It's a Win Win: Using a Vendor Scorecard to Manage Your Vendors

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Introduction

Abbott Laboratories is a global, broad-based health care company devoted to discovering new medicines, new technologies, and new ways to manage health. Abbott Library Information Resources (LIR) serves a diverse group of internal clients with very different and wide-ranging information needs. The Library mission is to provide world-class corporate-wide access to knowledge resources, literature research capabilities, and information delivery solutions to support and enable Abbott's market leadership.

Due to the wide variety of information content needed to sustain such a company, it is a continual challenge to provide the right content with a minimum of library administration staff time at the right price point to meet budgetary guidelines. The Library's content portfolio management process was working, but in 2010, Abbott LIR was asked by our senior management to more fully document our content management and acquisitions procedures as well as to review these processes in order to make recommendations to improve the management of the Library content portfolio. The resulting deliverable, nicknamed "the vendor scorecard," has become our standard tool for tracking both vendor performance and contract negotiation successes and has become the source of valuable benchmarks that librarians have been able to leverage during contract negotiations. Additionally, the scorecard has contributed to a better understanding of the content portfolio management and acquisition process up the Library reporting chain.

Literature Review

In some industries, strategies and procedures for vendor portfolio management are mandated by governing bodies. Credit unions are one such industry, where the National Credit Union Administration issues guidelines for how credit unions should evaluate their vendors and third party relationships.[1] Individual credit unions develop their own criteria based on these guidelines, doing their due diligence to evaluate vendors and perform risk assessments. For example, Ent Federal bases their method of risk-rating on six factors: "criticality, dependence, cost, performance, regulatory impact, and business impact."[2] Coupling this rating with a tracking system to capture key information about each vendor and contract, Ent Federal is able to get a more complete picture of each vendor's place within the company's business. Having all the information in one place and standardized across vendors assists not only in analyzing the vendor's performance and measuring risk, but also eases the administrative work of managing vendor relationships.

Libraries are not subject to the standardized guidelines of the financial sector, however the principles of measuring vendor risk and performance in tandem with the practice of establishing a centralized location for vendor information are good lessons for any library managing numerous vendor relationships.

Payne lays out an argument that "control" is the crux of vendor management: ensuring control remains with your organization and not with the vendor.[3] His definition of a vendor management system is one

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[1] http://www.ncua.gov/Resources/Documents/LCU2007-13ENC.pdf
[2] Richards-Peidl, Norine. "Vendor Management Made Easy." *Credit Union Magazine* (October 2003) p. 92.
[3] Payne, Richard. "Vendor Management." *The AIIM Guide to ECM Publishing*. (2007) p. 51.

which "sets standards for managing the procurement, quality, and cost of vendors."[4] Like Ent Federal, he emphasizes the need for creating a centralized repository for vendor information and establishing procedures for evaluating vendors. How formalized those procedures need to be depends on the size and needs of the organization; small companies may be able to forgo the formalities, however larger corporations will find it hard to control costs and quality without some standardized vendor management procedures in place.[5]

Where organizations store information about vendors – including the basic information about contacts, costs, and contracts as well as risk and ROI analyses – depends on the needs of the particular organization. For some, a series of Word documents and Excel files may be sufficient. Access databases or specialized software designed for this purpose may also be used. Some libraries have been creative and used Springshare, Inc.'s LibGuides[6] and Google Apps[7] as tools in the vendor evaluation process. The goal of the information storage tool is to allow staff members to be connected throughout the evaluation process, gaining both time and cost efficiencies. Whatever tool is used should facilitate streamlined and informed decision-making.[8]

The decision-making process should follow a structure so that vendors are evaluated methodically. AstraZeneca – a fellow health care company – advises that libraries first consider the vendor relationship "in terms of 'complexity' and 'criticality'",[9] mirroring some of the criteria of the financial sector. Vendors which are more complex and critical to the organization require additional staff time to manage the relationship, while the less complex and less critical vendors may not require the intensive time commitment.[10] AstraZeneca also advocates a "scorecardlike" approach for the key performance indicators (KPIs) of: "financial perspective, supplier quality perspective, communication perspective, and internal customer perspective."[11] However, no matter what KPIs are used, they should be "relevant, easy to generate, difficult to manipulate, and limited in number" in order to be effective.[12]

Development of Abbott LIR's Vendor Scorecard

The roots of our "vendor scorecard" are firmly grounded in the well-known "magic quadrant" reports by Gartner Research and more specifically a Vendor Portfolio Toolkit developed by Outsell[13] and published in a report entitled *Vendor Portfolio Management Toolkit: A Decision Matrix for Vendor Investment* that was first published in 2009. The tool Outsell developed seeks to "balance strategic fit of resources and services with the degree of risk associated with a product's or vendor's performance and stability,"[14] and borrows the methodology of investment portfolio managers who routinely oversee investment portfolios

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[4] Ibid p. 51.

