



Optimizing vendor-driven transformations



Optimizing vendor-driven transformations for speed and value

Today's government organizations must address changing citizen experiences and expectations. This inevitable modernization may be the most critical expectation for government agency leaders, one that often requires coordinated work by employees and third parties to achieve. This trend is especially evident in state Medicaid programs. Through digital transformation, these programs are modernizing by upgrading their legacy, monolithic Medicaid Management Information Systems (MMIS) and implementing modular, "best of breed" technology solutions provided by multiple vendors.

Today, more than 30 percent of states have contracted with multiple vendors to design or operate new Medicaid systems (including MMIS), with more expected soon.¹ However, many agencies are finding these vendor-driven transformations difficult to manage. Common challenges include schedule delays, performance issues, significant unexpected costs, and difficulty achieving expected outcomes. As the number of contracts and vendors increases during such projects, so does the management complexity and disparity between expectations and reality.

While these issues have many causes, states are discovering a common theme when assessing their progress toward MMIS modularity—their operating models don't align with the needs of a complex multivendor-driven transformation. In other words, the ways in which states manage vendor agreements after signature often lack crucial capabilities to hold vendors accountable to contract and program outcomes, and to facilitate cross-vendor cooperation. Although states may spend significant

effort in negotiating these agreements, those that also invest in managing key vendors after signature have capabilities better suited to manage risk and value during their multiyear transformations. The same capabilities also apply to other government agencies heavily reliant on third parties to deliver modernization.

Challenges with vendor-driven transformations

MMIS and other large scale complex transformations present unique vendor management challenges. First, government agencies must define their role in the project – as an orchestrator across multiple component vendors, or as an active customer with key integration responsibilities across the contract lifecycle. Rarely can government agencies rely on a hands-off approach that expects the contract to execute itself.

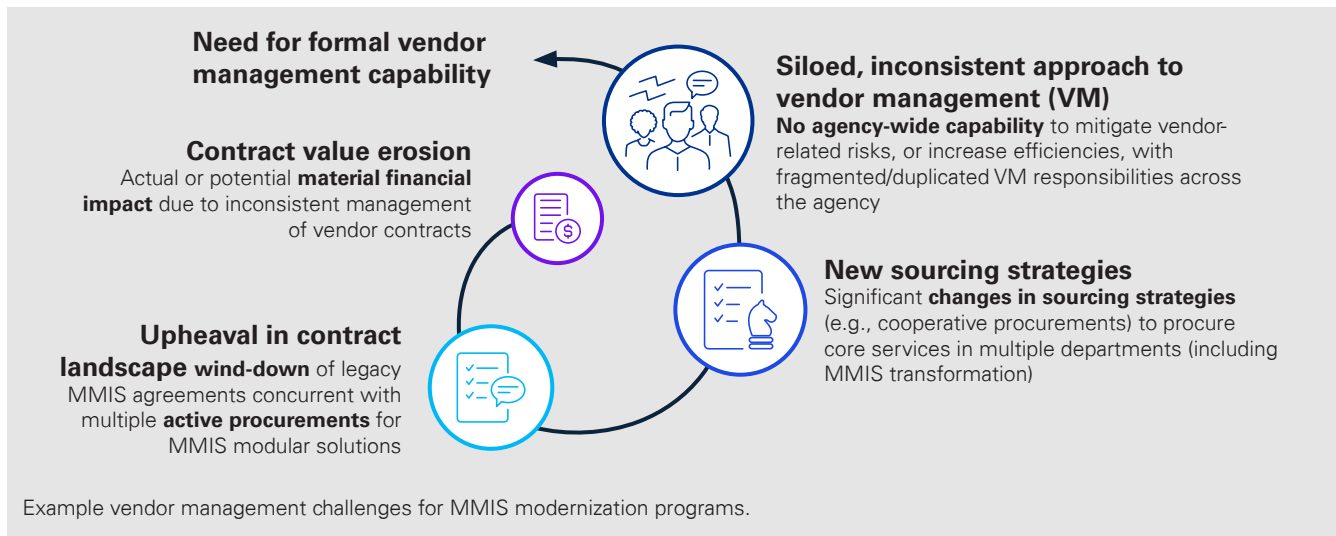
Additional challenges include the following:

- There is heavy reliance on vendors for key technology capabilities and operations makes performance management critical. Often this includes oversight, decisioning, and adjudication across vendors that have joint service and system dependencies.
- Multiple concurrent projects and change orders can make tracking financials and master schedules a challenge.
- Oversight of multiple vendor delivery models, all of which must coexist, integrate, and mature, is challenging. Contracting for skilled resources, solutions, and consulting presents unique risks and opportunities that state agencies must acknowledge to reduce "weakest links" in their transformation initiatives.

¹ <https://www.medicaid.gov/medicaid/data-and-systems/mmis/contract-status-report/index.html>

- Unclear roles and responsibilities for the state and its vendors can create confusion if not plainly defined and integrated into processes across the lifecycle. Examples include the role of vendor management compared to Project Management Office (PMO), security, enterprise risk management, and other departments.
- Complex multivendor environments create dependent relationships that must be managed with people, processes, and technology.

