

WHITEPAPER

# How to Calculate the Business Value of Vendor Risk Management Software

With *ROI Analysis* and *Build vs. Buy* Levers



**CENTRL**

VENDOR RISK MANAGEMENT



**Vendor360**


CENTRL is a leading risk and compliance technology company that provides the most advanced software platform for managing third-party risk and due diligence. CENTRL offers solutions for automating vendor risk management, modern slavery act compliance, operational due diligence, and bank network management. CENTRL's platform is used by leading companies in all sectors across the globe.

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# 1. BEST OUTCOME IN VRM OR TPRM

Achieving the best outcome in vendor risk management (VRM) or third-party risk management (TPRM) requires significant due diligence.

Many organizations struggle to allocate the necessary resources to execute this process, while also relying on spreadsheets and legacy processes to support their programs.

A [study by Forrester](#) found that 88% of respondents were using over 100 complex, customized spreadsheets to support critical business functions, with over half of respondents very concerned about spreadsheet risk.

## Top tasks performed

Auditing and controls

49%

Comparative analysis

45%

Financial model development

42%

Compliance

41%

Financial planning and analysis

38%

Customer-/account-specific data analysis

37%

Departmental budgeting/forecasting

36%

Corporate performance reporting

36%

This has led many organizations to consider vendor risk management platforms to both reduce the risk associated with manual processes and increase efficiency through automation and centralization.

Still, the implementation of new software, potentially over or in place of deeply embedded legacy tools and spreadsheets, can be a burdensome decision. How can you be sure that the investment will be worth the cost, both in terms of time and budget?

We'll help you determine your return on investment (ROI) with this guide. But first, let's be clear on what we mean when we're referring to Vendor Risk Management or Third-Party Risk Management software.

## 2.

# WHAT IS VENDOR RISK MANAGEMENT SOFTWARE?

**TIP**

*VRM software is used to assess and manage third-party risk. It can help you with elements like risk assessment and scoring, vendor questionnaires, monitoring, and more.*

Some key elements associated with VRM are:

- **Easily Accessible Data:** The data collected and integrated into VRM is made quickly and easily accessible to increase efficiency and streamline the vendor risk management process.
- **Customizable Reports:** Depending on your company's specific needs, a vendor risk management program can provide customizable reports that apply to both efficiencies in VRM processes, as well as auditing of vendors.
- **Compliance Management:** VRM programs can also help implement and monitor vendor risk and compliance with various security regulations. Examples include SOX, HIPAA, PCI DSS, GDPR, CCPA, and more.

We'll get more into VRM software features and benefits in the following sections, but before we do, it's important to also clarify what VRM software is NOT.

## *Third-Party Risk vs. Third Party Ratings Software?*

Third-party risk management software and third-party rating software are not the same.

A third-party rating service is less in-depth than vendor risk management software. Essentially, third-party rating software outsources third-party risk assessment to the software company. Thus, it's a better option for smaller organizations that may just want to keep track of which potential vendors are inherently higher or lower risk.

Third-party risk management or vendor risk management software, however, takes a far more robust look at how vendors are monitoring their obligations on a day-to-day basis as it specifically relates to their relationship with your organization. This allows your organization to be in control of risk management and tailor it to your unique risk profile.

VRM software is a better option for larger organizations or those that face regulatory requirements, which mandate that they monitor and evaluate all potential vendors and existing vendors for proper operational, cybersecurity, or data privacy requirements.

## How Does VRM Software Work?

The right VRM software should walk you through a risk assessment of your vendors. To put it simply, you'll be identifying risks (and associated consequences) that your organization may face in doing business with a particular vendor.

You will then assign them a risk severity level. For example, let's say you have 1000 vendors that require an annual questionnaire to be filled out.

In addition to the fact that it's simply impossible to follow up with each of these organizations manually, one of the risks you may face is the chance that one or multiple vendors neglect to return their questionnaire, resulting in a compliance violation.



**TIP**

*With VRM software, you can avoid risks like these before they happen. You can implement automated follow-up that will remind your vendors to complete their questionnaire and alert the appropriate party if the vendor has still not returned their questionnaire after a predetermined amount of time.*

The following are some of the key functionality provided by VRM software.



## Workflow Automation

Workflow automation allows you to offload repetitive, rules-based tasks to free up your human resources for more mission-critical tasks, as well as to limit the propensity for human error.

For the example above, you can define a rule that states if a vendor hasn't returned their questionnaire within 30 days, it escalates to the appropriate manager, thus limiting human intervention until it's necessary.



**TIP**

*But workflow automation can do much more than set notification triggers. It can also automate the sending, processing, and alerting for questionnaire templates that are sent out, recurring assessment scheduling, auto-assignment to predefined business users, and more.*

## Dashboards and Reporting

Robust VRM software should also incorporate a centralized dashboard and reporting system to help you visualize your vendor risk data and track progress.

Reporting features can provide visibility into changes, areas of concern and show you how performance is tracking against baseline metrics. Both can be invaluable in helping an organization make informed decisions about risk mitigation.

