

# The Hitchhiker's Guide to Vendor Management

Start small, grab a towel, and begin the journey to improved vendor management.

Does this sound familiar? "Vendor Management?! I don't have the time or staff for that!" "We don't have the budget for it." "Someone else takes care of that..." Or "I'm spread too thin already...I don't need another project, and I have too much to do."

Or how about this? "I don't know where all my IT spend is going, who's buying what, and our vendors are running the place; I'm over budget and behind on multiple IT projects, and I have contract renewals due."

You feel like you're rocketing through space, trying to grab all the shiny objects you can, and struggling to complete your mission...and you don't even have a towel! OK, what's with the towel, you ask? Catch up on your reading of *The Hitchhiker's Guide to the Galaxy* by Douglas Adams, where he explains:

*"A towel [...] is about the most massively useful thing an interstellar hitchhiker can have. Partly it has great practical value. You can wrap it around you for warmth as you bound across the cold moons of Jaglan Beta; you can lie on it on the brilliant marble-sanded beaches of Santruginus V, inhaling the heady sea vapors; you can sleep under it beneath the stars which shine so redly on the desert world of Kakrafoon; use it to sail a mini raft down the slow heavy River Moth; wet it for use in hand-to-hand-combat; wrap it round your head to ward off noxious fumes or avoid the gaze of the Ravenous Bugblatter Beast of Traal (such a mind-bogglingly stupid animal, it assumes that if you can't see it, it can't see you); you can wave your towel in emergencies as a distress signal, and of course dry yourself off with it if it still seems to be clean enough."*

"Cut it out," you say. "What does this have to do with vendor management?" Consider this note as your towel to protect you, support you, provide cover when you need it, and act as a hand-to-hand combat tool as you make your way through the vendor management galaxy. But not only do we have towels...we also have a map!

## Don't Panic!

Smaller organizations with limited procurement resources and zero vendor governance spend their time dealing with the next "emergency," chasing requisitions, purchase orders, contracts, renewals, and putting out fires. They generally do not have time to assemble a vendor management plan, let alone to create a good overview of their most critical vendors. Vendor management is great if you have the staff, reporting tools, and processes to manage it, right? But most IT and procurement organizations do not have that luxury and are left to do their best under the circumstances.

Oh well, I guess we'll just have to deal with the vendors going around everyone's back, buying the same products from multiple vendors, working off vendor paper, and paying more, right?

Wait a minute – *really*? Your internal systems may be a challenging, disparate, disconnected mess and not built for managing vendors, but not having adequate (or any) vendor management built into your IT strategy and procurement operations can have lasting, negative impacts on your business and technology infrastructure, while increasing your costs and risks.

Having different processes for tracking vendor contracts, spending, sourcing, category and project information, and security and risk profiles does you no favors. That said, implement these tools (your "towels") to get started. Then, you can turn your limited attention to your most critical vendors (or the ones that are most troublesome)

and get your organization on a less stressful flight path to a small vendor governance program and work your way to a more formal vendor management initiative.

**"Start small, think big, and grow fast."**

You're busy – we get it and appreciate that you've read this far. In this note, we'll discuss the basics for building a scalable foundation for vendor management and provide the tools to get you started on your vendor management journey...no matter how big or small your organization/department is or how disparate your organization's systems are.

First, let's look at how we describe "vendor management." While it is a broader system of "governance," as described in Info-Tech Research Group's "[What Is Vendor Management?](#)" note, and specific to each organization's size and needs, vendor management is a "highly customizable and configurable" unifying foundation for the main "towers of excellence" comprised of the five areas below. These towers represent the foundation for management and will help you get to your destination in one piece with reportable value to show for it.



You are already dealing with the five towers daily, even if you don't have a vendor management initiative. So, for now, it's a matter of process and scale to get "vendor management" defined for your organization at lightning speed with minimum effort...and the right tools.

