



Third-Party Management

Enhancing visibility | Realizing value | Meeting environmental, social & governance (ESG) commitments

Approaches to managing third parties have generally failed to keep pace with rapidly expanding third-party networks and their role in organizational success. That's a problem.

INTRODUCTION

Given that most organizations have increased their dependence on third parties to new levels, their third-party networks now go well beyond suppliers of goods and services to include affiliates and joint venture partners, R&D organizations, technology incubators, retailers, distributors, and sales agents. Most of these parties provide cost effective access to skills and capabilities that fuel profitable growth.

Our analysis indicates that up to 80 percent of direct and indirect operating costs and 50-100 percent of revenues can be attributable to third parties in organizations with business models that rely heavily on third parties for mission-critical activities.¹

SHIFTING PERSPECTIVES

From siloed to integrated Third-Party Management (TPM)

An integrated perspective on third parties covers the entire TPM lifecycle—from initial processes such as sourcing, procuring, and contracting through to monitoring, financial processing, and executive decision-making—across all types of third-party relationships. That perspective, and the integrated approach it fosters, is rapidly becoming a pre-requisite for increasing efficiency, reducing costs (including third-party spend) and meeting ESG commitments.

Deloitte specialists believe that organizations can at least potentially double their efficiencies, cost-savings, and management effectiveness by adopting this wider perspective versus piecemeal approaches. This occurs not only by aggregating performance improvement opportunities in each individual TPM process but also by exploiting synergies across processes. Those synergies are achieved through more holistic approaches to strategy, and to portfolio and relationship management, enabled by automation and innovation.



Holistic management
of third-party relationships

To maintain control, organizations require end-to-end visibility into multiple tiers of complex third-party relationships. To realize the full benefits of TPM, they must also be able to measure their progress by using cross-functional metrics and data enabled by integrated TPM, as they address challenges and pursue opportunities.²

INTEGRATED APPROACH FOR COST SAVINGS

Our experience indicates that many organizations aspire to save costs or improve performance by focusing narrowly on individual processes or specific functions. This tends to yield enhancements on the order of 5-10 percent in the specific area; in contrast, organizations that adopt an integrated approach and leverage external assistance, such as managed services solutions, can aim to achieve:

10-25%

cost savings in each area

11-18%

increase in third-party spend managed per Full-Time Equivalent (FTE) reflecting ability to better leverage talent

15-30%

additional contribution to net revenue from supply chain initiatives

20-33%

increase in EBITDA and share price upon completion of the entire transformation*

**See "The Business Case for Integrated TPM" (page 8) for details on this value proposition."*

Challenges and opportunities

Organizational focus on a specific area or function within the third-party lifecycle has often been driven by the need to generate economies of scale through specialization. This has led many organizations to ignore the impact of their decisions and actions on other areas—impact that would be visible through a more holistic perspective. As a result of these limitations, the development and deployment of tools, technologies, and support systems have also been siloed, lacking integration and alignment among technologies and data structures, thus failing to support end-to-end TPM integration.

Specific challenges that organizations face, together with the opportunities that these challenges present, are summarized on the following pages.

Challenges and opportunities

CHALLENGE

As the third-party network grows, administrative burdens expand and sightlines into vendor relationships including 4th/5th/6th parties in the ecosystem may become blocked, reducing visibility into costs and performance as data is stored in various systems and viewed only within a specific business group or process.

OPPORTUNITY

Integrated TPM consolidates data and reporting without increasing—and often while decreasing—work and headcount. This occurs through a solution that delivers more timely, accurate, and actionable information on third parties and on processes for managing them.



CHALLENGE

Lack of coordination among internal TPM functions creates delays, disorganization, and confusion. Although each function could properly execute its role, management could still be left without a grasp of the end-to-end value chain and its performance.

OPPORTUNITY

Integrated TPM improves coordination and alignment across all phases of the end-to-end relationship lifecycle, from sourcing through to renewal/termination, while improving control and providing a holistic view.



Challenges and opportunities

CHALLENGE

Siloed approaches to third parties, designed to suit a specific purpose, result in check-the-box exercises rather than holistic practices. They also lead to duplicative steps and hamper both day-to-day operations and crisis-response capabilities.

OPPORTUNITY

Integrated TPM supports holistic practices that enhance day-to-day operations and the ability to respond rapidly in times of crisis and to exercise contractual rights, fulfill responsibilities, and engage alternative sources.



CHALLENGE

When different functions adopt different tools to manage different aspects of third-party relationships, often without the expertise and budget needed to keep pace with technological developments, systems may fail to fit together or achieve their purpose.

