BUILDING A BUSINESS CASE FOR A THIRD-PARTY RISK MANAGEMENT TOOL

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Sometimes it's the first step in your software-buying process, sometimes it's the last: Your company/process/boss requires you to build a business case to justify the spend on a Third-Party Risk Management tool. We often get requests from our prospects to help them put one together, so I thought I'd share how we approach them at ProcessUnity.

For brevity, I'm going to focus on vendor risk assessments, as most companies looking to purchase a software tool have significant pain here. However, you can apply the following steps to other areas of the third-party risk management lifecycle – from onboarding to due diligence, contract management and more.

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STEP 1:
DATA COLLECTION AND MEASUREMENT

You're building a business case to show expected improvement over your current state. The first step is to understand what areas of your program you're trying to improve. The more "before" data you have here, the better. How many vendors do you need to assess? How many vendor contracts are involved? How long does it take to complete an assessment on average? How much time is spent on vendor follow-up? How often do you perform assessments? What format(s) are your assessments in (Word, Excel, PDF, etc.)? How many employees are involved in the assessment process? What percentage of vendors are not being assessed?

It's surprising how many organizations don't have this data. (But then again, they don't have a tool in place, so data collection is harder – I guess that's why they want to buy a tool.) If you expect to source a vendor risk management tool in the future, my advice is to start measuring now, so you have some metrics to use in your business case.

STEP 2:

OUTLINE THE HIGH-LEVEL GOALS

Let's face it: At the end of this exercise, you're not going to show a 10X return on investment. Third-Party Risk Management automation is about cost avoidance and efficiency. Your business case is going to be full of soft costs and hard-to-measure benefits. Nevertheless, it's important to include those high-level goals as part of your presentation.

Ultimately, you manage Third-Party Risk to protect the value of the organization. You purchase software tools to make the process more effective and efficient. So, your benefits list could look something like this:

Mitigate Risk

Reduce our risk of non-compliance and reduce the risk of reportable incident by:

- Continuously monitoring vendor performance (more efficiently)
- Systematically enforcing company third-party risk policies
- Improving vendor coverage and monitoring capabilities

Eliminate Surprises

Increase organizational/management awareness and visibility of our vendor risk profile by:

- Increasing visibility to risk and its impact to the organization
- Ensuring accountability through a comprehensive program

Reduce Operating Costs

Reduce compliance costs both internally and externally by:

- Consolidating and streamlining compliance activities
- Lowering the cost per vendor assessment
- Streamlining reporting and audit support

STEP 3: MATH

With your high-level goals in place, it's time to see if you can quantify the benefits of an automation solution.

First you need to make some assumptions. For example, on average, how long does it take to complete a vendor risk assessment? In discussions with our prospects and customers, 20 hours seems to be the norm for companies using manual processes to manage their vendor risk programs. You can figure it out for your company using a simple formula like this:

Work Hours

The number of Work Hours in a year = 2,000

(2,000 is 40 hours per week for 50 weeks. I assumed 2 weeks of vacation. If your company has three weeks of vacation and 10 holidays, then change the number to 1,880.)

Team Members

The number of analysts performing vendor risk assessments = 3

(If your team members aren't 100 percent dedicated to assessments, then adjust the number accordingly.)

Assessments Completed

The number of assessments completed in a year = 300

(If you don't have a year's worth of data, try six months or a quarter, but be sure to adjust the Work Hours above.)

$$\frac{\text{Work Hours} * \text{Team Members}}{\text{Assessments Completed}} = \text{Hours to Complete an Assessment}$$

$$\frac{2{,}000 * 3}{300} = 20 \text{ Hours Per Assessment}$$

Now you have a reasonable assumption for the time it takes to complete a vendor risk assessment. Let's take that number apply it to your vendor population:

How many vendors do you assess annually?	500	1,000	2,000	5,000	10,000
On average, how many hours does it take to complete a vendor assessment?	20	20	20	20	20
Total hours required to complete your annual assessments:	10,000	20,000	40,000	100,000	200,000
Employees required to complete annual assessment work (based on 2000 hours per employee per year):	5	10	20	50	100

The business case is starting to take shape. Look at the company with 500 vendors to assess. If that company only has three people on the team, that means they won't be able to assess 40 percent of their vendor population in a year. What are some of their options:

1. Disregard 40 percent of the vendor population each year
2. Reduce assessment quality/thoroughness to get to more vendors annually
3. Hire two additional analysts at $75,000 per year = $150,000 (plug in your team's average salary + benefits for your number)

I think it's fair to say that the options above aren't ideal. The whole reason to have a Third-Party Risk program is to reduce risk from your vendor population. If you leave a high volume of stones unturned as in Option 1, you're relying on luck. In Option 2, you're sacrificing quality for quantity – and that's where mistakes can be made. Option 3 is a reasonable choice, but it's very costly. For a company this size, outsourcing and consultants are probably too expensive for the volume.

