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Vendor Management Program Office
Onshore or offshore?

Deloitte's previous article[1] discusses the five most common challenges which have prohibited clients from optimizing their Vendor Management (VM) functions. Some questions which we did not address in the prior article include: Can you fully leverage the efficiency and effectiveness of VM capabilities by performing activities in an offshore location? What types of issues can a client face in this scenario, not only in executing processes but also managing relationships with key stakeholders? This article illustrates the growing trend to offshore elements of Vendor Management Program Offices (VMPOs).

Executive Summary
Spend on Information Technology (IT) products and services has continued to increase and in addition the evolution of outsourcing has transitioned to additional channels, e.g. Cloud, and additional products, e.g. procurement, legal, mid office functions etc. As a result there is an increased emphasis on VM to effectively, implement controls and governance to manage risks and compliance issues, communicate VM strategy, build relationships with BUs and internal stakeholders, and integrate across multiple external providers.

Historically clients have extended on shore sourcing and procurement functions to include a VM capability. As demand for IT outsourcing and offshoring has continued to increase, and grow in complexity, VM functions have evolved and established their own identity, including specialized skills and tools for VM. The next stage of this outsourcing journey has seen a growing trend of clients moving VM functions and processes to near shore or offshore centers. Just as clients have evaluated benefits for outsourcing IT and non IT services, realizing not just cost benefits, in a similar vein the same approach can be applied to VM.

There are a number of functions, and within some functions sub processes, that can be moved to an offshore center for execution and support. Challenges continue to remain in managing distanced relationships with Business Units managers, key stakeholders in compliance and service delivery and interdependencies with supply chain. However, lessons can be learned as vendors have also faced similar challenges. A key is not to focus on sole cost savings and labor arbitrage, but by moving VM functions into a Center of Excellence (CoE) or Shared Service center

(SSC) with specialized VM skills, clients have successfully increased the effectiveness of VM processes.

Why should you offshore VMPO functions?
There are a range of benefits which can materialize from offshoring VMPO functions, which include:
- Access to specialized skills in a CoE model
- Additional cost benefits from adopting an offshore model
- Building a flexible, scalable VMPO offshore model whereby additional volumes and vendors are managed more effectively and seamlessly under the same methodology
- Adopting a 24x7 model for global client base and to manage global vendors in multiple locations
- Increased ability to build local relationships with local based vendors
- Co locating VMPO with other offshore BU functions and/or shared service center functions

These benefits from an offshore operation are in addition to benefits from a central VMPO, e.g., standard and consistent approach to managing vendors through metrics, governance and relationship management.

Traditional functions to offshore
Many traditional VM functions lend themselves well to offshoring. If executed correctly through a SSC or CoE model, the offshoring model can provide significant synergies not just across VM, but across the entire IT governance organization. See Figure 1 below.

Based on Deloitte's experience, approximately 75%[2] of the VM functions and processes can be performed at an offshore location while managing risk. In fact, the optimal retained and offshore mix will enable the VM leadership to focus on the strategic relationship and issues with the vendors instead of focusing on the day to day tactical aspects of the outsourced relationship.

