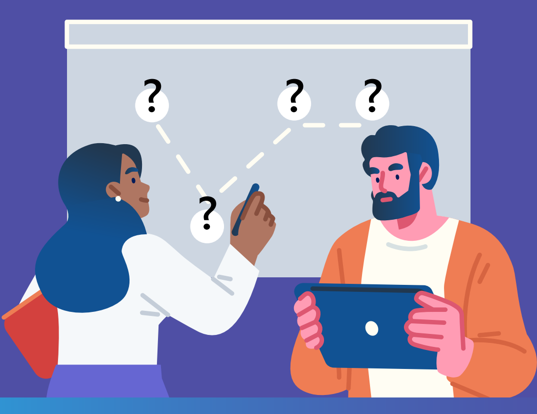
VENDOR PERFORMANCE MANAGEMENT:

STEPS AND QUESTIONS TO ASK



To ensure vendors are providing your organization with quality products and services within a defined budget and timeline, you must have a vendor performance management process.

Performance management helps ensure your vendors are meeting specific expectations related to compliance, operations, customer service, and more. Ensuring this process is effective requires some careful thought, proactive planning, and consistent execution.

Six Basic Steps of Vendor Performance Management

01 Define expectations
Set and document expectations for timelines, quality of work, and budget. Communicate these expectations to your vendor and get their agreement on them.

02 Establish performance metrics and track regularly
This can include metrics such as response times, error rates, and customer satisfaction scores. Determining which metrics to include depends on the vendor relationship, the product or service provided, and other factors like industry standards and best practices.

03 Communicate regularly
Schedule regular performance review meetings with your vendor to discuss their progress and any issues that have come up to help you stay on top of their performance and address issues before they become major problems.

04 Provide feedback to improve vendor performance
Make sure to regularly provide both positive feedback and constructive commentary on areas requiring improvement.

05 Monitor performance trends over a period of time
Although any vendor can have a temporary decline in performance, or miss a deadline once in a while, if declining or substandard performance is a trend vs an anomaly, it's essential to take action sooner than later.

06 Hold your vendor accountable to the contract or agreement
If your vendor consistently fails to meet your expectations, consider terminating the contract and finding a new vendor.

Ways to Manage Vendor Performance

When used effectively, these ways to manage vendor performance help measure and monitor vendor performance throughout the course of the relationship:

Performance metrics

Metrics typically consist of reportable data points that can substantiate a vendor's performance:

- **Objective data** like response time, quality of service, and number of met or unmet deadlines
- **Subjective data** like customer satisfaction scores, business culture, and personal demeanor

By tracking these metrics and comparing them against agreed upon expectations, organizations can identify areas for improvement and take necessary actions to address them.

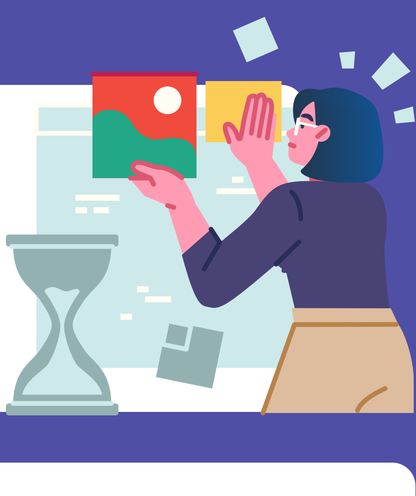
Contracts

By having well-written contracts in place, businesses can ensure both parties have a clear understanding of the expectations and obligations that come with the relationship. In the contract, you can include details on:

- The scope of services
- Pricing
- Payment terms
- Warranties
- Termination clauses
- Performance expectations

Service level agreements (SLAs)

Within the vendor contract, SLAs outline the level of service the vendor is expected to provide. SLAs typically include details on the scope of services, performance metrics, response times, and penalties for failure to meet the agreed-upon service level, helping ensure vendors are held accountable for meeting their commitments.

