# 2005 Value Based Vendor Management Survey Results

Background

Value-Based Vendor Management (VBVM) is a technique for maximizing the value derived from any external service provider. In order to gauge how well financial organizations manage their vendor relationships, Arc Partners, Inc. conducted a survey in June 2005. The survey contained 13 questions and it was sent to over 200 senior business and technology managers representing over 65 financial companies including banks, broker/dealer firms, securities exchanges, asset managers, and hedge funds.

Key Findings

Only 22% of the respondent firms expressed a high level of satisfaction with their firm's effectiveness in maximizing the value of their vendor relationships. According to the respondent firms, the top three challenges faced in implementing a VBVM program are Vendor Comparison & Evaluation, Contract Administration and Capital & Expense Budget Management.
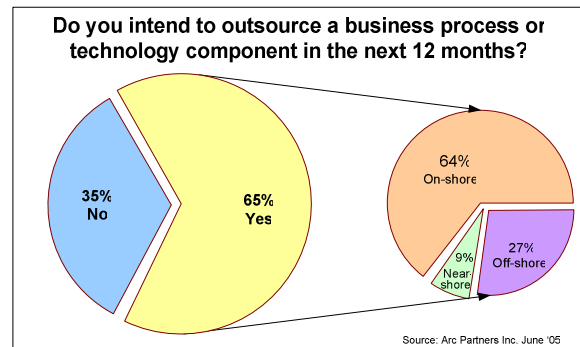

Challenges faced in Value Based Vendor Management (VBVM) program implementation

- 38 % Vendor Comparison & Evaluation
- 17 % Contract Administration
- 13 % Compliance
- 17 % Capital & Expense Budget Management
- 4% Other
- 13 % Asset Management

Source: Arc Partners Inc. June '05
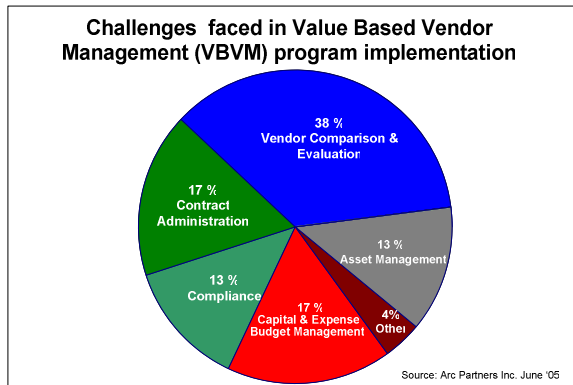
Approximxately 50% of the participating firms have established a centralized function for managing external vendor relationships, while 22 % of them are in the process of setting up one. The remaining 28% of the firms are currently considering this option.

72% of the respondent firms indicated that they have well-defined enterprise-wide policies and procedures in place that govern external vendor relationships. However, when asked about the effectiveness of their vendor performance measurement approach, 86% of the respondent firms reported experiencing difficulty in effectively measuring and reporting on their vendors' performance.

When asked if a vendor benchmarking study has been completed recently, only 35% of the respondent firms responded yes. In addition, a majority of them reported that they do not currently have clear and concise performance measurement approach and profitability requirements for vendors.

Most respondent firms also reported that they have outsourced IT and Operations functions to external offshore vendors. Half of the respondent firms indicated that they plan to outsource a business process or technology component within the next 12 months.

Do you intend to outsource a business process or technology component in the next 12 months?

- 35% No
- 65% Yes
- 64% On-shore
- 9% Near-shore
- 27% Off-shore

Source: Arc Partners Inc. June '05

Of these, 27% would consider the off-shore option, 64% the on-shore, and 9% the near-shore. The respondent firms also reported that they are more likely to embrace a core on-shore strategic approach supplemented by some off-shore or near-shore initiatives.

Of the firms currently outsourcing, 41% of them identified Quality Control as their greatest challenge followed by Risk Mitigation (23%), Process Control (23%), and Logistics (9%). Of the respondent firms that are planning to outsource in the future, 67% indicated that they would issue an RFP to a select group of outsourcing vendors within the next 6 months. The respondent firms also indicated that the main areas in which they would require assistance are RFP Start-up Support, Requirement Analysis and ROI Analysis.

Conclusion

The majority of the participating firms recognize the importance of a value-based vendor management program. Despite this, the survey results indicate that there is a need for a more comprehensive and measurable approach to address specific vendor management issues such as vendor benchmarking, ROI analysis and contract administration. The firms that have successfully implemented a well-defined vendor management program, they generally reported a higher level of satisfaction from customers and vendors.

Arc Partners Success Stories

Contract Management Office	➢ Conducted strategy sessions with business partners to understand current issues and future needs to improve the value of vendor spends and to mitigate risk related to information technology contracts ➢ Developed a CMO (Contract Management Office) that included vision setting, service offerings, supporting processes, technology tools, accountabilities and performance metrics ➢ Contracts were analyzed using a defined framework across the dimensions of obligations, billing, asset usage, architecture fit, and savings potential ➢ The CMO was positioned to manage the full range of IT related contracts including: software license and maintenance, hardware and purchases, telecom and networking and contractor / offshore services
Billing Engine and EBPP – Vendor Evaluation	➢ Reviewed existing billing system and processes supporting four disparate business lines ➢ Recommended replacing existing technology based on root cause analysis of inefficient processes that led to excessive costs ➢ Conducted broad evaluation of billing engine and EIPP software providers ➢ Directed vendors in developing customized demonstrations based on the client's most complicated billing scenarios using real transaction data
Electronic Messaging Compliance – Vendor Evaluation	➢ Conducted current state assessment and identified all applications (e-mail, IM, etc.) capable of electronic communication. Assessed 'compliance state' of each application with respect to archiving and surveillance regulations ➢ Evaluated internal vs. external solution models to accommodate regulatory requirements ➢ Developed a comprehensive Request for Proposal for a compliance solution and managed the vendor evaluation and selection process
HSA Recordkeeping- Vendor Evaluation	➢ Identified software vendors capable of providing an integrated platform to support the core banking and investment recordkeeping requirements of Health Savings Accounts ➢ Prepared RFP and developed evaluation process ➢ Conducted site visits and comprehensive product demonstrations based on customized scripts
Contract Negotiations with Software Vendors	➢ Documented and analyzed existing license utilization, historical spend and future demand ➢ Defined contract goals and negotiating strategy ➢ Conducted negotiations and refreshed strategy based on outcomes ➢ Developed models supporting the financial analysis of vendor proposals and client counterproposals
Service Level Agreements for Outsourcing	➢ Reviewed business functions and identified services to outsource based on current issues and long-term business objectives ➢ Defined service levels and operating parameters for outsourcing agreement ➢ Developed SLA management process, including roles and responsibilities ➢ Defined and implemented SLA measurement and reporting process