

SIX PREDICTIONS

Vendor Management
and Governance
Capabilities Take
Center Stage

CRAIG NELSON, MANAGING DIRECTOR





EXECUTIVE SUMMARY

In today's outsourcing marketplace, complex, multi-vendor service delivery models offer the potential benefit of leveraging best-of-breed capabilities. However, they also pose the formidable challenge of integrating and coordinating myriad players with varying roles and responsibilities and ensuring collaboration among a disparate team of providers.

In addition, increasingly stringent regulatory requirements in many industries put the onus on client organizations to ensure compliance throughout the service delivery chain and to maintain oversight across multiple third-party relationships.

As a result of these pressures, vendor management and governance are becoming top priorities. While these areas have traditionally been overlooked and under-funded, enterprises are recognizing that lack of governance is a key driver of value leakage in outsourcing. Moreover, clients understand that enhanced third-party oversight, risk mitigation and compliance capabilities are essential to achieving tangible value from provider relationships and to responding to today's competitive and industry imperatives.

This Alsbridge white paper outlines six predictions for the coming year related to vendor management and governance and discusses how enterprises can take advantage of emerging trends and capabilities.

PREDICTION

#1

Standardization Will Become King

Standardization can help companies work better and smarter. Organizations that leverage standardized processes and reporting to improve vendor management and governance functions will gain an advantage in an increasingly competitive and compliance-oriented environment. For financial services organizations, one specific benefit of standardization will be a higher level of confidence around regulatory reviews. Alsbridge has observed that informal “visits” from the Office of the Comptroller of the Currency (OCC) have become increasingly common over the past year. If these informal preliminary reviews reveal that standard policies and processes are in place and adequately documented, the OCC will typically forego a more detailed and formal audit and move on to identify enterprises that clearly represent a higher risk.

In addition, increased demand for standardization will drive demand for new vendor management automation tools. (More on this below.)



PREDICTION #2

Vendor Consolidation Swallows Niche Providers

As assessment, management and oversight of third-party service providers becomes a top priority, clients will focus on audits of vendors to ensure that they can demonstrate “compliance readiness.” This will drive consolidation in the vendor space, as the cost of compliance will become increasingly burdensome. Smaller third-party contract labor firms of 10 to 50 people and single-shingle professionals won’t be able to bear the cost and – either out of choice or necessity – will be acquired by larger players.





PREDICTION #3

RPA Emerges as a Compliance Enabler

Awareness of Robotic Process Automation (RPA) tools as an [enabler of compliance](#) will grow and create a significant advantage in a competitive environment where speed, cost, accuracy, auditability and visibility into service analytics are increasingly imperative.

More broadly speaking, organizations will benefit from heightened competition to bring Governance, Risk and Compliance (GRC) and vendor management solutions to market.

A horse race between established players and newcomers will result in a slew of modular offerings around a wide range of monitoring and reporting capabilities. Some confusion will ensue as GRC players will seek to enter the vendor management space and vice versa. While GRC functionality focuses on mitigating risk associated with supplier stability, vendor management focuses on enhancing supplier capability. Both are critically important for sustained operational viability, and organizations that can achieve convergence of these functions will emerge as market leaders that manage their supplier spend in ways that others will seek to duplicate.

While many of the new toolsets lack maturity, enterprises will recognize that the larger issue is the lack of maturity in the processes the tools are designed to oversee. This will generate a sense of urgency around enhanced process documentation and a recognition that waiting on the sidelines for the market to sort itself out isn't an option.

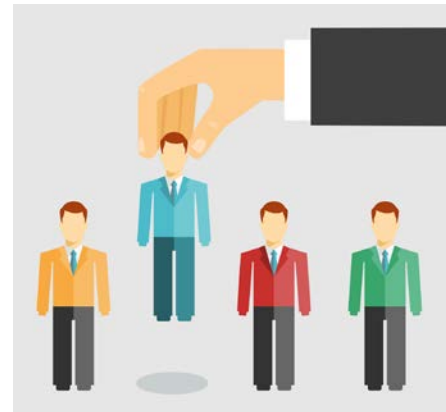
PREDICTION #4

Labor Arbitrage Cedes the Stage to Vendor Management

Enterprises will place less emphasis on finding sources of low-cost labor and focus instead on driving higher and higher levels of performance from suppliers and achieving the original business case for sourcing.