[5] Ibid p. 52.

[6] England, Lenore and Li Fu. "Electronic Resources Evaluation Central: Using Off-the-Shelf Software, Web 2.0 Tools, and LibGuides to Manage an Electronic Resources Evaluation Process." *Journal of Electronic Resources Librarianship* (2011) 23.1: 30-42.

[7] Hartnett, Eric and Regina Koury. "Using Google Apps Through the Electronic Resource Life Cycle." *Collection Management* (2012) 37: 47-54.

[8] England and Fu. p. 31.

[9] Brevig, Armand. "Getting Value from Vendor Relationships." *Searcher* (October 2008) 16.9: 32.

[10] Ibid p. 32.

[11] Ibid p. 33.

[12] Ibid p. 33.

[13] Lustig, Joanne. "Vendor Portfolio Management Toolkit: A Decision Matrix for Vendor Investment." (2009) http://www.outsellinc.com/rate/report/850.
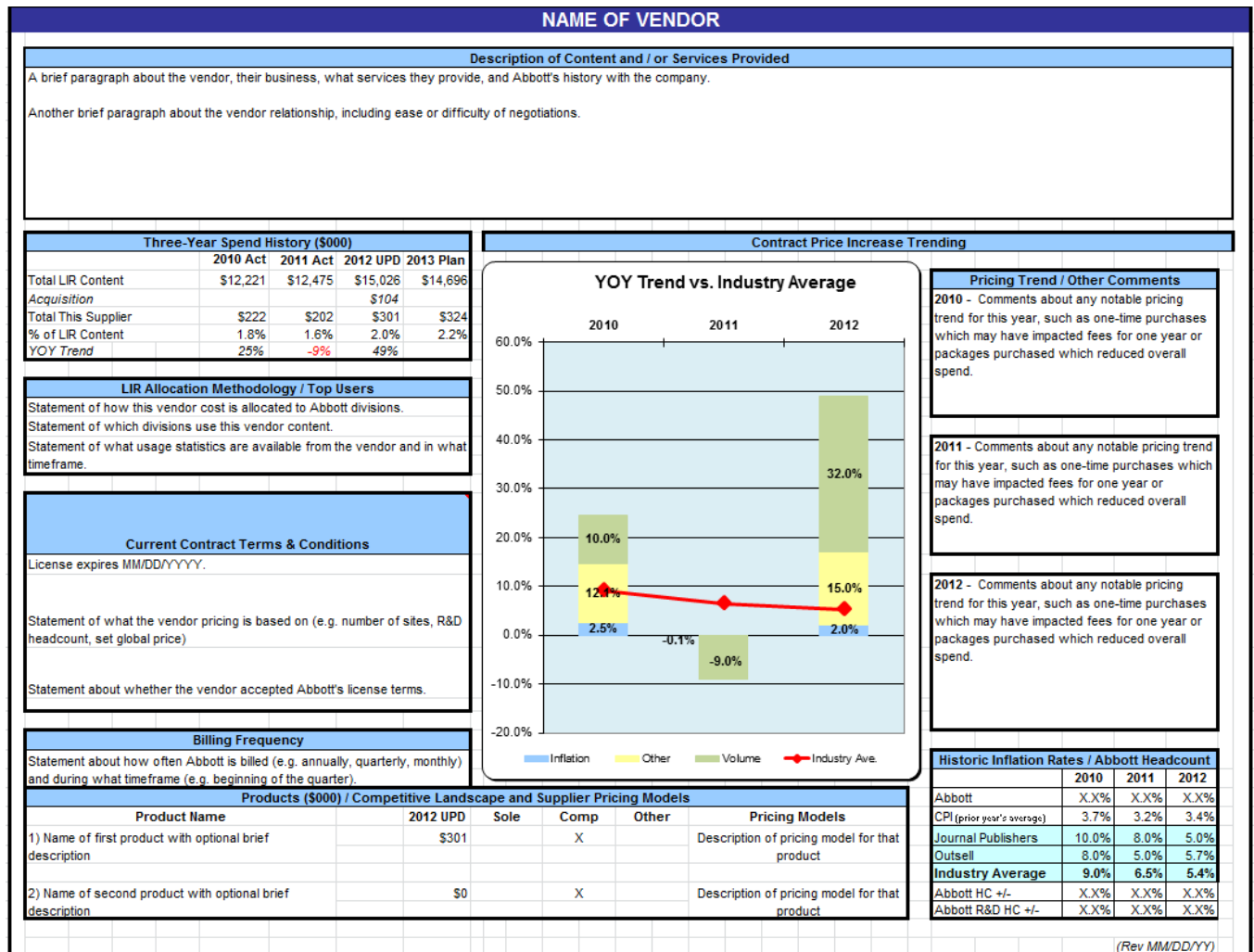
[14] Ibid p. 2.

