

White Paper

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You're Not Alone: Common Obstacles to Improving Your Vendor Management Program

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Introduction

Are you stuck between knowing that you need better vendor management and being organized enough to implement a new plan? Do you have uncertainty about the best way to go about improving your existing vendor management program? Have you created a vendor management policy and settled upon a vendor management solution, only to find it difficult to execute? If so, you are not alone. Many banks and financial institutions discover obstacles when implementing a new vendor management program.

Financial institutions are increasingly aware of the regulatory burdens that accompany the use of third-party vendors. Regulators have made it clear that the Board of Directors and senior management must identify and control the risks associated with third-party relationships. In fact, the FDIC put out this statement in June of 2008:

“An institution's board of directors and senior management are ultimately responsible for managing activities conducted through third-party relationships, and identifying and controlling the risks arising from such relationships, to the same extent as if the activity were handled within the institution.”¹

In light of these burdens, institutions are taking strides to create vendor management policies and systematically organize their vendor relationships; however, achieving and maintaining compliance with your vendor management policy, while adhering to increasingly stringent regulatory burdens, often presents several start-up challenges for many banks. These challenges can be overcome if you anticipate them and take action to prevent them from stalling your progress. You will be rewarded with the benefits of a strong, easily-managed vendor management and vendor risk management program.

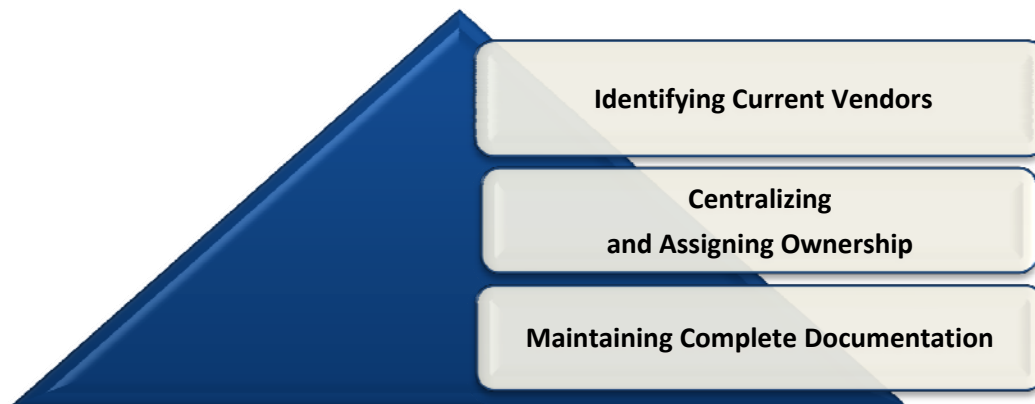
¹ *Financial Institution Letters: Guidance for Managing Third-Party Risk*, Federal Deposit Insurance Corporation, June 6, 2008, available at <http://www.fdic.gov/news/news/financial/2008/fil08044a.html>.

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Start Up Challenges

These are three common start-up challenges faced by many organizations today.



Start Up Challenge #1: Identifying Your Current Vendors

The first challenge of establishing a vendor management program may be identifying your vendors. An effective vendor management program monitors your current vendors and contractual obligations. Ascertaining your current vendor list is a critical step.

Often, vendor relationships are parsed out to many different departments or individual owners. Vendors may be managed across the organization, with little to no insight into what relationships exist for other owners or departments. Additionally, vendor relationships may be terminated and new vendors substituted for poorly performing or expensive vendors. However, the challenge of isolating your current vendors can often be overcome by reviewing the accounts payable spending. If you are spending money with a vendor, it is very likely that a present relationship and written contract exist somewhere in your organization, especially for those vendors with whom you spend a lot of money. Once you have determined your vendors, the next, and likely more difficult, task is to assign responsibility and locate complete documentation for each vendor.