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1 Deloitte's The Vendor Management Program Office (VMPO): Five deadly sins of vendor management, Deloitte Consulting LLP 2013
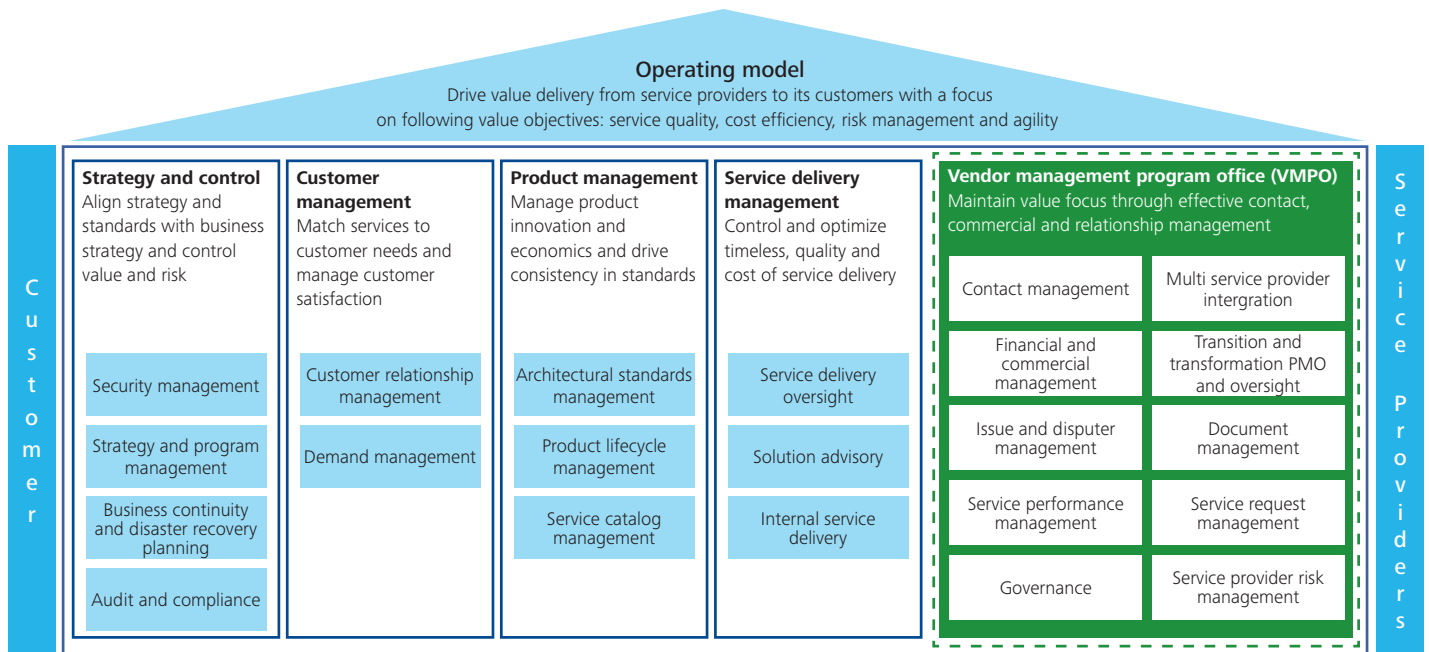
2 Based on Deloitte analysis

Operating model
Drive value delivery from service providers to its customers with a focus
on following value objectives: service quality, cost efficiency, risk management and agility

Customer

Strategy and control
Align strategy and standards with business strategy and control value and risk

- Security management
- Strategy and program management
- Business continuity and disaster recovery planning
- Audit and compliance

Customer management
Match services to customer needs and manage customer satisfaction

- Customer relationship management
- Demand management

Product management
Manage product innovation and economics and drive consistency in standards

- Architectural standards management
- Product lifecycle management
- Service catalog management

Service delivery management
Control and optimize timeless, quality and cost of service delivery

- Service delivery oversight
- Solution advisory
- Internal service delivery

Vendor management program office (VMPO)
Maintain value focus through effective contact, commercial and relationship management

Contact management	Multi service provider intergration
Financial and commercial management	Transition and transformation PMO and oversight
Issue and disputer management	Document management
Service performance management	Service request management
Governance	Service provider risk management

Service Providers

Figure 1[3]

This section provides guidance on functions and processes that can be performed at an offshore or remote location.

Contract management: provides the rigor and means for managing and implementing amendments to the contract during its term. Maintain currency of the contract so that it accurately reflects the environment and services being provided at a point in time. All contract obligations, deliverables, rights, and constraints are identified and managed in a timely manner to promote successful execution of the contract.

Processes retained on-shore	Process candidates for offshore
• Provide contract training • Provide contract amendments • Negotiate/renegotiate contracts	• Manage & track obligations • Manage contract compliance • Draft contract guides • Draft formal correspondence • Provide contract interpretation/advice • Manage contract life-cycle • Manage deliverable acceptance • Provide contract drafting/support of drafting • Process contract changes

Commercial/Finance Management: provides a methodology for the review of vendor invoices and payment recommendations. Review vendor spend and contract utilization against contractual terms and services provided, including management of the invoicing, payment and service credit/penalties processes. A key value add of this function includes tracking the business case and savings identified in the contract.

