COMPLIANCELINE

Why Your Vendor's Service Declined

Illuminating the Deterioration in Third-Party Service Levels and What You Can Do About It

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From Our Chief Servant

Over the last two decades, we have experienced a de-integration across the business landscape as organizations have shifted away from a conglomerate-style, 'do-it-all-yourself' mentality, toward focusing on core competencies and outsourcing non-core activities to third-party specialists (e.g., payroll).

However, due to significant changes in the marketplace, particularly over the last decade of cheap money, the third-party experience has shifted significantly as new owners have stepped into founders' shoes to operate their companies. Rarely, do you know the owners or the head people at your vendors anymore, for example.

The business growth and expansion process itself has been McDonaldized through Private Equity and Venture Capital investments during a time of historically low interest rates, creating massive Frankenstienian companies that are focused on one thing -- the bottom line.

This dollar-myopic, quick-flip, short-term mentality is at the root of many of the vendor issues we all experience, and its presence in the outsourced ethics and compliance game is pervasive.

This whitepaper is designed to provide you with insights into the root of this problem we all experience on a daily basis, as well as actionable steps you can take to help improve your unique situation in the short- and long-term.

Our team is both compelled and qualified to help. Compelled because we are tired of self-serving vendors and we expect more. We understand the challenges that all parties -- from front-liners to program leaders -- face in this complex issue, and we are part of a group of people trying to change the world and make it a better place.

And we're qualified because we are experts in dealing with third-party vendors, and are a third-party vendor ourselves, who we think 'gets it.' This guide is meant to be a recipe, constructed with over 20 years of experience, insights, and best practices in specialized vendor management.

Your job is tough enough as it is. You don't need selfish vendors who don't care gumming up your machine.

If you're reading this far, there is still a glimmer of hope inside you. The foundational element in any 'healthy' relationship is trust. Thus, if you are going to maximize your effectiveness, you need to make sure you can trust your third-party partners actually perform for you. Below we outline how to do just that.

Nicolas Gallo, Chief Servant and Co-CEO

I. Introduction

Regardless of your industry or specific focus, chances are your organization utilizes third-party partners to handle some non-core functions. Whether it is as simple as payroll or document shredding, or as integrated into your operation as logistics or the software you work in all day, third-party barnacles are on virtually every organizational ship in our economy.

Which all makes sense, at least on paper. Outsourcing allows you to focus on what you do best, while offloading non-core activities to specialists who only do that thing. Great, right?

Unfortunately, the lynchpin assumption that's supposed to make this entire framework work -- namely that the vendor is reliable and cares -- seems to be missing in many of these critical relationships. This creates inefficiencies in all operations and processes they touch, creating stress and waste along the way, compromising your organizational purpose, and sometimes, even your personal goals.

This white paper illuminates this question by analyzing what is going on below the surface, providing a framework to analyze your market, as well as tactics you can employ both internally and externally to relieve some pressure and ultimately fix any vendor problems you may be experiencing.

Quality of Service is Declining

There is no time in recorded history where the quality of service from vendors has seen a steady decline. Today, double-checking and following up on a vendor's work is not uncommon in the least.

Whether driven by structural ownership vehicle changes, a relatively more 'transient' workforce, or the impersonal, transactional nature of our technology-driven society and ADHD economy in general, vendor performance is at an all time low. The fact is, great vendors are so rare today you can probably count your 'good' ones on one hand.

This is by no means ground-breaking news. Anyone who works with vendors or has gone through an RFP process today knows this. They also know that general vendor performance has fallen across the board over recent years, and many can't make sense of it.

Exploring Ways Service Deteriorates

We talk to a lot of organizations about the bad vendor problem and what to do about it, and the complaints we hear people discuss generally fall into three main buckets:

- Honesty & Clarity
- Siloing
- The 'You Do It' Effect

As we further discuss these three fallacies later in this whitepaper, you may notice that your organization experiences some of these characteristics to varying degrees, and others you won't recognize at all.

Why is Service Quality Declining?

So why does the quality of service from a vendor decline over time? This question has confused many of our clients and friends, most of whom have written the root cause off as societal changes, or technology, or millennials, or man-made climate change.

We see this driven by something more basic -- Ethos, the driving force within an organization -- and explain how a deteriorating client experience is usually rooted in a focus shift at the vendor level as leadership responds to a new set of incentives that are different from those that drove the company early on. This is almost always a stronger causal factor than the weak-force factors this phenomenon is usually attributed to.

Who This is For?

If you have been let down by a vendor you relied on, or simply have been baffled by the wide range of prices you received from a recent RFP process, this white paper is for you.

While this is written broadly for anyone whose work life is affected by a third-party vendor or who is interested in understanding the root of this issue in general, we specifically address the third-party problem from three perspectives:

- The Front-Liners
- The Owner/Spearhead
- The Department Head/Boss

Depending on your organization or team structure, you may fall into two, or maybe even all three categories. In this whitepaper, we aim to provide each perspective with techniques to drive change. Each position has different challenges, and we present actionable tips that can be crafted specifically for your unique situation.

We begin our discussion by analyzing the three main categories of vendor shortfall, providing examples of the symptoms, and sharing some ideas on how to level set with a vendor exhibiting these characteristics.

Pro Tip Remember: ***THEY WORK FOR YOU!***

Your vendors work for you.

They (should) exist to serve you and to keep your best interests in the forefront of what they do.

It is extremely important to remember that fact. Especially when a vendor decision many times is made without you, or was made before you even joined your team.

This can make you feel like you have to 'deal with' whatever vendor you've been presented with. That the vendors in your system are static characters or aspects of the landscape in your work environment that are immovable.

Remember nothing is unchangeable.

Like a pair of shoes that are two sizes too small, a vendor who does not live up to their obligations creates pain every step of the way along your journey.

Perhaps it is too far gone at this point, but if it's not, we are all at risk for a 'new normal' to develop across our economy and society where the level of service we ultimately receive is so far away from what we should expect for so long we are at risk of losing it forever.

The point is, it is up to us to determine what is acceptable, to determine whether the status quo is accepted or rejected for something better.

Ultimately, if we don't like our vendor situation, we only have ourselves to blame.

We have allowed our vendors to provide sub-par service over the past two decades. We have allowed this secular trend of faceless, heartless vendor service that is impersonal and transactional to continue unabated.

This power shift has created the illusion that 'this is just how vendors are' and has led to our implicit response of 'settling.'

Like children, vendors will only (for the most part) give you what you expect of them.

Thus, our vendor problems really start with us, our mentality, and our expectation levels. Once that underlying principle -- namely that poor vendor performance is unacceptable -- is established, we can begin to realize that not only do we deserve better, but that better is actually attainable. It just takes a little effort.

This white paper will provide actionable tips for you, regardless of position or level, to be a positive force to influence your troublesome vendor situation to get the behaviors you are entitled to and the performance you need to do your job properly.

II. Ways Your Vendors Fall Short

While the individual instances of vendor shortfall are varied and nuanced, in aggregate, they tend to fall into three major buckets.

Honesty & Clarity

The first major category of vendor shortfall is in the area of 'Honesty & Clarity.' One example of a shortfall in this area is 'The Denny's Effect,' where the dish you are served looks nothing like the beautiful picture on the menu. Here, a slick sales pitch and demo can set an implicit expectations level that the resulting service never lives up to in reality.

