by Erik Howell, 1 July 2020

Vendor Future- Proofing is a 2020 Priority

There are a fortunate subset of companies who have benefitted from the COVID-19 pandemic, those overweight in digital-commerce and underweight in travel. Most companies are struggling with the P&L impacts of the downturn however, and are looking for evasive actions to drive revenue expansion and cost reduction. Many have already taken initial steps to address immediate cost reduction opportunities (e.g., staff reductions), and we recommend that everyone make the effort now to update your payments strategy roadmaps as discussed here. A logical next step in responding to the today's challenges is to negotiate vendor cost reductions while also addressing any operational deficiencies that became apparent during the crisis and preparing for new realities such as increased market volatility and remote work.

Before renegotiating lower vendor costs, we suggest first assessing how future-proofed your overall payments vendor network is, and then renegotiating with individual vendors based on that forward-looking vendor strategy.

Performing this future-proofing assessment can be done by reviewing five key areas.

1. **Structure** to assess whether the organization is outsourcing the right activities. This should include examining whether currently outsourced/insourced functions still fit with the organization's strategic vision and new market reality, which outsourced/insourced functions have fulfilled their business case and expectations, whether there better alternative models going forward, and whether key capabilities are needed that are not being developed internally but also have not been purchased.
2. **Selection** to assess whether the organization is outsourcing to the right vendors. This includes examining whether current vendors are still leaders in their field (in terms of product, servicing, technology, etc.), if those vendors are ready for the future (e.g., do they have a clear vision and strong roadmaps?), and whether the current vendors delivered and provided the right support during the crisis.
3. **Management** to assess whether the organization's current processes to manage vendors are ready for the new market reality. This may include examining whether management, monitoring, and day-to-day cooperation with vendors is ready for remote work, pandemic-level operational disruptions, and other aspects of the post-COVID operational reality. Additionally, we suggest examining whether there are sufficient risk mitigants and contingencies in place for vendor failures or delays, sub-contractor and geographic risk, and any other operational difficulties observed during the crisis.
4. **Contracts** to assess whether vendor costs and terms are optimized based on the new reality. Certainly cost reductions should be sought, but targets for cost reductions should be based on whether absolute vendor cost levels are still in line with revenues, and whether those costs are structured to mitigate the impacts of future volume and revenue volatility. Vendor contractual terms should also

address market volatility and any operational difficulties experienced to date during the pandemic.

5. **Future needs** to assess if the organization's overall vendor strategy is positioned to effectively adapt and win in the future. This examination should include whether the organization has the structural and contractual flexibility needed to change insourcing/outsourcing strategy and add/remove individual vendors as needs arise. Additionally, the assessment should examine whether the organizational infrastructure for vendors is sufficiently future-oriented, such as linking vendor strategy to the organization's overall roadmap, monitoring vendor roadmaps, and planning for volatility and contingencies, among others.

FIGURE 1: Payments Vendor Network Future-Proofing Framework

Area	Guiding Question	Items to Assess
Structure	Are we outsourcing the right activities?	• Which outsourced/insourced functions still fit with our strategic vision and new market reality? • Which outsourced/insourced functions have fulfilled their business case and expectations, and are there better alternative models going forward? • Do we need key capabilities that are not being developed internally and haven't been purchased?
Selection	Are we using the right vendors?	• Are our vendors still leaders in their field (in terms of product, servicing, technology, etc.)? • Are our vendors ready for the future (e.g., do they have a clear vision and strong roadmaps)? • Did our vendors deliver and provide us with the right support during the crisis?
Management	Is our management of our vendors ready for the new market reality?	• Is our management, monitoring, and day-to-day cooperation with vendors ready for remote work, pandemic-level operational disruptions, and other aspects of the post-COVID operational reality? • Are we sufficiently mitigating risks associated with and preparing contingencies for vendor failures or delays, sub-contractor and geographic risk, and other difficulties observed during the crisis?
Contracts	Are our vendor costs and terms optimized?	• Is our absolute vendor cost level still in line with our revenues? • Are our vendor cost structured to mitigate the impacts of future volume or revenue volatility? • Are our vendor contractual terms sufficient in times of market volatility and operational difficulties?
Future Needs	Is our vendor strategy positioned to effectively adapt and win in the future?	• Do we have the structural and contractual flexibility needed to change insourcing/outsourcing strategy and add/remove individual vendors as the need arises? • Is our organizational infrastructure for vendors sufficiently future-oriented in terms of linking vendor strategy to our roadmap, monitoring vendor roadmaps, planning for volatility and contingencies, etc.?