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3 Based on Deloitte analysis

Processes retained on-shore	Process candidates for offshore
• Track business case • Undertake cost saving initiatives	• Verify rate and volume/invoice charges/recommend payment • Perform allocation/chargeback • Track service credits • Manage foreign exchange and COLA calculations • Monitor and report capacity optimization • Assist with benchmarking process • Collect and aggregate business forecasts • Provide budgeting assistance • Provide forecasting assistance • Financial analysis on additional/new scope proposals

Governance: a key to any outsourced arrangement is how the relationship is being managed. The governance function establishes the formal process to track and manage relationships across all levels of the organization (from service delivery organization to the executive level). Tactically, this function consists of a governance framework, defined authorities, forums and their respective terms of reference (ToR) to provide that the appropriate information is received by relevant parties in order for them to undertake effective decision making. It is supported by a number of reports as specified in each forum's ToR. This function also provides a clear escalation path to establish that the appropriate stakeholders are involved to resolve issues and disputes.

Processes retained on-shore	Process candidates for offshore
• Undertake assessment against outsource objectives • Provide input on strategy generation or capacity management processes • Approval of key decision making, including KPIs and vendor performance	• Establish and manage governance forums • Create and manage signing authority framework documents • Prepare agendas, track issues and actions, develop materials and follow up post forums • Manage demand and capacity approval process

Document Management: managing document repository is a tedious but necessary evil. Making sure all contracts are kept current, changes are tracked and documented, and have a central place for all documentation, contracts, artifacts, legal correspondence etc., is critical from a compliance standpoint. The processes are very transactional and should be performed offshore since they require least interaction with the stakeholders.

Processes retained on-shore	Process candidates for offshore
	• Develop process documents • Set up and manage e-room/central document repository • Maintain repository of contractual artifacts • Perform auditing/updating/archiving of agreements

Service Performance Management: performs tasks such as demand forecasting, measuring of vendor performance against Service Level Agreements (SLAs) and Key Performance Indicators (KPIs), manage relationship with the business, and project management. Project management includes transition management — which expands and contracts based on demand. For this function to be successful there needs to be a strongw link and synergy with the Contract Management function.

Processes retained on-shore	Process candidates for offshore
• Facilitate vendor customer satisfaction surveys • Act as point of escalation for service delivery or performance issues	• Provide dashboard reporting • Perform SLA monitoring & trending • Monitor and report on continuous improvement initiatives • Manage regional and global service performance • Undertake SLA change management • Perform SLA escalation in cases of persistent breach

Transition and Transformation Management: establish transition and transformation program objectives and expectations are being met; review status and progress of the Transition and Transformation Program. Approve milestones, acceptance criteria and changes to program. This also includes review of and validating Transformation targets and objectives. It provides an opportunity to review program changes and expedite escalated issues.

Processes retained on-shore	Process candidates for offshore
• Provide Transition and Transformation planning • Provide Transition and Transformation change management and communications	• Provide Transition and Transformation monitoring & reporting, including interdependencies and risks/issues • Provide Transition and Transformation governance and program support

As organizations design and build their VM functions and operating models, a word of caution when designing the Roles & Responsibilities matrix (RACI) is to establish that there is a defined role for the offshore team to clearly articulate the interactions and hand-offs across the various stakeholders including vendors.

Emerging functions to offshore

While organizations are becoming mature in the traditional VM processes described above, the business environment is causing an increased awareness of two emerging VM functions: Supplier Risk Management and Service Integration.

Figure 2[4]

Supplier Risk Management

Supplier Risk Management (SRM) is a discipline of risk management that attempts to proactively identify, mitigate and manage risks and disruptions in the supply chain. A typical SRM function comprises a three part hierarchy of Govern, Manage and Operate as shown in figure 2 below.
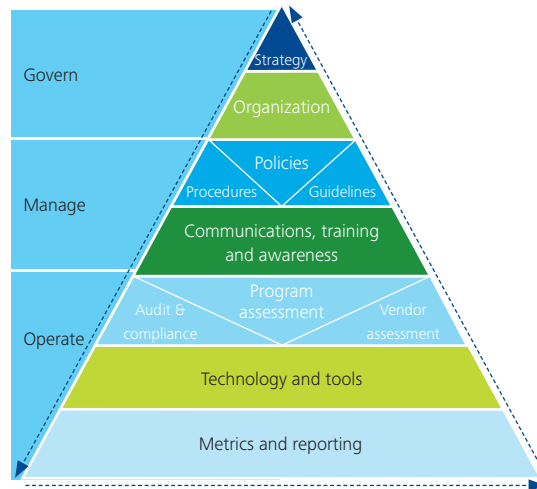
Governance focuses on the risk management strategy and its role within an organization's Enterprise Risk Management framework. Management focuses on deploying the processes and resources to management vendor risk effectively. Operations focuses on the day to day technological and reporting needs that enable the management and governance layers to execute appropriate decision making. (For a more detailed discussion of the SRM framework, see "*The new reality for managing supplier risk — it's harder than you think*", *Deloitte Consulting LLP 2012*)

