Guide to Offboarding a Vendor

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Vendor relationships can end for many reasons. Perhaps your organization's needs have shifted and you're looking for a different vendor that better aligns with your strategic goals. Maybe your vendor is no longer meeting service level requirements and you need to end the contract earlier than intended. Another possibility is the project or the work has come to its logical end.

Whatever the reason for ending the relationship, you'll want to ensure you've established a thorough offboarding process that minimizes any issues.

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5 Activities for a Smooth Offboarding Process

1
Create a strategy in advance.
Consider pre-contract fundamentals.

2
Validate and test the exit strategy.
Prepare your organization.

3
Decide to offboard.
Weigh the pros and cons.

4
Terminate the relationship.
Notify the vendor and negotiate the exit.

5
Review lessons learned.
Complete final steps post termination.

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1 **Create a strategy in advance:** Consider pre-contract fundamentals

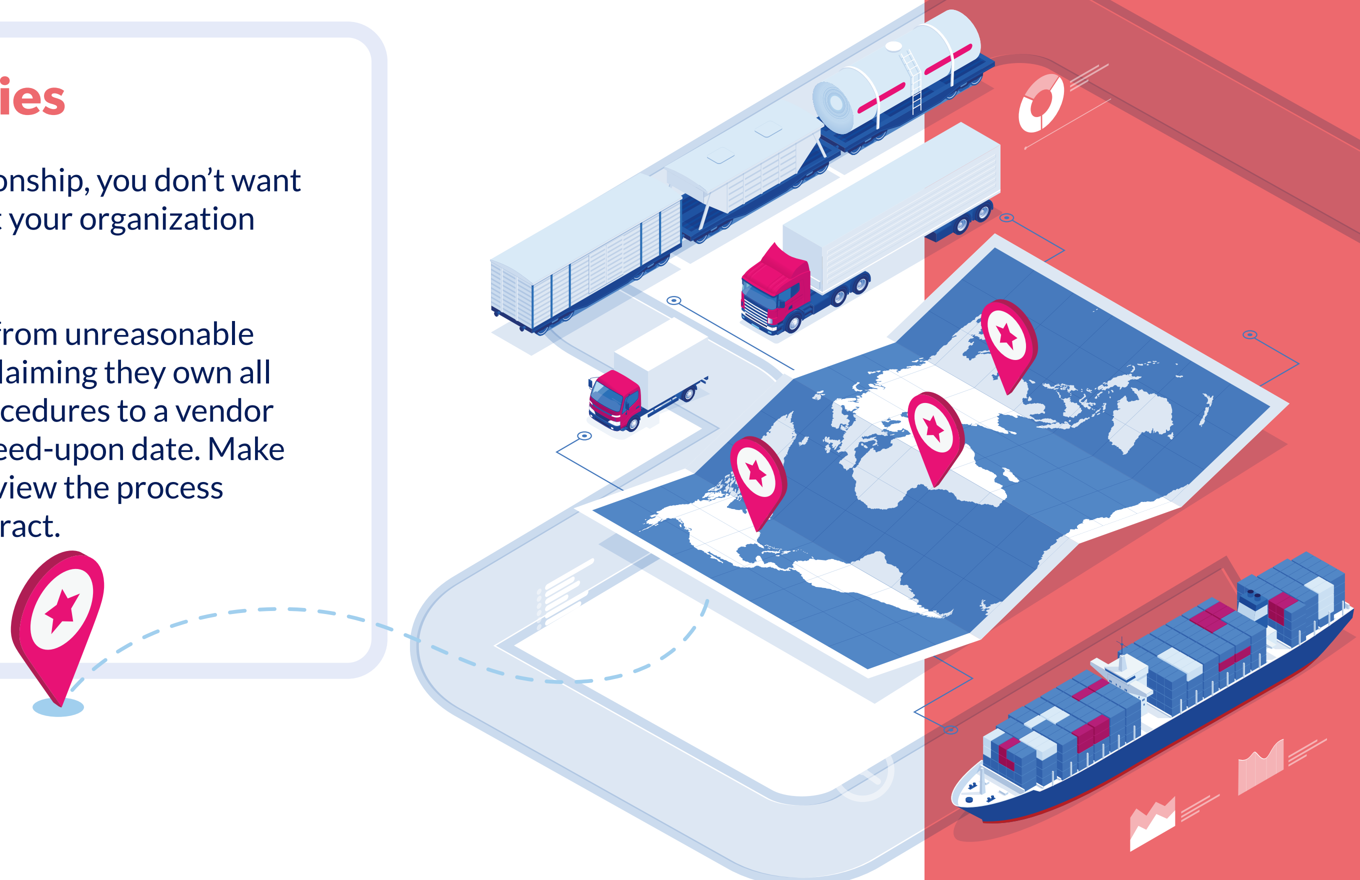
Before you even sign the vendor contract, it's necessary to understand the anticipated process of ending the relationship. Taking the time to consider the resources, time, communications and legal requirements necessary for ending your vendor relationship is a healthy practice that can keep you out of trouble in the future.