On the other hand, what if you're a company with 500 vendors that has 5 team members? Based on the numbers, you're in good shape to complete your assessment work. That's great, except A LOT of that work is what some of our prospects have politely deemed "intern-level" work. It really hit home in a meeting with a (now) customer where the team lead told us, "I didn't get an MBA so I could spend my days emailing and calling vendors to fill in my spreadsheets." In this scenario, the company builds a business case to show what a reduction in "busy work" would mean to the company.

Whether you're understaffed or staffed appropriately, there are benefits to be had if you can reduce the time it takes to complete an assessment without sacrificing quality. That's the business case you are trying to make.

The next step of the process requires a leap of faith. You need to make a reasonable assumption as to the savings you'll get if you purchase a software tool. This is tricky because people tend to want to show the BIGGEST number possible. In my experience, it's better to be conservative – you want your executives to believe your numbers and you want to be able to hit (or exceed) those numbers once the solution is in place. Win-win, right?

You have a vision for what your program will look like with automation. Based on that vision, you can reasonably make assumptions based on manual processes you're going to replace. For example, quantify how much time it takes to email/phone vendors to find out where they are with their assessment. Some vendors are great, and they send it back right away. Others, well, you know how it is. What if you could remove that step from your process with software? How much time would you save?

For example, >> Warning: ProcessUnity Commercial << ProcessUnity's solution, Vendor Cloud, has a built-in report that shows you assessment progress on a per-vendor basis. No more calls/emails to check in. Even better, the system will send automatic reminders to vendors that are behind. >> End of ProcessUnity Commercial << Bottom line: Regardless of which tool you buy, there are going to be savings. This is just one example. As you evaluate software, try to identify areas for savings, quantify them conservatively and add them up. Ultimately, you're trying to reduce the amount of time to complete assessments (while maintaining or even improving quality).

A word of caution: You can ask the software companies you're working with to help you identify potential savings and metrics, but ultimately, it's YOUR business case, so you need to be comfortable with the numbers. (And yes, I do realize the irony that in the next paragraph, I'm going to give you ProcessUnity's metrics.)

In conversations with ProcessUnity customers, we have determined that on-average, they are reducing the time it takes to complete assessments by 25 percent with our software. Some of our highest-performing customers have shaved off 35 percent. Let's also consider a conservative savings of 15 percent and run it against the chart we built earlier:

What is the total effort required to complete your annual vendor risk assessments?
(Data is based on industry averages and data collected from companies using manual processes to manage their vendor risk program.)

How many vendors do you assess annually?	500	1,000	2,000	5,000	10,000
On average, how many hours does it take to complete a vendor assessment?	20	20	20	20	20
Total hours required to complete your annual assessments:	10,000	20,000	40,000	100,000	200,000
Employees required to complete annual assessment work (based on 2000 hours per employee per year):	5	10	20	50	100

ProcessUnity's highest-performing customers reduce assessment completion time by 35 percent.

Revised total hours required (Hours Saved)	6,500 +3,500	13,000 +7,000	26,000 +14,000	65,000 +35,000	130,000 70,000
Revised number of employees (Headcount Equivalent)	3.25 +1.75	6.50 +3.5	13.00 +7	32.50 +17.5	65.00 +35

ProcessUnity customers average a 25 percent reduction in assessment time.

Revised total hours required (Hours Saved)	7,500 +2,500	15,000 +5,000	30,000 +10,000	75,000 +25,000	150,000 +50,000
Revised number of employees (Headcount Equivalent)	3.75 +1.25	7.50 +2.5	15.00 +5	37.50 +12.5	75.00 +25

A metric included to provide a conservative estimate.

Revised total hours required (Hours Saved)	8,500 +1,500	17,000 +3,000	34,000 +6,000	85,000 +15,000	170,000 +30,000
Revised number of employees (Headcount Equivalent)	4.25 +0.75	8.50 +1.5	17.00 +3	42.50 +7.5	85.00 +15

Let's revisit our earlier examples and see what's changed. (Plug in your numbers where appropriate.)