A closely related example is that of 'Skin-deep Beauty,' which is like buying what you think is a beautiful sports car only to find a lawnmower engine under the hood. This is seen often in vendor solutions that entail both a software and human element. In these situations, the demo and conversation is usually very software-centric, while the human element -- the engine in our example -- is ironically downplayed. Ironically because this is often a critical element to the solution.

Another example is lack of budget clarity. Whether in the form of 'death by a thousand cuts' invoicing or general nickel and diming for basic configuration changes, shortfalls in this area create budgetary strain and negative internal political implications in some cases.

This entire category is rooted in a vendor's tendency to over-promise and under-deliver. This is a lack of accountability and transparency that makes it difficult to trust a vendor, especially for critical functions.

To avoid problems in this category, you should have a bias toward having 'tough conversations' early and often with your vendor. At the start of a new vendor relationship or upon contract renewal, establish, and capture in writing, certain expectations you have for your vendor relationship, and dig to find, for example, areas where you will be billed. Getting a clear understanding of what exactly is included in your service is critical to get the certainty you need to better plan how your resources will be consumed.

'You Do It Effect'

The next major category is the 'You Do It Effect,' where you have to burn extra calories for the job you're paying your vendor to do gets done.

One example is when, due to ineptitude, lack of reliability and consistency, or chronic non-responsiveness, you end up doing the job your vendor is supposed to be doing.

Another example is when you constantly have to take extra steps to get your vendor to do things you've requested. This can range from the need for constant follow up, to escalation up the chain of command to force your vendor to adhere to your contract or agreed upon service levels.

Another example is the 'Salesforce Effect,' aka the 'Ikea Effect.' Here, the basic building blocks are provided, but it is up to you, the customer, to configure it and get what you *can* out of it. This manifests itself in rudimentary program configurations where organizations only utilize the most basic functionality, or the need to hire a dedicated Salesforce Administrators to 'deal with' the software, or grown-ups weeping over a mess of shelving slats and allen wrenches for a disassembled bookcase on their living room floor.

Regardless of the cause, vendor shortfalls in this category are rooted in a lack of tenacity. These shortfalls cause waste on your side as your team's efforts are focused on things someone else is supposed to take care of, crowding out the time available for the things *only* they can do. There is also an absence of a true servanthood mentality when someone at your vendor doesn't immediately take on your problem as their own.

Steps you can take to avoid pitfalls in this category are, again, around establishing clarity at the onset of the relationship. You need clarity on all efforts needed to really get the intended or potential benefits out of the solution in question. And you need clarity on who is actually responsible for each one of those efforts. Only then can you ensure that your expectations are appropriately set and help foster the necessary accountability cadence.

Silos

The final category is related to 'Silo' operations at a vendor. When you embark on a new vendor relationship, you expect to be dealing with a single, cohesive organism designed to help you. However, sometimes it feels like your vendor is a collection of mini-organizations or fiefdoms, each with their own priorities, values, and agendas.

Bad hand-offs is a major symptom of this category of vendor shortfalls. You have conversations with the sales or on-boarding team, and the take-aways never seem to make it to the ops team. Or you push a change through support, and the account representative team finds out about it from you. This feeling that the right hand doesn't know what the left hand is doing is a lack of coordination on the vendor side that can be especially frustrating because it creates havoc and waste that you and your team have to deal with.

Another way siloed operations manifest is in the 'Not My Problem Effect,' which is really the cultural, behavioral outcropping of this category. This is the feeling that the person at your vendor you are talking with doesn't care about your problem, or views your problem as *not* their problem, or that your problem is outside their job description. This is also felt when you are looking for a simple answer and spend the next 45 minutes on the phone telling the same story over and over while you're transferred from one department to the next.

Finger-pointing between departments is another blatant symptom of siloed operations. For the finger-point to even occur, there must be individuals on the vendor's team that *don't* view their team as a single organism, otherwise, they would own the errors their team made.

This category is rooted in both a lack of accountability and a missing servanthood mentality at the vendor. Again, these values are foundational with cultural roots, and a vendor lacking here can cause real waste or reputational damage depending on the extent to which they are relied upon, or how critical the process they are handling is for your organization. Further, siloed operations on your vendor's side create inherent inefficiencies that can cause or prolong business process disruptions.

To guard against the potential damages caused by vendor shortfalls rooted in this category, it will require some digging. When considering a new vendor, spend time talking about the vendor's culture, applying the 'Dig Thrice Rule.' This is where once you ask a question, you ask three more 'digging' questions. Three deeper digs after the initial answer will provide a lot of extra information value to better analyze the authenticity of their answer. For example, you might say: 'Tell me about your company culture,' followed by, 'And how does that manifest itself?' 'What's an example where this showed itself recently?' and finally, 'How do you know you are living that out?' This framework of questions helps drive toward better information. Try it with you kids.

You should also ask to speak with current users of the solution, or better yet, since a salesperson will likely provide their best clients as references, try to find user of their solution independently. Ask questions about what it feels like dealing with the vendor you are considering.

In Short: They Don't Care

While the paths to Ethics & Compliance and Human Resources are typically as varied and diverse as the teams in these roles, the common characteristic that all folks in our profession possess is caring.

People in these positions care about others, want to make a difference in their organizations, and deeply want to make the world a better place. They see injustices and inefficiencies as things to fix that will improve the world around them, and they are passionate about making a meaningful difference in the lives of others.

However, the three buckets of vendor behaviors previously mentioned -- Honesty/clarity, 'You Do It,' and Siloed operations -- are all rooted in a lack of caring.

As we continue our vendor conversation, one thing is clear: There appears to be a pervasive lack of caring across the vendor ecosystem that makes the job of those trying to make a difference in their organization difficult or impossible.

III. Why Your Vendors Don't Care

While you likely have a small hand-full of vendors that 'get it' and actually care, odds are that the majority of your vendors are average at best. While a few may be great, they are the exception, and the exception proves the rule.

But with that established, it is important to understand the root of this lack of caring. Understanding *why* it seems like no one cares anymore can provide diagnostic insights for potential root causes in your own vendor dynamics.

So the question is: 'Why has the client experience deteriorated so much over the last 10 to 15 years?'

