

White Paper

VMO Start up Guide: **How to Launch a Vendor Management Office and Get It Right the First Time**

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company 

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How to Launch a Vendor Management Office and Get It Right the First Time

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Once your organization reaches a tipping point, you'll get a strong ROI from creating a vendor management office (VMO). Although the tipping point varies by organization, Forrester reports that 39 percent of companies with at least 1,000 employees have a VMO, as do about half of companies with at least 5,000 employees.

An effective VMO goes beyond basic procurement functions to deliver strategic value by optimizing vendor relationships and accountability. It also brings transparency to vendor evaluation and choice, making sure that your supplier relationships are based on value rather than history or sentiment. When a VMO is truly useful, both the organization and its suppliers benefit. This guide will explain best practices for launching your VMO including advice on making the VMO business case, staffing the office with the right people, navigating supplier relationships, and measuring your VMO's success.

“Thriving companies manage hundreds of vendor contracts and millions of dollars in spend. Creating a Vendor Management Office (VMO) will help your organization spend money wisely and get the most from vendor relationships.”

Make the VMO Business Case

Thriving companies manage hundreds of vendor contracts and millions of dollars in spend. Creating a VMO will help your organization spend money wisely and get the most from vendor relationships. When you're ready to pitch a VMO to management, use these points to build your case:

VMOs save money by consolidating purchasing. By consolidating suppliers and eliminating inefficiencies, a VMO can help you drive spend to your most valued suppliers.

VMOs cut costs associated with short-term or piecemeal deals. If your company is making last-minute purchases instead of conducting a thorough market review, a VMO will make your purchasing decisions proactive, not reactive.

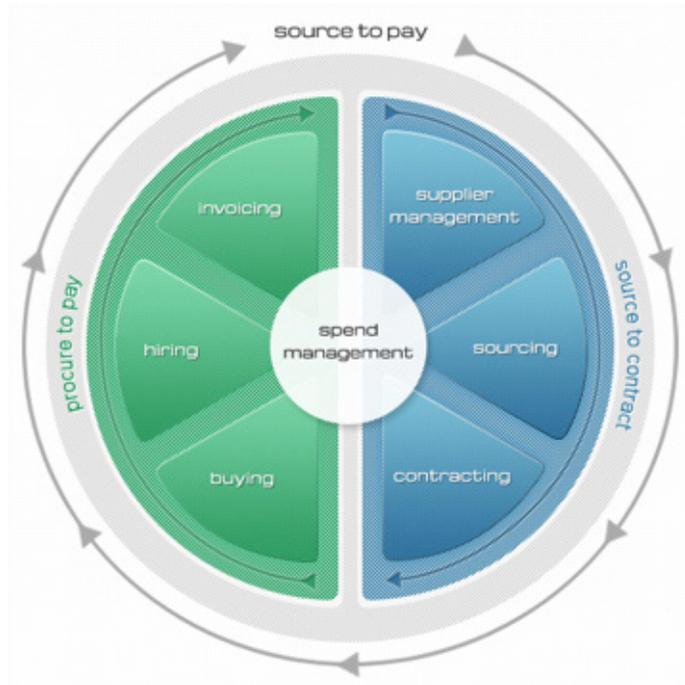
VMOs give your company more contract flexibility. With VMO personnel reviewing your contracts, you can get more flexibility from suppliers without sacrificing quality.

VMOs give more structure to spending, saving, and reporting. In today's data-driven business world, a VMO can manage the organization's spend as a visible portfolio, allowing management to see the value it creates.

VMOs monitor vendor performance. Dedicated VMO staff can effectively monitor vendor performance, ensuring that your company gets the most for its investment.

VMOs reduce supplier risk. With VMOs monitoring not only service delivery but also vendor financial health, the company lowers the risk of service disruption if a vendor experiences financial difficulties.

Five Necessary Steps to Starting a VMO



Step 1 — Know the Business

- What are the business drivers behind the company's (or department's) decision to implement a VMO?
- What are the current challenges with vendor relationships?
- How does each line of business (LOB) handle vendors?
- Who currently negotiates contracts?
- Where are the contracts, reviews, and Certificates of Insurance archived?
- Who performs vendor risk management and performance reviews?
- Who reviews and submits invoices? Same question as above
- Who handles vendor end-of-year tax processing (1099-M)?
- Who sets up vendors in the company's database?
- Who are the business owners for the vendors?