OPPORTUNITY

Technology solutions that align and connect diverse TPM systems can solve most of these problems. When delivered as a managed service, an integrated TPM solution can continually incorporate new expertise and technologies in ways that most organizations cannot financially justify undertaking on their own.



The business case for integrated TPM

As an organization's third-party network grows in terms of size, spend, and strategic importance, the business case for integrating TPM becomes stronger.

Our clients' experience over the past six years has demonstrated that end-to-end alignment across functional areas generates both financial and non-financial benefits. These benefits range from significant cost-reduction and shareholder-value enhancements to greater responsiveness to changes in the external environment and improved ability to operate and be perceived as a more responsible business. Given that technology and digitalization lay at the heart of this transformational journey, managed services platforms from trusted partners provide an attractive strategic option for accelerating this transition.

The business case and value proposition for integrated TPM arises from four areas:



THIRD - PARTY MANAGEMENT

Set out below are the key elements for driving profitable growth and shareholder value for an organization that is just starting to embark on a transformational initiative to achieve TPM. Such an organization typically has some defined TPM processes, sometimes inconsistently implemented with some outsourcing and scattered use of off-the-shelf tools for managing third parties. The overall approach to TPM is generally reactive. These benefits are typically achieved only after the full transformation, including benefits from enhanced executive decision-making and innovation.

Market, customer and stakeholder perceptions

- >95 percent supply and third-party delivery assurance (enabling rather than inhibiting)
- Improvement in business responsibility perception
- >85 percent customer satisfaction level through innovation and better decision-making
- 2-5 percent increase in market share
- 35-50 percent top line revenue growth directly attributable to third parties

TPM process efficiency

- 15-20 percent improvement in process efficiency (e.g., 95 percent touchless invoices)
- 30-50 percent reduction in response times
- Increased agility to response to market changes
- Higher level of process integration, for example between procurement and legal or between third-party visibility and risk management

Technology, interoperability and related capabilities

- >75 percent technology adequacy and user satisfaction (based on user survey)
- Increased levels of innovation enablement
- Horizontal/vertical integration through technology
- Increased coordination effectiveness across teams, including leadership engagement in TPM and executive support

Efficient and effective risk management

- Increase in TPRM maturity from managed to integrated or optimized levels
- Lower frequency of high impact third-party risk events (impacting customer service, fines and penalties, continuity failure and financial loss) quantified in our [2020 and 2021 TPRM surveys](#)
- 6-8 percent cost and revenue recovery

Cost reduction

- 15-20 percent in each area*
- 11-18 percent increase in third-party spend managed per Full-Time Equivalent (FTE)
- Reduction in TPM CAPEX (from 3x to 5x the annual OPEX to 1x through external assistance (managed services))

Profitability

- 15-30 percent increased EBITDA
- Supply chain contribution to net revenue (17-51 percent)

Shareholder value

- 20-33 percent increase in share prices
- Consistently higher daily share price than peers

**Note: The volume of total cost is likely to increase due to the increasing use and growing dependence on suppliers and other third parties.*

Our prior research³ into the area of digital maturity has uncovered a strong connection between digital maturity in organizations and financial performance driven by factors such as:



Data mastery

Aggregating siloed data to increase visibility and efficiency



Flexible yet secure technical infrastructure

Providing a common platform for diverse systems



Recalibrated processes

Creating and maintaining rationalized and integrated workflows



Effective engagement

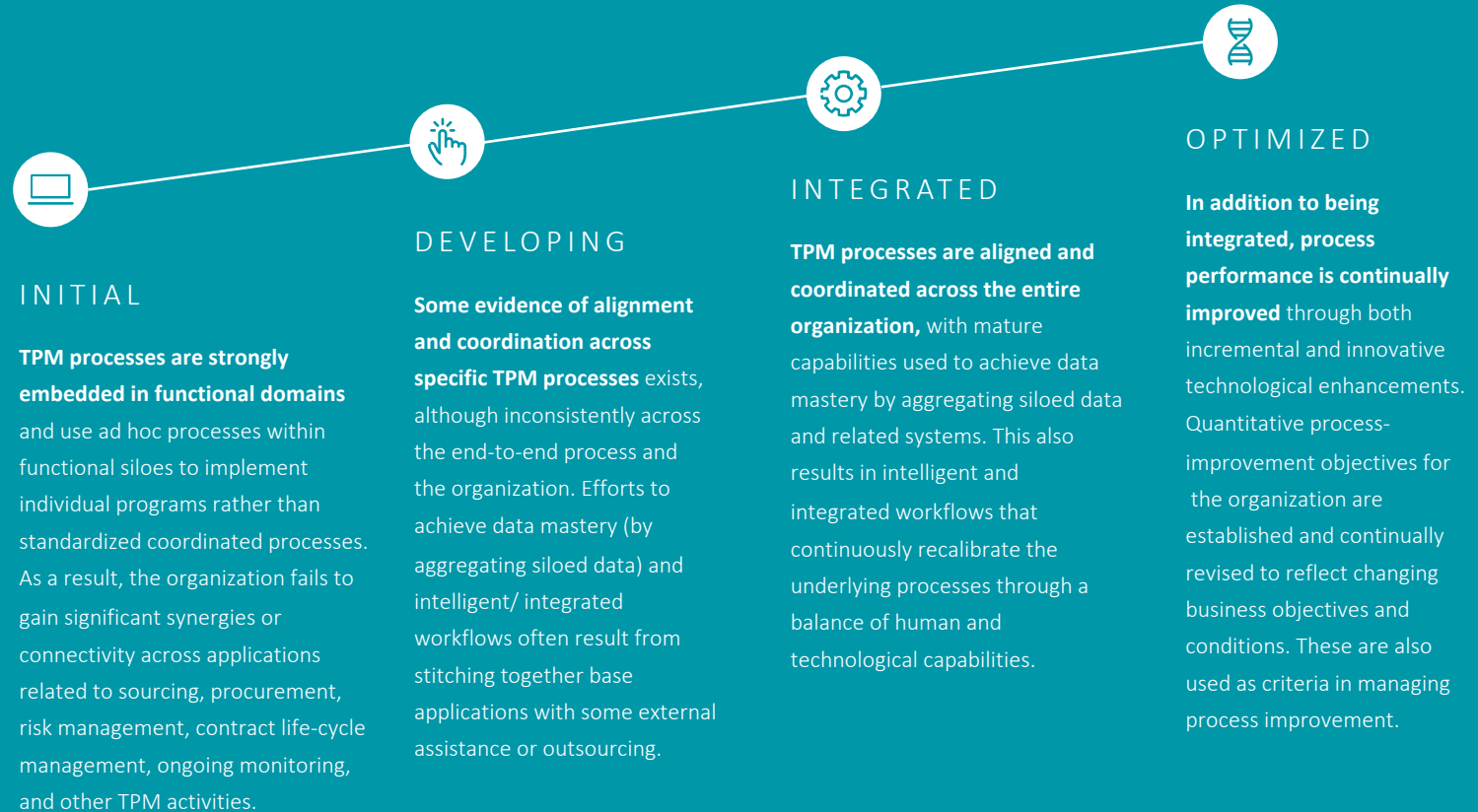
Linking all areas that manage and monitor the third-party ecosystem

The journey to TPM maturity

Developing a TPM maturity model

A “maturity model” portrays degrees of formality and optimization of processes related to the discipline in question, usually on a continuum from ad hoc practices, to formally defined steps, to active optimization. In this sense, maturity is also a measure of an organization’s “room for improvement” in a particular discipline.

We propose the following TPM maturity model:



Many organizations get to the “developing” stage but then struggle to advance further in being able to integrate their TPM systems. Deloitte can assist such organizations with a smarter way to accelerate the journey to TPM integration using technologies such as UI and UX together with an analytics layer to overcome this barrier. This integrated approach can then be further enhanced by complementing it with a managed services platform where appropriate.

Accelerating the journey to TPM integration

To accelerate the integration of TPM processes and data from supporting systems, Deloitte can assist organizations who have already moved up to the “developing” stage to apply an “engagement layer”—leveraging User Interfaces (UI) and analytics to provide a User Experience (UX)-based design that enables interoperability and creates a cogent view of the third-party ecosystem.

This solution consolidates third-party data drawn from existing TPM systems and, when useful, from external sources. It then applies analytics to that data to generate actionable insights and support strategic decision making. Such a solution can connect disparate software and platforms as well as support any individual or function with a role in any aspect of the third-party lifecycle as well as senior executives with broad responsibility for enterprise growth and value. This “engagement layer” sits on top of existing systems and thus protects the organization’s prior technology investments.

This integrated approach can then be further enhanced by complementing it with a managed services platform where appropriate.

