

The Good Cop / Bad Cop Vendor Management Strategy

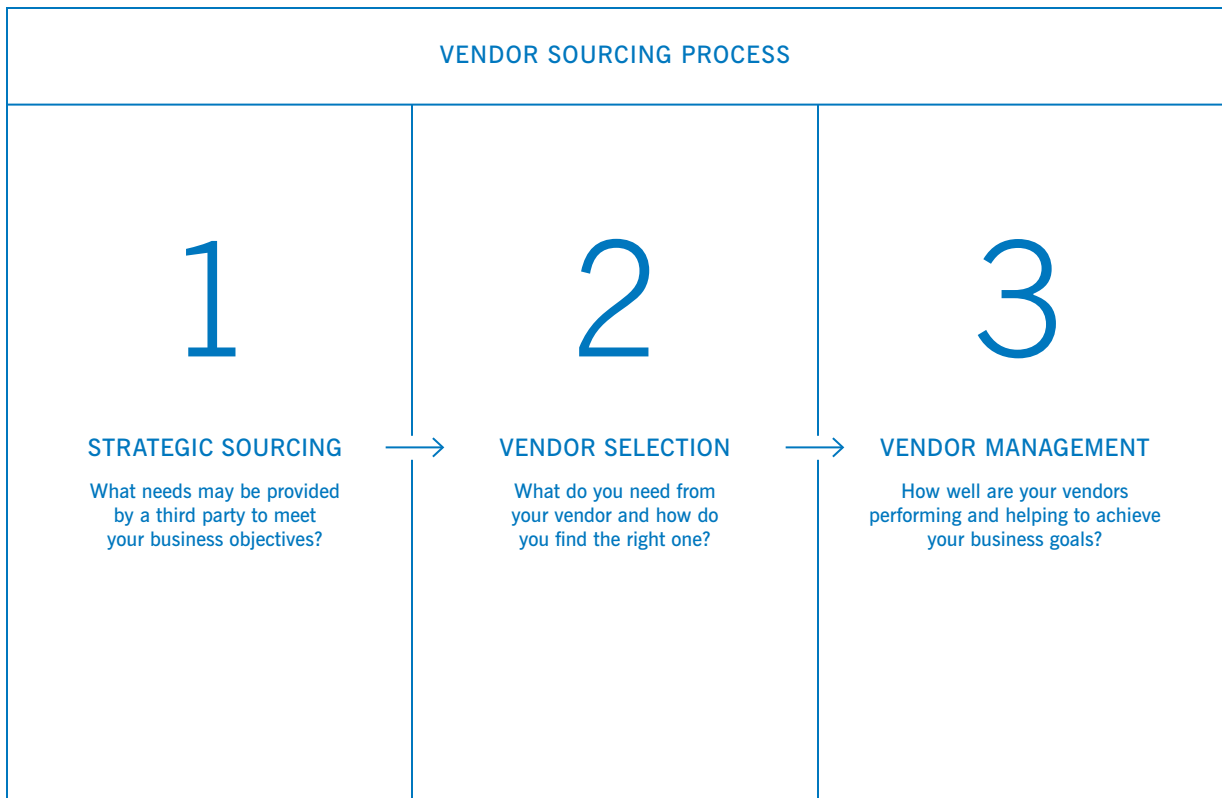
BY ANDREW LOUDER

The Vendor Sourcing Process is much like building a house. Let's say you want to build a house, but you don't have any of the skills necessary to do so. You'd likely identify your shortcomings and make the decision to hire help. In the end, you're hoping these vendors may save you time or money (this is Strategic Sourcing).

So you call up a number of vendors. You'd talk to carpenters, painters, plumbers, and pick the ones you think will do the best job (this is Vendor Selection). From there, you'll let them "do their own thing." You might even give them creative freedom, right? Wrong! If you did, your house could likely come out all wrong. Paint colors could be wrong. Roofs could leak. Materials could be subpar. Not to mention that the house would be handed over to you past your deadline, and likely over budget (this is Vendor Management – or lack thereof).

THE IMPORTANCE OF VENDOR MANAGEMENT

So what should you do? If you cared at all about your soon-to-be house, you'd routinely check-in with each vendor and review their progress. You'd discuss potential changes to the floor plan or design. Most importantly, you'd discuss actual costs compared to your budget, and make sure they'll meet their timelines. If they started to stray from your vision, you'd bring them back on course. If they were working hard and making good progress, you might even reward them by buying the crew lunch. All in all,



you'd oversee their craftsmanship, ensure they're meeting their deadlines, and monitor the budget. If you would do all that for your house, why wouldn't you do that for your business?