Focus-Shift

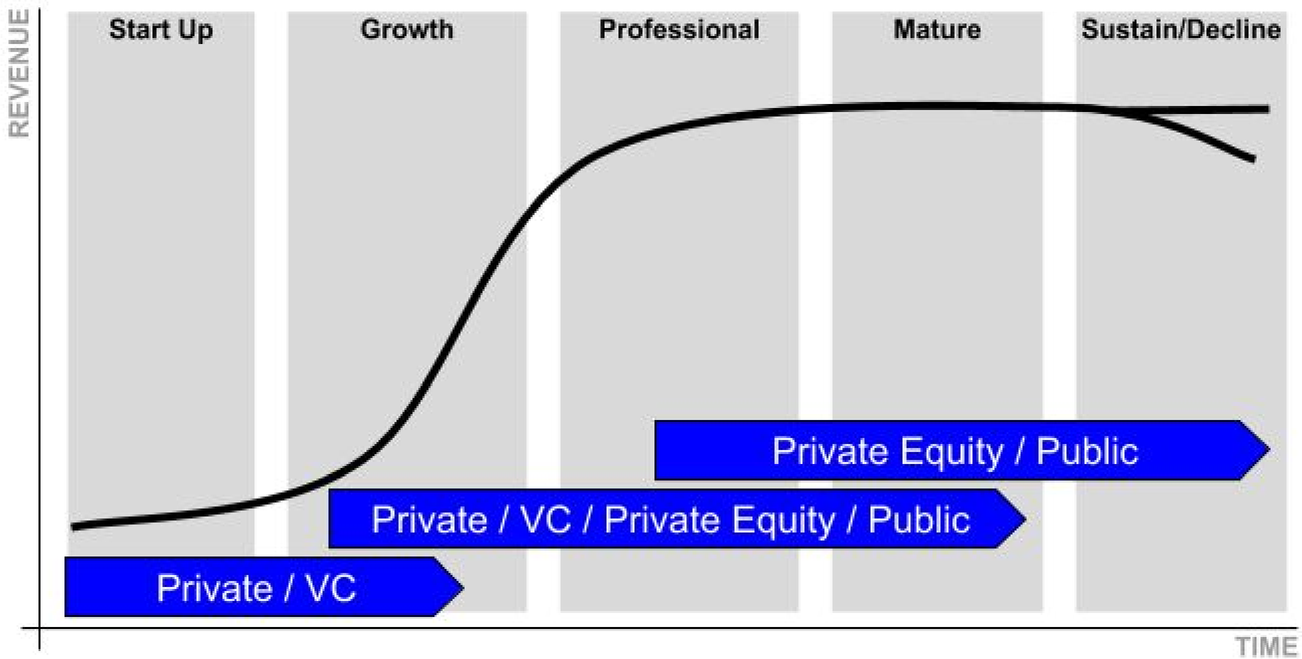
Broadly, the deterioration in vendor performance over the past decade has coincided with a commensurate shift in focus at the vendor level. To be clear, it is not that they no longer care about anything, it's that they care about different things, or rather, they care about things *you* don't care about.

Traditionally, a vendor knew that in order to build a great business, they had to provide a good service that solved a real problem. 'The Customer is always right' was practically common law. Vendors knew that the best way to distinguish themselves from their competition was to provide great service, to put the client's needs first, to focus on the long-term, and to put the health of the relationship over maximizing short-term profits. They knew this was how to build strong *relationships*, and that the strength of those relationships were what ultimately drove that business' success over the long-term.

Today, as technology has successfully 'flattened' the world, businesses are no longer limited to serving only their local geographical markets, giving way for a focus-shift away from this balanced, long-term, earned-relationship approach of running a great business and providing a great service, to *something* else. To get to the root of this focus shift, we need to understand both the Organizational Lifecycle and the various Ownership Types an organization may go through.

Organizational Life Cycle

As an organization grows, it's lifecycle can be divided into five broad categories.



In the Start Up phase, the organization begins as an idea. Here, it establishes its market, proves its concept, and begins generating revenue. The organization at this phase is usually cash-flow negative as it gains traction.

In the Growth phase, the market and concept has been proven and the focus shifts toward top line growth (e.g., 5-10x+ GDP growth). Cash flow is typically reinvested in the business to fund scaling activities, with additional investment in marketing and infrastructure coming externally, either through debt or equity sources.

During the Professionalization phase, the organization begins approaching a stabilized growth rate near GDP. As growth slows, the focus shifts toward growth through optimization of established processes, acquisitions intended to generate synergies, multiple arbitrage through scale, and financial engineering.

As an organization reaches Maturity, with a growth rate approximately equivalent to GDP, the organization's size or market limitations can prevent it from accelerating growth without a significant business pivot or market reinvention.

Without such a pivot, organizations will either Sustain and/or eventually fall into Decline. This can be driven by atrophy at a large organization that can't anticipate change, or an industry itself simply dying.

Ownership Types Matter

As an organization grows through these different phases over its lifecycle, it often will move through different ownership structures. These changes in structure are driven by timing and the incentives they present decision makers. Each present different tradeoffs to the owners and have different implications on the business itself, and thus, on the experience you have as a customer.

1. Private Ownership

The most traditional form of business ownership is private ownership. This can take the form of a sole proprietorship or an LLC, and can range from a single owner to a group of owners. This form of ownership is the most 'pure' in that, at least initially, it usually is started with a long-term focus, as it doesn't inherently involve some of the external short-term focus dynamics that can exert themselves on the business itself that come along with some of the other types discussed below. Most businesses start with this type of ownership, and as they grow, sometimes ascend through the other structures.

2. Venture Capital Ownership

Venture capital funds are investment funds that raise money from investors and seek to make private equity investments in early stage businesses with high growth potential. When a firm takes venture capital financing, they are usually trying to prove their concept or develop their market.

A VC fund brings a new dynamic to the business that is based in something outside the bounds of the business itself. That new dynamic is based on fund-raising. The venture fund owners make their money on subsequent rounds of financing, presumably at higher valuations, which allow them, in some cases, to cash out portions of their position, or to 'book' the investment gains at the new valuation, with a final goal of going public for the big payoff.

Many who have lived through a VC experience lament the hamster wheel of fundraising they felt they were always on, which took their eye off the business and added a new layer of shorter-term objectives.

Operators take VC capital typically to fund growth and scale their operation to the next level. Depending on the success of subsequent seed rounds, operators can also build significant wealth along the way.

3. Private Equity

A private equity fund is an investment scheme used for aggregating investment dollars from institutional investors, like insurance companies, endowment funds, and pension funds, as well as from wealthy individuals to make equity investments in private organizations in accordance with some stated investment strategy or focus.

Each fund has a life-cycle of approximately seven years. First, the fund operators go out to the market with an investment strategy and get commitments from investors. As they find companies to buy, they call the funds committed by their investors and drop those companies into the portfolio. They then make changes at the portfolio companies over the next three to five years before they sell the companies at the end of the fund life. Around this time, everyone cashes out, and the next round of fundraising begins for the next investment fund.

Private operators usually initially sell out to a private equity fund to gain access to additional growth capital while 'taking some chips off the table.' For example, perhaps a founder-owner has been running a business for 20 years and is having difficulty scaling beyond a certain point. This owner may sell 80% of their ownership stake to a PE fund, who will come in with ideas, capital, teams, etc. to help drive growth. Once a company is in the private equity ecosystem, sales of company ownership are usually driven by life-cycle of the fund it is a part of as it is passed from one fund to the next.

4. Public Ownership

A public company is a company whose ownership is divided among shares that are intended to be traded freely in the public or over-the-counter markets. Generally, the shares of a public company are spread across a large number of shareholders, while a private company has ownership concentrated with a relatively smaller number.

A public company is able to easily raise capital by selling shares in the public markets. The required disclosures, financial and otherwise, provide the public with information they need to make educated investments, easing the access to a larger market of potential investors and large pools of capital. Additionally, the marketplace provides added liquidity options to owners and pricing information that makes company valuation more straightforward.