So, let's take a hypersonic journey through each of the five towers of excellence and see what the "minimum effort for maximum gain" for your organization can be by building a foundation for vendor management, even in a resource-constrained environment. No need to be lost in space when dealing with vendor management...consider the following your pre-flight checklist.

# TOWER #1: RISK

When you think of risk, you're probably thinking about cyber risks, but there is a long list of subjects that can bring risk to your business when dealing with vendors. You can either deal with the significant possibility of vendor risk proactively or wait for something to happen and handle yet another emergency you don't have time for. If your organization lacks central control over risk, then we suggest at least planning for it at the beginning of your more critical vendor relationships so you have a baseline level of preparation to handle any risk issue that a vendor may present to you. Then, you can add vendors to your risk assessments as you get comfortable with the process and prove success.

You have three opportunities during a vendor's contract life cycle to assess risks – before, during, and after. "Begin with the end in mind," as they say. Consider the following assessment activities for each phase of the relationship.

## Pre-Relationship

This is where many risk issues and problems can be prevented if, as a matter of course, you consider a holistic review of the vendor **before** you engage in a client-vendor relationship. What policies and practices does your business have in place to measure risk? See our blueprint specific to vendor risk: [Looking at Risk in a New Light: The Six Pillars of Vendor Risk Management](#).

Importantly, you can also address much of the "Contract" pillar **before** you get into a formal relationship, starting with your RFX process:

- **Review and negotiate contract terms and conditions.**
  - Consider including a list of your key terms and conditions in your RFX and score vendor responses accordingly. This will save you a lot of time if you know up front how your vendors respond to your contractual requirements before you select them.
  - Ensure you have the necessary protections to make you whole in the event of an incident (data breach, service level agreement breach, limitation of liability, indemnification, warranty, etc.) throughout the entirety of your relationship with the vendor. For guidance on IT contracting, we suggest Info-Tech's blueprint [Understand Common IT Contract Provisions to Negotiate More Effectively](#).
  - Use Info-Tech's Contract Review tool and the Contract Playbook in the above blueprint to easily keep track of contract negotiations.
  - Consider adding a "Business Rules of Engagement" exhibit to your RFPs and contracts to clearly outline your expectations to vendors as to how they will interact with your organization. See Info-Tech's [Vendor Rules of Engagement](#) template for more information.
  - Be sure to negotiate your post-termination protections in the initial agreement, e.g. How will your data be returned to you? What transition assistance will you require? How will you handle the return of equipment? What will the cost be, if any?

- Limit vendors' ability to increase costs year over year. A long-term vendor relationship can often be more costly than a new one.
- Be sure your deliverable requirements and expectations to the vendor are clear, concise, and in writing. Vagueness can be costly.
- Lock in pricing for hourly rates and additional product/service purchases for the term of the agreement whenever possible.
- **Perform an initial financial assessment.**
  - Make sure the vendor is adequately positioned to service your organization: Do they pay their bills on time? Have they been sued? Do they have appropriate financial backing? Consider debt-capital ratios, revenue trends, and profitability metrics as well, particularly for SaaS vendors that may be small to medium in size. See Info-Tech's research on assessing financial risks associated with SaaS vendors here: [Select Tactical SaaS Vendors That Are Built to Last](#).
  - Include total cost of ownership (TCO) and return on investment (ROI) as potential impact offsets. Here's an easy-to-use tool to help you compare the TCO on vendor proposals: [Vendor TCO Tool](#).
  - Build-in regularly scheduled vendor financial assessments throughout the contract term. They are an essential step to ensuring you are up to date on the status of your vendors. **See Tower #3 below for more information.**
- **Perform an initial risk assessment.**
  - Identify and understand all potential factors that may cause negative impacts to your organization: financial, security, reputational, etc. See Info-Tech's research on identifying and managing reputational risk here: [Identify and Manage Reputational Risk Impacts on Your Organization](#).
- **Review case studies – talk to other customers.**
  - Research current and former clients who have worked with the vendor to get “the good, the bad, and the ugly” stories to form a clear picture of a potential relationship with the vendor. Use the intelligence gathered to help frame your negotiation strategy.
- **Use a proof of concept.**
  - It is essential to know how a vendor's solutions will work in your environment before committing your limited staff and financial resources to a contract. If product demonstrations don't go deep enough for your needs, consider a proof of concept (POC) before committing financial, technical, and legal resources to a contract. POCs should be short in duration, with clearly defined deliverables/goals at little-to-no cost to you, and, importantly, with no obligation to purchase. We suggest you formalize any POC in an agreement that includes duration, roles/responsibilities for both parties, any POC pricing/licensing considerations, and “not to exceed” pricing should you decide to move forward with the purchase.
  - Be sure to have alignment on your contract needs, such as insurance, liability, and data security during the term of the POC. What will success look like at the end of the POC? Keep in mind that companies often get sucked into a POC, expending precious resources, going too far in testing the proposed solutions, and becoming committed to it at the expense of alternatives. We would suggest limiting POCs to the “finalists” and creating a limited, time-bound POC that tests your key requirements. Maintain your leverage by using POCs as a competitive “test.” While the POCs are underway, use the competitive advantage and work on the contracts/pricing with the vendor.

