SUPPLYCHAIN MANAGEMENT REVIEW

MAKING THE CASE FOR

USING CONTRACTOR MANAGEMENT SOFTWARE TO MANAGE SUPPLY CHAIN RISK

Only 9% of firms expect contractor numbers to decrease over the next two years. Is your global organization ready to prequalify, onboard, and manage this influx of new providers?

PEERLESS CONTENT CREATION

Avetta

The contractor management/ supply chain risk connection

WE'VE REACHED A POINT WHERE ONE IN FIVE JOBS IN THE U.S. is filled not by an employee, but by an individual who works under contract. And as the global economy continues to expand, the number of active contractors grows right along with it. In fact, it's expected that 50% of the entire U.S. workforce by 2030 will be contract workers—further escalating the complexities of managing these valuable assets.

This trend is also reflected across the globe, where companies, driven by a multitude of factors, such as minimizing permanent employee hiring costs, plugging labor shortages and accessing specialist skills, are using more contractors.

As more organizations view contractors and suppliers as valuable business partners intrinsic to driving service and product innovation, managing compliance in-house for all of these suppliers becomes burdensome. Still, most companies handle the process manually through a combination of paper-based systems and spreadsheets. As a result, 40% of organizations say they have a fair, poor, or very poor understanding of the costs associated with contractor management, according to a recent survey of environmental health and safety (EH&S) professionals.

Conducted by Avetta and Verdantix, the study revealed that 57% of the firms employ contractors for over six months. Key challenges to managing this workforce include the coordination of multiple contractors as they perform simultaneous operations and the prevalence of various different safety practices within a firm, business unit, or industry.

BLOCKING AND TACKLING

As global legislation continues to evolve, the cost of non-compliance can be hefty, and comes in the form of penalties, fines, productivity losses, settlement costs, and operational inefficiencies. Those aren't the only dangers of poor contractor management. According to the survey, the major risk factors also include damage to the company's reputation and/or brand name (cited by 86% of companies); cost increases due to project delays (83%); and revenue losses due to contractor management failure and the subsequent operational shutdowns (81%).

To tackle these and other challenges associated with onboarding and managing contractors, 50% of companies plan to increase spending on prequalification checks and contractor training and onboarding in 2020. Companies see prequalification checks and maintaining databases with all contractor information as "very effective" ways to improve contractor management, and 61% of respondents consider digital technology to be essential or valuable for contractor management.

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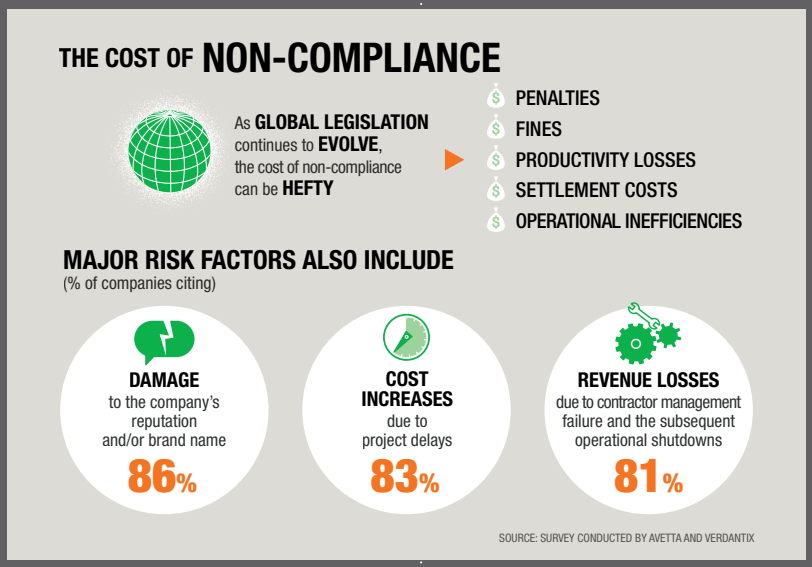
> — *Mike Ford, global expert on EHS and sustainability, Avetta*

"Many organizations lack the internal resources to effectively manage their contractors; mainly because most of them don't have large compliance, procurement, or safety departments," says Mike Ford, Avetta's global expert on EHS and sustainability. This puts companies in a challenging position when recruiting outside contractors, not all of whom will share the organization's concerns about supply chain risk, sustainability, corporate social responsibility, brand protection, and other organizational issues.

"Companies are essentially 'importing' risk, and



should be focused on mitigating that risk down to the lowest possible level," says Ford. Making that happen starts with the pre-qualification and evaluation of new contractors. That effort usually focuses on past safety performance and whether the company possesses adequate insurance coverage. This process is even more crucial when working internationally, as not all of the contractors may understand or follow the laws in the parent country where the contract was executed.

Geopolitical events like Brexit are causing insecurity in the market. And with companies trying to balance growing financial statuses while maintaining good health, safety, and industry practices, reassurance in your vendors' capabilities is an undervalued business advantage. The same companies need a continuous source of suppliers and the affirmation that their suppliers aren't going to go out of business.

"High-profile organizations are in the press and being fined millions because of health and safety incidents," says Ford. "Finally, changing consumer expectations on sustainability and ethics (i.e., child labor and modern slavery) are also pushing organizations to focus on reputational risk."