Public company ownership can provide several disadvantages for organizations, both in terms of expense and focus. Maintaining operations to adhere to all the reporting requirements that come along with public company ownership requires a significant ongoing investment. Additionally, there is the potential for the focus to shift toward the stock price as the main metric to maximize. This can lead to a desire to provide higher predictive value to the market/analysts, which can lead to earnings management, which can lead to making decisions for the quarterly earnings call that may be contrary to what's best for the business over the long-term.

Driving Force Behind Every Company

As you can see, the implications of ownership structure present different short- and long-term incentives to both owners and operators of businesses. As an organization scales through the different phases of life cycle growth and the ownership structure the organization is housed in presents decision makers with new incentives, these new opportunity sets can have significant implications on the service being delivered.

The point being, there is a driving force behind every organization. This Ethos influences how incentives are responded to, what is prioritized, what is celebrated and rejected, and what is valued.

If an organization is a house, the owner is the driving force behind that house and what gets done to it. If they intend to live in that house for the next 30 years, they will likely treat it differently and make different improvements than if they bought it intending to flip it in three months. In one scenario the house gets hardwood floors and in the other it gets linoleum.

This is why it is important to understand not only where your vendors are in their own life cycle and what their ownership structure is, but also the owners' agenda (if you can), as it has direct implications on your service delivery. It drives and is essentially the organization's implicit mission.

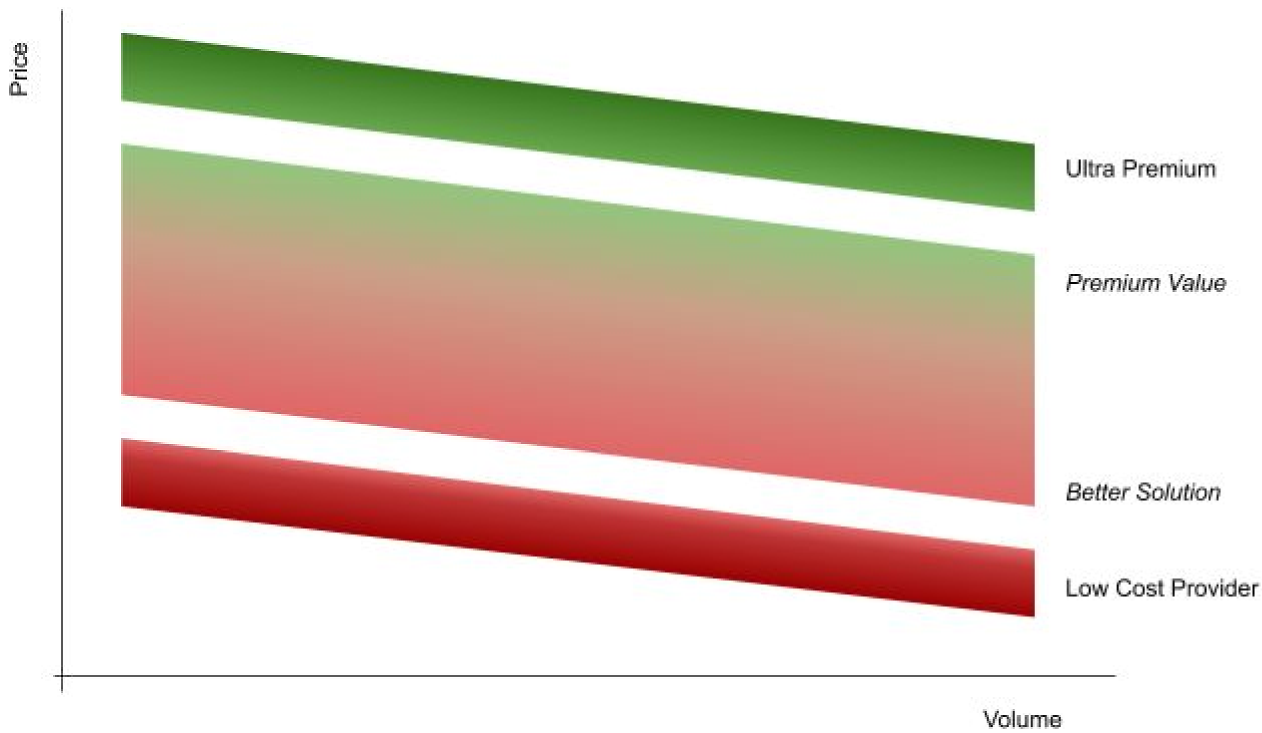
Market Overview

In most business services markets, there is a high degree of pricing opacity. In industries where the solution set is relatively commoditized, an organization tries to preserve this opacity and justify their pricing with clever marketing, slick copy and verbiage, and brand gimmicks. This is coupled with a high level of information asymmetry and a 'Can't Test Drive Effect' that often causes the decision about a new vendor to be made in a low-certainty frame, whether knowingly or not.

While formalized RFP processes are theoretically designed to help compare vendors on an apples-to-apples basis, their standardized approach makes it difficult to quantify the intangible elements of the service (the Ethos) that you'll have to live with, and often generates pricing results from the marketplace that are all over the map, making comparison even more difficult.

Understanding broad market trends from the few data points generated by a periodic RFP process for a specific service can lead to some inaccurate conclusions. It is rather more helpful to understand the marketplace from a top-down perspective, as the majority of market participants fall into the categories discussed, and the tactics employed and tendencies experienced are relatively consistent across markets. Once you have an understanding of these tiers, it will be easier to assess your vendors as you will more readily recognize their plays.

Most markets are divided into three broad tiers: Ultra Premium at the high end (price/quality), Low Cost Providers at the low end, and the Middle -- consisting of Premium Value and Better Solution.



1. Low Cost Provider

Starting from the bottom, the Low Cost Providers focus on providing a base level of service at the lowest price. For these businesses, their market strategy is volume-based, and as a result, tend to focus on leveraging technology to handle more customers. Many providers at this tier are 'check-the-box' solutions providing a DIY-style service, where the client has responsibility for a significant portion of solution delivery. These providers are often Private or PE owned, typically lowest quality and lowest cost, and are typically focused on growth and speed.

2. Ultra-Premium

At the high-end of the market, which often contains a market's largest and best-known players, the Ultra Premium providers offer the highest price service with a mixed quality level. We say mixed because some organizations have deteriorated quality as they scale, lose the special sauce as they acquire and merge, and/or provide smaller clients with worse service than their large, 'important' clients.

Where a Low Cost Provider will often provide a partial solution, Ultra Premium providers usually offer a full solution, but at a price based on a 'Top Down' pricing model. These models determine pricing based on trying to identify 'what the market will bear' -- from the top -- as opposed to Bottom-Up, or cost-based pricing models that add a fair margin to delivery cost. Ultra Premium providers are typically Private Equity or Venture Capital owned and are focused on profit and growth (due to short-term incentives faced by these ownership vehicles as previously discussed).

3. The Middle

Because the Middle category is so broad, it is helpful to define the edges. As the variation here can be wide, it is helpful to key in on the aspects that are most important for your unique situation. At the low end, the Better Solution is a slight step up from the Low Cost Provider. This may come in the form of more support, more budget certainty, more help, or a more complete solution, but the cost will likely be more than the Low Cost Provider and is still likely only a partial solution. They are typically privately held or Private Equity owned with low to medium price and low quality, with a focus on profit and growth.