Many organizations lack this kind of visibility when employing manual processes or legacy tools, so reporting features prove especially valuable in uncovering potential issues before they have the opportunity to get more severe.

A VRM platform should provide operational reporting, analytics, trends, and metrics that reflect the state of the business and provide a comprehensive view into risk trends for a vendor, benchmarking of data, and the items that need immediate attention.



**TIP**

*Good vendor risk assessment software will include data and information about risks, assessments, vendors, and issues. It will also provide accurate data too, all of which is configurable from the system.*

## Data and Software Integrations

Integration is another critical feature in VRM software, as a core component of increasing efficiency lies in providing a centralized, "single pane of glass" overview for all of your VRM data and processes.

Your VRM software should enable you to review third-party risks across your company.

In order to get a complete view of your risk profile, make sure your vendor risk management solution provides comprehensive integration with your other data sources, such as risk ratings, to provide a more holistic data set.

## SIG Questionnaire Templates

Another important consideration when evaluating the ROI and value of a VRM platform is whether or not you will be required to purchase Standardized Information Gathering (SIG) or SIG Lite questionnaires.

SIG questionnaires are used to perform the initial vendor risk assessment and information gathering associated with onboarding a new vendor. SIG questionnaires cover 18 domains and are crucial for understanding how security risk should be handled based on the scope of the vendor relationship.

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**TIP**

*These questionnaires cost upwards of \$10k. So, if they're included in your VRM software subscription, this could be a significant data point in your ROI cost considerations.*

## 3. THE BENEFITS OF VRM SOFTWARE

Understanding the features of good vendor risk management software is only beneficial if you can connect it to the direct benefits those features provide your organization. So let's take a look at those now.

### ***Configurable and Flexible***

One of the most important features of VRM software is that it is configurable and can be tailored to suit your specific needs. This will help your organization realize the greatest value from adopting and implementing the software.

### ***Efficiency and Time Savings***

In addition to increasing your ability to exercise proper vendor risk management and add to the business continuity of the organization, VRM should, at its core, make your processes simpler, more efficient, and faster.

Appropriate and thorough onboarding is important to ensure you can optimize the software to its full potential and leverage key functionality such as automation.

### ***Team Member Training***

The right VRM provider will not simply sell you their software and run. Rather, they will provide documentation, onboarding, and training to ensure all appropriate team members can easily understand and utilize the software.

This ensures your organization gets the maximum value and optimization to reduce its overall risk profile.

## Single Source of Truth for VRM

VRM software can also help both team members and stakeholders stay abreast of any changes in vendor risk performance so you can address issues before they become serious problems or expensive mistakes for your organization.



## Improved Collaboration

With all of your vendor risk management data and operations centralized in a single platform, all parties can experience improved collaboration in VRM workflows.

This leads to less bottlenecks in communication, which ultimately results in increased productivity and efficiency for your organization.

## Enterprise End-To-End Scalability

One of the best things about vendor risk management software is that its automation and integration capabilities make it easy to scale across large organizations with hundreds of vendors while keeping costs down and improving efficiency overall.

## Greater Data Accuracy

Another benefit due largely to the automation and centrality provided by VRM software is greater accuracy in data.



*By integrating multiple data sources and automating tasks, there is far less chance for human error- a common pitfall of manual data entry and related processes.*

4.

## ROI CALCULATOR FOR VENDOR RISK MANAGEMENT SOFTWARE

The ability to assign different weights to certain data points will give you a clearer picture of the overall return on investment that you can expect to see from VRM software.

The below are some key questions to evaluate to determine whether or not VRM software is a good investment for your business. You don't need to answer all of them, however, we suggest you endeavor to at least put ball park cost numbers by each and every one that's largely applicable to you. Then, tally up those costs vs. the added benefit in terms of savings, reduced risks, and team efficiency a VRM software would bring to get to your ROI number.

- ▶  1. How many vendors does your organization engage with?
- ▶  2. Are you conducting assessments on your vendors annually or just at the point of onboarding?
- ▶  3. How long does vendor onboarding and risk management evaluation take before you can begin using the vendor, and what is the economic impact of that delay on your organization?
- ▶  4. How many man-hours are spent conducting VRM for each vendor, at what average hourly cost (considering benefits and additional employee costs associated)?
- ▶  5. What percentage of vendors do you consider to be high-risk vs. medium vs. low and how much time and resourcing to each require using your status quo approach vs. a VRM approach?
- ▶  6. Are you currently using any other technology to manage vendors, and will a VRM tool replace that and save you money or be an additional tool added for it's specific purpose?
- ▶  7. What regulations are you responsible for maintaining compliance with, and what are the costs of noncompliance?
- ▶  8. What is the likelihood of a data breach given your current risk profile and what would the impact of the breach be on your business? And, how much would a breach cost you, both qualitative and quantitatively?
- ▶  9. How well are you tracking your vendors ability to remediate issues within their organization? If not perfectly well, what is the likelihood an issue will go unnoticed and what's it's probably cost on the organization?