## Ongoing Risk Monitoring and Management During the Relationship

Once you've signed the agreement, the need for ongoing vendor risk management doesn't go away – plan on periodically checking the vendor's status to avoid surprises. The following are examples of items and activities to be monitored throughout your vendor relationships. Understanding that you don't have the resources and capacity to handle all of these on an ongoing basis for ALL your vendors, we suggest that you at least align risk assessments with contract renewals when your leverage is high. There may be vendors that you would want to track more often based on experience with the vendor and their performance. And, of course, consider these factors when you're in the sourcing phase, so you can prepare *in advance* for any surprise. Plan and give yourself time to accomplish assessments well in advance to maintain leverage. More information can be found in our [Identify and Manage Financial Risk Impacts on Your Organization](#) blueprint.

- **Performance** – Does the vendor continually provide excellent services, support, and performance?
- **Credit monitoring** – Has the vendor's credit standing changed during the period in review?
- **Viability/solvency** – How has the vendor's financial/credit situation changed?
- **Resource capacity** – Does the vendor have the right resources to provide the services you need?
- **Operational impacts** – What changes has the vendor undertaken that may have an impact on you?
- **Regulatory penalties** – Have any regulatory penalties been levied on the vendor?
- **Increased insurance premiums** – Has the vendor's insurance situation changed?
- **Security breaches (infrastructure)** – Has the vendor experienced any security breaches?

## Termination of the Relationship

All vendor relationships eventually come to an end. Governance of how contract termination will occur is critical, so don't overlook this step when negotiating agreements. Begin with the end in mind, and review Info-Tech's research on contract termination: "[Contract Term & Termination – It's more than the start and end date of any agreement.](#)"

Consider the following points important to termination as you go out to bid and negotiate agreements:

- **Return of your data**
  - Data retention becomes a "forever risk" in today's world of cyber issues if you do not plan appropriately.
  - Ensure that you always know where data resides and where people are allowed to access that data.
  - If there is a regulatory need to house data only in specific locations, ensure it is explicitly stated in agreements.
  - Protect your data through language in initial agreements that cover what needs to happen when the relationship with the vendor ends.

- Typically, all the data that the vendor has retained is returned and/or destroyed at your sole discretion, and the vendor should certify its destruction.
  - Be sure to address how your confidential information is to be returned and/or destroyed.
- **Knowledge transfer** – What information will you need from the vendor at the end of the contract term so you can independently manage the solution upon termination, if required? Be sure to get this added to your agreements.
- **Transition assistance** – What aid will you require from the vendor upon contract termination? Again, be specific and thorough when adding this to the agreement. Be sure to account for any additional costs that may be incurred and ensure that the timeframe for transition is reasonable for your business needs.
- **Offboarding the vendor** – What materials, data, and information do you need to obtain from the vendor at the end of the contract term? Final invoice, credits, etc.? Feedback from the vendor?

