



## Five Strategies Toward Effective Vendor Management

third party   profitability   performance

**Summary:** Chase Bank found that 80% of surveyed respondents between 18 and 65 years of age prefer digital banking to banking in-person. As the digital age continues and community financial institutions look for digital solutions, effective vendor management will be critical for bank profitability. We bring you five vendor management strategies to help.

There are about 9K farmers' markets across the country with each often having dozens of vendors, which adds up to over 200K vendors. Of these 200K vendors, not all vendors are alike. They provide different products, such as flowers, food, and crafts, and different levels of quality. This is also true of vendors in the financial industry.

As community financial institutions (CFIs) turn to these vendors for help in providing services and boosting profits, the need to properly manage them increases. Getting the most out of vendors requires diligent vendor management, which includes closely monitoring vendor performance and costs and shifting vendors when needed. All of that requires the ability to constantly benchmark vendor performance. In fact, that process can itself be outsourced to vendors.

### Digital age increases reliance on vendors

Chase Bank recently surveyed customers and non-customers between 18 and 65 on their digital banking behaviors. It found that almost 80% use a smartphone, laptop, or desktop to complete banking transactions. Not only that, but about the same percentage prefers to bank digitally vs. in-person. Digital banking is here to stay.

As digital banking and online lending continue to advance, CFIs will be pushed increasingly toward digital solutions that are difficult to create and maintain without vendors. Properly managing those contracts will play an expanding role in bank profitability.

### Vendor management tips

While we are confident that you know how to manage your vendors, we wanted to share five strategies for vendor management to help increase performance and profitability.

1. Develop a comprehensible policy on vendors. This policy should include a clear line of authority over vendor management. It's not a bad idea to have a designated head of vendor relations who keeps track of all contracts and costs so that there is appropriate accountability.
2. Collect and centralize data on vendors for easy access. Contracts, payments, and services performed should all be collected when initiated and reviewed regularly. Keeping this data updated and accessible is essential, both for proper management and to respond to inquiries, particularly from regulators.
3. Manage risk. Risk management should always be an integral part of vendor management, of course. Outsourcing services, particularly key ones like loan documentation, requires constant risk evaluation to ensure standards are being met. A financial institution that saves money by outsourcing a service only to

find itself the subject of regulatory action because the service did not meet standards could easily end up spending more money to rectify the problem than was saved by outsourcing.

4. Monitor performance. This process includes the important task of benchmarking vendors. Performance needs to be measured against your own expectations for service and cost and also against other services providers. This is a critical part of getting the most value out of vendors. Pay attention not just to cost, but also to quality. Benchmarking can help determine if the best vendor for the job is the cheapest one or a more expensive one that is a better match for the overall job.
5. Be prepared to make changes. This can include discontinuing vendors, replacing vendors, hiring new ones to perform additional functions, or renegotiating contracts. A CFI might find it has too many vendors, with some duplication of services. Or it might find that it needs more vendors, particularly if it requires help in vendor management functions, like benchmarking or data collection.

Vendors can be valuable assets for CFIs striving to stay current and appeal to their customers in this digital age. They can help CFIs expand services and improve performance, and they can help bolster profitability by improving efficiency, reducing costs, and increasing revenues. However, there can be downsides, if vendors don't work out. Effective vendor management plays a central role in the challenge of properly using vendors to improve a CFI's bottom line. Keep doing the hard work and it will pay off.

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## ECONOMY & RATES

Rates As Of: 04/20/2021 04:33PM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.03	0.00	-0.06
6M	0.04	-0.01	-0.05
1Y	0.06	0.00	-0.05
2Y	0.16	0.00	0.04
5Y	0.81	-0.13	0.44
10Y	1.57	-0.18	0.65
30Y	2.25	-0.16	0.61
<b>FF Market</b>	<b>FF Disc</b>	<b>IORR</b>	
0.07	0.25	0.10	
<b>SOFR</b>	<b>Prime</b>	<b>OBER</b>	
0.01	3.25	0.06	

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