Flexible Deloitte TPM service delivery options

Our services can be delivered on a customized basis to:

1

Support one, two, or more TPM processes

2

Provide an end-to-end managed services solution

3

Operate as a hybrid solution

Each pathway is scalable upward or downward as organizational needs and processes evolve, with resources expanding or contracting with changes in the third-party network.

Organizations not ready to transform TPM to integrated TPM on a “big bang” basis can adopt a more incremental and phased approach. Depending on the organization and its maturity, needs, and resources, either an incremental or a fully integrated approach can hold benefits.

Incremental vs. fully-integrated approach

CONSIDERATION

INCREMENTAL

FULLY INTEGRATED

Objectives

Early quick wins realized through selected TPM services

360° view of the third-party ecosystem

A subset of services to address high priority pain points

An end-to-end managed services solution

Technology

Activation of selected elements of a third-party technology platform

Adoption of a fully integrated technology platform for TPM managed services

Operational

Global delivery centers and active third-party management of selected TPM processes

Global delivery centers supporting all TPM processes and active management of third parties

Key benefits

Ability to deploy TPM modules based on need and priority to get started and chart next steps

Ability to connect with any source system to generate a single version of the truth regarding third parties

Deloitte is prepared to deliver these services on the basis that best suits an organization's levels of TPM maturity, third-party strategy, and resources.

In addition to assisting with technology integration, our four core services can help organizations to unlock significant value residing in specific areas, potentially on a common managed-services platform:

Spend Management as a Service (SMaaS)

which enables source-to-contract (S2C) process design and improvement and procure-to-pay (P2P) processes that enhance visibility and control over spend across the third-party network and the lifecycle of transactions and contractual relationships

Legal & Commercial Services

which deliver full contracting support as our lawyers and legal, business, and process specialists, working with you and other providers in your ecosystem, optimize the value of your legal spend through negotiation, review, drafting, remediation, and renewal of contracts across the relationship lifecycle

TPRM-Managed Services

which provide third-party screening, background checks, on-site and remote inspections, and ongoing monitoring of risks and risk events to provide consistency and high quality while freeing internal resources for more strategic initiatives

Supplier Mapping

which illuminates the flow of services and products across the value chain to enable validation of the network, allocation of costs, and mitigation of risks to boost the agility and resilience of the supply chain and the effectiveness of inventory and cost controls and category management

The value Deloitte brings to TPM processes

Helping management establish a **charter** and **vision**, and the **vendor portfolio strategy** most appropriate. Highly skilled in co-ordinating the **Executive Governance and Relationship Management** (including Executive Performance Indicators)

Access to **17,000 risk practitioners** to improve the health of an organisation's TPRM risk profile. Using **industry leading technology** to continuously monitor third parties, using **advanced analytics and artificial intelligence** from data harvested from the internet and proprietary sources

Mapping and visibility of third-party networks and risk management, identifying areas for improvement/efficiency, reducing the chances of disruption, while maintaining **compliance and regulation**. This enables the organization to stay **competitive**

Monitoring of third-party **performance to contractual obligations** such as SLAs and KPIs. Ensuring adherence to operational governance, using **insight** to identify potential issues



A complete S2C solution, leveraging **cross industry** and category management expertise to achieve best price and deal for the business. Working with the organization to achieve **cost base reductions**, driving **efficiencies** and assist strategic sourcing

Transformation, streamlining and centralization of the Accounts Payable activity to improve payments to third parties, providing organizations with **control and visibility** over the life cycle of a transaction

Contract management specialists, operating from over 80 countries, provide **end-to-end contract** intake, triage, drafting, negotiation, and post-signature legal and commercial obligations

Providing new ways of **innovating** and achieving **automation** through a **fully integrated managed service**. Finding efficiencies in the operating model, and helping the organisation **avoid bottlenecks, while improving communication** through the entire workflow

Why Deloitte?

Virtually all organizations require external resources to operationalize this approach to TPM on either an incremental or a fully integrated basis. Most also require expertise and supporting technologies that they would not find it economically feasible to acquire, update, and maintain. In addition, an external catalyst can usually more efficiently drive an integrated TPM initiative and balance the needs of the diverse functions involved in TPM processes.

Deloitte offers a strong record of proven performance in TPM service capabilities including procurement, contracting, supply chain management, contract lifecycle management, supporting technology, and managed services delivery. We have developed our services based on deep field experience and our continual research among procurement, supply chain, legal, risk, and other senior management executives, and board members.



