How to Determine Who Your

High-Value vs Low-Value Vendors Are

If you think about it, organizations outsource products and services to vendors for one of two reasons: they want to realize an opportunity, or they want to solve a problem. Whether it's gaining access to specific expertise, supplementing existing service offerings, improving bandwidth, purchasing specialized product components, or protecting your organization and its customers from cybersecurity incidents, everyone needs their vendors to deliver a reasonable amount of value.

What should matter more than how much or how little your organization pays for a product or service is how much value that vendor relationship offers your organization in return.

THE QUESTION IS:
What's the difference between a low-value and high-value vendor?

High-Value Vendors

A vendor's value lies in its ability to provide high-quality products or services that meet the needs and expectations of its customers. But a high-value vendor will consistently deliver more than just products and services.

When looking for a high-value vendor, consider these attributes that not only add value to the relationship but are also key differentiators:

- Consistently delivers exceptional products or services and understands the importance of delivery that is on time and within budget
- Prioritizes customer satisfaction and goes above and beyond to ensure your organization is satisfied
- Uses reliability, trustworthiness, and transparency in their business practices to build strong relationships
- Responds professionally to feedback and criticism (works to resolve issues promptly and to your satisfaction)
- Demonstrates a commitment to continuous improvement
- Innovative and adaptable to changing market trends

Low-Value Vendors

A low-value vendor is usually easier to spot. After all, they're typically failing to meet the essential criteria expected in a business relationship.

Generally, low-value vendors share these qualities or behaviors:

- Inconsistency of quality in their products or services (consistently delivering subpar or faulty goods)
- Waits for the customer to discover issues instead of proactively identifying or correcting them
- Poor communication skills, taking too long to respond to customer inquiries, or providing no response at all
- Not interested in continuous improvement (often takes the "if it isn't broke, don't fix it" approach)
- Doesn't prioritize customer service or satisfaction
- High employee turnover
- Fails to meet service level agreements (SLAs) and has inconsistent or poor performance overall
- Inconsistent pricing or constantly increasing pricing
- Falling behind the industry in offerings and services (slow to adapt to market influences and changes)

How to Determine If a Vendor Has High Value

Between those two extremes, you'd think it should be easy to see which vendors are high value vs low value. But with the number of vendors in an organization, it may not always be obvious where a vendor sits on the high-low value spectrum.

HERE ARE SOME QUESTIONS TO ASK YOURSELF:

Are you still using the vendor?

Are they active and providing your organization with a product or service? Inactive vendors are low value for obvious reasons, but they also take up space in your vendor inventory and create potential audit issues. Ensure inactive vendors are correctly closed, records are updated, and all documentation is appropriately archived.

Are you experiencing any benefits from using the vendor?

Are they helping you realize that opportunity or solve that problem?

For example, the vendor should help you:

- Gain strategic advantages
- Protect your reputation
- Provide better customer services
- Meet regulatory requirements
- Achieve operational efficiencies

Even if the vendor is performing exactly as they should, you may not be getting any real benefit from the relationship. In cases like this, it's generally not the vendor's fault, but it does indicate a low-value vendor.

Is the vendor cost-effective?

Could you find a similar vendor at a better price? Suppose you negotiated the product or service contract several years ago. In that case, conducting a new cost-benefit analysis may be beneficial. You should evaluate market trends and weigh the pros and cons. It's important to stay current. Products and services that were once unique often face increased competition. Prices should reflect availability in the market.

Does the vendor save you or your customers’ time?

Time is money, and products and services that can help maximize time and resources are valuable.

Does the vendor or the product or service allow employees to focus on more critical tasks?

Extreme value is created when employees (especially highly paid ones) can narrow their focus to the work best suited to their skill level and expertise.

For example, assume you have an attorney that can bill $400 an hour when actively working for a client. A vendor product or service that removes the need for that attorney to do non-billable administrative work means more revenue for the firm. These internal efficiencies ensure skilled employees make the best use of their time.

Does the vendor meet all their SLAs?

No matter how great you think a vendor is, if they aren’t meeting the basic contractual service level requirements, they aren’t providing value.

Does the vendor discuss or inquire about your organization’s priorities and strategies?