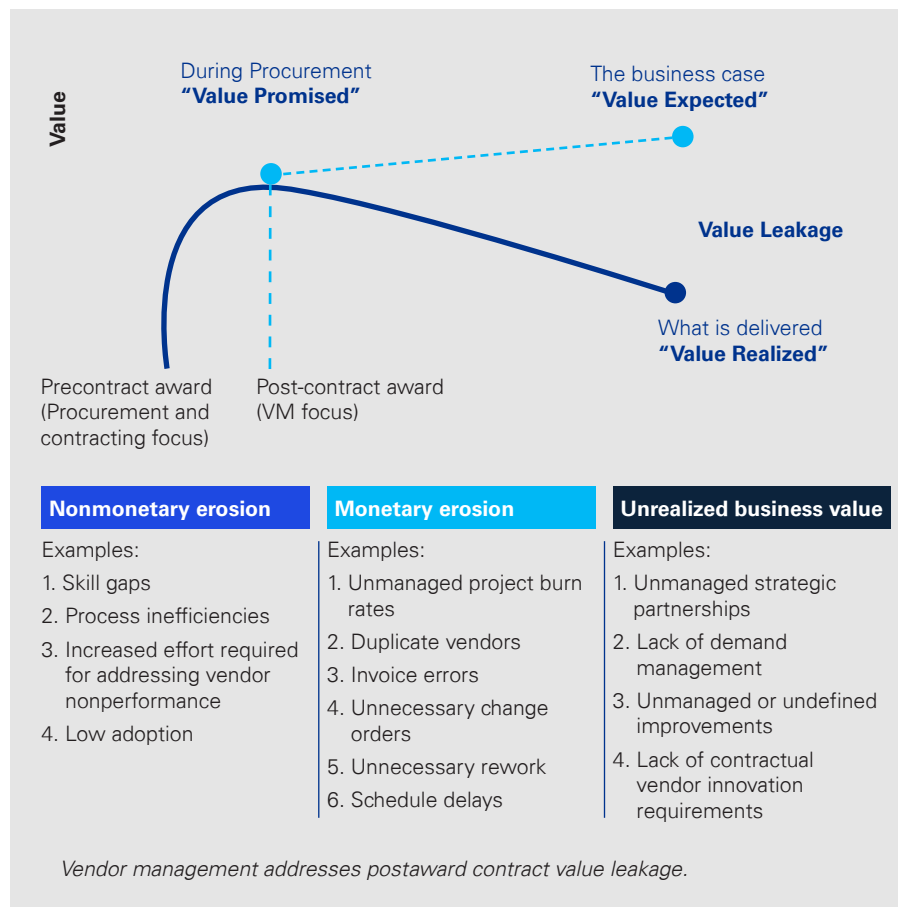
- There is a need to align multiple vendors to common methods, processes, and tools in rapidly growing contract landscapes.
- Sophisticated contract administration can be challenging, including transition between new and legacy agreements, as well as management of standardized controls, changes/amendments, clarifications, documentation, and archiving.
- There is a need for effective enterprise risk management to identify, prioritize, and mitigate multiple risk types across vendor agreements.



Which does your agency experience most?

Leading states have used vendor management to increase efficiencies and reduce risk

Effective vendor management helps government agencies reduce risk, increase efficiency, and capitalize on opportunities across their vendor landscape. It also enables organizations to manage what is known as contract “value leakage,” which includes financial and non-financial impacts. Examples of value leakage include avoidable contract extensions, delivery inefficiencies, skill gaps, and increased effort on behalf of government agencies to address vendor nonperformance. Left unmanaged, KPMG benchmark studies show value leakage can impact 17 to 40 percent of a contract’s total value.



Consider this scenario: for its MMIS transformation, a state Medicaid agency considers using a cooperative purchasing agreement, a new trend in MMIS third-party contracting. Derived from the procurement of bulk commodities, cooperative purchasing agreements now extend to specialized solutions such as MMIS modules, where a state can sign onto a multistate agreement in which a third party develops and implements a standard MMIS module as a service.

In this scenario, a Participating Addendum is negotiated with “off-the-shelf” requirements, and the state’s project team prepares for kickoff. Although a PMO is in place, it is unclear who has responsibility for monitoring vendor performance against the contract. Which individuals from both parties should meet to discuss delivery, financials, and compliance? Are the contract performance expectations in line with those of state leadership? What reporting tools are to be used? Are there designated individuals responsible for managing risks and resolving issues?

Although cooperative procurements are meant to lower procurement costs for states and vendors, and protect state interests, those benefits are dependent on well-planned vendor management practices during the contract term.

So, what does effective vendor management look like? It consists of cross-functional teams (think business units or project teams, plus procurement, legal, finance, IT, and more) using defined ways of working through an integrated toolset to deliver maximum value from vendor relationships.

Effective VM Looks like...