I've seen a number of instances where companies make the same mistake. They think they've done the right thing by bringing on vendors. They put all their trust in them, and next thing they know, what used to be a good decision has quickly become an ugly situation.

A lack of Vendor Management can cripple a business. Relationships can feel like an eternity, especially with vendors that aren't holding up their ends of the bargain.

Here are some of the biggest issues as a result of poor Vendor Management practices:

- **The vendor moves aimlessly and with no strategic direction** — Successful companies are nimble when it comes to change. Lack of communication with your vendors could mean they are still operating according to last year's orders prohibiting quick change.
- **Deadlines/milestones get missed** — Vendor agreements are full of promises to meet milestone dates. If you're not on top of them, those dates will slip and you're ultimately the one accountable for their poor timing.

- **Vendors aren't held accountable for their performance** — If your kids missed their curfew, you would likely punish them. So if vendors are failing to meet your expectations, someone needs to hold them accountable. When vendors aren't held accountable, they likely won't change their poor behaviors.
- **No tracking of financial forecasts vs. actuals** — Before you selected your vendors, you likely built a business case for selecting them (if not, you should see our Vendor Selection Framework). It's important to keep track of how they're charging you according to the contract and your forecasts. Otherwise, costs could get away from you.
- **Immature vendor management practices lead to immature decision making** — Without the knowledge or framework for managing vendors, how can you make sound decisions when it comes to initiating or terminating agreements with vendors? As always, knowledge is power and puts you in a strong negotiating position.

VENDOR MANAGEMENT CAN HELP

The Vendor Management Office (VMO), described to the right, has proven to mitigate these issues and drive successful vendor relationships. The VMO has been designed to make sure all your bases are covered from an operational and contractual perspective. It simply comes down to a classic game of Good Cop/Bad Cop.

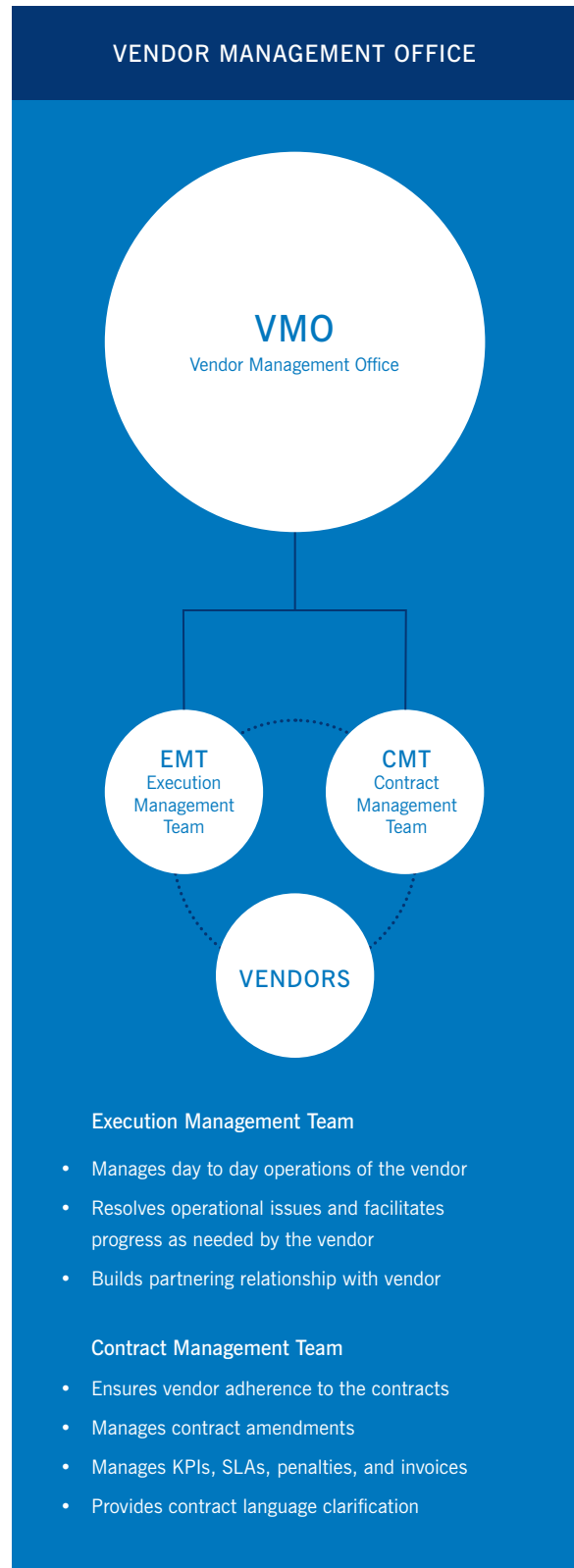
THE EXECUTION MANAGEMENT TEAM — THE GOOD COP