High-value vendors take an interest in how they can better support your organization. By understanding your organization’s strategy and objectives, the vendor can use that information to make crucial decisions, such as investing in new technology that can serve you better in the future.

Has the vendor experienced a severe issue, such as a data breach, regulatory infraction, or negative attention in the media?

Even the best vendors can experience severe issues on occasion. Hopefully, they can remediate the problem and recover to everyone’s satisfaction, but when they can’t, the value of the relationship declines rapidly. Even your star vendor, the one you once considered a strategic partner, can quickly become a liability once a serious issue has occurred.

The Risk of Low-Value Vendors

It may be evident that low-value vendors deliver only some of the benefits your organization had hoped for. Beyond that downside, there are also significant risks in engaging or retaining those low-value vendors. That includes:

Operational risks: Poor business continuity planning or testing can mean severe interruptions to your operations or your customers.

Financial expenses: Inefficient or ineffective vendors can cost your organization time and money. They can also negatively impact your bottom line, and in worst-case scenarios, subject your organization to expensive litigation or legal or regulatory fines.

Reputation damage: A lousy vendor can destroy your excellent reputation, especially those that interact with your customers directly. Everything from slow or poor customer service to abusive practices can seriously hurt your reputation, damage your brand, and cause you to lose customers.

Negatively impacts employee morale: Nothing is worse than an employee who must constantly deal with a poorly performing vendor. Fixing a vendor's mistakes or apologizing to customers for something a vendor did wastes their time and is discouraging and frustrating. In worst-case scenarios, it may serve as a motivation for employees to leave the organization.

Get the Most Value from Your Vendors

Your third-party vendors are all unique entities, from their industry, business culture, management style, and employees, to the products and services they offer. A core principle in third-party risk management is that “one-size-does-not-fit-all.”

So, how do you get the best value from your vendors when they are all so different?

Here are eight tried-and-true methods to follow:

1. **Know what you need the vendor to do or provide for your organization.**

   Make sure you clearly articulate the problem you're trying to solve, the opportunity you want to realize, and how the vendor will help you.

2. **Clearly define expectations for the vendor.**

   Vague expectations become failed expectations. Discussing your expectations for the vendor from the beginning can help your vendor deliver the value of the relationship.

3. **Conduct due diligence before the contract.**

   Due diligence is a baseline requirement for healthy vendor risk management. You should know if there are any latent issues with your vendor’s risk practices, controls, finances, or reputation before you ink the contract. That can help ensure a more valuable relationship from the beginning.