If you don't have a "command center" or an ERP where all your key vendor information and task lists are in one spot, consider developing an easy-to-complete spreadsheet/Word form for vendors to provide the necessary information you require for onboarding, then add that as a tab to a workbook containing all the required vendor information you've gathered for managing the overall relationship (SLA tracker, vendor evaluation, contract/spend/finance information, scorecards, and feedback). Share that information with the appropriate stakeholders as needed via a Teams or SharePoint page. That way, your activity relating to vendor monitoring is in one place, and you won't have to enter the same information in multiple places. Stakeholders needing access to the information can access it with permission. You may want them to enter their own information, add notes, upload copies of documents, emails, etc., relative to the vendor. Much of the time you spend managing vendors/stakeholders via email can be minimized or eliminated, and you won't have to put all your information/data in multiple locations – keep IT sourcing simple. For your ease of use, please see the [Hitchhiker's Guide To Vendor Management Toolkit](#).

Info-Tech has tools to help you with this important part of vendor governance. Check out the Info-Tech blueprint [Proactively Identify and Mitigate Vendor Risk](#). This blueprint offers an overview of vendor risk with simple tools and templates to help you get the most out of managing risk with the least effort.



## TOWER #2: CONTRACT

How you approach the contracting process will have a major impact on your vendor management, so be certain that your contracts protect you in all aspects of doing business with vendors. Seek legal advice as to what specific terms, at a minimum, are required in your agreements. Consider putting those terms and even your standard contract template (if you have one) in your RFx. For additional information, see Info-Tech's research on IT Contracts. And remember to reach out to Info-Tech Research Group for our [Contract Review service](#) – we can save you time and effort.

At a minimum, keep track of your most critical vendor's contract start and end dates, and give yourself plenty of time to review these agreements for opportunities to improve pricing and service delivery. See Info-Tech's [Hitchhiker's Guide to Vendor Management Toolkit](#) for an easy to use contract renewal tool. Evaluate the relationships with your critical vendors, at a minimum, annually. Since you have limited time and attention, below are our suggestions on additional business terms to consider when negotiating, managing, or renewing agreements.

**Business Rules of Engagement** – Advise vendors as to what your expectations are for them when engaging with your organization. Include these instructions in your RFx, contracts, and the vendor page on your organization's website to formalize how you expect vendors to engage with your organization and its stakeholders.

**Data Security and Protection Exhibit** – Do you have data security requirements that are standardized for your vendor selection process? Consider a standard set of security asks in your RFx and include a Data Security and Protection Exhibit in your contracts outlining your expectations of the vendor to appropriately monitor and report on their security protection efforts during the agreement. Don't wait until you've signed the agreement to address this issue. If the vendor will have access to or house your data in any way during your software and managed services agreements, ensure up front that they will undertake the appropriate monitoring, testing, and reporting required to ensure the security of your data and PII. Info-Tech has a vast array of research addressing data security, and we would encourage you to check it out. Particularly, keep an eye out for our upcoming publication: "What's in Your Security Addendum?"

**Service Level Agreements** – If your agreement calls for SLAs, make sure they are SMART (specific, measurable, attainable, realistic, timebound) and that you have the appropriate remedies, such as credits and liquidated damages, in place to keep you whole. We suggest reviewing Info-Tech's blueprint, [Reduce Risk With Rock-Solid Service-Level Agreements](#). The tools and templates in this blueprint will help manage and track ongoing service levels and associated credits that may be due. Be sure your agreement allows for termination should the vendor repeatedly not meet their SLA commitments.

