Next Generation Vendor Management
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Executive Summary

Today, outsourcing is increasingly used by companies as an enabler for innovation. Technological advancements drive improvements in service delivery, which has not only a positive impact on cost but also enhance functionality, increase service quality and reduce the importance of location on service delivery. Disruptive technologies like cloud computing enable solutions such as Salesforce.com or ServiceNow to accelerate speed to value and drive business growth. This leads to a change from the traditional IT organization to the next generation IT organization. More agility in the operating model is required to respond faster and at different speeds to new service offerings. Outsourcing models have reached the third generation and involve a multi-vendor environment requiring more transparency and integrated vendor management.

In our global outsourcing survey 2016 half of the respondents stated that they use only a maximum of 40 percent of the outsourcing potential today. ²

To realize the potential outsourcing benefits, Vendor Management Organizations (VMO) have to adapt to new generation outsourcing models and are challenged to integrate multiple vendors and enable supplier collaboration. Complexity is increasing and governance improvements are inevitable, to manage such diverse vendor relationships and to measure service delivery reliably. The survey shows that Vendor Management Organizations are not yet fully equipped to handle these challenges.

We recommend to establish a common platform that integrates all asset and service providers, business users, procurement and management as an integrated ecosystem to achieve high vendor management effectiveness. Deloitte’s vendor management suite is a single platform that provides the required capabilities to manage complex supplier ecosystems, monitor vendor performance and leverage vendor capabilities in order to drive innovation, cost savings, and efficiency gains.
Introduction

Outsourcing today
Worldwide outsourcing has continued to increase.

In our global outsourcing survey 2016 half of the respondents stated that they use only a maximum of 40% of the outsourcing possibilities today.²

IT leaders responded that they intend to increase their use of outsourcing by more than 30 percent for various business functions.²

Unexploited potential
Currently IT is the area with the highest degree of outsourcing, respondents stated that they expect to increase outsourcing of all other functions.

Cloud based service delivery
Outsourced services are increasingly realized by vendors based on cloud technologies. The cloud brings a security hurdle, influences application models and changes the role of the IT organization in business decisions. Companies are challenged to establish mechanisms to handle security and control complexity. Furthermore, cloud services have different formats depending on the service provider and the service type. Today, a reliable measurement of these services is more difficult when the number of different service types and vendors rise.

Vendor Management
Vendor Management Organizations (VMO) have to adapt to the new generation outsourcing models. Complexity increases with multiple suppliers, and governance is required to manage and monitor a diverse supplier ecosystem as illustrated Figure 1. The inhomogeneity of the sourcing portfolio increases as vendors cover an increasingly wide range of services. Currently the existing vendor management capabilities and tools are not yet enough to ensure full transparency or to efficiently manage the multi-vendor relationships in order to realize the value available from outsourcing.

Figure 1: Multi-Vendor Integration

² Deloitte: Deloitte’s 2016 Global Outsourcing Survey
Outsourcing continues to create new opportunities for service providers and clients. According to the respondents there is still a large potential with outsourcing. Technology advancements accelerate speed to value, reduce implementation times and enhance functionality. Multiple vendors are integrated into one service orientated model. The outsourcing landscape is changing. The next generation outsourcing model Outsourcing 3.0 is evolving as illustrated in Figure 2. This model is a converged and integrated multi-vendor ecosystem.

**Integrated multi-vendor relationships and supplier ecosystems**

The increasing number of different suppliers engaged raise vendor diversity. The traditional sourcing model transforms to a multiple-vendor environment. A supplier ecosystem emerges with key requirements on integration and collaboration of vendors and business functions. New capabilities are necessary to oversee the complexity and to provide an enterprise-wide view on the multi-vendor model. Vendor Management Organizations need to manage relationships and align client and vendors objectives to ensure orchestrated service delivery and sustainable vendor relationships.

**Cloud-based services**

Cloud computing has continued to evolve and the acceptance and adoption of cloud based solutions have increased. Organizations are increasingly connecting cloud-to-cloud or cloud-to-core systems to realize their business processes. This influences the IT organization and changes the traditional outsourcing model to a cloud-based outsourcing model. Cloud services have new formats and different types of vendors emerge. The vendor management function needs to be equipped with capabilities to control and manage these different provider types and to install monitoring mechanisms to ensure service availability, accuracy and continuity.

**Concerns**

Concerns about outsourcing decreased in 2016. However, the majority of respondents still feel that data privacy requirements might lead them to redesign their use of outsourcing. As in the last few years, communication problems were stated as major concern. Security risks are now considerably affecting outsourcing decisions. Lack of due diligence, criminal actions or breaking security standards are the risks clients see with outsourcing, especially related to countries with high volatility and low quality infrastructure.