4. Get it in writing. Document all SLAs and performance metrics in your contract.

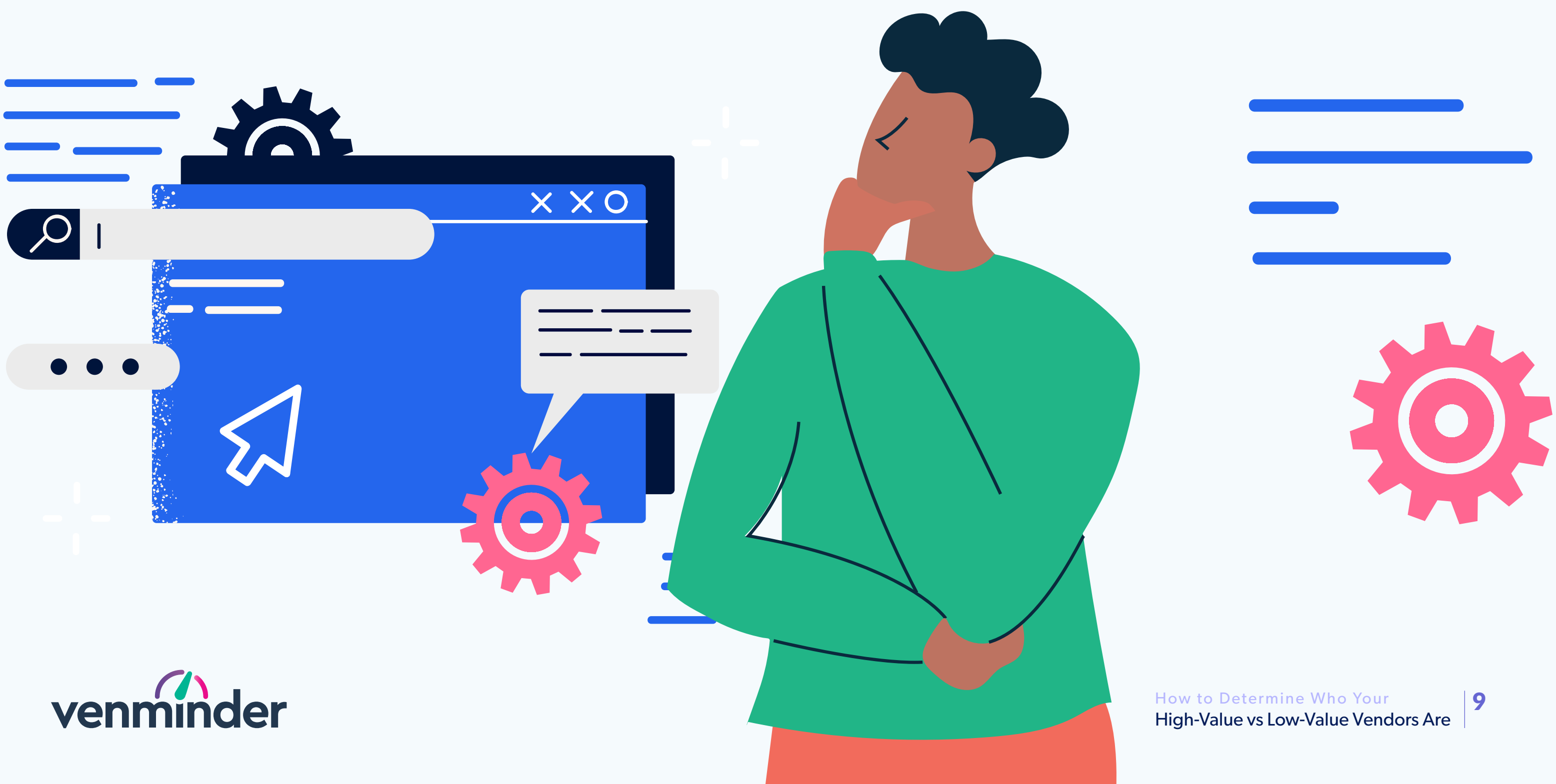
Make sure to let the vendor discuss and negotiate what is expected of them first. If unrealistic requirements are in the agreement, the vendor will refuse to sign, or they'll sign the contract and then fail to meet your expectations.

5. Continuously monitor vendor risk. Best practices and regulatory requirements dictate that you must monitor your vendor's risk profile.

Of course, this must happen at the beginning of the relationship, through due diligence, and periodically throughout the relationship. It must also be an ongoing practice where your organization keeps its eyes and ears open for any negative vendor news and asks the vendor about any potential issues. Vendor risk can change rapidly, and uncontrolled risk diminishes the value of the relationship.

6. Practice robust performance management. Performance management should be a regular part of any vendor relationship.

Not only should your organization confirm that the vendor is meeting all contractual requirements and SLAs, but you should also ask the vendor about their improvement initiatives and anything your organization can do to be a better customer or improve the process overall. When performance issues arise, ensure they're addressed immediately with a written and time-bound remediation plan. Don't wait for things to go seriously wrong before taking action. Correcting the most minor problem now can avoid significant issues later.



7 Pay attention to the vendor's industry.

Make sure you understand industry trends and who the industry leaders are. Get familiar with industry standards and challenges, including pending regulatory changes. This information can help you hold your vendors accountable and help your organization become a better partner. It can also allow you and your vendor to become more innovative in the process.

8 Reevaluate the product or service periodically.

It's in your organization's best interest to occasionally review the product or service to determine if it's still delivering the anticipated value. A cost-benefit analysis should be part of that review. Consumer behaviors and trends change over time, and while your vendor may be doing exactly what you asked them to do, the product and service may have diminished value, and it might be time to move on to something else.