**Warranty Language** – Should be carefully reviewed to ensure the vendor will deliver the necessary remedies should they or their product not perform to the stated warranty. Warranties won't do you any good if they are not meaningful. And great remedies for bad warranties are useless. When the account team mentions any capabilities, features, and benefits, ask them where these commitments or obligations are referenced in the contract and what remedies they will provide should they not perform



as promised. It's important to remember that anything the vendor promises in meetings, presentations, or similar circumstances should be included in the agreement.

For more information about negotiating agreements, check out Info-Tech's blueprint [\*Understand Common IT Contract Provisions to Negotiate More Effectively\*](#).

## TOWER #3: FINANCIAL

While we've advised you to perform an initial financial assessment of vendors **before** you enter a contract, this is not a "one and done" situation, nor does it stop with the vendor...it's important that you monitor not only a contracted vendor's financial health, but **your** financial management of the spend associated with **all** your IT vendors' contractual obligations on an ongoing basis. You want to ensure that you are getting full value from a contractual, financial, and service perspective.

This is the third tower – financial management – and it's an integral part of your vendor management journey. Financial management establishes a baseline for tracking and managing forecasted and actual spend, savings, cost avoidance, and value creation. Financial management is intended to provide governance to ensure that payments made related to a particular contract are valid and that credits are received by your organization as expected; it helps to measure vendors' (as well as Vendor Management's) return on investment calculation. If you'd like more information on showing ROI for your vendor management efforts, check out our [Capture and Market the ROI of Your VMO](#) blueprint. This blueprint has various tools to help you track the financial success of your vendor management and governance efforts.

Knowing what you spend with your vendors feeds the vendor classification or segmentation process, which arranges your organization's vendors into categories of "strategic," "tactical," "operational," and "commodity," based on their relative importance to your organization. Vendor classification helps to define the amount resources your organization allocates to a particular vendor. You may not have time for vendor classification currently, but do try to begin building your vendor inventory now, using the tool found in the [Vendor Classification Model Tool](#), and make the process easier for when you finally arrive in the vendor management galaxy. If you're under time and resource constraints, you might want to take a stop here to see how you can streamline your efforts and speed up your journey by focusing on the vendors that have the most impact on your organization. Answer this question: What do you spend with which vendors, and how critical are those vendors to your organization?

# TOWER #4: PERFORMANCE MANAGEMENT

If you don't have time to manage vendor performance, do you have time to course-correct a major project due to poor vendor performance? It's almost too late then. Don't subject yourself and your stakeholders to yet another emergency – plan for performance management at the beginning of your key relationships so everyone knows what is expected of them, and check in regularly with both stakeholders and vendor teams to be sure you're headed in the right direction.

It's very important not to set your strategic vendors on "autopilot" during your agreements with them. Doing so may take you off-course, potentially even crashing your project and increasing costs to your organization. There are several tools (more towels!) for you to add to your mission to manage the performance of your vendors on an ongoing basis that will help you and your stakeholders stay the course.

**Scorecards** – Provide feedback gathered from stakeholders on a predetermined set of measurement criteria relative to the account team's performance, communication, management of the account, etc., to your most important vendors regularly. Consider a two-way scorecard for even better results.

**Business Alignment Meetings** – Regularly schedule meetings to ensure alignment between you and your vendors regarding expectations, open issues, and feedback on performance based on scorecards. Have a predetermined agenda, take minutes of the meeting, and have representation from both sides in attendance.

**Performance Improvement Plans** – How do you deal with vendors that continually underperform? You know you have them – they miss meetings, aren't on time, don't deliver on commitments made in the agreement, and you wonder if they even have the skill set to do the job. The longer you let vendor performance continue to degrade, the more your contract is leaking value, and the more time and money you spend picking up their slack.