![Outsourcing Trends Diagram](image-url)

**Figure 2: Outsourcing 3.0 - Future, convergence outsourcing model**
Vendor Management Challenges

What challenges are clients facing with Outsourcing 3.0 and multi-vendor sourcing environments?

**Complexity and cost of managing multiple service providers**
The multi-vendor environment today brings complexity and new challenges to companies. Vendor Management Organizations not only have the responsibility to manage all vendors on an operational level but oversee the entire ecosystem to ensure vendors are collaborating towards the same objective. This becomes very time consuming and costly in order to achieve the defined service levels. New capabilities and tools are required to manage multiple service providers in an efficient way and to ensure an end-to-end view.

**Bringing together diverse vendors in a fragmented environment**
As outsourcing is increasingly used for different areas, service providers have to be integrated across multiple functions. Bringing all these vendors together into a single, unified environment is a challenging task for Vendor Management Organizations. To ensure a harmonized environment a standardized approach is required. Different vendors and services types have to be integrated. A common platform becomes inevitable to build a single source of truth for all service providers to ensure convergence and end-to-end service integration.

**Alignment of client and vendor objectives to ensure sustainable relationships**
The alignment of goals and the collaboration between vendors is getting more and more important to drive collective success and to ensure a sustainable relationship. This is only possible if vendors and clients have a common understanding of the operational and overall strategy so that everyone is moving in the right direction. Both parties in the client-vendor relationship need to proactively share relevant information. This requires a common platform as single source of truth to be able to share what is relevant to client and vendor. VMOs are responsible to create an environment of trust so that all parties can exchange information on a continuous basis. This ensures effective communication and sustainable relationships.

**Limited view of vendor performance due to the lack of monitoring mechanisms**
In multi-vendor environments, achieving transparency across all vendors is a key challenge. Organizations are constrained by a limited view of vendor performance due to the lack of monitoring mechanisms that are fit-for-purpose. Monitoring of vendor services is important to be able to see, communicate and escalate vendor-related issues at an early stage. This requires measurement instruments to reliably and continuously measure and compare performance against benchmarks and between vendors. The challenge is to define and select the right indicators to measure service quality across multiple providers and to have a uniform and consistent view. Vendor monitoring is important because it is the key to continuous service improvement.
Case studies

Vendor Management Organizations have to adapt and transform their ways of working in order to face the new challenges evolving from Outsourcing 3.0 and the integrated vendor ecosystem illustrated in our case studies.

Case study I: Asset-based Management

Asset-based management provides real-time information. It links contracts, orders, and assets with consumption, and realizes significant cost-savings from the elimination of invoice inaccuracies.

A single source of truth integrates and aggregates information from different business departments and vendors, which links contracts, purchase orders, asset usage and invoices. It manages on- and off-boarding within an asset lifecycle. The link between purchase orders and billing information, enables automatic invoice validation, and a correction process is initiated if necessary. This realizes significant cost savings.

Figure 3: Asset Reconciliation

Case study II: Service and issue management

Service and issue management monitors vendor services and establishes an effective and traceable communication channel for issues and disputes with vendors through to resolution.

Central and continuous monitoring of vendor services, ensures that issues can be identified at an early stage and a standardized and an automated escalation management workflow prioritizes and assigns issues on an event-driven basis. It provides clear ownership and a centralized view on issues so that the resolution can be tracked efficiently. Customers have significantly reduced delays in communicating and escalating issues with vendors and thus improved service quality.

Figure 4: Issue Management Process

Customers have saved more than 30% of their outsourcing volume with this automated invoice processing from asset-based management.
Case study III: Contract and obligation management

Contract and obligation management tracks contract obligations and informs when contracts expire or changes are necessary.

Figure 5: Contract Management Reporting

Providing a detailed overview of all contracts and obligations in a multi-vendor environment is a challenging task. Contract and obligation management tracks obligations over the contract life time and provides a centralized view on vendor related documents including policies, procedures and compliance documentation. It establishes a calendar with upfront alerts when contracts are due to expire and when changes have to be initiated. Contract and obligation management is a process that supports the handling of change requests and contract amendments with less manual effort, ensuring that all parties are clear about which conditions are current.

Case study IV: Performance management

Performance management addresses the continuous measuring and objective comparison of vendors within a multi-vendor environment.

Figure 6: Centralized Vendor Performance Management

A single source of truth integrates all vendor performance related information and provides transparency of service quality of multiple vendors. This includes the selection of the most decisive metrics and criteria depending on vendor and service types to ensure reliable performance measurement and validates contract compliance. This centralized approach allows the customer to use benchmarking to compare the performance of multiple vendors for the same service and track improvements to service quality.

Case study V: Vendor relationship management

Vendor relationship management improves the customer-vendor relationship, along with the links between vendors and enables continuous service improvement.

