

White Paper

5 Reasons Why You Should Have Great Vendor Risk Management

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Vendor management has emerged as one of the most important programs for companies today. Many companies are only beginning to develop vendor management programs as a part of their overall risk management program. Risk management has taken center stage with the current economic climate. Companies that maintain the lowest costs, manage their legal risks better than their competitors, and maintain the best competitive advantage often have well-developed vendor management programs. Here are five reasons why you should, too.

Protect your competitive advantage.

Vendors represent an essential ingredient for the success of your business. They are fully integrated into your product and delivery strategies. They determine the costs of delivering your products and services and providing maintenance to your customers. Your vendors represent a proprietary design for your supply chain and each element, from your pricing structure, to your contract terms, to your commitments, to your payment terms, to your service levels, enable your business to best compete against your competitors given certain environmental conditions. You want to maintain that leverage.

Manage your legal risks.

Vendor relationships are fraught with legal risk, whether a dispute over quality, delivery, or payment terms, or another aspect that is governed contractually. Having good contract management and easy access to your source documents with a vendor – contracts, RFP responses, pricing changes, etc. – is essential to understanding at a given moment or in a crisis what your protections and exposures are. For certain IT vendor relationships, intellectual property or software licensing can emerge as significant issues that need to be managed. A good vendor management program gives you the best visibility into these dynamics.

Meet regulatory expectations.

Whether you are a government contractor, are accountable to the FDA, or a financial institution trying to meet the expectations of the Fed, FDIC, OCC or bank examiners, there are certain requirements you must meet. A good vendor management program does this for you. A good vendor risk management program ensures that you monitor and understand what is happening to your vendors on a daily basis and can react accordingly. The best vendor management programs will alert you if your vendors become troubled financially, or are exposed to market or technology risks that may affect you. With a vendor management system like this in place you can prove that you are managing to the expectation of regulating agencies.

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Improve mergers and acquisitions.

Integrating an acquisition into your company or division can be time consuming and complex. Determining which vendors to keep, which to cultivate and expand your relationship with, and which to throw out can be a significant task and extend the time it takes to fully integrate an acquired company. Having easy access to your vendor documents, data and vendor contracts enables the acquisition process to go smoothly. You need a good contract management system to understand contract penalties, termination dates, and notice periods. Perhaps most important, being organized with a well-designed vendor management program with contract management software will enable your due diligence team to complete their activities more quickly and with less risk to the outcome of the acquisition transaction.

Save money.

Each year, hundreds of millions of dollars are spent unintentionally by companies because contracts automatically renew with vendors, committing the companies to payments for services they do not want or would prefer not to have. Each year, vendors impose price increases that are not monitored, understood, or validated. Get better visibility in your budgeting process each year and use your vendor management program to understand exactly which costs will increase, when, and by how much. This should also be a feature within any good contract management system.