Deloitte was highly positioned for its completeness of vision and ability to execute. Research firm Gartner has named Deloitte a leader among data analytics and service providers for the seventh time in a row.⁴



Typical client scenarios

Our clients' experience over the past six years has demonstrated that end-to-end alignment across functional areas generates both financial and non-financial benefits.

TYPICAL CLIENT SCENARIOS

Initial level of TPM maturity

A global Consumer Products organization evaluated its various systems for managing third-party relationships and found that most needed to be replaced as the related technologies were obsolete. Procurement, legal, finance, and accounting independently managed different aspects of these relationships, creating inefficiencies and increasing risks. At the same time, management had drawn up plans for significant transformation of the related TPM processes.

The organization aims to do away with siloes and adopt a fully integrated technology platform that will provide a 360-degree view of the third-party ecosystem. The organization also aims to realize significant synergies across the applications related to sourcing and procurement, risk management, contract lifecycle management, and performance monitoring. Management believes this approach will foster innovation and improve its approach to third-party strategy formulation as well as portfolio and relationship management.



Under these circumstances, the organization decided to explore the possibility of adopting an integrated end-to-end TPM managed services solution provided by Deloitte as a “big bang” solution going forward.

TYPICAL CLIENT SCENARIOS

Developing level of TPM maturity

A traditional Financial Services organization plans to offer a range of innovative services by expanding its network of third-party partners. The organization has continued to invest in technologies to manage sourcing and procurement, risk management, and contract lifecycle management with some outsourcing of the related financial processes. This new strategy and approach require end-to-end visibility into the third-party ecosystem, to realize cost savings and enhance profitability.

The organization has achieved limited alignment and coordination across TPM processes but has not consistently implemented those improvements across functions. Efforts to aggregate siloed data and create integrated workflows have been hobbled by lack of an end-to-end perspective, leading to partially reached objectives. Facing significant cost pressure, the organization aspires to protect its investment in its off-the-shelf tools for managing third parties but needs a consolidated view across all third-party contracts. The organization also suffers lack of visibility into key contractual terms, particularly emerging ESG compliance requirements.



To achieve “quick wins,” management sought external assistance to implement an incremental approach to integrating sourcing, procurement, and spend management systems, and contracting and contract management processes and process improvements achieved through advanced UX and analytics. Management sees this as the first step in bringing other relevant areas onto the same platform.

TYPICAL CLIENT SCENARIOS

Integrated level of TPM maturity

A North American global Life Sciences organization has already outsourced third-party risk management to Deloitte. However, further integration of procurement, sourcing, legal, contracting, and monitoring mechanisms is needed to eliminate process duplication and thus improve efficiency and effectiveness. While some integration among these systems exists, it was achieved a few years earlier using technology that stitched them together in elementary ways, for example through batch processes run at various time intervals.

That solution did not leverage modern UX design techniques that enable an analytics layer to provide a holistic view across the organization in real-time. Lack of real-time updates has inhibited adoption of online alerts and notifications, leaving the organization without a single source of truth on which to base strategic decisions.



The organization is considering engaging Deloitte to develop an “engagement layer” using advanced UX and analytics technologies that covers all related systems and enables them to operate seamlessly as a unified TPM platform. This integration allowed the organization to recalibrate and realize additional efficiencies and cost savings.

TYPICAL CLIENT SCENARIOS

Toward optimization of TPM maturity

A European technology company has a mature TPM platform using customized software developed by a third party. This organization is experiencing unprecedented growth, stretching and stressing its technology infrastructure and staff and its methods of managing third-party relationships.

The organization seeks a full-scale, end-to-end TPM managed services solution covering sourcing, procurement, third-party contract and risk management, and ongoing monitoring of third-party performance. It is also seeking a 24 / 7 / 365 service capability with significant resourcing that it has been unable to obtain on its own in the marketplace.



The organization decided to bring the entire end-to-end third-party management process under a common managed services platform to create synergies by increasing efficiency and effectiveness and providing much-needed agility to respond to change.

Deloitte offers a strong record of proven performance in TPM service capabilities including procurement, contracting, supply chain management, contract lifecycle management, supporting technology, and managed services delivery.

To learn more about how we can help, please connect with one of our TPM leaders:



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1. Based on Deloitte analysis with data compiled from research carried out by The Institute of Collaborative Working, Hiperos and Deloitte.
2. Including subcontractors of subcontractors, referred to as fourth or fifth parties.
3. [Deloitte, Digital transformation survey 2020.](#)
4. [Magic Quadrant for Data and Analytics Service Providers](#), Gartner, Magic Quadrant for Data and Analytics Service Providers, February 15, 2021.

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