At the higher end of the Middle is where a good opportunity for value can be found. This end, called Premium Value, contains solutions that are often a good mix of benefits from Ultra Premium without the top-down price. These organizations typically provide a full solution with high quality delivery at a medium price. They are typically privately held (i.e., ownership has not yet sold out) which can allow for a longer-term focus than other ownership structures.

Strategy	Owners	Focus	Solution	Job	Price	Quality	
Ultra Prem.	PE / VC	Profit / Growth	Full	Done Right	High	Mixed	
Prem. Value	Private	LT partnership	Full	Done Right	Med	High	
Better Soln.	Private/Mixed	Profit / Other	Partial	Check the Box	Med/Low	Low	
Low Cost	PE Owned	Efficiency / Growth	Partial	Check the Box	Lowest	Lowest	

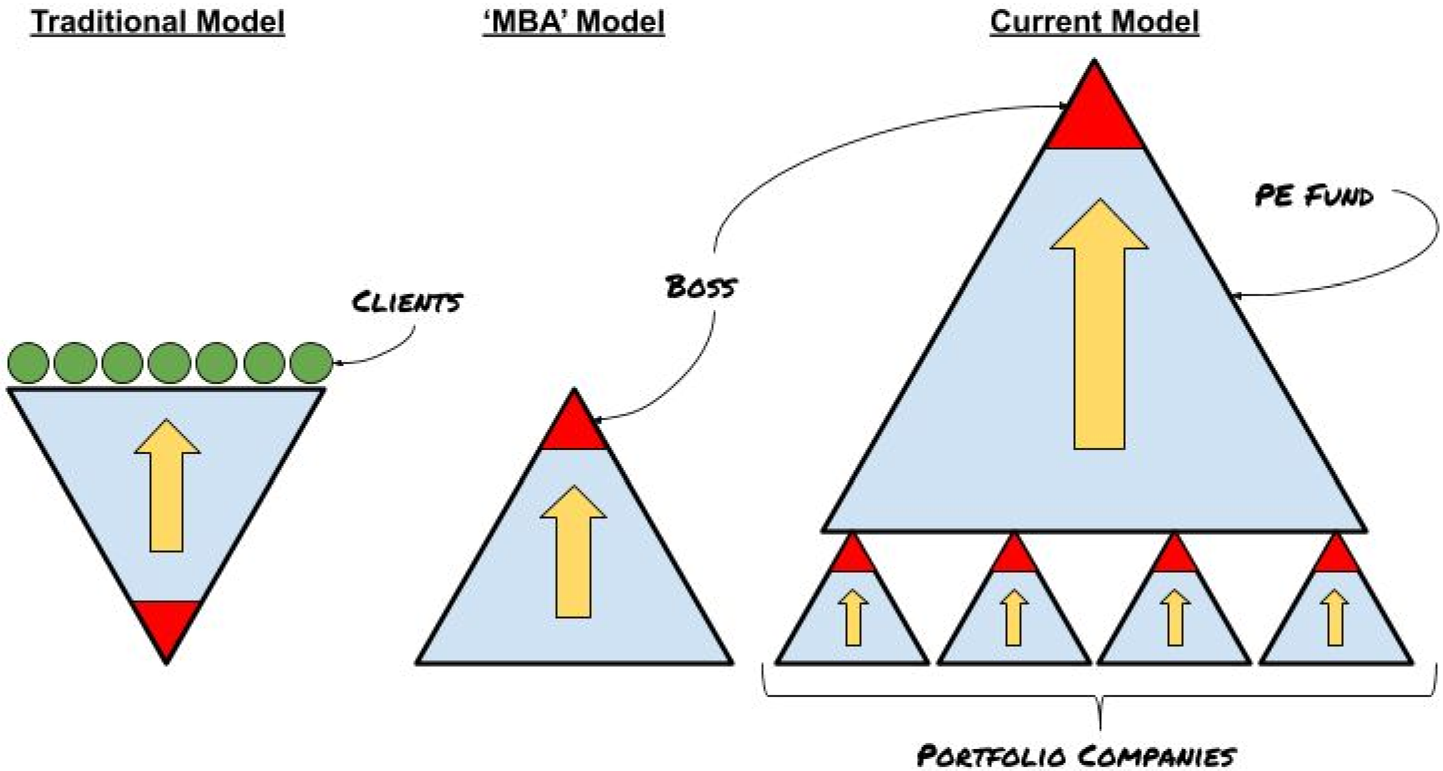
How This Shows Up

It has been estimated that today, between 6 and 8 out of 10 third-party B2B vendors with over $5 million in revenue are either directly or indirectly owned by Private Equity Funds. Direct refers to when a PE fund purchases a company as a 'platform' investment, while indirect ownership is when a company is acquired by a PE-owned company, such as a competitor.

So what? Who cares?

To understand why this matters, we need a clear understanding of how organizational structures have changed over the last 50 years, and how the current model feeds our vendor experiences in the context of private equity domination.

We as humans are wired to 'serve up,' or to serve that which is above us (yellow arrows below). Just watch a three year-old child light up when you ask them to help you with the dishes.



Traditionally, the organization was set up with the 'boss' as the servant of the whole organization, which was itself set up as a machine to provide service to the real boss -- the Client. All efforts in these traditional organizations were directed toward serving the client as the top priority. This is a natural extension of the founders purpose for getting into business, to provide valuable services and goods to their customers. Organizations with this structure tended to apply a 'balanced' approach to optimizing the organizational experience over the long-term for all stakeholders -- clients, employees, and ownership.

At the start of the Industrial Revolution, hierarchical organizational structures -- where every entity in the organization, except one, is subordinate to a single other entity -- began to become popular due to the increased business complexity accompanying industrial production.

In 1959, The Carnegie and Ford Foundations conducted studies on MBA programs at that time and concluded that the programs were not broad enough, were too narrowly focused, and really resembled vocational programs. Institutions offering MBA programs began to change focus to be more theoretical.

As MBA programs became more popular, they grabbed ahold of this pyramid organizational theory -- with the 'worker bees' at the bottom, and the boss on top -- and it became the ubiquitous norm over the next few decades, which only accelerated during the Information Age, as interactions became inherently more transactional and faceless.

However, this model forgets one critical element at the top of the Traditional model -- the Client as the true boss. The client is nowhere to be found on the MBA Model. This model is inherently less 'balanced' and more dollar-mypoic in its pursuits, with the major goal being maximizing cash flow in the nearterm. Which makes sense, since this model originated from a time when organizations were one-dimensional in their single-minded pursuit of profits, without concern for things like environmental responsibility or social impact.

Fast forward to today where PE ownership is pervasive, the new model has the PE fund as the 'main' pyramid, with the individual portfolio companies -- the main pyramids in the previous models -- serving as the aggregate 'worker bees.' Here, the portfolio companies themselves are subservient to the fund they are beholden to, not the clients who fund their operations. This is the problem.

This structural shift has obvious incentive implications for those in control, that often are at odds with the clients that rely on the companies in question. The incentive is: 'buy low, sell high,' do it quickly, then raise a larger fund.

