and what it delivers to your enterprise. The second step is to develop or revise the governance program, so that it outlines a review process and schedule for following up with the vendor and the enterprise’s key stakeholders. And finally, the third step is to develop a defined set of agreed actions and a plan for continuously assessing:

- How those actions are being implemented
- How they’re impacting vendor relationships
- What their outcomes are

This research addresses how to most effectively review the relationship, risk and performance of your strategic vendors.

Analysis

Create a Definitive Strategic Vendor Management Program

Measuring a vendor relationship is often limited to collecting operational and service-level performance data, reviewing spending and customer satisfaction, and maybe developing a scorecard as a tool to present this data to multiple stakeholders. Scorecards are one part of an overall program for managing vendor performance, but when it comes to strategic vendors, scorecards are often limited in their ability to accurately portray the overall experience and value of a vendor relationship. Strategic vendors — that is, those involved in the most critical initiatives,
systems or business processes — need a management approach that focuses on ensuring their solutions and services are best-positioned to deliver and support your most critical needs.

While measuring the costs and quality of these vendors is still important, you must also understand their service and solution strategies and ensure they remain aligned with your architecture and goals, all while supporting the vendors’ ability to succeed. There are many tools that can be used to collect, analyze and present this type of information. Table 1 provides a description of these outputs, the inputs to these tools, and their recommended frequency of updating and presentation.

Table 1: Outputs of the Strategic Vendor Management Program

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Inputs</th>
<th>Update Frequency</th>
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<tbody>
<tr>
<td><strong>Vendor Profiles:</strong>&lt;br&gt;■ Provide relevant market, interaction and performance data specific to each strategic vendor</td>
<td>■ Contract profile</td>
<td>■ Monthly</td>
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<tr>
<td>■ Spend analysis</td>
<td>■ Initiative and project status</td>
<td></td>
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<tr>
<td>■ Key milestones</td>
<td>■ Risk assessments</td>
<td></td>
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<tr>
<td>■ Spend report</td>
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</tr>
<tr>
<td><strong>Dashboard:</strong>&lt;br&gt;■ Provides point-in-time, often tactical, data that’s most relevant to understanding a strategic vendor’s performance</td>
<td>■ Summary of service levels delivered versus SLAs</td>
<td>■ Real time or near real time</td>
</tr>
<tr>
<td>■ Key performance metrics</td>
<td>■ Business objectives</td>
<td></td>
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<tr>
<td>■ Satisfaction survey results</td>
<td>■ Market trends and insight</td>
<td></td>
</tr>
<tr>
<td>■ Spend report</td>
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When creating vendor management reports, you must ensure that the data is clean and trustworthy, reliable, and unique (that is, not duplicated or manipulated). Once you are confident with the data and the reporting mechanism that you have in place, the next step is to analyze the data and identify any trends that would support a relationship, risk or performance discussion. Improvement will happen only if you use this data to create a tangible action plan and put a process in place to complete those actions. At this stage, trends, insight and problem identification aid the development of improvement or mitigation plans (see “Toolkit: Outsourcing Relationship Assessment and Improvement Plan Template”). An increasing number of vendors are specializing

<table>
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<tr>
<th>Scorecard:</th>
<th>Vendor Risk Plans:</th>
<th>Strategy Vendor Development Plans:</th>
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<tr>
<td>Provides a regular update and objective analysis of the most relevant and strategic measures of a vendor relationship</td>
<td>Risk register and tracking</td>
<td>Include the objectives and actions for understanding the strategic vendor’s long-term strategy and how it aligns with the customer’s current and future business objectives</td>
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<tr>
<td>Can include a 360-degree review, where the vendor provides an assessment of the customer and recommended improvement actions</td>
<td>Risk assessments and findings</td>
<td>IT strategy</td>
</tr>
<tr>
<td></td>
<td>Risk analysis</td>
<td>Product, service or vendor interdependencies</td>
</tr>
<tr>
<td></td>
<td>Risk monitoring results</td>
<td>Technology migration activities</td>
</tr>
<tr>
<td></td>
<td>Risk remediation and mitigation recommendations</td>
<td>Annually or as required</td>
</tr>
<tr>
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<td>Quarterly</td>
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Source: Gartner (June 2020)
in performance-tracking tools, and many vendor managers use their existing service management and ERP systems to provide analytics around spend data (see “How to Navigate the Fragmented Supplier Management Solutions Market”).

**Develop a Governance Program That Includes Periodic Evaluation, Reviews and Action Plans**

As part of a strategic vendor onboarding process, a strategic vendor review schedule should be agreed on. Too often, we see organizations developing unsustainable reviews as part of their governance framework. ² Develop a schedule that’s not only relevant, but also practical and has the greatest likelihood of being consistently applied. Secure sponsorship, business unit responsibility and vendor responsibility for the objectives and the frequency of these reviews. Use Table 2 to organize your strategic vendor reviews and schedule.

