6 BEST PRACTICES FOR BETTER VENDOR MANAGEMENT

To move beyond SLAs to strategic partnerships, IT leaders must develop vendor management practices focused on alignment, collaboration, and maximum value.

February 8, 2024 • CIO • Bob Violino

Vendor partnerships are becoming increasingly vital to IT agendas today. And how well an IT leader deals with and orchestrates vendor relationships can mean the difference between a well-organized and efficient IT operation and a mess that costs an organization millions of dollars without delivering positive results.

To ensure vendor relationship help their organizations achieve their goals, IT leaders should establish a comprehensive technology vendor management strategy focused on maximizing fit and value.

Here are several key tips for making the most of vendor relationships.

Build proactive, collaborative partnerships

For CIOs, the goal should be to evolve vendor relationships toward collaborative "partnerships" rather than just transactional engagements that crop up whenever the vendor needs a sale.

"Proactive and collaborative partnerships are built successfully if both sides avoid the trappings of a purely transactional relationship," says Anja Allen, principal in the technology consulting practice at EY Consulting.

"If the client is looking exclusively at driving costs down or the vendor is only looking at maximizing margin, it will not create the foundation for a collaborative partnership," Allen says. "The relationship needs to be balanced to avoid value leakage on both sides of the commercial relationship. The successful long-term relationships we have observed were built on mutual trust and the vendors' clear understanding of the client's priorities."

To build a stronger relationship with vendors, "CIOs should bring them into the fold regarding their priorities and potential concerns about what may —or may not — lie ahead, from a regulatory perspective or the general economic climate, for example," says Kevin Beasley, CIO at VAI, a midmarket ERP software developer.

"A few years ago, supply-chain snags had CIOs looking for new technology," Beasley says. "Lately, a talent shortage means CIOs are pushing for more automation. CIOs that don't delay posing questions about how vendor products can solve such challenges, but also take the time to hear the information, will build a valuable rapport that can benefit both parties."

Part of building a collaborative partnership is staying in close contact. It's important to establish clear communication channels and schedule regular check-ins with active vendors, "to understand performance, expectations, and progress while recognizing that no process or service goes perfectly all the time," says Patrick Gilgour, managing director of the Technology Strategy and Advisory practice at consulting firm Protiviti.

"It is also important to involve your key vendors in strategy and planning sessions related to their services or products," Gilgour says. "This deepens and elevates your relationship into a strategic partnership and can lead to innovative solutions."

Regularly sharing feedback and being candid with a vendor's product or service performance will help them improve and adapt accordingly, Gilgour says.

"As partners in success, CIOs should communicate how they are planning and growing their business, so the vendor can help identify opportunities to use technology to facilitate that growth and share how the vendor is evolving its capabilities to help address the CIO's business's needs," Beasley says.

"Vendors can produce ideas that are individually tailored to a CIO's business needs," Beasley says. "But this is only possible if they know exactly what those needs are."

Thoroughly vet vendors for foundational alignment

As with any relationship, sometimes two or more parties don't match up well. When it comes to IT vendors, a bad match can mean disaster. Finding out which vendors are the best fit for meeting the short-term and long-term needs of the enterprise is vital.

"We need to do our due diligence when selecting a vendor, [including] understanding their capabilities, value proposition, cost, and organizational fit," says Manav Bhasin, vice president of enterprise applications and transformation with IT services provider Presidio.

"The largest vendors are not always the best choice for a smaller IT organization," Bhasin says. "They often come with rigid processes, complex solutions, and high price tags. It's important to find a vendor that has an appreciation for your business no matter the size of the project, and [that] is invested in the project success."

Evaluating vendors for the best fits means looking at multiple levels of their operations.

"Partnerships are built through trusted relationships at all levels," Allen says. "Often, we see clients focus their attention solely on the sales team or the sponsoring client executive during the procurement process. Getting to know the people that will do the day-to-day services for you or the people that will help you implement your products successfully is an important evaluation factor while determining who you want to work with."

In addition, vendor evaluations should include such basics as vetting the vendor's experience, reputation, financial status, and so on, says Brooke Vemuri, vice president of business transformation and engineering at insurance firm Legal & General America.

