

# Vendor Management: Reduce Risk and Improve Value

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# What Is Strategic Vendor Management?

- SVM is the establishment of a formal program that manages vendors that have strategic influence on IT organizations and their customers.
- Components include:
  - Categorization
  - Identification of participants
  - Cross-organizational data aggregation
  - Relationship management
  - Performance measurement
  - Internal/external communication
- Moves customers and vendors from transaction-based relationships to more of an ongoing relationship.



# Why Is Strategic Vendor Management Important to Me?

- IT vendors have significant impact on you.
  - Strategic direction
  - Contracting models and cost
- Vendor landscape is capricious.
  - M&A among larger vendors
  - New entrants, horizontal technology and niche players
- Vendors have more information than you do.
  - Helps level the playing field in relationship and negotiations alike
- Vendors wish to dominate your future spending.
  - Ensures your strategy and agenda is met, rather than the vendor's
  - Balances value for the vendor and you alike

# Constructing the Vendor Manager

## Vendor Manager Requirements

<b>Experience</b>	<ul style="list-style-type: none"><li>• Sales and marketing</li><li>• Service operations</li><li>• Finance and accounting</li></ul>
<b>Qualities</b>	<ul style="list-style-type: none"><li>• Sharing recognition</li><li>• Delegating authority</li><li>• Collaborative mind-set</li></ul>
<b>Knowledge</b>	<ul style="list-style-type: none"><li>• Clinical delivery</li><li>• Psychology</li><li>• Business metrics</li><li>• Contracts</li></ul>
<b>Goals</b>	<ul style="list-style-type: none"><li>• Developing relationships</li><li>• Value improvement</li></ul>
<b>Success Metrics</b>	<ul style="list-style-type: none"><li>• Client satisfaction</li><li>• Goal alignment</li></ul>



# Categorize Your Vendors

	Strategic	Legacy	Emerging	Tactical
Current Spending or Investment	High	High	Low	Low to High
Future Expected Spending	High	Medium to High	Medium to High	Low to High
Vendor Strategic Alignment	High	Medium	High	Low
Vendor Dependency	High	High	Low	Low
Breadth of Product/Service	High	High	Low to Medium	Low
Include in SVM Program?	Yes	Maybe	No	No

# Assess Vendor Risk

## Support

- Decline in service-level performance
- Lack of resources, lower skills
- Low customer retention

