



By Craig Conte
Cappgemini

In case you haven't noticed, vendor management as a discipline is in fashion again and this time around it's bringing together many other processes in a coherent, outcome-driven method powered by technology and heavily focused on value protection and creation.

Now vendor management as a group of activities has existed for as long as there have been vendors. I am fully confident that somewhere there is an ancient Sanskrit writing, Greek papyrus or stone tablet with a complaint about a merchant's level of service or need for a nomadic trader to keep to his promise of continuous improvement. What is interesting now though is how other processes have matured and are being re-incorporated into vendor management. And whether its in-house teams, 3rd party providers, platforms or just articles written in your favourite procurement journal, vendor management is officially a "thing" again and when done effectively it is a mix of many different skills seamlessly interwoven. But like all "things", when it is done poorly it can be everything or nothing. This piece should give you some insight on the key elements which make for successful vendor management (or supplier governance, vendor compliance or other terms some prefer calling it) today.



Contract management

Contract management has evolved substantially since vendor management first started and now it is a full working part of a mature, modern vendor management solution. In fact, any vendor management solution needs to have contract management as its backbone because at the end of the day the key obligations, rights, remit and remuneration for the vendor all lie in the contract. But this isn't 1990s' contract management where it was just exciting that you had the contract in one place and knew when it expired. Today, contract management and the software platform encompass a whole field of activities – from basic document retention, through change order management, performance management and then analytics on what is in your vendor base.

Vendor management needs this raw data and needs this type of engine to house, parse and extrapolate on the data within contracts. Why? Because in the

2010s the vendors got smart – like really smart – and realised that they were losing money by not making the most of their contracts. See all of the International Association of Contract & Commercial Management (IACCM) studies on losses of 9% in contract value or greater. From the "customer" perspective it has become mandatory that buyers understand their contracts better. Contracts are not getting easier and we are not going back to Adam Smith's trading principles. Vendors realised this long ago and built the machinery in their delivery to use contracts effectively. Buyers need to do the same and that is why vendor management needs contract management.



Legal process outsourcing

Yes. LPO. That thing that law firms do to lower their blended rates. It's a key part of a modern vendor management programme. LPO is more than just lawyers offshore, it is a process driven set of skills relating to legal activities that can be carried out offshore or in less expensive locations. The process approach to the legal function applies to the creation and modification of contracts. Certainly we'd all agree that many years of experience are necessary to negotiate a complex ERP deal.

But do we need the same level of resource for a 50K change order or SOW under an existing agreement?

Spoiler alert: onshore and senior procurement/sourcing professionals are expensive. They are also worth it. But not every challenge requires the same level of resource. If you are using the 20-year-old pro for your ERP deal and for your NDA or change orders, then you may want to look at your processes. This is what vendor management learned from LPO – use the right resource for the job. Vendor management is a lot of things and it needs a lot of skills – just like legal work. This is why vendor management providers and in-house teams started to look at LPO and realise that not everything is “magic” and that activities need to be resourced correctly to bring efficiency.



Finance and accounting outsourcing

Speaking of process and efficiency, F&A is king in this. Accounting professionals realised years ago that their system is a beautiful, rule-based system that is ripe for process generation, improvement and then outsourcing. In classic F&A there are all sorts of processes that touch the vendor lifecycle and are almost mandatory for moving into shared services or for offshoring. Procure to pay, order to cash, source to contract are standard methodologies now. A mature vendor management programme takes the parts it needs

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and builds them into its portfolio. Whether it is the simple invoice management or the tracking of invoice validation, there are a number of steps in F&A that need to be in vendor management. This is sometimes called “proc ops” because that was a good term that some advisor liked. But it is really about understanding, processing and validating invoices in a meaningful and systematic way. If your vendor management solution doesn't factor this in, then you are just managing the relationship. Please check the money. I hear that is important.



Sourcing

I love the term “strategic sourcing”. It just sounds important. But what it really is for vendor management purposes, is a method for looking at where things are bought and then asking questions about whether this is the right price or right thing to buy for what the business needs. And then for extra credit – can I optimise this so I know I am getting the best price.

At its core, it is about vendor onboarding. So if we are concerned about the management of said vendors, we need to look at how they are selected and why. Gone are the days when vendor management was just about doing the best with what is already bought. Now we need to take the information from the delivery and bring it up front. This – in an incredibly oversimplified manner – is what a full on vendor management system needs. And conveniently there is already a speciality dedicated to it.



Commercial management

Lastly, vendor management took a lot from commercial terms.

Commercial teams are those teams in companies that have a little bit of finance, little bit of legal and a little bit of delivery in them (and in vendors a little bit of sales). These professionals look at the whole deal and try to make sense of it. To wrap a bow around vendor management, you need this.

As you can see, vendor management is a great descriptive term for a collection of different skills and activities. Some may be obvious, but some you might not have realised you need in an effective solution. Based upon what I have seen and what I know, I suspect that vendor management will continue to evolve. Companies are just starting to scratch the surface on what can be done with automation and cognitive computing here. Whether it's Watson, RAVN, Seal or others, there are some very interesting things happening with how we take data in and then process it for human consumption. With all of the automation available, I wouldn't be surprised if someone starts marketing “strategic vendor management” as a service.