Keep the lines of communication open with your vendor and make sure you understand these factors:

Potential difficulties

When you end a vendor relationship, you don't want to discover new obstacles that your organization may not have anticipated.

These could include anything from unreasonable termination fees to a vendor claiming they own all operational processes and procedures to a vendor work stoppage before the agreed-upon date. Make sure you think through and review the process carefully before signing a contract.



Contract language

Ensure that you can include contract language that will help lessen the impact of ending the relationship.

Termination costs

To avoid any financial surprises, take time to review and understand any conversion and deconversion costs that may arise with offboarding the vendor.

Exit strategy

Critical and high-risk vendors will need to have an exit strategy to ensure that your organization can remain in operation if and when there's a need to offboard a vendor.

There are four common types of exit strategies:

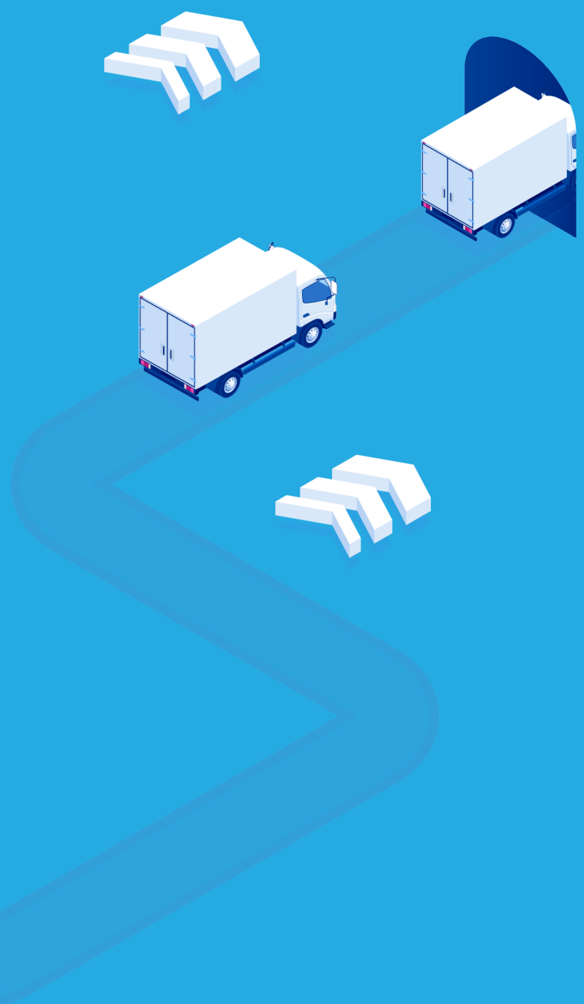
- Replace the vendor
- Bring the activity in-house
- Terminate the activity
- Combine the three methods of replacing the vendor, bringing the activity in-house or terminating the activity

2 Validate and test the exit strategy: Prepare your organization

When it comes to exit strategies, you'll want to ensure that the strategy is well thought out and that the plans to execute are viable.