With M&A multiples at the highest levels in recorded history, this puts added pressure on funds that are 'overpaying' for assets. Time is ticking and they have to put the money they raised to work, and thus must pay the relatively higher market prices to execute their strategies. When a high price is paid, an even higher price must be had on exit to generate the returns needed to raise the next fund. So how do they generate these returns?

1. Increased Topline

Starting at the top of the P&L statement, the most obvious path to 'value creation' is through top line growth. This growth can come organically, through increased sales efforts (more customers), better marketing, and the creation of product extensions. It can also come inorganically through more M&A activity (e.g., purchasing a competitor).

Other ways to increase the topline is to charge more for the services the portfolio company is providing. This can come through price increases, charging for services that used to be 'included' or changing contract terms.

2. Decreased Expenses

Another way to increase the cash flow of the asset is to 'do more with less,' or simply 'do the same with less.' These tactics typically focus on expense reduction to increase net cash flow.

These expense reductions can come in a number of flavors, ranging from headcount reductions, changing employee pay and benefit packages, termination of 'non-core' or 'non-value-add' activities and expenses, investment in technology/automation, increased budgetary discipline, quality adjustments, process improvements, or altering development spend ratios.

3. Increased Bottom Line

All of these efforts are in an attempt to affect the 'Big Thing': the bottom line.

An increased bottom line generates a return in a stable asset valuation environment, and can really accelerate returns when valuations are expanding. In this era of cheap money, the challenge these short-term, return-focused operators face is making sure to 'get out' before the music stops.

The go-to approach for these organizations is to provide the largest clients with the most and best service; a 'spend time where the dollars are' mentality. It is the law of large numbers in application to a diverse client base. This is why most clients feel 'lost in the shuffle' after a change in ownership or merger with this type of dynamic at play.

But to be sure, large clients aren't immune from the service level shortfalls that often follow an M&A transaction. While they may feel it less or be insulated from it to some degree, they can't *not* feel it at some level because the very DNA of the organization changes.

We are really talking about an identity crisis at an organization that gets subsumed into a fund, as the priorities of the new master are often at odds with the foundational values that allowed the company to flourish and become an attractive acquisition target in the first place.

IV. Recognizing Good Vendors

So far, we have painted a pretty bleak picture of the current vendor situation. However, it is important to keep in mind that good vendors still *do* exist, it just takes some extra work on your end to ensure you find 'one of the good ones.'

Below we discuss good vendors and what to look for in order to more readily identify them early.

Core Values: Your Vendor's Personality

An organization is a living, breathing organism with a unique personality. This personality is expressed through its *implicit* values. It is important to draw the distinction between explicit and implicit values, and understand how they are different.

Virtually every organization has a mission statement, or a web page listing all their values. This is a common practice that is as ubiquitous as it is ineffective. The point is, most organizations don't take those values off the wall and actually live them out. However, there are *some* values being lived out. These are the *implicit* values, the real values; the stated, explicit values almost don't matter at all.

Getting a clear picture of these implicit values is critical in assessing the true personality of the vendor you are considering partnering with and relying upon. The key is being able to specifically articulate the values that truly guide the vendor's behaviors. These can be uncovered through discovery calls and conversations with current and former clients.

Focus your discussion on the essence of these value-based behaviors and look for consistency in how those values -- good or bad -- are lived out experientially to increase your certainty level of both the existence and application of that value. Even the way an organization talks about itself (e.g., a coffee shop describing what it does as 'we sell coffee' vs. 'we provide our patrons with a *third place* between work and home to escape to') can provide direct clues into its own self-identity and how it views its own role in the world.

What's Your Vendor's Brand Promise?

It should hurt to break a promise. If it doesn't, then what's the point?

A brand exists in the mind of consumers, nowhere else. A brand promise is the value or experience a client should expect to have every time they interact with an organization. The value of a brand increases the more the organization delivers on that promise, as clients and employees of that brand begin to rely on those experiences with a higher degree of certainty.

The quickest way to identify a Good Vendor is to find their Brand Promise: first, does it exist, and second, is it real?

Think about McDonalds and Chick-Fil-A. Which of these do you think has a stronger brand promise? Which one do you believe? Why?

Oddly, many vendors don't even have one. And unfortunately, many who do end up treating them like their corporate mission, vision, and values; they exist but they are empty -- no one talks about them or actually lives them out.

Does your vendor put their money where their mouth is, offering a full money back guarantee, for example, or do they try to lock you into long-term contracts with weird terms?

A strong brand promise should do two things. First, it should provide an internal incentive for the vendor to perform to its promise. This usually comes in the form of some kind of monetary penalty on the vendor if they don't live up to their promise.

It should also, assuming it is credible, help eliminate fear you have in buying from an organization you don't know or don't have direct experience with. A strong brand promise provides confidence because it is built on confidence -- presumably an organization offering a full refund, for example, believes they will not have to provide many refunds because their product/service is that good.

Use the 'Dig Thrice Rule' to uncover the foundations of your vendors' brand promises to determine if they are empty promises or real expectations you can rely on.

V. Action Plan: What You Can Do

With all these factors understood, your vendor situation may seem hopeless. How can you fight against the tide stemming from cyclical/secular changes in the ownership of organizations across the whole economy?

While parasites and weeds will always be a reality, it is still possible to have a nice garden -- with a little work.

Below we outline steps you can take, regardless of your organizational level, to improve your vendor situation while taking the role-specific dynamics you are subject to into account.

It should be noted that as we discuss 'improving' your vendor situation below, we are referring to a spectrum of outcomes, ranging from improving current vendor performance, changing service teams or levels, or changing to a new vendor. It will, of course, depend on your unique situation and opportunity set.

Front-Liners

Front-Liners are the individuals on the front-lines (get it?) executing the day-to-day tasks that are part of a program or activity. You are the player on the football field, playing a specific position, running the plays for the team.

You usually found your way into HR or Compliance after finding success elsewhere. You are conscientious and want to make a difference in the world. You care a lot about the task you are responsible for, and want to do a good job.

Bad vendors can make you feel stressed out, annoyed, and sapped. You are usually the first to find out about a vendor dropping the ball, and often have to serve as the bridge to get done what needs to get done. You want to be known as a reliable, thoughtful member of your team, but a bad vendor experience outside of your control can mistakenly make you look bad internally (e.g., to your boss' boss who only reads the headline), which can be especially demoralizing.

Sometimes Front-Liners feel they don't have a voice. Sometimes they feel they 'just need to deal with' whatever rock is in their boot. This tendency is present in even the organizations with the healthiest cultures, so if you feel that way, that is normal. But please get over it.

The fact is that most managers want to hear if things are going wrong. If there's a rock, a pebble, or even if your sock just doesn't feel right, most managers want to stop and help make your journey more comfortable. But they have to know about it first. It is your responsibility as a Front-Liner to voice your concerns and serve as a 'canary in the coal mine.'

The first tip for improving your situation is to make noise. Start squeaking. Demand better. And remember that you actually *deserve* better. You are literally entitled to it as a recipient of a vendor's service on behalf of your organization. If your soup is cold, send it back; no one's going to spit in it.

Voice your concerns directly to your vendor first. Do this early and often. If you have trouble with direct, 'tough' conversations, consider asking a teammate to help develop your talk-track or to even represent you, or simply take it to email. In any case, make sure you are doing all you can externally to level-set on the vendor side candidly and transparently. If you've tried this to no avail, continue on to...