Offshoring of SRM processes is greatest at the lower levels of the pyramid, Operations, and less common at the top, Governance. In our experience, the following processes and activities are being moved to an offshore delivery model:

Operations	
Compliance and Supplier Assessment	• Vendor onboarding, including anti-corruption due diligence and sanctions screening, and vendor financial health analyses, and periodic vendor reassessments • Execution, tracking and archival of non-disclosure agreements (if not automated by technology) • Contract compliance reviews • Document management
Metrics and Reporting	• Reporting on vendor onboarding assessment results • Development of vendor performance management dashboards, such as service level and KPI reports • Distribution of performance management reports • Maintenance and update of reporting templates • Vendor spend analysis and geographic spend concentration analysis

4 Based on Deloitte analysis

Technology and Tools	• Configuration of SRM tools, including contract management databases, risk management tools and performance reporting and aggregation technology
	• Integration of diverse vendor and risk management software tools
	• Workflow management and approvals routing
	• Data management, vendor master maintenance, data integrity assurance

While the processes above tend to be candidates for offshoring, a number of related processes and activities are likely to be retained locally, e.g. onsite due diligence for vendor onboarding. As always, a detailed assessment of each activity's characteristics should be required to finalize the onshore/offshore decision.

Offshoring of SRM operations is on the rise and the procedural nature of reporting, technology and compliance activities supports offshoring. However, there are a number of key challenges to be aware of. For one thing, many organizations frequently struggle with the integration of a multitude of vendor-focused systems. Contract management software, risk assessment databases and performance dashboard tools have been implemented at different times, and in different geographies with varying requirements. As a result, systems may not "talk" to each other, and frequently do not share keys that enable consistent compilation of data across systems. When moving a process offshore, a company will likely lose some of the institutional knowledge that has been acquired by

its previous process managers, making it critical to have an underlying technology base of consistent, clean and accurate data.

Service Integration

Service Integration (SI) is a critical enabler in operationalizing the multi-vendor operating model. As large scale end-to-end IT outsourcing deals with single providers are decreasing in favor of more targeted solutions, multi-vendor operating models are becoming more common.