To answer the above questions, **Rafael Marrero & Company** suggests meeting with each functional area to discuss the questions above. This would also be the perfect time to set expectations on gathering all vendor documents, understand the services provided by the vendors, and be made aware of any current vendor incidents and active projects in the pipeline.

Step 2 — Design & Propose the VMO's Roles & Responsibilities

The VMO team provides a support role and assists each corporate department with vendor selection, contractual negotiations, contract terms and conditions, vendor performance monitoring, proactively identifying risk, and handling on-site vendor reviews. Once you have your list of issues, vendors, required documents, and corporate structure, it's time to create a VMO implementation plan.

VMO Functions

After you analyze the company's current vendor management approach, you need to evaluate and prioritize what functions you can provide that will minimize risks for the company and create efficiencies for the lines of business (LOBs).

These are the 22 Key areas of a VMO:

1. Execution of all NDA's
2. Manage Requests for Proposals (RFP's)
3. Perform due diligence
4. Negotiate costs
5. Create contracts
6. Contract negotiations
7. Contract approval process
8. Gather business requirements
9. Negotiate contract terms
10. Manage contract renewals
11. Termination of vendors
12. Maintain vendor documents

13. Risk reviews
14. Onsite reviews
15. Vendor performance reviews
16. Vendor incident resolution
17. End-of-year processing (1099M)
18. Invoice audits
19. Vendor utilization
20. Vendor setup in systems
21. Manage vendor scorecards
22. Oversight of purchasing/purchase orders

Step 3 — Design the Plan (“Get Your Ducks in a Row”)



The basic Executive Level presentation deck should contain:

1. Timelines for each implementation phase
2. Projected staff size
3. How you will manage the data

This is the perfect way to validate the business needs and to determine if your VMO vision meshes with the executive team’s expectations.

Keep in mind the functions you commit to may require additional staff, depending on the company’s volume of vendors.

Step 4 — Select your VMO’s Vendor Management System (VMS)



When planning what Vendor Management (VM) database the organization will have, you’ll also need to determine how to manage all of the accumulated information and action items.

Document Storage and Tracking (items should be organized in order of importance / chronologically)

- New vendor requests
- Vendor performance reviews
- Risk reviews
- Fully executed contracts
- Vendor certifications (e.g.- SSAE 16)
- Certificates of Insurance (COIs)
- On-site reviews
- Vendor incidents and resolutions
- Contract redlines
- Non-Disclosure Agreements (NDA’s)
- Email communications
- Request for Proposal (RFP) results
- Notes
- Misc. documents

Vendor Notifications

- Contract expirations
- Insurance expirations
- Vendor certifications
- Issues reported by outside sources

Quick Reference Information

- Vendor contact info
- Contract clauses
- Service level agreements (SLAs)
- Cost of services
- Termination dates
- Types of services

Step 5 — Choose the Right Staff



After you receive approval to launch your VMO, it's time to staff it with the right personnel. In addition to filling these core positions, assign administrative assistants who can support VMO employees.

Director | The director sets strategy and metrics for the VMO and handles executive-level relationships with suppliers. Your director should report to a C-level manager, such as the CIO, CPO or COO, to show suppliers that the VMO has executive support. Depending on the size of the entire organization, a dedicated director may not be required.

Vendor Manager | Vendor managers evaluate vendor performance and work with vendors to increase their effectiveness. They bear ultimate responsibility for ensuring that vendors deliver high-quality, cost-effective service. This person will essentially act as the HR representative to vendors.

Sourcing Consultant | Sourcing consultants evaluate competitive bids and assess proposed vendors, focusing not only on price but also on whether the vendor can meet the organization's needs. Staff your VMO with at least one sourcing consultant per 75 to 100 contract documents. Also, make sure that you have at least one sourcing consultant per \$7 to \$10 million in spend.

Value Initiatives Project Manager | In the VMO, the value initiatives project manager conducts marketplace research and develops purchasing strategies that can increase the value an organization receives from its vendors. This person also manages transitions between vendors, identifying replacement vendors and developing exit strategies when needed.