This practice is essential for critical vendors. Ideally, your organization will document the exit strategy to ensure that specific activities and tasks, roles and responsibilities, timing, budget, communications and operational impacts are clearly identified.

It's recommended that the completed strategy is formally reviewed and tested whenever possible.



Here are some practical considerations for validating and testing your exit strategy.

Switching to another vendor

When you're moving to another vendor, you must first determine if another viable vendor has been identified and if that vendor is willing to service your organization if the need arises. You should identify if the alternate vendor has an existing contract or if a contract needs to be negotiated and executed before the new vendor can deliver the product and service.

If that is the case, you must consider and validate the time needed to negotiate and execute the contract in order to utilize the product or service.

For critical vendors, your organization might consider contracting with an alternate vendor to be a backup. This scenario can add additional expense as most vendors require retainer fees to enter this type of relationship.

However, those costs may be insignificant compared to the financial impacts of a prolonged outage or vendor failure.

Bringing the activity in-house

Your organization may choose to bring the outsourced activity in-house vs. finding another vendor. If this is the case, your organization will need to consider this strategy's viability carefully. Absorbing the work internally requires skilled resources in place and the capacity to perform the activity.

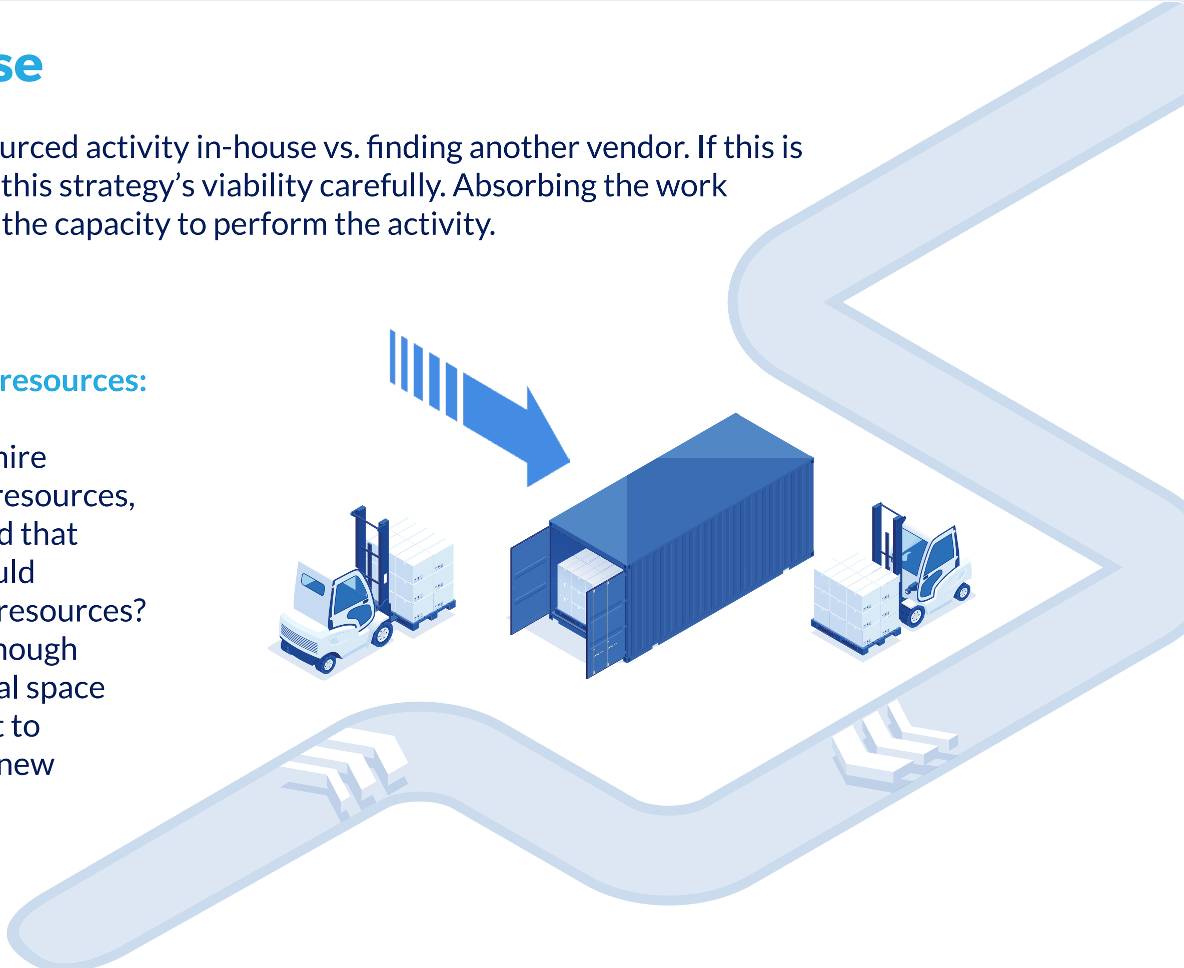
Consider the following options:

Existing resources:

Do you have the right resources already? If you do, how will adding more work impact their existing capacity? How severe would that impact be to your operations? Would there be a degradation in quality or the time to complete services when in-house?

Supplemental resources:

If you need to hire supplemental resources, how long would that take? Who would manage those resources? Do you have enough budget, physical space and equipment to support those new resources?



If you aren't sure if this strategy is truly practical, it's recommended that you perform a functional test. Testing will help you confirm that the proposed resources have the suitable skillset and capacity to absorb the work. When testing, consider if there are only some portions of the product/service that can be absorbed and evaluate how long the in-house strategy can be sustained before facing impact to operations.

Discontinuing the activity

If you determine that the right course of action is to discontinue the activity, you still must validate your strategy by asking important questions:

- Will the loss of the activity impact your operations or its customers?
- What are the financial impacts of discontinuing the activity?
- Are there any internal upstream or downstream dependencies on the activity?
- Do you have a project plan to absorb the activity in-house?
- What communications need to be made and to whom?

Once you have established your strategy, and validated that it's viable, it's important to document it. Make sure you periodically review the plan to confirm it is still practical, achievable and that there have been no significant changes that could negatively impact the plan's execution. By validating and testing your exit strategy, you reduce any surprises and improve your chances of a smooth transition.

3 **Decide to offboard:** Weigh the pros and cons

Inconsistent delivery, a decline in service levels or a change in your organization's needs have made you reconsider the vendor relationship. Whatever the reason, you've decided to end the contract prematurely or decline contract renewal.

So, what's next? While you're still under contract with your vendor, consider the following:

Can you validate your judgement?

Are you sure you need to terminate the relationship? Choosing to terminate a vendor is a major decision. Operational and financial risks are associated with ending a vendor relationship, even in the best-case scenario. To avoid the potential of risky and costly mistakes, make sure you slow down and think it out before making your decision.

Have you done everything you can to **fix the relationship**?

Suppose the issue goes to litigation and your organization can't prove reasonable efforts towards repairing the relationship. In that case, you could be on the losing side of a legal judgment.

Do you have **evidence** that termination is necessary?

Can you prove that service levels were not met? Have you documented discussions requesting the vendor to improve? Can you show a decline in KPIs? Was there a data breach, customer complaints or other vendor failures?

Gather any evidence you have related to vendor performance and review it. Does the evidence show what you thought it would? Have someone else review it to ensure that the case for termination is clear enough to proceed.