Fundamentally, the Execution Management Team (EMT) makes sure that the vendor is performing the services they agreed to provide. The EMT consists of the subject matter expert(s) on the agreed-upon services. Typically, they continue serving their roles in their “day jobs,” and make up the EMT throughout the duration of the agreement. For example, if the contract is for a contact center, a contact center operations team would make up the EMT for this particular contract. They work every day with the vendor to make sure they have what they need to be successful. They make sure the vendor has access to all the buildings they need access to. They make sure the vendor is connected to the network. They make sure the vendor knows whom they need to work with.

The EMT is the Good Cop. They need to maintain a strong relationship with the vendor as they’re working with them each and every day. As a result, they need to be cordial with the vendor even as mishaps arise. When those mishaps arise or contractual contradictions pop up, they still should be firm with the vendor, but then notify the Contract Management Team where they’ll be the Bad Cop and assess the applicable consequences or penalties.

THE CONTRACT MANAGEMENT TEAM — THE BAD COP

The Contract Management Team (CMT) holds the vendor accountable to each and every letter in the agreement. In a larger organization, the CMT would be a centralized function serving across a number of contracts with CMT members working full-time in this capacity. In smaller organizations, they function similarly to the EMT by keeping their “day job” and



serving in a temporary capacity. The CMT needs to consistently communicate with the EMT to make sure they each understand the agreement to the fullest extent. The CMT processes invoices, makes contract amendments, provides contract interpretations, monitors service level agreements (SLAs), and assesses penalties as applicable.

They are the Bad Cop because they truly hold the vendor to the fire. Any misstep the vendor takes, the CMT sets them straight either with a friendly reminder or with legal action. They also serve as the mediator between the EMT and the vendor when it comes to contractual disputes. They need to be the Bad Cop in order to ensure the vendor is accountable.

This game of Good Cop/Bad Cop should never be used to ridicule the vendor. So to be clear, here's a simplified look at how this would work:

EMT: So Vendor X, let's talk about this month's metrics. How are things going with the transition?

Vendor: Not too bad. We recently received our customer service surveys back, 86% of the customers are satisfied with their service. So overall pretty good.

EMT: That's definitely an improvement over last month, but I still think performance could be better.

CMT: The SLA says you must be at 90% or above for any given month. We'll need to assess a penalty for this month.

Vendor: Well, it's the second full month of service, and we've made great progress.

CMT: Yes, but that's not what the contract says. We'll assess the penalty on next month's invoice and see how you stand this time next month.

PUTTING THE VMO TO WORK FOR YOU

Now that you know about the VMO, what do you need to do next?