to maximize ROI while managing risk. An earlier exercise in rating vendors who accounted for the top 20 percent of our content spend using Outsell's tool yielded results that put the vast majority of our vendors into either the top right quadrant indicating high perform and high fit or the bottom right quadrant indicating strong strategic fit but weaker performance or higher risk. We took this to validate our excellent management of our company's content portfolio, but a presentation of our results to senior management was stalled when we were asked what actions we would be able to take as result of our vendor analysis. There were none.

Outsell's tools instruct Information Portfolio Managers to assess their vendors based on strategic fit and performance or risk factors with questions that assess the uniqueness of the vendor's content set, its value and cost per use, the accuracy and quality of the information the vendor provides, as well as the fairness of its prices compared with competing resources. But the questions of strategic fit when broadly applied to STM journal publishers are mostly moot. The answers in most circumstances rarely result in any course of action other than the continued purchase the content set. Even as we meticulously calculate cost per use, the resulting analysis is little more than an examination of our downloads and the simple math required to compare the subscription cost of the journal in question to the cost of the same number of article downloads purchased through our document delivery supplier. Because the vendors we are assessing are overwhelmingly sole source and our clients rely heavily on their unique content to perform their jobs, it became clear that our vendor assessment tool would need to be more descriptive than analytical. We would need to focus almost exclusively on performance and risk factors, and our resulting actions would be grounded in process improvements and cost containment. We would track specific metrics that we hoped would help us draw a better and more accurate picture of vendor performance especially related to cost, while at the same time cataloging any details such as product and platform stability, vendor staff turn-over, and customer service performance that we could either help the vendor to improve or that might gain us leverage during contract negotiations.

Vendor Scorecard Structure

The vendor scorecard's aim is to collect, archive, and display a set of standard data for each vendor contract in the top 20 percent of Abbott Library's content budget spend. Much of the data was already being collected by each portfolio manager individually but not in a standardized format. The scorecard standardizes the data set and centralizes its location, making the data more accessible throughout the organization. The scorecard is comprised of the following (see figure 1):
  a. Description of vendor and each product licensed, including a detailed description of any platform, performance, billing, or customer service issues we experienced during the term of the contract.
  b. Sales and technical contact for each product.
  c. Three-year spend history.
  d. Three-year trending of contract cost, including a graph of the year-over-year cost against the industry average as well as an indication of what part of each year's increase classified as either a volume increase (sales), inflation, or "other."
  e. Detailed explanation of contract cost changes for the past three years with specific attention to explaining/justifying any cost increases not attributable to inflation or volume.
  f. Description of internal allocation methodology (fixed budget, allocated cost, direct chargeback etc.) as well as a description of the content set's top user groups within Abbott.
  g. Current contract expiration and any special terms or conditions.
  h. Billing frequency and method.
  i. Chart listing vendor competitors or indication of sole-source supplier.
  j. Detailed supplier pricing models describing both the licensing method (seat-based, concurrent user, named user, tier-based, etc.) as well as the methodology used by the vendor to set cost (total headcount, R&D headcount, flat-fee pricing, published price, etc.).

NAME OF VENDOR

Description of Content and / or Services Provided

A brief paragraph about the vendor, their business, what services they provide, and Abbott's history with the company.