So have a plan for when vendors are lost in space and not paying attention to your needs, even with regular prompting from you. A performance improvement plan (PIP) should focus on a few key areas:

- The stated performance in the contract or the expected performance
- The actual performance by the vendor
- The impact of the vendor's poor performance on the customer
- A corrective action plan, including steps to be taken by the vendor and due dates or review dates
- The consequences for not improving the performance level

When the relationship gets to a point where you're not getting the level of communication, responsiveness, and performance that was outlined in the agreement after repeated attempts to address issues with the vendor team, it's time to provide a written warning that the relationship is in danger if vendor doesn't do X-Y-Z to fix the situation. Be sure your contract is specific about your right to terminate should the vendor not perform to expectations.

Each of these tools can be found in the [Elevate – Tools and Templates Compendium](#). They are easy to use and will help you stay the course.

## TOWER #5: RELATIONSHIP MANAGEMENT

As we round the outer reaches of the vendor management galaxy, we come to the ongoing management of the vendor relationship. Regular attention must be paid to vendors, particularly to your key vendors, to maintain and grow the relationship, improve communications, and to ensure you are getting value for the money you've paid and the contract you've signed.

Take time to review your key vendor relationships and dig a bit deeper into those vendors to ascertain which ones you should initially focus on. Vendor classification will help you identify which vendors should take priority.

Here are the key components of relationship management:

- **Market Intelligence** – Conduct periodic market reviews on your key vendors to gauge how they are maintaining or advancing their position in the market space. Are they gaining or losing market share? Are there changes in their key competitors? Are there any lawsuits or bankruptcies pending? What are customers saying?
- **Relationship Assessment** – Conduct high-level reviews of your key vendor relationships regularly by obtaining stakeholder and vendor feedback. Is the vendor responsive and consistently delivering on their commitments? Does the account team have what it takes to get the job done according to your expectations, and do they adequately handle your requests promptly? Do you respond in a timely manner to vendor questions and provide what is needed for their success? What are the personal relationships between the vendor and stakeholders? Are there reciprocity issues to be considered?
- **Relationship Improvement Plans** – As previously discussed, sometimes the vendor just doesn't act in your best interest no matter how hard you try to get them to fly right, and you need to address the steps the vendor must take to keep your business. Try not to let the relationship get to this point, but if it does, get your towel ready and be prepared to address the situation in writing with deadlines. Be factual in your approach, identify the areas needing improvement, and develop a plan for improvements. More information on relationship assessment and improvement plans can be found in [Elevate Your Vendor Management Initiative](#).
- **Alignment in the Client-Vendor Relationship** – Look for collaborative solutions whenever possible, focus on the bigger picture, look for trends over time, and get into details only if necessary. Encourage stakeholders and vendors to be constructive in their feedback and open in dealing with one another. If the vendor is doing a good job, let them know.
- **Account Team Assessment** – Don't forget to assess the "crew," i.e. the account team. We often overlook this aspect of the vendor relationship. Does the "crew" have what it takes to help guide you on your journey with this vendor? We've created research that addresses how best to evaluate your account team so you can steer your team in the right direction. Download [Evaluate Your Vendor Account Team to Optimize Vendor Relations](#) for more information.

Keep thorough records of your vendor meetings and relationship management activities so you can easily see where you have been and can see where you need to go with your vendor relationships (remember the toolkit we mentioned earlier – and keep IT sourcing simple). Use the Info-Tech tools referenced in this note to help you keep track of your vendors. The tools are flexible and easy to use, so save yourself time getting started on your

journey! Conduct advance preparation for meetings and don't walk in cold. Begin to think strategically as you work in the vendor management galaxy.

As you hitchhike your way through the vendor management galaxy, know that many benefits await. Improved vendor performance. Reduced costs. Better contract management. Fewer internal resource requirements on vendor-induced "lost in space" activities.

So take time to plan which vendors to start with based on their classification, which tools will serve you best for this initial journey, and what steps toward vendor governance you will take first. Remember, the journey starts with that first step...and a towel. Reach out and let us know how we can help you.