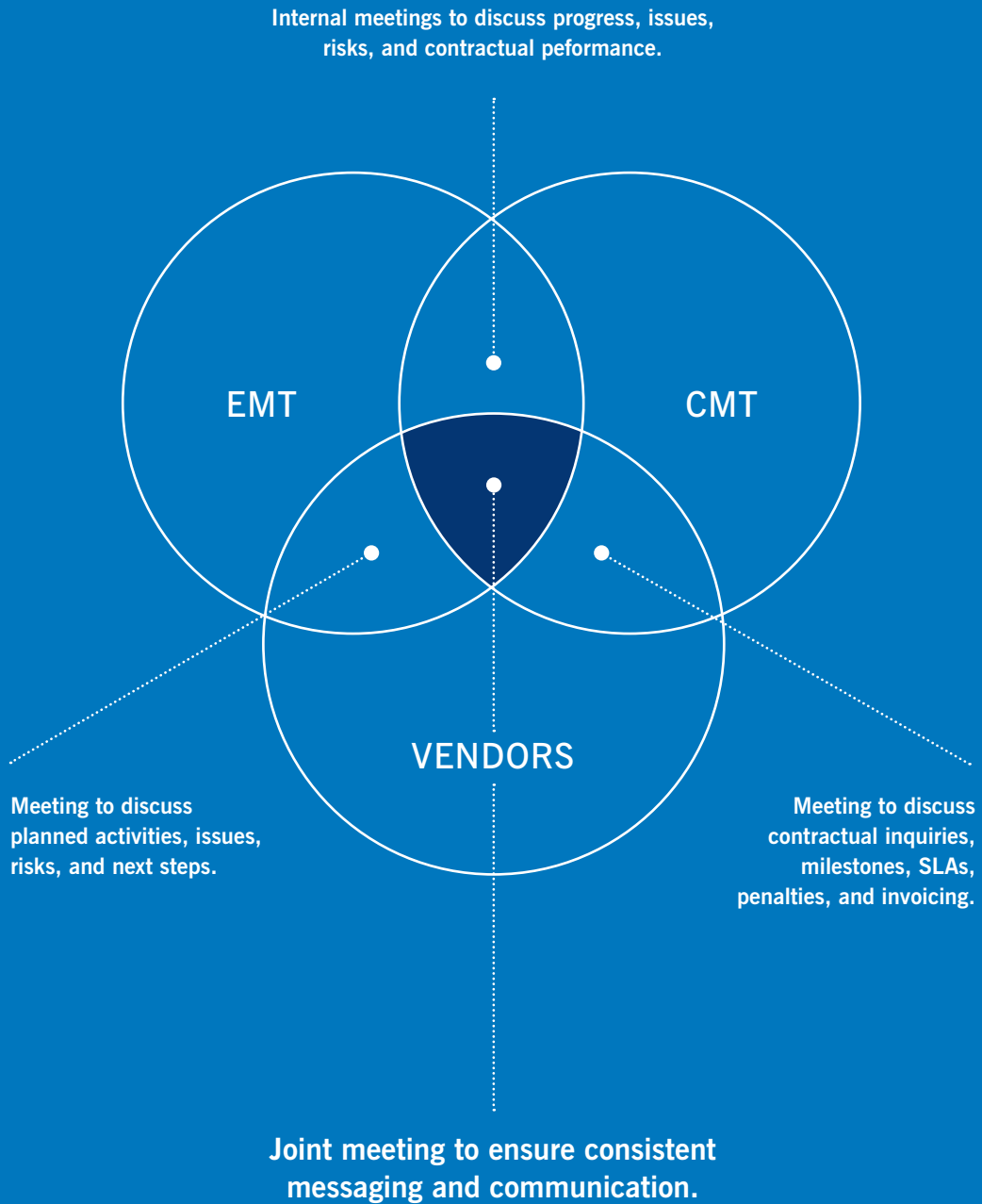
1. **Introduce your team to VMO** — Get your team on board and implement the new structure. The key is to consider your situation. Should you implement a CMT for each agreement, or should you centralize it and have the CMT serve across multiple contracts? The answer truly depends on your organization's size and maturity level. Keep in mind, the VMO has been designed to be versatile so that you could

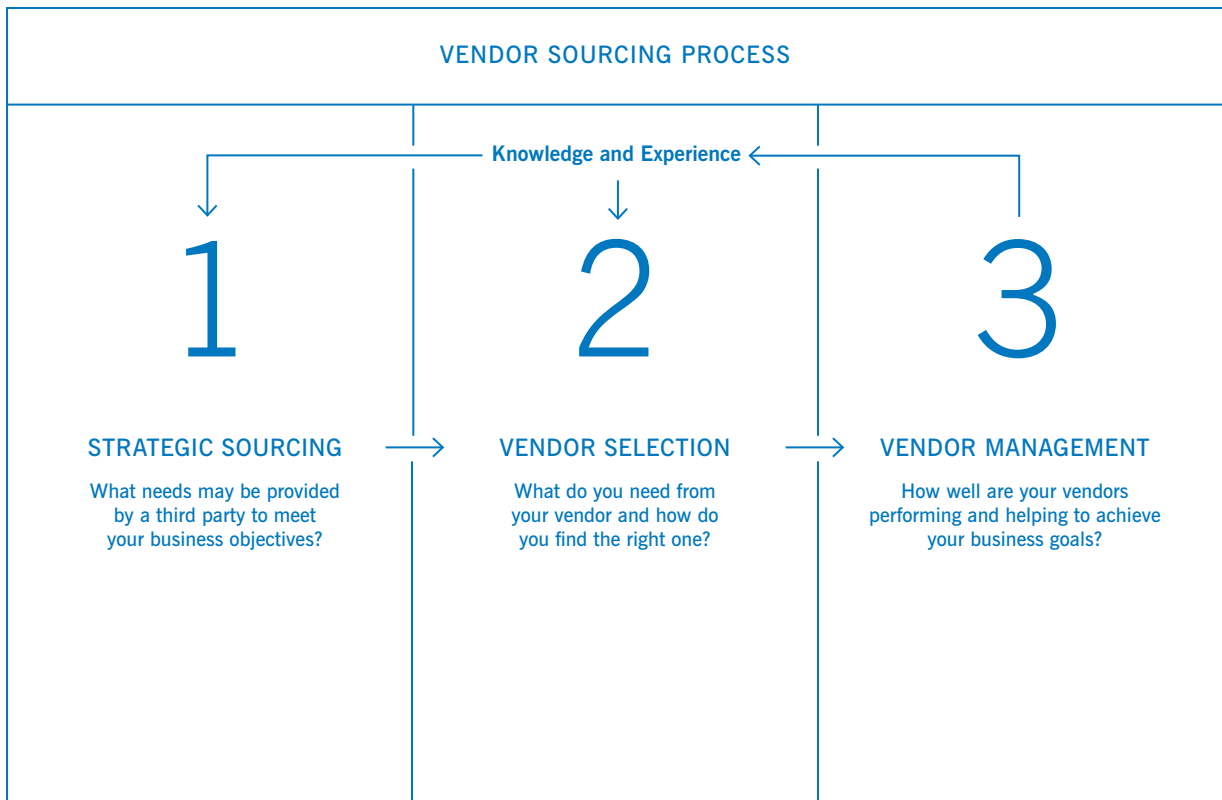
implement it across various departments within a company if you wanted to. Just make sure the right players are in the right roles.