Another brief paragraph about the vendor relationship, including ease or difficulty of negotiations.

Three-Year Spend History ($000)

	2010 Act	2011 Act	2012 UPD	2013 Plan
Total LIR Content	$12,221	$12,475	$15,026	$14,696
Acquisition			$104	
Total This Supplier	$222	$202	$301	$324
% of LIR Content	1.8%	1.6%	2.0%	2.2%
YOY Trend	25%	-9%	49%	

LIR Allocation Methodology / Top Users

Statement of how this vendor cost is allocated to Abbott divisions.
Statement of which divisions use this vendor content.
Statement of what usage statistics are available from the vendor and in what timeframe.

Current Contract Terms & Conditions

License expires MM/DD/YYYY.

Statement of what the vendor pricing is based on (e.g. number of sites, R&D headcount, set global price)

Statement about whether the vendor accepted Abbott's license terms.

Billing Frequency

Statement about how often Abbott is billed (e.g. annually, quarterly, monthly) and during what timeframe (e.g. beginning of the quarter).

Contract Price Increase Trending

YOY Trend vs. Industry Average

Legend: Inflation, Other, Volume, Industry Ave.

Values shown: 2010 — 10.0%, 12.?%, 2.5%, -0.1%; 2011 — -9.0%; 2012 — 32.0%, 15.0%, 2.0%

Pricing Trend / Other Comments

2010 – Comments about any notable pricing trend for this year, such as one-time purchases which may have impacted fees for one year or packages purchased which reduced overall spend.

2011 – Comments about any notable pricing trend for this year, such as one-time purchases which may have impacted fees for one year or packages purchased which reduced overall spend.

2012 – Comments about any notable pricing trend for this year, such as one-time purchases which may have impacted fees for one year or packages purchased which reduced overall spend.

Historic Inflation Rates / Abbott Headcount

	2010	2011	2012
Abbott	X.X%	X.X%	X.X%
CPI (prior year's average)	3.7%	3.2%	3.4%
Journal Publishers	10.0%	8.0%	5.0%
Outsell	8.0%	5.0%	5.7%
Industry Average	**9.0%**	**6.5%**	**5.4%**
Abbott HC +/-	X.X%	X.X%	X.X%
Abbott R&D HC +/-	X.X%	X.X%	X.X%

Products ($000) / Competitive Landscape and Supplier Pricing Models

Product Name	2012 UPD	Sole	Comp	Other	Pricing Models
1) Name of first product with optional brief description	$301		X		Description of pricing model for that product
2) Name of second product with optional brief description	$0		X		Description of pricing model for that product

(Rev MM/DD/YY)

Figure 1. Vendor Scorecard

The Library's collection management team spent several days assembling the needed data by scouring hard drives and file cabinets for vendor files and archived budget documents. Some the most useful and basic information proved at times the most elusive. The scorecard requires a full description of vendor pricing schemas, and while these were well known for many vendors, the exercise of cataloging each schema led to the realization that for some vendors our information was vague and incomplete. As a result we reached out to several vendors to ask pointed questions about the way our pricing was derived. Documenting all vendor pricing schemas has proved incredibly helpful in the ensuing years as our headcount numbers, research sites, and R&D staff numbers have changed. We have been able to both make better predictions about how these changes will affect our contract cost year-over-year as well as gain leverage during vendor negotiations. An increase in cost tied to an increase in headcount one year can and should be used to argue for a price break when your company spins off a large division and reduces headcount numbers in subsequent years.

Graphing the year-over-year contract cost changes against the industry average proved illuminating. The YOY trend graph (see figure 2) classifies contract cost changes as attributable to either volume (as defined as increases or decreases in Abbott headcount or number of seats or concurrencies purchased) or to inflation. Remaining cost increases are categorized as "other" and must be fully rationalized. The