A typical IT SI model is illustrated below in figure 3. Recent experience suggests that most companies have not fully understood how to design and deploy a Service Integration function, and as a result, few processes and activities are delivered from offshore. However, when companies do deliver SI remotely, the most transactional activities are the first to transition.
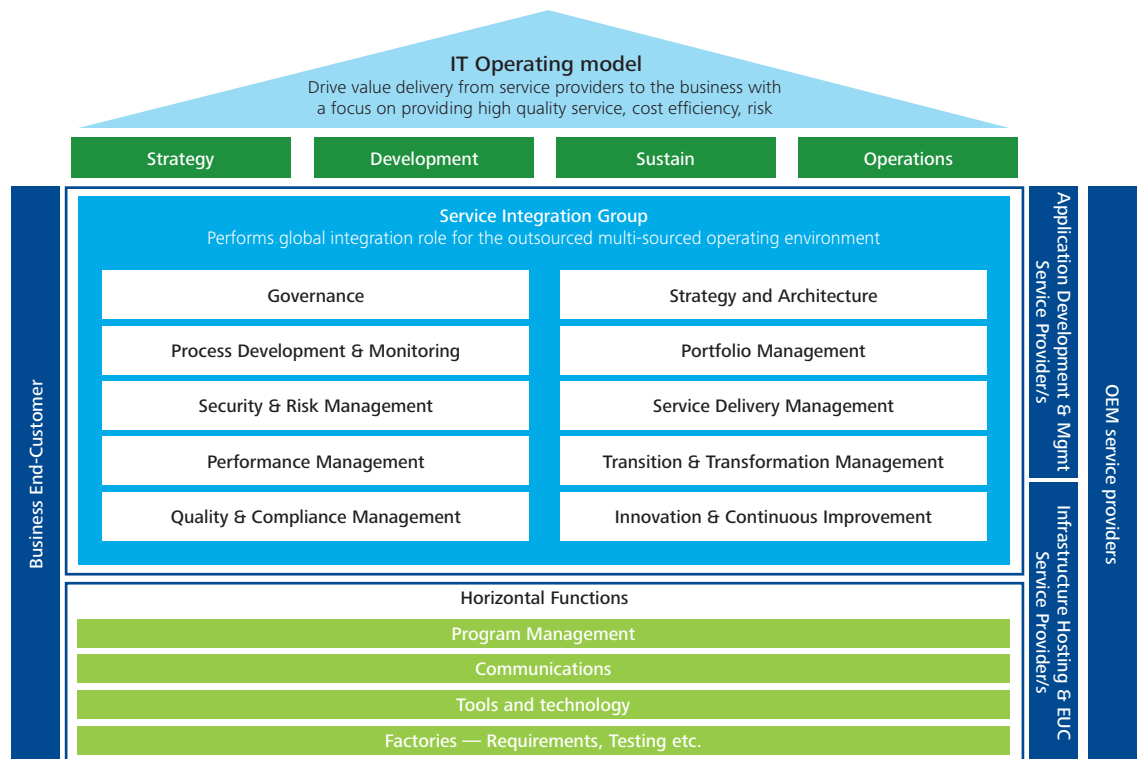

IT Operating model
Drive value delivery from service providers to the business with a focus on providing high quality service, cost efficiency, risk

| Strategy | Development | Sustain | Operations |

Service Integration Group
Performs global integration role for the outsourced multi-sourced operating environment

Governance	Strategy and Architecture
Process Development & Monitoring	Portfolio Management
Security & Risk Management	Service Delivery Management
Performance Management	Transition & Transformation Management
Quality & Compliance Management	Innovation & Continuous Improvement

Horizontal Functions
- Program Management
- Communications
- Tools and technology
- Factories — Requirements, Testing etc.

Business End-Customer

Application Development & Mgmt Service Provider/s

OEM service providers

Infrastructure Hosting & EUC Service Provider/s

Figure 3[5]

Offshore activities are most common in the following functions.

Governance: SI Governance design, decision making and authority tend to be delivered locally or globally, however a number of discrete activities can be delivered offshore. These include:

- Documentation of Operating Level Agreements (OLAs) to govern interactions and vendor-to-vendor service levels
- Cross-vendor governance forum administration, including scheduling, documentation preparation, note-taking and distribution of notes and action items
- Issue and action follow up, documentation update and distribution

Process development and monitoring: The Service Integrator is responsible for creating, maintaining, and instituting the end-to-end process framework for service delivery management. Within this function, activities delivered offshore include:

- Documentation and publication of cross-vendor procedures, including cross-vendor change management and problem management procedures
- Development of SLA reporting templates
- Documentation of interaction maps

Performance management: Performance management is the measurement, tracking, reporting, and management of service delivery performance according to the Operating Level Agreements (OLAs) and Service Level Agreements (SLAs) across the client and vendors. Activities that are most commonly offshored include:

- Cross-vendor SLA and OLA data collection
- Review of cross-vendor SLA and OLA data for completeness, accuracy, quality and timeliness
- Coordination of approval workflows, including the confirmation of actual results achieved
- Aggregation, normalization and reporting, including dashboard development, and distribution of reports and dashboards

As organizations develop competency in SI, more processes and activities can be moved offshore. High performing SI organizations have an opportunity to reduce overheads and improve quality by implementing an offshore Service Integration Center of Excellence which over time can move up the value chain and begin to deliver a more broad set of services.

Additional considerations for Offshoring

As organizations become more adept at VM, Supplier Risk Management and Service Integration, and implement offshore CoE, a larger scope of such services can be delivered offshore. One of the most critical success factors

for successfully adding scope to an offshore CoE is to maintain a core of highly skilled, qualified and experienced practitioners that can contribute not only process execution, but also thought leadership and continuity of experience to the CoE.