Make noise internally. Let it be known to your team, manager, boss, et. al. that this vendor has fallen short, and continues to do so. They may have helpful ideas or tactics on how to optimize in the short-term, and this also 'gets it out there.'

The next thing you can do to improve your vendor situation is to begin documenting all the problems. Each time your problem vendor drops the ball, document the nature of the shortfall, what you had to do to compensate for it, and an estimate of the time you spent. Think like a lawyer who is trying to build a case. If you decide to exert influence up the chain of command to drive change in your organization, the more documented evidence you can present, the more credible you become. This can lead to establishing a higher level of certainty -- the catalyst for action -- in the decision maker.

Finally, the most important element to your whole role in helping to fix your vendor problem is to be solution-oriented. This means not merely establishing that there is a vendor problem, but presenting a credible alternative.

This can be done a number of ways. Reach out to people on LinkedIn with similar roles at similar organizations as yours and find out who they use. Sign up for a demo with a competitor of your current vendor. Get a full sales proposal if you can (you can).

Then, you can find out what your organization has currently paid into your current solution over the last 12 months. Don't just look at the contract value, as this can differ greatly from the actual invoices received, especially if your vendor charges for every single, little thing. Next add in an estimate for your time wasted at your fully-loaded hourly rate (assume your salary, plus some benefits rate between 15-30%, and divide by 2050 hours). This is your current implicit cost with your vendor.

Next compare this to the sales proposal and illustrate the savings. Again, make sure to include time differentials in the math and separately list 'un-quantifiables,' speaking to important, but non-urgent projects, for example, that you would be able to get to should your time free up from doing your vendor's job. What is the value of that added focus?

The important thing is to not only make a quantitative case for the change, but to also recognize that there is more to the 'dollars & cents' conversation than simply comparing a sales proposal to a current contract value. These are the things your decision maker will be thinking about, and the more thoughtful the information you provide to them, the more helpful a role it can play in getting them to arrive at your conclusion.

The key is trying to anticipate the information your boss would need to either make a decision (establishing certainty should be your focus) or make the case to *their* boss. You are likely highly empathetic when you want to be; try to really put yourself in their shoes, understanding their different stresses, and what would make it easy for them to say, yes. This will help guide your presentation of the solution.

Regardless of how this goes, it is a positive move career-wise as it shows your desire to improve the Team's experience along with showing your initiative in your search for a better solution on your own. Presenting problems along with solutions is a smart way to 'manage up,' and is a quick way to establish indispensability because it makes your boss' life so much easier.

Middle Owner/Spearhead

Middle Owners/Spearheads oversee a particular program or manage a certain aspect of a department's operation. You are the football team's offensive coordinator, in charge of the offensive game plan and players.

You found your way into your department and excelled, or showed a giftedness for leading teams, organizing processes, or possess a background that makes you uniquely qualified to oversee your team and its unique task set. As you've moved around roles, you've been a player and a coach -- both a coordinator and contributor.

You have likely lived through the impact of M&A on the organizations you have either been a part of or worked closely with. You have seen all kinds of vendors over the years and are quicker to notice patterns in vendor shortfalls, especially to the extent you are serving as that player/coach and interacting with the vendor more directly.

In many cases, you report directly to the department head or C-level executive in charge of your function, and are responsible for both the execution of your program, its results, and the management of your team. Those are a lot of foundational plates to keep spinning, and a bad vendor can lead to difficulty on all these fronts.

They can create stress on your team, making it more difficult for them to perform to their potential, while distracting them from catching risk events they otherwise would have caught. Serving as the RP (or 'Responsible Person') for the program you manage, means that a bad vendor that misses something they themselves were supposed to catch, it is ultimately your responsibility. When you don't have faith in your vendor playing their role properly, it leaves a risk gap that is both known and unknown at the same time (i.e., you 'don't know what you don't know,' and you know it), driving more stress. This has implications for the program's results, your team's effectiveness, and your reputation.

The first thing you can do to ensure optimal vendor performance is to listen to your team. Hopefully, you have fostered a microculture on your team where your Front-Liners are comfortable speaking up with concerns and problems. Foster this type of environment, empower your team to utilize their eyes and ears, and respond to their insights appropriately. Be willing to back up your team and jump on the phone with the vendor quickly to candidly level set expectations and re-establish accountability. This should always be the first approach attempted.

If your Front-Liners are not driving the need to change something, or you see smoke yourself and want to dig in, apply a similar 'total cost' framework discussed in the Front-Liners section above to guide your analysis. Your elevated perspective will likely add additional insights as you better articulate the full cost load of the vendor relationship, paying particular attention to how the vendor's performance is creating strategic drag.

You can do this by looking at opportunity costs, or the things your team's time would *otherwise be spent on* were it not for the vendor shortfall. Perhaps there is an important, but un-urgent initiative you'd be able to tackle with the new time a better solution would present. Include that along with some estimate of its financial impact.

Depending on your own information need to arrive at certainty, and the level of autonomy afforded to you in your organization, you may need to help your boss (i.e., the final decision maker) arrive at your conclusion. While you are likely more experienced at this skill of 'managing up' than more junior members of your team, keep in mind your boss' personality, their personal and organizational goals, and the principles they guide their life with as you craft your analysis. The key is to present a persuasive argument based on logical, credible facts that help reduce both the immediate discomfort a decision presents to the decision maker, and ultimately long-term discomfort of your team and department in a positive way.

Begin by gathering data. You can do this with weekly time audits, or simply have your team track their time on a post-it note. The sophistication of the tracking system is irrelevant; the important thing is capturing accurate data consistently over a long enough time to get a reasonable picture of how time is spent. This will help you capture the true cost of the vendor for the next step.

Next, begin finding alternative providers. Get the leg work done either directly yourself or with your team to find good alternatives that purport to alleviate the pain-points you are currently experiencing. You should dig to get better estimates of the new solution's effect on how time would be spent. Get full sales proposals and good numbers for your analysis. This will help you get closer to an apples-to-apples comparison.

The best way to make this argument is to leverage the data in your analysis and put it in Return On Investment (or 'ROI') terms. As you present your information higher up the chain, you naturally get closer to those who control the purse strings, so presenting your recommendation in this way will help the decision maker sort through the details more quickly and see the forest from the trees.