Research shows that an improvement in supplier performance management [produces six times greater impact to profitability than would a similar improvement in labor costs](#). Executives are recognizing the value proposition inherent in effective supplier management and are prioritizing accordingly.

This shift reflects the next phase in the maturation of the marketplace, as outsourcing has redefined the meaning of a 'company.' With the modern corporation largely externalizing more than 70 percent of its cost base, effectively managing the service delivery ecosystem, coordinating multiple providers and overseeing specific contract obligations becomes paramount.



PREDICTION #5

Governance Becomes Culturally Critical

Good governance will shift from a compliance mentality to a cultural imperative. In other words, rather than being the responsibility of a discrete department or group of individuals, compliance will permeate organizations and become embedded in daily operations.

[Thomas Curry, Comptroller of the Currency,](#) recently noted that – rather than relying on individuals not to make bad decisions – executive management has a responsibility to build a strong enterprise culture that promotes responsible business practices. As such, the tactics of policies and process documentation will evolve into a strategy of cultural alignment around compliance and governance.

When effective governance is internalized and ingrained in a company's DNA, the resulting benefits will extend beyond compliance and encompass operational alignment, healthy client/provider relationships and enhanced business value.





PREDICTION
#6

Third-Party Governance Becomes a Board Fiduciary Role

To develop a culture of compliance awareness and commitment to effective governance (Prediction #5), financial services enterprises will make third-party oversight a Board-level responsibility.

Regulatory requirements continue to outpace financial institutions' ability to respond. In addition to OCC mandates, the Federal Reserve Board (FRB), the Consumer Financial Protection Bureau (CFPB) and the Federal Financial Institutions Examination Council (FFIEC) are all actively involved in evaluating compliance capabilities and exposing violations.

In this environment, enterprises will recognize they have to move beyond giving lip service – in the form of value statements and company policies – to developing enforceable mandates to change behavior. Boards of Directors will be responsible for actively promoting, supporting and driving cultural changes alongside the C-Suite executives who are responsible for changing corporate behaviors and driving out old school thinking about how business gets done.



CONCLUSION

The combination of competitive pressures, multi-sourcing delivery models and regulatory scrutiny make vendor management and third-party oversight increasingly important to today's enterprises. Effective governance is essential not only to adhering to compliance standards, but to maximizing supplier value and to leveraging outsourcing for competitive advantage and long-term shareholder value creation.

Leaders in the emerging environment will – through a combination of build and buy approaches – view vendor management and governance as an area

of strategic investment that yields significant returns.

They will ensure strong stakeholder involvement, build accountability into the business culture and recognize the linkage between delivery performance and stock price.

Followers, by contrast, will continue to view vendor management as a cost center with minimal ROI. They will fail to inspire stakeholder involvement and will continue to rely on a fire-fighting culture that reacts to continual problems resulting inevitably from cross-functional process fragmentation and an inability to measure and monitor vendor performance.



ABOUT THE AUTHOR



CRAIG NELSON, MANAGING DIRECTOR

Craig Nelson has more than three decades of experience as a senior executive, consultant and sourcing advisor. Before entering advisory consulting he managed \$1.65B of sourcing spend as a Global Head of Vendor Management for IBM and as COO of MetaSolv Software in charge of sourcing. Other previous roles include directorships with Mercer Consulting, Towers-Perrin and Ernst & Young.

Craig has brokered ITO/BPO deals of \$400M to over \$1B in contract value, and he has been instrumental in setting up VM structures for numerous Fortune 500 companies. His background in process redesign, vendor governance and performance optimization provides a unique blend of operational, transformational and vendor management (VM) expertise, giving him a strategic perspective on outsourcing effectiveness.

Craig holds several certifications as a Strategy Consultant, e-Business Strategist, Six Sigma and ITILv3. He has a MPA, Public Finance (Honors) and BS, Psychology/Statistics from the University of Utah.

ABOUT ALSBRIDGE

Alsbridge is a global management consulting firm that helps companies enable their businesses and reduce costs by optimizing their service provider relationships. As a trusted advisor to over 40% of the Fortune 500 and FTSE 250, we work with over 200 clients a year on over \$11b in spend. Our experienced consultants leverage market insight and deep benchmarking databases to help clients align their requirements to the optimal vendor solution, apply best practices, negotiate terms at fair market prices and improve relationship governance. We help clients utilize the most cost-effective and value-added sources globally for IT infrastructure services, network carrier services, hardware and software, application support and development, business processes and cloud services.

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