"Ensure their services and future services align with your strategy," Vemuri says. "Go into vendor selection thinking about your short-term and long-term goals. As we continue to enhance our digital platforms and processes, we need to select vendors that will help us achieve our digital plans such as more automation. Conduct site visits, and where possible, interview other companies using their services."

Develop a robust vendor partnership evaluation framework

Companies should develop a set of standard vendor performance scorecards that are updated quarterly and reviewed with the vendor to provide feedback, Allen says.

"However, these should not be confused with operational scorecards that track service performance on a more regular basis." Allen says. These partner scorecards should provide a more comprehensive overview and include overall performance information focused on key performance indicators, including delivery, support, quality, partnership and innovation, governance and risk, and financials, he says.

"Metrics that are relevant for partnership and innovation might include relationship status, flexibility and responsiveness, and innovation ideas [and] projects," Allen says.

Continually monitor key partnership metrics

As the relationship progresses and business needs shift and change, metrics should be reassessed, Beasley says. "This should be a continuous process, not something to do once or twice a year," he says. "To make sure that all parties are on the same page and goals are being either met or appropriately worked towards, regularly scheduled evaluation programs can be particularly valuable."

These can be weekly, monthly, or quarterly depending on project scope and necessity, Beasley says. And they should start at the outset of the working engagement so that long term both parties can see trends in the relationship and how they are impacting support and performance to adjust as needed.

It's important to consider the total cost of doing business with a vendor, Gilgour says. "Often, a low-cost provider may look more attractive on a per-unit cost to support a service," he says. "But there are unseen costs from countless escalations, differences in company cultures, and lackluster delivery that erodes" the value of the engagement.

"It is essential to evaluate vendors on their technical capabilities, scalability [and] capacity, and customer service, and collect feedback from multiple stakeholders that directly and indirectly interact with the vendor," Gilgour says.

As an organization matures in its work with vendors, it might move from time and materials (T&M)-based engagements to SLA-based support or managed service agreements and fixed-price projects, Bhasin says.

"Whether it's T&M- or SLA-based, we must manage the deliverables expected from the vendor resources," Bhasin say. "This is a skill set that internal IT managers must develop. They must have visibility [of] the tasks that are being completed, quality of deliverables, vs. estimates and expectations. Managers need to have a clear understanding if vendor resources are working efficiently and delivering quality output."

Run a tight ship on all transactional aspects

One of the biggest challenges with vendor management is keeping track of the costs of products and services. This is especially true with the shift to the cloud. Various departments within an organization might be using multiple cloud services from the same or more than one cloud provider, for example, and costs can quickly get out of control.

That's why IT needs to be able to manage the transactional aspects of vendor relationships whenever a new product or service is purchased.

"Clear communications in both directions is key to managing all aspects of a new product and service," Allen says. That includes but should not be limited to all terms and conditions of the purchase; projected outcomes if it is a service; pricing; delivery timelines; after-sales service; warranty, if it's a product; and risks, especially for new products and services that are unproven in the market, he says.

"CIOs should welcome vendors to help them not only adapt to the new technology and its impacts, but also to socialize across the organization for a more seamless integration," Beasley says. "A CIO should share insights into their company culture, so that the vendor can also adapt their approach, [and] assign implementation managers whose work styles strongly match, to make sure they're getting the most out of the product."

Create a vendor management function within IT — and hire accordingly

Creating a mature vendor management function is a critical activity for most organizations today, Allen says, as commodity IT capabilities are typically outsourced and represent on average 20% to 25% of total IT spending.

"Vendor management has evolved from basic contract, SLA [service level agreement], and financial management to a multidisciplinary capability that is focused on preventing value leakage in partnerships, maximizing the value of partnerships, and managing the long-term risk for the organization," Allen says.

A vendor management function should be staffed with people who understand the discipline.

There are no bachelor's degrees for vendor management, Allen says, "however, with the maturation of vendor management capabilities in many organizations, the pool of available experienced resources has been steadily increasing over the years."

CIOs who are looking for experienced vendor management skills should tap into the labor pool of organizations that have invested in large vendor management offices, strategic partnership offices, Allen says.