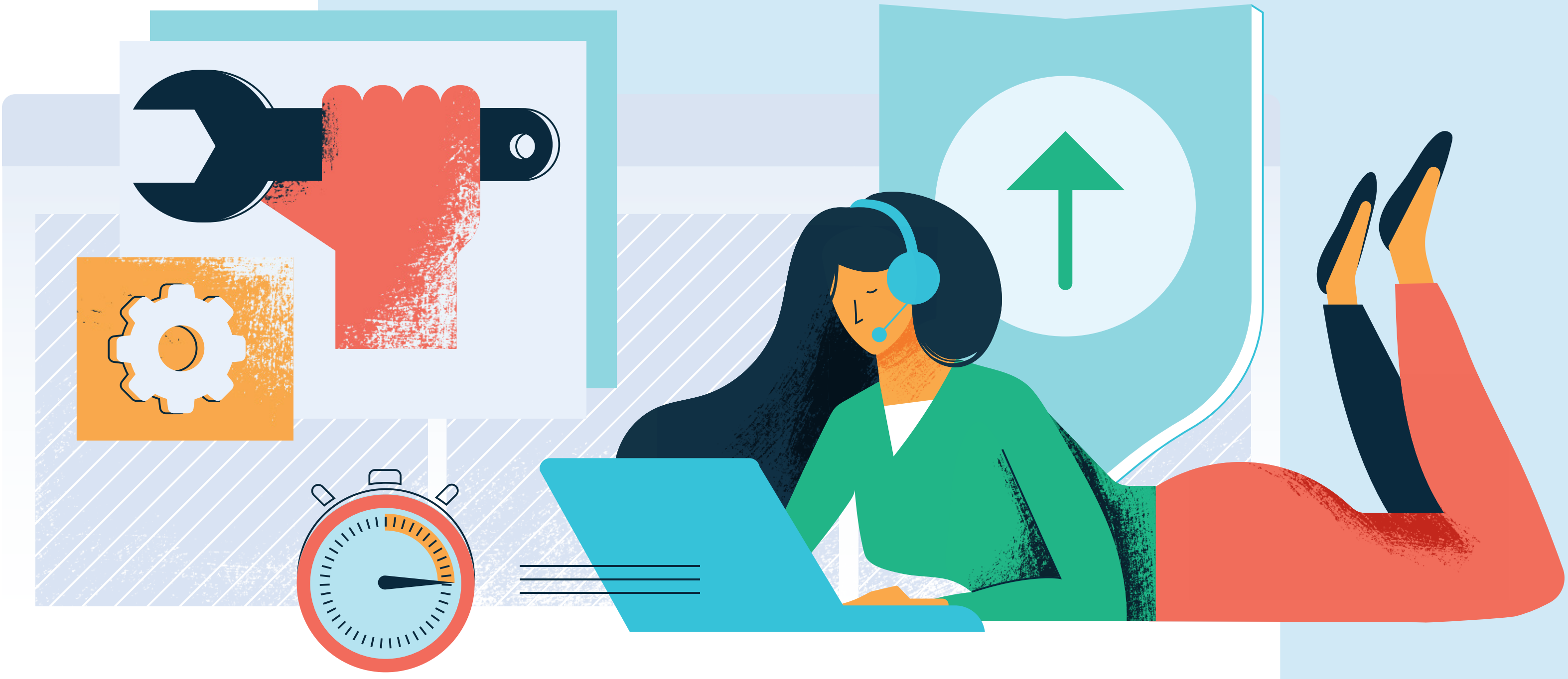
PRO TIP

Vendor owners make the difference:

When it comes down to it, having a knowledgeable and responsive vendor owner is vital to ensuring vendors deliver value. Vendor owners are responsible for that day-to-day relationship with the vendor. They shouldn't only fulfill their third-party risk management duties, but also know as much as possible about the product or service, the vendor, and the industry. Vendor owners are also responsible for performance management. A vendor owner with a "check-the-box" mentality will have challenges maximizing their vendor's value.

Every organization depends on its vendors to create value and deliver tangible benefits. While not every vendor lives up to that expectation, organizations can take steps to maximize every vendor's potential worth. Entering the vendor relationship with clear expectations and a good understanding of the product, service, and industry are significant first steps.

A well-written, mutually negotiated contract can further enhance the relationship between the vendor and the organization. Regular risk and performance monitoring can identify minor problems before they become significant issues. And finally, organizations must occasionally look beyond the vendor and evaluate the product or service offered to ensure it still delivers the desired benefits.



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