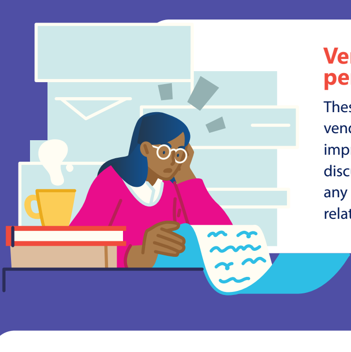


Reporting

This provides a way to track vendor performance over time, typically including data on key performance metrics which can be used to identify trends and areas for improvement. Organizations can use this data to compare performance to expectations and contractual agreements and make informed decisions about how to improve vendor performance.

Scorecards

Scorecards typically include a condensed or summarized set of data on key performance metrics, such as response time, quality of service, and quantity of met or unmet deadlines. Scorecards can be used to quickly compare metrics against benchmarks and targets and are used to inform performance reviews and discussions with vendors.



Vendor performance reviews

These provide an opportunity to discuss vendor performance and identify areas for improvement. These reviews typically include a discussion of performance metrics, SLAs, and any issues that have arisen during the relationship.

Issue management

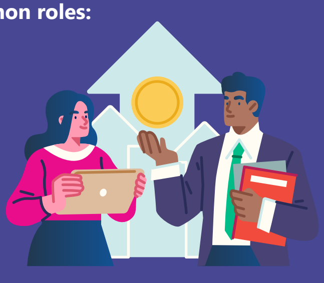
Issue management involves identifying, tracking, and resolving issues that arise during the vendor relationship. This may include things like service disruptions, quality issues, or disputes over pricing. By having a process in place, organizations can ensure issues are resolved promptly and that the relationship remains on track.

Who Is Responsible for Vendor Performance Management?

You'll want to identify the person or team responsible for managing vendor performance within the organization. This is a crucial step in ensuring vendor performance is monitored and managed effectively, which can lead to better outcomes for the organization as a whole.

The most common roles:

Vendor owners, or those with the day-to-day relationship with the vendor, are typically responsible for vendor performance management, including collecting and reviewing performance data, assembling scorecards, holding vendor performance reviews, and managing any issues.



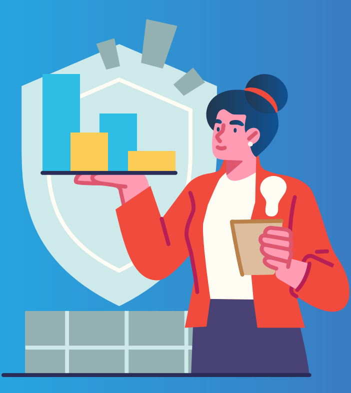
Third-party risk management teams often oversee the vendor performance management process by ensuring vendor owners are conducting vendor performance reviews, reviewing performance data and results, and tracking the management and remediation of vendor issues.

10 Questions to Ask Regarding Vendor Performance

Vendor performance, at a minimum, should meet or exceed any agreed-upon contractual requirements. However, vendors can also be evaluated against industry standards and other criteria.

These questions can help you look at vendor performance more holistically, identify gaps or opportunities for improvement, and better evaluate the overall value of the vendor relationship to your organization:

1. Has the vendor met the agreed-upon SLAs?
2. What is the vendor's track record for delivering quality products/services on time?
3. Are there any ongoing issues or areas of concern with the vendor's performance?
4. How responsive is the vendor to addressing issues and concerns?
5. How satisfied are internal stakeholders with the vendor's performance?
6. How does the vendor's performance compare to industry standards?
7. Has the vendor demonstrated flexibility and adaptability in meeting changing business needs?
8. How does the vendor's pricing compare to competitors, and is it justified by their performance?
9. Are there any missed opportunities for cost savings or process improvements in the vendor's performance?
10. What are the vendor's plans for continuous improvement and innovation in their products/services?



An effective vendor performance management process can ensure organizations are working with reliable and high-quality vendors who meet their specific business needs. It can help reduce costs, improve efficiency, enhance customer satisfaction, mitigate risks, and maintain compliance with relevant regulations.

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