Source: Flagship Advisory Partners

Once the vendor strategy has been assessed, it is time to hunt for cost reductions and future-proofing enhancements.

To achieve optimal results, we suggest first assessing each vendor individually to identify specific objectives and tactics for renegotiation. This assessment can take a similar form to the overall future-proofing assessment described above (illustrated in Figure 2 below).

- **Costs:** Are costs efficient relative to market? Are you benefiting from your own scale? Does the vendor also have "skin in the game" or is the customer bearing all the downside risk from volatility?
- **Terms:** Are force majeure terms clear enough for pandemics and other national emergencies, and do SLAs need to be modified to better address the realities of situations like COVID-19?
- **Support:** Did the vendor demonstrate that they will do what it takes to deliver during the pandemic, and should governance and ways of working be updated for remote work, short-term disruptions, etc.?
- **Future-proofing:** Is the vendor's product roadmap sufficiently innovative, and is the vendor ready to support the organization's overall roadmap?

- **Risks:** Can the organization quickly transition the service if the vendor experiences operational failures or delays, and where are the vendor's weak links (e.g., subcontractors, services provided from other countries, etc.)?

Based on the above assessment, objectives for the renegotiation with each vendor can be set, and renegotiation tactics defined. Objectives typically take the form of "asks" and can include items such as:

- Price reductions and/or more sharing of volume risk;
- More flexible tiering structure to account for market-level volatility;
- Revised contract terms based on learnings from COVID (e.g., force majeure, SLAs, governance, etc.);
- More robust business continuity scenario planning, updated governance and cooperation structure, more oversight over sub-contractors and fulfillment locations, etc.; and/or,
- Support for specific roadmap initiatives.

Keep in mind that good vendor relationships are long-term partnerships, therefore give and take will be necessary. Determining what "gives" to offer in exchange for the "asks" can be challenging, so we suggest starting with non-monetary gives and then moving to commercial items as necessary. Example "gives" can include items such as:

- A positive reference and PR support (e.g., offer to be a public case study, etc.);
- More flexibility around vendor non-monetary pain points (e.g., SLAs, etc.);
- Extended term;
- Extend scope and/or purchase add-on services; and/or,
- Revised commercial model (e.g., share volatility risk, upside sharing, fixed fee but with lower volume-based tiers, etc.).

FIGURE 2: Individual Payments Vendor Assessment and Renegotiation Tactics

Example Assessment of Individual Vendors

Costs	• Are volume tiers significantly increasing costs when volumes decline (as during COVID-19)? • Is the business case still favorable under lower volumes? • Does the vendor also have "skin in the game" or is the customer bearing all the downside from volatility?
Terms	• Are force majeure terms clear enough for pandemics and other national emergencies? • Do SLAs need to be modified to better address the realities of situations like COVID-19?
Support	• Did the vendor demonstrate that they will do what it takes to deliver during the pandemic? • Should governance and ways of working be updated for remote work, short-term disruptions, etc.?
Future-proofing	• Is the vendor's product roadmap sufficiently innovative? • Is the vendor ready to support our overall roadmap?
Risks	• Can we quickly transition the service if the vendor experiences operational failures or delays? • Where are the vendor's weak links (e.g., subcontractors, services provided from other countries, etc.)?

Potential Renegotiation Asks

- Price reductions and/or more sharing of volume risk
- More flexible tiering structure to account for market-level volatility
- Revised contract terms based on learnings from COVID (e.g., force majeure, SLAs, governance, etc.)
- More robust business continuity scenario planning, updated governance and cooperation structure, more oversight over sub-contractors and fulfillment locations, etc.
- Support for specific roadmap initiatives

Potential Renegotiation Gives

- Positive reference and PR support (e.g., be a public case study, etc.)
- More flexibility around vendor non-monetary pain points (e.g., SLAs, etc.)
- Extended term
- Extend scope and/or purchase add-on services
- Revised commercial model (e.g., share volatility risk, upside sharing, fixed fee but with lower volume-based tiers, etc.)

Source: Flagship Advisory Partners

While renegotiating with vendors, we recommend maintaining this partnership mindset. Good vendors will recognize that the market has fundamentally changed and will show a willingness to support their clients. But vendors also need to address their own revenue shortfalls. Mutually addressing the needs of both parties will result in the best long-term outcome.

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To learn more about how we can help, please contact Erik@FlagshipAP.com.

If you are a payment accepting merchant interested to improve your vendor network and capability set, we recommend reviewing our approach to optimizing payment acceptance here.