## Strategy

- Product strategy and R&D
- Offering mix
- Partnerships

## Organizational

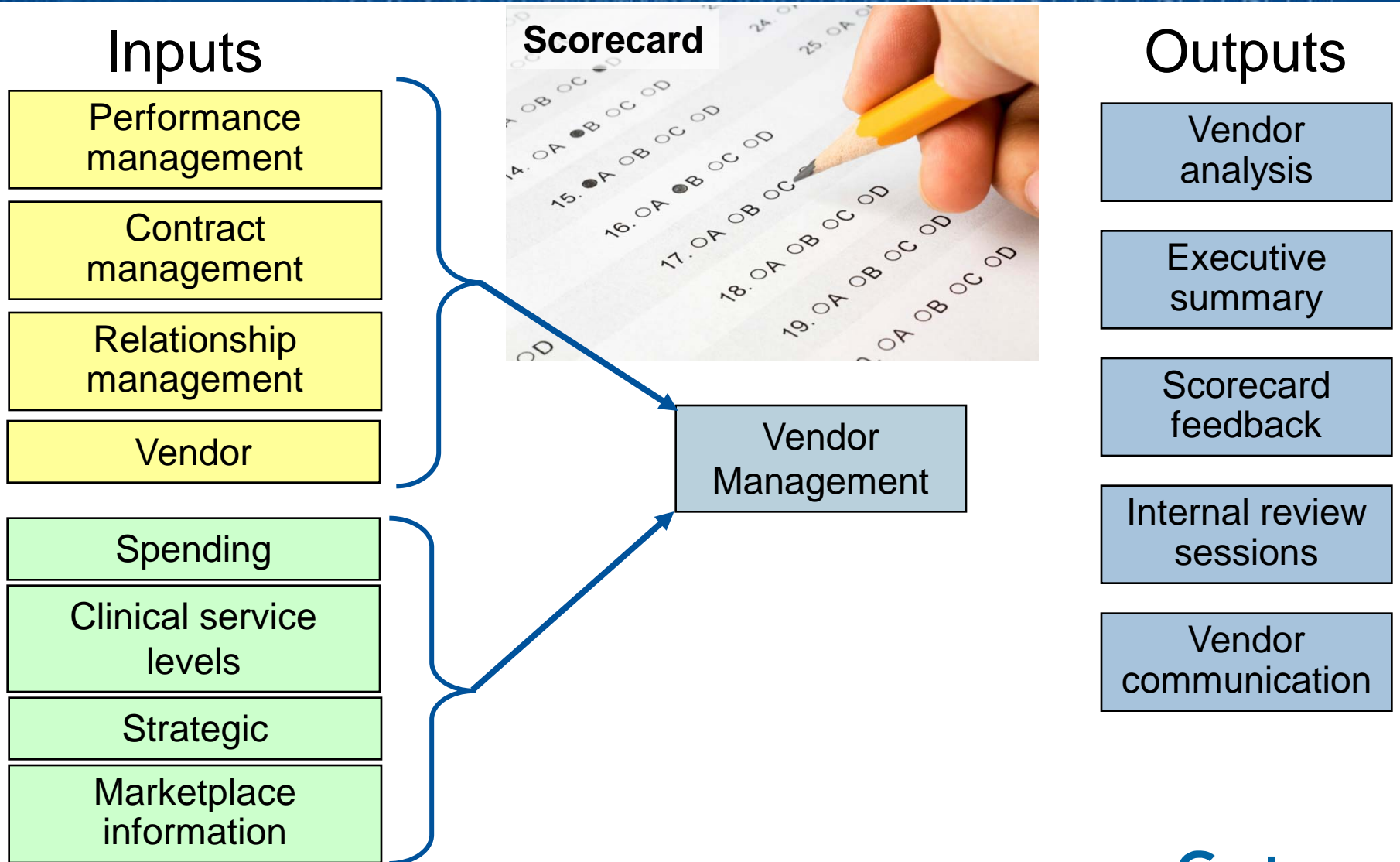
- Management turnover
- Large layoffs
- High employee turnover
- Increase in executives taking on multiple roles