1

Cross-functional teams working well together

2

Utilizing agreed-upon ways of working through an integrated toolset

3

Provides enterprise-level vendor management value such as: clarifying roles, reducing redundancies, optimizing cost, improving vendor throughput and relationships



Across both the public and private sector, we see vendor management teams focused on the following priorities:

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| <i>Compliance</i> | Enhanced ability to address statutory and regulatory requirements throughout the product or service lifecycle, including alignment to the advanced planning document (APD) processes, Centers for Medicare & Medicaid Services (CMS) enhanced funding, and cost allocation requirements |
| <i>Consistency</i> | Standardized vendor management activities across departments, leading to resource efficiencies and more consistent outcomes |
| <i>Continuity</i> | Primary focus placed on service delivery and quality amid multiple projects, transitions, and procurements |
| <i>Stakeholder satisfaction</i> | Includes tracking of stakeholder satisfaction through the voice of the government customers and voice of the vendors |
| <i>Cost management</i> | Containing service costs across multiple agreements while achieving desired outcomes. |
| <i>Resource optimization</i> | Identification and development of employee skills and use of enabling technologies |
| <i>Data and analytics</i> | Using contract data to make fact-based decisions. Activities include management, storage, and analysis of vendor contract data. Typical data sets include aggregated performance against contract metrics, contract compliance and deliverable status, control memorandums, and spend projections |
| <i>Risk management</i> | Identifying and mitigating risk in multiple categories including business continuity, regulatory/statutory requirements, financial, legal, reputational, IT, cybersecurity, and data privacy |

How to get started

If you're contemplating MMIS modernization or any large vendor-driven transformation, or have already started, consider the following steps to help build an effective vendor management capability:

- a. Design for holistic vendor management from start to finish and integrate with IT practices.
 - i. Determine the scope of your vendor management efforts by focusing on priority services, value, and risks. We recommend that organizations build a segmentation model to objectively identify the vendors or contracts that pose high risk and business criticality (which can be managed by vendor management postaward). Once the list is validated, roll out vendor management expectations to business owners or departments with contractual ownership.
 - ii. Beyond scope, organizations should define how vendor management services will be delivered. A common starting point is to instill that responsibility in decentralized program teams or business units with budgetary authority. An enterprise vendor management office (VMO) can then support those units with standard processes, tools, and knowledge sharing to perform their responsibilities. Centralized support must also consider the vendor management requirements of their organization's software development lifecycle (SDLC). For example, vendor management should reinforce vendor partnerships within portfolios and programs, collaboration throughout the release, and performance commitments of the client and vendor organizations.
- b. Plan to actively manage change. Don't assume you'll have organizational buy-in.
 - i. Whether you're defining new ways or working or standardizing existing vendor management practices, change planning must be a priority to ensure active adoption. Successful organizations use techniques such as stakeholder identification, change impact assessments, and communication planning to kickstart change. To make change sustainable, leading organizations incorporate vendor management trainings, knowledge-sharing communities, and accountability mechanisms.
- c. Instill operational discipline to hold vendor partners accountable to their claims and promises.
 - i. A vendor management capability should provide timely validation that vendors are providing you with the agreed-upon service and are meeting contractual obligations. Often, this requires joint performance management from all parties using defined reporting tools populated with agreed-upon source data and calculations. In the case of complex multivendor transformations, performance management also requires customer organizations to provide oversight and decision-making across vendors that have joint service or system dependencies. It should also include change mechanisms to adjust performance requirements over the life of the contract as business priorities evolve.
 - ii. Vendor management roles across the agency should understand their available remedies and decision rights in the event of performance issues, including how much time to allow for remedies to take effect before escalating.
 - iii. Lastly, to support strategic vendor relationships, we recommend formalizing collaborative relationship development at both the executive and management levels. An example of this is a quarterly cross-vendor forum with both project and account team representatives, featuring contract governance and relationship topics.
- d. Closely manage multiple aspects of program value
 - i. By helping realize financial benefits negotiated during procurement, vendor management is uniquely positioned to support financial stewardship within government agencies. You can build a case to formalize vendor management by tracking measures of program value. These measures may include the number of risks and issues managed, reduction in cycle times, throughput of first pass invoices or deliverables, percent of departments or contracts adhering to program standards, and vendor delivery of innovation commitments.
 - ii. Provide your vendor managers the processes, tools, and support functions to track contract financials, including aggregated financials across programs and project portfolios. Keep these business cases up to date by including change orders, updated spend projections, and burn rates as they change during agreement.

Conclusion

When intentionally developed and deployed, a vendor management capability can be a critical part of digital transformation and government modernization. Today, leading organizations use vendor management to reduce risks, realize expectations, preserve contract value, and capitalize on opportunities associated with their vendor landscape.

The value proposition for vendor management grows when dealing with complex contracting situations such as MMIS transformation. In these projects, multiple vendors often develop dependent systems concurrently, while the state agency must also

juggle winding down legacy systems and managing upcoming procurements. In such projects, missteps in vendor management postaward can lead to unexpected costs, delayed transitions, service quality issues, and more. While vendor management isn't a cure-all for these troubles, it enables the state Medicaid agency to begin projects with clear responsibilities, consistent practices, and enhanced oversight of vendors from onboarding to completion.

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