The company with 500 vendors and three team members could get pretty close to managing the workload without additional hires if they could cut time per assessment to 13 hours (35%). Much more likely, with software (estimated at $20,400 using ProcessUnity's pricing at the time of this writing) and one additional team member ($75,000), the company is going to be in a much better position to complete the work with quality. Yes, it's close to $100,000 in costs, but it's much cheaper than hiring two full-time employees.

The company with 500 vendors and five team members sees time savings at every level in the chart above. A $20,400 investment that results in a 15% reduction in assessment time (from 20 hours to 17) would result in each team member saving 6 hours a week – a total of 1,500 hours savings per year. It's the equivalent of freeing up almost one full employee from assessment duties.

If you want to run scenarios for your company, DOWNLOAD MY CALCULATOR.

STEP 4:
PUT THE SAVINGS TO WORK

You're doing yourself a disservice if you don't complete the final step in building a business case: outlining how the savings identified will be used for greater business benefit. In our second scenario above, the company outlined savings of at least 1,500 hours per year. What are those hours going to be used for? From our discussions with prospects and customers, even with the savings, there's still a lot of work to be done around vendor management. Our examples in this paper have focused solely around assessments. Typically, these are the types of activities that get "funded" via efficiency savings using software:

Vendor Assessment Quality & Quantity Improvements:

The freed-up hours that result from the reduction in administrative tasks increases the breadth of your program without adding headcount. Continue to drive risk out of vendor relationships by expanding the number of vendors in scope and/or spending more time on on-site assessments and deeper inspections.

Issues Resolution:

Theoretically, issues are where the real risks are. What percentage of your issues go unresolved? With more time available, you can increase the depth of your program and your team can clean up the issues queue.

Reduce Contract Spend:

This is the big one. Freeing up your team of highly skilled employees allows you to evolve your Third-Party Risk program to include contract management, service-level agreement tracking and other vendor risk disciplines where hard-dollar savings can be measured.

What About Hard-to Measure Benefits?

In almost every software evaluation, you'll identify potential benefits that are difficult to quantify, maybe because measurement is not possible or because a "before" metric doesn't exist or would take too long to measure. In the vendor assessment process, here are some examples:

Assessment Completion Speed:

It would be nice if the system you purchased resulted in faster response time, right? Hopefully, a vendor portal with online questionnaires would speed up that process. If you have the average completion time today, that's a great metric to track.

Assessment Percent Completion:

How many of your assessments come back fully completed? Will software improve that metric by allowing customers to upload their completed SIG or simply update answers from previous years? Hopefully, but it might take some time to go back in time and evaluate completion quality to compare it moving forward.

Attachment Management:

What are you doing with all the attachments that show up as a .zip file attachment along with the questionnaire response? Your new system will allow vendors to attach policies directly to questions in the questionnaire. Great, but it's hard to measure the efficiency savings here, even though you know they exist and they aren't insignificant.

What I tend to do with harder-to-quantify benefits is capture them, group them together and include them in the business case as additional rewards. Hopefully, your base business case is enough to get the job done on its own, but it's important to include the vaguer benefits as expected positive side effects.

CONCLUSION:

Building a business case for a software purchase is a big deal. You're trying to alleviate pain within the organization…most likely pain that you're experiencing every day. On the other hand, your executives need to understand how the costs involved will ultimately benefit the company. I have seen several potential software purchases (both as a buyer and as a seller) fall through at the last minute because of a flawed business case. I have also seen instances (again, both as a buyer and a seller) where a great business case resulted in budget being created that didn't previously exist.

Business cases can be a lot of work, but done correctly, they can have great results. I hope the steps outlined above help you in your efforts.

About the Author

Ed Thomas leads ProcessUnity's marketing team and is responsible for the company's awareness, demand generation and thought-leadership programs.

Ed has spent his 20-year career developing and implementing high-impact lead-generation and branding programs for high technology companies, including Stratus Technologies, aPriori, eXcelon, Banyan Systems and Lois Paul & Partners. In fact, ProcessUnity is his third Governance, Risk and Compliance (GRC) company, and he had served prior roles as the Director of Marketing at Cura Software Solutions and the Manager of Corporate Marketing at OpenPages.

Ed holds a degree in journalism from Boston University. A home improvement enthusiast and woodworker, Ed spends his free time renovating his 1800's home with his wife, Penny. His work has appeared on HGTV and in This Old House Magazine.

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