## Financial

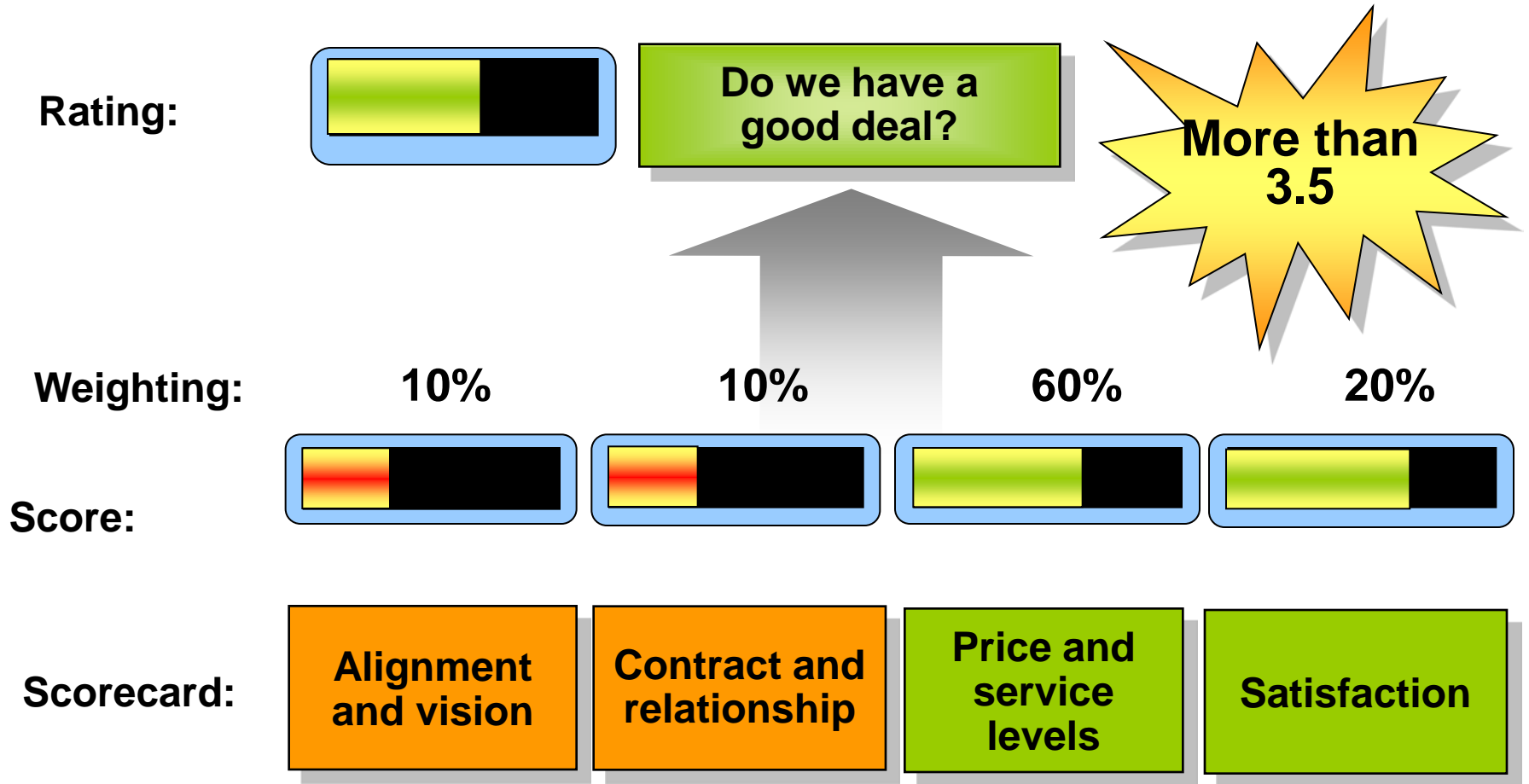
- Return on investment
- Return on equity
- Revenue growth rate
- Earnings



# Key Vendor Management Inputs and Outputs



# Creating a Vendor's Relationship Score



(Scale of 1 to 5: 1 = Inadequate, 3 = Acceptable, 5 = Excellent)

# Develop Dashboard: Different Measures per Vendor Category — Possible Examples

	Strategic	Legacy	Emerging	Tactical
Executive	<i>ROI</i>	<i>Efficiency</i>	<i>Risk</i>	<i>Cash Flow</i>
Clinical	<i>Effectiveness</i>	<i>Productivity</i>	<i>Time to Value</i>	<i>Cycle Time</i>
IT Mgmt.	<i>Automation</i>	<i>TCO</i>	<i>Portfolio Analysis</i>	<i>Efficiency</i>

# Your Action Plan

## **CIOs, CMOs, CMIOs and other C-level executives:**

- **Monday Morning**
  - Identify key vendors
  - Define the VM vision
  - Develop VM rules of engagement
- **Your Next 90 Days**
  - Perform a risk assessment of your key vendors
  - Review performance management plans
  - Create scorecards — metrics and dashboards for all key delivery areas
  - Hold key vendor meetings
  - Evaluate your organization's ability to change key vendors
- **Your Next 12 Months**
  - Pilot and test
  - Monitor performance
  - Refine charter, structure and tools (tracking, reporting, scorecarding)



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