2. **Take a step back** — Conduct an assessment on your top current vendor agreements. The best way to do this is to literally go through the contract and highlight any potential discrepancies. If you determine the vendors aren't holding up their end of the bargain, seek to re-negotiate or terminate.
3. **Get your vendors on the same page** — You've just rolled out the VMO to your team, and you have a better understanding of your current vendor situation, so now it's time you get the vendors aligned with your VMO. Vendors need to know the new roles and responsibilities, their points of contact, and the recurring future meeting schedule. They also need to know that you're finally holding them accountable. This is where the CMT can have their first shot at being Bad Cop.
4. **Start monitoring and continuously assessing your vendors** — The EMT and CMT need to work together to identify what the Key Performance Indicators (KPIs) need to be in order to start tracking the vendor's performance against your business goals. Let the vendors know when you'll be monitoring them (weekly/monthly/quarterly/yearly) and which KPIs you'll be tracking. Sometimes it's difficult to drive major behavioral changes without contractual obligation, so decide if you want to make it more official by adding the KPIs to the agreement in the form of Service Level Agreements (SLAs).
5. **Look at where you're spending your money** — By now, you should have a sense for how your vendor is performing operationally, so it's time to take a closer look at the financials. Comparing your actual spend to your business case (if you have one) should give you the insight you need to gauge your progress. If you're spending more than you anticipated, take the steps you need to right the ship. Do your SLAs come with financial penalties? If so, see if the vendor owes you money. If not, consider attaching financial penalties to your SLAs moving forward.



VMO INTERACTIONS





6. **Create a scorecard to centralize important vendor performance data** - At a high level, the scorecard should be a one-page snapshot containing KPIs, SLAs, financials, milestones and any contract level issues/risks. The scorecard is an important tool that shows you where your vendor is succeeding and failing. Your procurement department should receive this scorecard at least quarterly so they know which vendors are worth bringing into potential new agreements and which don't deserve to be brought back.
7. **Use the VMO to your advantage** - With the new VMO in place, it's time to leverage the VMO strategically. The VMO should have a hand in your Strategic Sourcing plan and Vendor Selection. In doing so, you're able to leverage lessons learned to improve your decision making. Also, by instilling the VMO into the vendor selection process, you will have the right players involved from the inception of the process, which is vital for understanding the ins and outs of the agreement and building relationships with your vendors.

A FRESH OUTLOOK

Now that you've implemented the VMO, you've taken a great leap to improving your business. It's incredible the impact this new structure will have. Your employees will feel rejuvenated as they now are empowered to manage their vendors. Your vendors will improve their performance so you'll start looking at them as strategic partners. Future vendors will be signed and managed with accountability from the start. Perhaps most importantly, you now have a way to keep an eye on your finances so there aren't any surprises. Implementing the VMO will impact your company's performance and bottom line. And as an added bonus, now you're ready to manage that home renovation you've been putting off!

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