With an experienced offshore CoE, the organization can begin to deliver the following services.

Vendor onboarding: Vendor onboarding typically requires analyses such as cost-benefit analyses, and reputation risk assessments. Experienced offshore teams can complete such activities, along with the documentation and archival of results

Contract development: When legal templates and guidelines are provided, offshore teams can participate in the drafting, editing, redlining and updating of contract and SOW documentation.

Risk remediation recommendations: Risk assessment such as financial health analyses can yield various levels and types of risk that require remediation. As offshore teams develop experience with the organization's SRM policies and procedures, they can begin to develop and recommend remediation plans for business units and procurement functions to execute prior to and during vendor onboarding.

Tooling assessment and implementation: VM tooling is a challenging area for VM organizations. As clients look to identify tools for VM, the research and recommendation can be performed offshore. Similarly, implementation and integration of technology tools, typically performed by technology groups, can be performed, coordination and managed offshore, as can ongoing configuration, development and maintenance of the VMPO tools.

Regional VM: A final area where we have begun to see offshore delivery is in regional operations management. A typical VMPO for a global outsourcing deal will have VM co-located with the business units around the world. Elements of regional data aggregation, consolidation and normalization, reporting, dashboard production, and distribution of reports to local teams can also be effectively performed from the offshore VM CoE

Risks and risk mitigation

It is important to carefully identify and select the VMPO functions that are good candidates for offshoring and there are certain risks that need to be managed with the offshoring decision. Based on our experience, we have identified below some of the risks that an organization may face by offshoring the VMPO activities and we provided our perspective on the mitigation plans that can be implemented to help overcome these potential risks.

Potential risks	Mitigation plan
VMPO gets treated as a shadow organization resulting in lack of coordination with the business units	Design a flexible and scalable VMPO organization structure which enables certain activities requiring high degree of collaboration (such as demand management) with the internal business units to be performed by the onsite VMPO team and supported by the offshore team. This can confirm the VMPO remains closely coordinated with the business and the vendors. Also implement a clear value proposition and policy for offshore VMPO so BUs will want to integrate with them.
Limited coordination with the vendors due to potential time zone challenges	Structure the offshore VMPO team to focus on activities that can be performed in different time zones and do not require tight collaboration with the vendors such as invoice review and payment approvals, risk assessments, vendor performance scorecards. Whereas activities that require high-touch with the vendors such as managing and running governance forums and committees should be performed by the onsite teams. Establish that the design of the VMPO operating model is not built in a vacuum without consideration of vendors locations.
Issues with contract handoffs as new contracts and/or amendments to existing contracts are performed by the onsite sourcing and procurement teams	Clear demarcation of roles and responsibilities between the sourcing and procurement function and the VMPO organization will help alleviate some of these risks. Additionally, providing the VMPO organization a broader mandate that enables them to negotiate amendments to existing contracts that are already under the purview of the VMPO function can minimize any handoff issues. Having a well-defined process for transitioning of any new contracts and/or vendors can help mitigate any of the remaining challenges.
Talent retention	Adopt clear career paths for team members. Team must be designed and integrated with a broader offshore SSC or BU function to foster a sense of community, integration and collaboration.

The above represent some of the key risks that an organization can face by offshoring its VMPO activities. However, these challenges can be overcome by designing a VMPO operating model that is flexible and that enables tight collaboration with business units, the sourcing & procurement organization, additional internal stakeholder groups and the vendors. A key driver of success across all these risks is to foster an environment of frequent interaction, including face to face interaction, between the offshore VMPO and key stakeholders.

Conclusion

Despite the decline in labor arbitrage benefits outsourcing and offshoring continue to be on the rise. The challenges in managing relationships with BUs, multiple vendors and sourcing and procurement functions remain, however, that has not prohibited clients from exploring and successfully moving VM functions to offshore centers.

A range of benefits, similar to benefits from IT outsourcing and offshoring functions, can be realized, including access to specialized skills, centralized Centers Of Excellence supported by specific Finance, Contract management, Risk and Compliance tools etc., and access to scalable support functions where additional volumes invoices, service requests, contract changes, etc. can be efficiently and seamlessly managed.

VM if appropriately branded and invested in, can continue to effectively manage risks and optimize savings from managing vendors. However, that is only first base; additional efficiencies can be realized by moving functions offshore.

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