Figure 8: Multi-Vendor Relationship Management

To ensure a sustainable partnership with vendors, managers have to build and maintain ongoing vendor relationships. Vendor relationship management supports the development of a partnership approach and proactively manages these long-term relationships within the overall outsourcing context. It provides clear ownership of vendor assignments and offers health-checks to determine risks to the relationships. A vendor health status also shows customer satisfaction. This has enabled companies to improve vendor relationships preventing escalations and deterioration of relationships.

Figure 7: Collective Loss of Outsourcing Value Prevented by Improved Service Provider Governance

Deloitte Research, Gartner
Next Generation Vendor Management Suite

How do Vendor Management Organizations enable businesses to overcome the challenges and to realize the potential outsourcing benefits?

Introduction Vendor Management Solution and managed services
In order to realize potential outsourcing benefits, new vendor management capabilities and common services have to be established in order to increase vendor management effectiveness and vendor collaboration in a complex and diverse multi-vendor environment. We recommend to evolve the ecosystem around vendor management from a siloed to an integrated and collaborative approach. Deloitte’s vendor management suite and managed service is a converged service integration model. It considers asset and service providers, business users, procurement and management. Using a common platform it provides a single source of truth and offers a comprehensive framework with capabilities to manage a complex service provider landscape and promotes vendor collaboration.

Deloitte’s Vendor Management Suite and Operating Model
Deloitte’s Vendor Management Suite (VMS) is an automated vendor management platform offering capabilities and can be delivered as a managed service. The client stays in control of decision making, approval of authority, risk identification and mitigation while Deloitte’s managed service is responsible for management, monitoring and reporting of contracts, assets, vendor performance and issues.
Vendor Management Suite capabilities

VMS provides fully integrated features for all involved ecosystem parties and leverages a set of focused vendor management services to increase vendor management effectiveness. These services are offered with a single common ServiceNow platform providing maximum transparency and sets up collaboration between all parties. The technical platform brings new visualization capabilities and shows vendor health status and other relevant information in real-time through (executive) dashboards.

VMS Solution architecture

The ServiceNow platform is the technical backbone providing consistent workflows and enabling the integrated and standardized vendor management services. The Vendor Management Suite integrates and aggregates vendor related information from various sources and establishes a single source of truth. The broad service spectrum ranges across different fields of responsibilities and is thus used by various personas.

VMS Key benefits

- Unparalleled transparency and governance of outsourced services through monitoring of vendor performance and contractual obligations
- Reduction of overhead and unexpected costs through, for example, automation of invoice processing to eliminate inaccuracies
- Enablement of continued vendor improvement and elevation of business satisfaction for outsourced services
- Single source of truth with a managed service model that overall drive innovation, cost savings, and efficiency gains
VMS Setup and Managed Service
Deloitte offers the complete set of services required to transform VMOs to be fit-for-purpose and excel in modern outsourcing models. Deloitte’s Vendor Management Suite (VMS) provides the platform to realize this objective, and is accompanied by advisory and managed services to ensure successful deployment into target organizations.

The service catalogue enables a tailor-made solution to be crafted for any VMO and vendor landscape. The structured three stage approach ensures that the strategic foundation is sound, the service provision and design meets the client’s needs, and that the transformed vendor environment runs smoothly with continuous improvement built-in:

<table>
<thead>
<tr>
<th>Strategic Alignment</th>
<th>Design and Setup</th>
<th>Run VMS Operations and Continuous Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Strategy review</td>
<td>Package and plan feature deployment</td>
<td>Deploy VMS services across organization</td>
</tr>
<tr>
<td>Service review</td>
<td>Analyze existing service landscape and inventory</td>
<td>Vendor Management Office</td>
</tr>
<tr>
<td>Vendor metric definition and selection</td>
<td>Design Governance organization</td>
<td>Ongoing vendor transformation</td>
</tr>
<tr>
<td>Contract renegotiation</td>
<td>Design and build VMS functions</td>
<td>Decision enhancements through analytics</td>
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<td></td>
<td>Establish integrations</td>
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<tr>
<td></td>
<td>Ramp up VMO</td>
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<tr>
<td></td>
<td>Vendor transition and integration</td>
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</tbody>
</table>

This winning formula is delivered to the high standards required to enable success now and for the future.

Key takeaways

Vendor management organizations (VMOs) have to adapt to new generation outsourcing models with multiple vendors and different service types.

To achieve the benefits from Outsourcing 3.0, VMOs have to be equipped with new vendor management capabilities to manage a complex multi-vendor ecosystem.

We recommend a service integrated and converged approach to overcome the arising challenges of increasing complexity, transparency and the rising requirement towards vendor collaboration.

Deloitte’s vendor management suite is a common integrated platform and managed service providing a set of focused capabilities to realize the potential benefits from innovation driven models and to reduce costs.
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