# 5. BUILD VS. BUY FOR VENDOR RISK MANAGEMENT SOFTWARE

Some organizations may also be weighing the decision to build a VRM solution in-house rather than buy one. In that case, cost comparison for building versus buying must also take place.

To help with this, we're going to walk through a recent client use case in which we helped them to assess whether an in-house build would be a more cost-effective approach for them.

## 1 - Determine Your Budget

The first step in the process was for them to determine their budget. In this case, our client had a budget between \$50,000 and \$100,000 a year.

## 2 - Price Out What Internal Resources You Would Need to "Build"

To achieve this internally, costing typically falls into the following buckets:

### A) Design and Scoping Phase

**Cost:** Your Team's Time and 3 Months of a Product/Project Manager's time to document what to build, what's in scope, what's not, and so on. **Estimate: \$30,000**

### B) Build and Engineering Phase

**Costs:** Considering you will be standing up the application on your own, it will require significant engineering time to build both your desired features but also typically included application features like permissioning, administration, user interface, and so on. Estimates from even a reduced implementation might look something like the following:

|   | TIME     | COST ESTIMATES<br><small>(salary + benefits + overhead)</small> |
|---|----------|---|
| <b>Design and Scoping Phase</b>                                     |          |   |
| <b>Team efforts to document what to build</b>                       | 3 months | \$30,000  |
| <b>Build and Engineering Phase</b>                                  |          |   |
| <b>Senior Engineer</b>  | 6 months | \$150,000   |
| <b>Mid Level Engineer</b>   | 6 months | \$100,000   |
| <b>Junior Engineer</b>  | 6 months | \$60,000  |
| <b>QA</b>   | 6 months | \$60,000  |
| <b>Run, Maintenance, and Upkeep Phase</b>                           |          |   |
| <b>Infrastructure</b>   | 1 year   | \$36,000  |
| <b>DevOps and Engineering</b>                                       | 1 year   | \$26,000  |
| <b>Total Estimate for 'Build' Even With Stripped Down Features:</b> |          | <b>\$462,000</b>  |

**C) Run, Maintenance, and Upkeep Phase:**

Provided a low cost cloud solution provider like AWS is used, costs would still be ~\$3k/month minimum\*12 months a year = \$36k a year for the infrastructure.

Additionally, to make sure it stay up, ~5 hours a week should be budgeted between DevOps and Engineering to tune, make sure does not go down, handle critical bugs, and so on.

\$100/hour \* 5 hours week \* 52 = \$26,000/year.

**3 - Calculate What It Would Cost You To "Buy"**

The benefits from buying a dedicated software is that you pay a small portion of the overall development that went into the application, as the provider's other customers are sharing in that cost. In this way, you don't pay large sums for standard items like administration, and new features and upgrades are generally rolled out to you and all customers as a part of your singular subscription fee. A standard way the subscription fee is calculated is based on your number of vendors, so that smaller companies pay some parts less than very large companies, to also correspond to the benefits each receive. In either case, purchasing a solution can fall in a **range from \$30-100k per year depending on your size, which is in almost all cases vastly more cost-effective than building a solution internally.**

6.

**DO I REALLY NEED TO DITCH MY SPREADSHEETS?**

Your organization must decide for itself whether or not it's time to replace spreadsheets with VRM software.

Spreadsheets certainly have their place and many teams employ them for a variety of business needs including calculations, project tracking, and vendor management. Cloud-based platforms like Google and Microsoft make it possible to collaborate on spreadsheets across the organization.

Unfortunately, they can also get very complicated, are prone to human error and inaccuracy, and we've all experienced that dreaded moment where changing a field disrupts the entire sheet.

**TIP**

*Ultimately, you must decide whether the risk and burden of maintaining complex vendor risk management spreadsheets outweigh the investment in VRM software.*

If, at the end of reading this, you're leaning towards VRM software, we invite you to consider CENTRL's Vendor360.

## 7. INTRODUCING VENDOR360

Vendor360 is a state-of-the-art third-party vendor risk management software platform that provides all the needed features covered in this article.



Vendor360 is notable for prioritizing automation in the system, providing customizable, detailed analytics and reporting in real-time, enterprise-grade flexibility and scalability, and much more.

If you would like to view a demo of Vendor360, have questions, or want to go deeper in discussion about how our solutions can support your vendor risk management needs, reach out today.

“I found myself going in [...] to verify hours entered, as what they had entered was considerably lower than then usual time required, now using CENTRAL. Jobs that normally take 50-60 staff hours of time, were coming in at 20-30 total hours, an improvement of 33% to 50% time on projects. Generally speaking, CENTRAL has saved us at least 20-30% time across the board.”

Kevin Brady  
Sr. Manager in EisnerAmper's PRTS Practice.

“[P]assionate about helping our clients maximize the value they derive from their third-party relationships. Leveraging CENTRAL's leading-edge technology to identify, mitigate and control risks typically associated with these relationships allows us to bring additional value and safeguards to our clients.”

Tyler Dwyer  
Sr. Associate in EisnerAmper's PRTS Practice.

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