Start Up Challenge #2: Centralizing Contracts and Assigning Ownership

Gathering the vendor documentation and assigning ownership often presents the next set of start-up challenges. The central piece of information about a vendor relationship is often the contract you have with the vendor. Your vendor management program must be capable of identifying and managing this document which often leads to this startup challenge. Often contracts are not stored centrally and may be stored in multiple locations across the entire organization.

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Additionally, contracts that appear expired may have automatically renewed or extended, with or without additional documentation. There may be previous contracts, as well as multiple addendums and schedules to track down. Finally, ownership of the contract may change hands several times after the contract signing, possibly making it more difficult to determine the current owner and keeper of the contract information and documentation.

Within your organization, you may find that contracts are often stored in different formats and in different locations. Some of these locations may be inaccessible to all but a few employees. Contracts may be in paper or electronic form. They may be stored in a desk, a central filing cabinet, a personal drive or a shared network drive. Gathering these contracts and assigning ownership are not insurmountable tasks. You will be successful if you can leverage your company's executives or legal counsel to mandate that managers and employees forward the contracts they have in their possession. Such a call for contracts from an executive is an effective way to obtain company-wide compliance. These tasks are also bolstered by assigning a point person to funnel the incoming information.

An effective vendor management policy will clearly delineate who owns each vendor relationship, where contracts are to be housed, and in what format they are to be kept. The policy is also likely to require a written contract with requisite language and may require additional due diligence documents, completed risk assessments or insurance certificates for certain vendors. The goal of your vendor management program should be to appropriately assign ownership and store all of these documents in an easily accessible, centralized location that provides transparency into key contract terms and events, and has tools to help you manage expired documents and identify risks. A centralized storage repository where contract dates and events are systematically monitored by the responsible personnel is paramount to effective vendor management.

Start Up Challenge #3: Maintaining Complete Vendor Documentation

Even after you've identified the vendors, assigned ownership and located the documents, you may encounter the third start-up challenge. Your contracts may not be complete. Perhaps they are only partially signed or missing pages, schedules or addendums. Your compliance posture most likely requires fully executed and complete documents in order to effectively assess and monitor the vendor relationship, obligations and service level agreements.

Obtaining the complete documentation is an important step and one that strongly benefits from active and involved owners. One way to avoid this problem is to require owners to thoroughly review the documentation when received and to acquire any missing information at the start of the relationship.

If there is incomplete documentation that cannot be located within your organization, the owner may request it directly from the vendor. This simple step is often overlooked. However, contacting the vendor directly may allow for multiple opportunities. It produces the required documentation and may present an opportunity to discuss service levels or pricing structure with the vendor. This step, while potentially time consuming, is a critical step towards complete vendor management.

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Summary

Confronting these start-up challenges will jump start your efforts to strengthen your vendor management solution. The benefits of achieving a successful vendor management program far outweigh the temporary challenges of gathering and centralizing your information. Once overcome, you are well on your way towards gaining better transparency and risk management of your vendor relationships. Meet these challenges and feel confident in effectively managing your vendor relationships.

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Liz is the VendorINSIGHT™ Program Director at CMPG. Kelly is a VendorINSIGHT™ Contract Administrator at CMPG. Together, they have worked with multiple clients to overcome these common start-up challenges in order to achieve a successful vendor management program. VendorINSIGHT™ is the #1 featured solution for vendor management and vendor risk management. Designed specifically for financial institutions to meet rigorous compliance standards, VendorINSIGHT™ is a cost-effective, highly flexible, system that delivers the value and performance needed to manage vendors and contracts consistently with improved risk management, enhanced regulatory compliance, and better cost performance.

VendorINSIGHT™ is a primary business of Cost Management Performance Group, LLC (CMPG). CMPG provides a comprehensive set of services and solutions tightly focused on improving earnings performance and performance risk management for banks. CMPG's services include executive consultation, cost management leadership, spend and contract analysis, benchmarking, and turnkey outsourced solutions focused on vendor management and compliance.