A simple ROI example will help illustrate a structure you can repurpose for your own situation. Let's say that a current vendor relationship costs $50k per year, and your team of 6, each making $50k salary, spends 50% of their combined time working in the vendor's solution to execute this program. A new vendor will cost $75k per year with a $25k implementation fee, but your team of 6 will only need to spend 25% of their time with the new solution. What is the ROI of the alternative? The table below shows ROI from three different perspectives:

	Status Quo	Year One	Run-Rate	Aggressive
Vendor Rate Recurring	$ 50	$ 75	$ 75	$ 75
One-time	$ -	$ 25	$ -	$ -
Employees	6	6	6	6
Salary	$ 50	$ 50	$ 50	$ 50
% of Time Spent	50%	25%	25%	25%
Effective Cost	$ 200	$ 175	$ 150	$ 150
Additional Benefit	$ -	$ -	$ -	$ 25
Extra Spend		$ 50	$ 25	$ 25
Savings/Benefit		$ 25	$ 50	$ 75
Eff. Employees Needed	*3.0*	*1.5*	*1.5*	*1.5*
Return	**n/a**	**50%**	**200%**	**300%**

Status Quo costs:

$50k + (6 people * $50k salary * 50% of time) =
$200k to execute program with 3 effective employees

The proposed Year One solution:

$75k + $25k implementation fee + (6 people * $50k salary * 25% of time) =
$175k to execute program with 1.5 effective employees.
ROI of 50%; spend $50k more, get $25k benefit per year

The Run-Rate solution (beyond the first year):

$75k + (6 people * $50k salary * 25% of time) =
$150k to execute program with 1.5 effective employees.
ROI of 200%; spend $25k more, get $50k benefit

Aggressive solution (add-in benefit generated from freed up time)

$75k + (6 people * $50k salary * 25% of time) - ($25k benefit from freed up time/focus) =
$150 to execute program with 1.5 effective employees.
ROI of 300%; spend $25k more on run-rate basis, get $75k of benefit ($50k salary saving + $25k additional benefit).

As you can see, there are several ways to look at ROI. Presenting different calculations along with your assumptions can help your decision makers 'feel out' the situation and more quickly realize what is most important in arriving at an actionable conclusion. They key is anticipating your boss' sticking points, 'speaking their language' (dollars and cents) at the basic level, and provide insights at a higher level on the implications that a change might have strategically on the fuller picture of the team's impact. Establish the pain, articulate it credibly, then show a way out along with worst, expected, and best case scenarios and their associated impacts.

If your organization has a purchasing department, reach out and run your analysis by them. They will likely have valuable input on how to look at the decision in the context of your organization's unique set of values and constraints. The purchasing teams are a great resource, as they are usually full of smart people with skill sets and personalities that are often complementary to those in E&C or HR, which is why building cross-functional relationships within your organization can create interesting opportunities for value creation.

Head/Boss

Head/Boss oversees the entire department, is ultimately responsible for all activities and outcomes, and usually reports directly near the top. You spend the most time on your team managing the big picture. You are the head coach, overseeing it all, calling the plays and guiding the team.

You found your way to your role in an interesting way, and whether you are relatively new to the position, or have been in your seat for a while, the challenges you face continue to change. You report directly to the CEO, President, or even Board of Directors, and are responsible for a lot of people, tasks, and areas of risk -- more things than any one person can handle alone.

This means you have to rely on others to create leverage to care for your people and your organization. And this is just the most basic aspect of your role. You now are in an elevated position to drive change (in theory) and see the opportunity to elevate your department to be the strategic lever it can be to make the impact on your organization you know it can.

To do this well, you need to focus on the big picture, not be pulled down into the weeds handling people problems (bad managers) and third-party service issues (bad vendors). In a way, you want to not even know who your vendors are because they do such a great job and you don't ever hear about them. That is utopia.

Unfortunately, the fact is that your vendors are likely creating more waste for your team than you realize. To help accelerate your organization toward that utopia, start by establishing high standards for vendors publicly. Establish this as an element within your department's microculture.

To suss out latent vendor problems or to begin a full vendor overhaul, have your leaders sit down for a round table discussion. Lay out the worst instances of vendor service over the last 12 months. Separately lay out the largest HR or compliance issues, goals, and activities that need attention in a best case, and overlay these with your broader vision for the department. With these elements on the table, it will be easier to prioritize efforts and recognize which vendor situations or activity traps need attention first.

Next, dive into quantifying the cost of the problem you are attacking first. Here you need to think of 'cost' from an executive perspective, which spans multiple dimensions. First, the most tangible and easily-identifiable costs: direct dollars paid to vendor, and direct headcount related to program, and time-based costs.

You should also consider what role this program/vendor combination plays in your broader compliance or HR strategy, and how a change might accelerate realizing that strategy or reducing risk. Consider including factors for the cost of fines and their potential of occurring, and include any built-in insurance or guarantees new options may present. For example, if you are currently engaged with a DIY-style, low-cost third-party solution and are considering a full-service upgrade where the vendor not only does the work but guarantees it up to some level of damages, that benefit should be considered in the context of both the presumably higher price for the service and the added time the outsourced solution would free up.

Consider the broader implications on the intangible aspects of your organization you are responsible for managing and accounting for. Does this relationship have ethos overlap? Do you look at the world the same way and care about the same things? Next consider the cultural implications, both within your department, as well as across the broader organization you serve, that a stronger vendor could have. Would it alleviate the pain of your people (and thus reduce turnover)? What is that worth? Can it be a tool to send a message across your organization to affect the broader culture? Some of these will be difficult or impossible to quantify, but thinking through questions like these will help you form a better picture of the multi-dimensional shape a decision like this can be.

Finally, use the 'Short List' Approach to guide your selection process. What did you miss last time with you current vendor or in previous experiences that *must* be a part of your new solution. Field input from your team at all levels, as you are likely to get some ideas you didn't think of or some perspectives you wouldn't have considered. Engaging your team early in a process like this is a win on multiple levels. It is a strong move for the microculture you are most impactful on, it generates great ideas that add a lot of value, and helps drive adoption of whatever decision is reached because they had a hand in finding the solution. It also sets a good example for the other leaders on your team for how to operate under Fair Process to drive buy-in and reach higher quality decisions.

VI. Conclusion

The vendor situation today is nothing like it was even a generation ago. Changing ownership structures and the incentives created by cheap money and the resulting quick-flip mindset have driven a mentality- and focus-shift at the third-party vendor level right during a time of increased secular reliance by organizations in all areas of the economy. This has caused the client to feel burned on all sides: paying a lot for bad service from a vendor that they need but doesn't seem to care.

The shift in focus as the service-provider level, away from 'Customer is King' and toward 'Cash is King' has kicked off a cascading effect of degraded client experience as owners and operators look for short-term gains (read, personal wealth creation) from the next company sale. We are all at risk of letting the current trend become the new normal, then there will be no turning back.

The time is now. Once we understand the root of many of these issues of misalignment we are experiencing we can better respond to fix the problem. Whether pulling the plug on a vendor who let you down one time too many, or simply level setting with your current vendor who is getting a little off course, it starts first with our mindset and what we deem 'acceptable.'

Don't settle. You deserve better.

If you have more questions, please feel free to reach out to us directly at (704) 547-9000 or email us at insights@complinaceline.com. We would be happy to do a free webinar as our way of giving back.

About ComplianceLine

For over 20 years ComplianceLine has been the premier provider of ethics and compliance solutions by putting clients first and prioritizing their needs through selfless service. ComplianceLine's continuous improvement culture and the pursuit of quality over short term profit affords clients the industry's best tools in assisting the identification of unethical, illegal and questionable behavior in pursuit of its mission: to improve organizations by providing leaders who care with actionable information. The ComplianceLine team provides specialized helpline and sanction screening services in 50,000 locations worldwide through highly trained, tenured, and caring compliance-minded professionals focused on improving the lives of our clients through excellent service. ComplianceLine serves over 6,000,000 people, with clients including many of the largest healthcare and higher education organizations in the world.