What are the **contract terms**?

Carefully review your contract to ensure that you're within your rights to terminate and follow any stated requirements. Make sure you are clear on the required termination notice timing and method.

Have you documented your **offboarding plan**?

Ensure that the plan is consistent with the contract and review for any gaps or weaknesses.

Do you understand the **financial implications**?

Consider the cost of exiting the relationship. Everything from termination fees to onboarding and training new vendors or the potential decline in revenue during a transition should be weighed as part of the decision. It may make sense to work on the relationship vs. leaving it in some cases.

4 Terminate the relationship: Notify the vendor and negotiate the exit

Once you've decided to offboard, it's time for the difficult task of notifying your vendor. This will likely be challenging, but proper planning and clear communication can help ensure that the process flows smoothly for both parties.

Consider these important steps:

Have the hard discussion

Before you notify your vendor in writing that they're being terminated, make sure to discuss the issue verbally. Clearly spell out your arguments and provide the validated evidence. This step will help your vendor understand your perspective and rationale for the termination. They'll be less likely to protest the termination and support the process.

Provide notification

Make sure you formally notify your vendor of termination. Formal notification should be in writing and comply with the contract terms.

Maintain communication

Ending a vendor relationship doesn't always feel good but maintaining a solid level of communication can make the process more agreeable for both parties.

Keep it professional

Emotions might run high on both sides of a vendor termination. However, it's essential to treat the vendor with respect and professional courtesy. Regardless of how the vendor performed or not, your organization must set a professional tone and protect its reputation. Remember that the world is small, and there is a good chance you may cross paths with your vendor in the future.

Manage your exit plan

Once the vendor relationship has been terminated, you need to manage your exit plan carefully. Ensure you have a project plan for the offboarding process and appropriate resources dedicated to the tasks.

Monitor access to equipment or data

If the vendor has access to your organization's equipment or data, ensure that they follow the proper procedures to return or destroy it. Also, make sure that any user credentials of the vendor have been deactivated.

Review outstanding payments

Make sure that the vendor is paid in full before the offboarding process is complete.

Consider issues

If there are delays in the return of equipment or confirmation of disconnected systems, document as part of your risk management program. Ensure an owner is assigned and escalate to legal or senior management as needed.

Update vendor database

After finalizing these tasks with the vendor, update your database to remove them from your active inventory. These actions will prevent any unnecessary tracking and monitoring.

5 **Review lessons learned:** Complete final steps post termination

As you conclude your termination and exit plan, it's a good practice to take the time to reflect on the situation and identify any opportunities for improvement in the future. Could your organization have done anything differently for a better outcome? What red flags might have popped up that were missed?

Were the instructions and requirements clear enough for the vendor? Make sure to document your findings and share them with your team.

Ending a vendor relationship is never an easy process. It's essential to follow a thorough offboarding process that reflects the risks unique to the vendor relationship and considers your organization's needs. You can avoid surprises or unnecessary challenges by thoughtfully preparing and reviewing a detailed exit plan. By keeping these things in mind, your organization will be better prepared to offboard a vendor when needed.

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About Venminder

Venminder is an industry recognized leader of third-party risk management solutions. Dedicated to third-party risk, the company is the go-to partner for software, high-quality assessments on vendor controls, certified subject-matter expertise and education.

Venminder's platform provides a centralized location to execute a third-party risk management program. It enables users to store documentation, onboard a vendor, track contracts, manage SLAs, send and manage questionnaires, manage due diligence and oversight, complete risk assessments, create workflows, run reporting and more.

Assessments performed by Venminder's qualified experts, including CISSPs, CPAs, financial risk analysts, paralegals and more, are readily available in an online exchange library. The assessments enable customers to identify possible risks and understand areas of strength on their vendors' information security and privacy standards, SOC reports, financial viability, business continuity/disaster recovery preparedness, contractual standards, regulatory compliance and more.