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resulting infographic clearly differentiates appropriate contract cost increases from the ones that vendors should be asked to further justify. Asking directly for a justification for that part of the increase can often lead to its reduction when vendors aren't prepared to defend specific cost increases that cannot be attributed to volume or inflation.
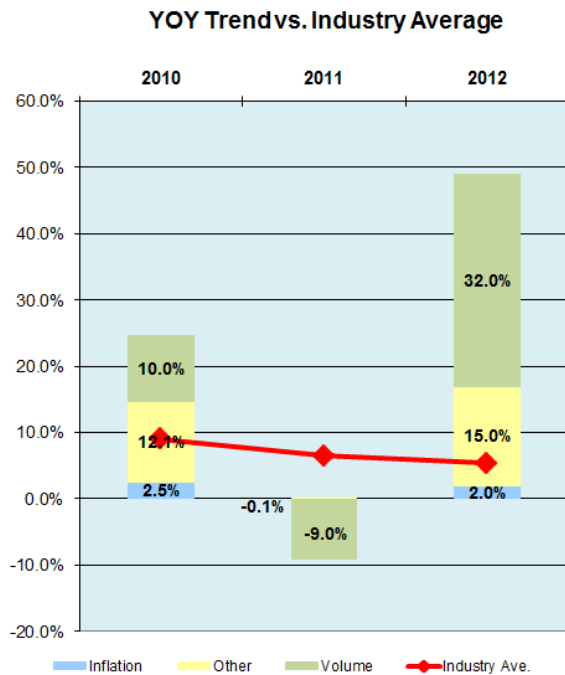

YOY Trend vs. Industry Average

Figure 2. YOY Trend Graph

Another piece of the scorecard that has proved quite valuable is information collected from within our organization about vendor performance (e.g. platform down time, problems with customer support, issue resolution, gaps in usage statistics, etc.). These are the sorts of issues that are usually solved by the Library's content management group or with the help of a vendor's technical team and can often be forgotten by contract negotiation time. But recording such issues in the scorecard has helped us to think beyond price and focus on contact "value." Cost containment or reduction is almost always our main objective during contract negotiations, but identifying opportunities for the vendors to improve their performance can be as valuable as cost reductions and can be a nice consolation price that can be pointed out to Library management when cost increases are unavoidable. Writing process or performance benchmarks into the contract may also lead to some cost reductions if there are penalties associated with the vendor not meeting those performance benchmarks. Additionally, any process improvements that can save our researchers and internal clients time or effort are valuable.

Actionable Value

The entire of process of creating and maintaining the scorecards helped to solidify the level of preparedness with which contract negotiations are conducted in the Abbott Library organization. Creating and maintaining the scorecards help to ensure portfolio managers are prepared for vendor contract conferences. Additionally whole or parts of the scorecard are shared with the vendor directly if

appropriate. Information culled from the scorecards is used to fine tune our negotiation expectations and focus on the most desired outcomes.

Lessons Learned

After the scorecards were created, we quickly realized that maintaining them was no small task. The first iteration of the scorecards that was used during a presentation to senior management was designed to fit on a single Excel worksheet (see figure 1). While this version of the scorecard is attractive and readable, we found maintaining the format to be difficult and time-consuming. Later versions compiled the data in a more prose-heavy format while calling out specifically useful charts and graphs.

Libraries hoping to emulate our experience should be forewarned that once they have all the metrics available, they need to be ready to output that data into some sort of usable format at a moment's notice upon management request. There should be a standardized way to produce a report that summarizes all the key facts without requiring a high level of manual manipulation or formatting.

During this process, it also became clear that if we were going to maintain the data integrity of our scorecards, we would need to do a better job of managing our contract data. To that end, Abbott's content management team also built an Access database to house vendor and budget data. That database now archives the information we use to build each year's scorecards and helps output needed vendor and contract data when it is required throughout the content management lifecycle.

Conclusions

Developing the vendor scorecard taught us that the process of vendor management is more important than the output. Much time can be spent making an attractive deliverable which is pleasing to the eye, however time is better spent analyzing the data for each vendor. Once we developed the standard metrics and areas of focus, we were able to streamline staff time during the annual vendor decision-making and contract negotiation process. Having a standard format for each of our key metrics – vendor description, three-year spend, contract terms, negotiation history, pricing trends and models, industry averages, and vendor performance – took the guesswork out of vendor decisions and provided a solid foundation for vendor comparison and evaluation. Having the three-year history laid out in one place allowed us to immediately visualize trends and identify areas of both progress and concern. Noting vendor performance throughout the year allowed us to better address any issues for a more seamless customer experience as well as potentially use any unresolved issues as leverage during the next round of negotiations. The Access database that now lies behind the data has become an invaluable tool for housing vendor and contract information, and was the result of our more closely examined vendor management process.

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