**Table 2: Strategic Vendor Reviews and Schedule**

<table>
<thead>
<tr>
<th>Review and Objective</th>
<th>Typical Agenda</th>
<th>Responsibility</th>
<th>Frequency</th>
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| **Operational Performance Review:** |  - This meeting reports on and reviews the vendor’s performance against contractual SLAs and operational performance metrics.  
  - This meeting reviews past performance issues and actions, and ensures continuous improvement of the strategic vendor’s services and solutions. |  - Actions and status from the last meeting  
  - Performance data from both parties  
  - Escalations and outcomes  
  - Root cause analysis of problems  
  - Updates to improvement plan |  - Vendor  
  - Vendor managers  
  - Operational/IT leaders  
  - Strategic vendor account and operations managers |  - Monthly or quarterly |
Risk Review:
- The risk review addresses risk assessments, risk reporting and analytics, risk events and issues, and risk remediation and mitigation plans.
- It includes reviews of business continuity plans, resourcing risks, project and program risks, cybersecurity and information security, and overall residual risks posed by the vendor.
- It could be combined with the performance review.

Relationship Review:
- This review addresses the value of the relationship and looks to assess what is working well and what is not working well.
- This review evaluates the customer’s perception of the vendor’s success in strategically aligning to the customer’s business strategy and innovation, and the value the customer is receiving from its strategic spending.
- While the performance review is focused on tactical and operational performance, the relationship review looks at the long-term strategic nature and value of the vendor.
Initially, consider piloting a vendor management review process with one or two strategic vendors to evaluate the best timing, deliverables and participants, which will likely vary by vendor. Develop standard agendas for each review type that can be used consistently across all providers. When the vendor management review process is running smoothly, extend the program to the rest of the strategic vendors. This slow expansion will demonstrate the value of the process to business stakeholders.

For the program to be successful, commitment to and participation in the vendor management review process is required from business stakeholders, because they depend on the products and/or services of the vendor. Because of this dependency, the vendor manager needs to gain buy-in from business leaders before initiating the review process. For each strategic vendor, business

### Contract Review
- The contract review focuses on the commercial agreements, key milestones and contract compliance.
- It covers renewals, amendments and negotiations with the vendor, and will provide input to, or possibly combine input with, the relationship review.
- Actions and status from the last meeting
- Compliance to critical dates and milestones
- Review of upcoming renewals/amendments
- Financial and commercial updates

### Executive Review
- The executive review addresses how to ensure that the vendor’s plans and performance are aligned with the organization’s requirements, strategies and goals.
- It is also an opportunity to build and strengthen existing relationships and trust between senior executives, to share ideas, and to manage any issue escalations as required.
- Strategic updates from both parties
- Performance summary review (dashboard)
- Escalations and updates (input from the improvement plan)
- Relationship status and plan

Source: Gartner (June 2020)
leaders must appoint a reliable representative who will participate in the process. It is important for the vendor manager to be clear about the time commitment required and the activities to be performed.

Include the appropriately named stakeholders in the vendor reviews. Stakeholders are from business and IT, as well as from the vendor side. The more strategic the vendor, the more important it is to ensure commitment and engagement from vendor stakeholders. Communicate the expectations and requirements of stakeholders when implementing the review schedule, and allocate backup resources where necessary.

Evidence

1 Gartner’s client inquiry database indicated that, from April 2019 through April 2020, Gartner analysts fielded a year-over-year increase of 20% in client inquiries related to vendor relationship management.

2 Readership of Gartner’s “Toolkit: Establish a Vendor Management Mission and Charter,” which includes example reviews and a responsible, accountable, supporting, consulted and informed (RASCI) matrix, has increased 19% since its republication in November 2019.

Recommended by the Author

How to Implement, Operate and Mature a Successful IT Vendor Management Function
IT Score for Vendor Management
Toolkit: A Model to Segment Technology Vendors to Determine Relationship Impact and Business Value
Master the Fundamentals of IT Vendor Performance Management
Align to Business Growth by Applying Critical Disciplines for IT Sourcing, Procurement and Vendor Management
Leadership Vision for 2020: Sourcing, Procurement and Vendor Management Leader

Recommended For You

Learning Sprints (Bose Corporation)
Magic Quadrant for Data Center and Cloud Networking
Critical Capabilities for Data Center and Cloud Networking
Forecast: Unified Communications, Worldwide, 2017-2024, 2Q20
Forecast: Mobile Phones, Worldwide, 2018-2024, 2Q20 Update