Transactional Purchasing Manager | The transactional purchasing manager handles everyday purchasing transactions. This manager also communicates with the value initiatives project manager to identify ways to increase ROI.

Contracts Administrator | The Contracts Administrator: Assist with the RFP process; Review and negotiate contract terms and pricing; Obtains proper approvals and signatures on all contracts; Maintains and updates as needed company standard blanket contracts; Manages select vendors; Assists with administering vendor action plans as needed; Conduct vendor business reviews.

Vendor Auditor | The Vendor Auditor: Performs daily activities related to managing regulatory compliance and performance of the company's vendors. Partners with the Compliance Department to review changes in regulation that may apply to the company's vendors. Maintains an overall vendor scorecard that relates to vendor risk and performance as related to the review analysis. Conducts vendor performance reviews. Conducts due diligence reviews during the vendor

on-boarding process. Conduct vendor risk reviews as directed by company guidelines. Performs vendor on-site reviews as directed by the Vendor Manager

Vendor Analyst | The Vendor Analyst researches, collects, tracks and reports vendor SLA's. The Vendor Analyst also maintains information in the vendor management system. Tracks escalated issues and reporting of root cause analysis. Manage the archive and cataloging processes for all VMO documents. Tracking of agreement renewal dates. Assists the team in the collection and analysis of vendor information as input to the annual profit plan cycle. Performs invoice tracking against purchase orders as directed by the Vendor Manager.

Based on the size of the organization, more than one of the identified roles could be combined into one resource with the exception of the Transactional Purchasing Manager. Individuals responsible for invoice review and vendor evaluation should not have direct purchasing capabilities.

Help Suppliers Navigate the Transition

When suppliers grow accustomed to certain procedures



and points of contact, they may resist doing business with your VMO. Sometimes, they look for workarounds instead of honoring the new process. One of the best ways to secure supplier buy-in is to demonstrate executive support for the VMO. Executive support sends a signal to vendors that your organization is serious about vendor management.

Your office needs the authority to manage vendors up

or out. It's crucial for suppliers to know they can't go around the VMO to continue old relationships within the company. Setting up a VMO brings transparency and accountability to vendor relationships throughout the organization. Instead of continuing relationships that are no longer productive, your VMO can provide data-driven justification to retain, mentor, or switch providers.

In most cases, suppliers who want to work with your organization will adjust to the change. Make any procedural changes clear, devote time to supplier questions, and be sure to establish rapport.

Measure VMO Progress

Too many VMOs launch without defining the problems they're created to solve. As a result, the director doesn't create the right success metrics, and momentum fizzles after the office scores some initial easy wins.

Before you launch, identify your VMO's primary objectives. These can include goals like cost savings, improved vendor delivery, standardization of procedures, and financial transparency. Choose measurements that will demonstrate how well you're meeting those goals and discuss progress regularly with your team. Also, remember that visibly demonstrating effectiveness is essential to maintaining executive support. Don't hesitate to promote awareness of how your VMO is creating value.



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About the Author



Rafael Marrero is the Founder and CEO of Rafael Marrero & Company, a certified Minority Business Enterprise (MBE).

Rafael Marrero is a Stanford University and Cornell University trained senior Vendor and Project Management consultant with 30 years combined and diversified experience in several industries, including: Government, telecommunications, construction, information technology, professional services, and energy. Marrero was most recently Chief of Staff and Vice President of Corporate Vendor Management, Contracts, Supply Chain and Procurement for MasTec Inc. (NYSE:MTZ) a \$4.5 Billion Dollar firm with 18,000 employees and more than 425 office locations across the U.S. There he was responsible for launching the Vendor Management Office (VMO) and sourcing, vetting and managing 700+ subcontractors and suppliers nationwide representing \$1.5 Billion in projects on behalf of AT&T and Verizon Wireless, T-Mobile and Sprint - Samsung.

Mr. Marrero is a Stanford Certified Project Manager (SCPM) and Certified Six Sigma Black Belt (CSSBB) professional.

Dedicated to Your Success

No matter where you are in the VMO creation progress, Rafael Marrero & Company can help. Call today to speak to one of our seasoned VMO consultants that can help you supercharge your vendor management.



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