SOFTWARE CLOSES THE GAPS

According to the survey, 55% of companies see commercial, third-party EHS software as being effective for contractor management. "The benefit is that we know all contractors are qualified to work in our plant," one respondent points out, "and that they meet our expectations for training and documentation."

When you hire a contractor, you want to know they have the qualifications you need—the experience, the workforce, the training, and the certifications. Using Avetta's contractor management software, companies have all of the information they need to manage their supply chains in a central, customizable location, versus having to gather it from several departments.

"It's all about doing your due diligence," says Ford, "and protecting your brand while also bringing third parties on board that can deliver a product." Striking that balance may be straightforward when you're working with a handful of contractors, but what about the multinational company with a worldwide supply chain and 5,000 contractors? That's where technology steps in to effectively streamline, automate, and legitimize the end-to-end process.

"For a lot of companies, the contractor pre-qualification process alone is far-reaching and labor intensive," Ford points out. "One of the key benefits of utilizing a technology platform to manage it is that it adds value and assurance to a process that would otherwise be seen as a cost center. When you're assured that your contractors aren't employing child labor in Asia or sourcing materials from a protected species, you can rest easier."

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In this Making the Case, we explore the key contractor management challenges facing today's companies and show how a Cloud-based solution that comprises people, processes, and technology can save companies time and money while also protecting their brand reputations.

Sending manual contractor management processes into the Cloud

A CRITICAL FIRST STEP IN MANAGING SUPPLY CHAIN RISK, contractor prequalification requires a synchronized approach to gathering the right documentation, verifying the data, and managing the process from application to approval. Multiply these steps across many different contractors and regulations and then throw in geographic diversity into the mix, and this can easily become a full-time job for a team of employees to manage.

Using a proven, Cloud-based supply chain risk management platform, organizations can overcome these challenges and continue to benefit from the brainpower and skills of their contractor workforces. In fact, more than 90,000 companies in 100 different countries have already tested Avetta's platform. Complemented by local expertise that continually vets, reviews, and responds to changes in contractors' profiles (i.e., an insurance policy that's about to expire), Avetta provides a well-rounded solution to an age-old problem that's being exacerbated by the rise of the gig economy.

Companies that attempt to manage these tasks manually not only have to allocate valuable human resources to the task, but they also wind up with procurement bottlenecks, poor visibility, and a heavier burden to manage. When they replace those systems with Avetta's prequalification process, the benefits include easier document collection, full visibility, and the ability to make better and faster procurement decisions.

> **"When you're managing contractor prequalification manually, it's virtually impossible to see, on a macro level, how your supply chain is performing," says Mina. "Using our analytics platform, we can see exactly how contractors are performing, their safety statistics (current and historical), and whether they have all of their compliance documentation up to date. This, in turn, helps to support a healthy supply chain."**
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A national mobile phone service provider, for example, has hundreds of thousands of cell phone towers positioned around the country. The provider relies on locally-based contractors to manage tower installation, repair, and maintenance. Yet, it's the service provider's name that's on those towers and that both partners and customers think of when they interact with those towers. To protect its brand value, the cell phone provider must properly vet its contractors and make sure they're complying with standards and rules.

FROM SPREADSHEETS TO THE CLOUD

Mina, VP of Product at Avetta, says he sees a continued increase in contractors used in today's global supply chains and contractor compliance

is often done by hand or using a spreadsheet. "A contractor sends in documentation of its injury and illness statistics, safety policies & procedures, insurance certificates, and so forth," says Mina, "and then someone has to take all of that documentation and manage it manually."

Tedious, time consuming, and error-prone, these processes are giving way to more streamlined, tech-based options that help alleviate these pain points. For instance, the annual pay rate for an experienced full-time employee (FTE) to handle this function is about $75,000. Multiply that across various different locations and countries and the costs are downright staggering.

Housed in the Cloud, Avetta's contractor management platform is accessible from any device and at any time. Contractors use it to upload the required documentation, which is based on the customer's specific compliance requirements, including insurance documentation and safety statistics.

That documentation can be retrieved and reviewed on the platform. A combination of people and processes, Avetta also has a human workforce that stands by, ready to review the documentation, identify any gaps, and then alert the company or contractor about the problems. "All of that information is flagged in the system," says Mina, "where companies can quickly identify quickly identify, fix and update the items." (referring to insurance documents and safety statistics)

In return for their investment in contractor management software, companies realize benefits that range from minimized risk and improved visibility to increased efficiency and better data quality. Other benefits include streamlined contractor management, easier document management, improved auditing, easier insurance verification, and new levels of business intelligence.

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THE PLATFORM IN ACTION

For global building solutions company CEMEX, monitoring supplier performance against health and safety standards is critical. As an industry leader, CEMEX needs to ensure that all sites are safe for employees, contractors, and visitors. Previously using a time-consuming, paper-based supplier performance monitoring system, the company went in search of a technology solution that would deliver additional information with more efficient administration

Ultimately, CEMEX wanted a smooth transfer from its paper-based system to a new, automated platform. It found what it was looking for in Avetta's contractor management platform, which would serve as a comprehensive supply chain risk management program for the global company. The solution is one-part technology (SaaS platform) and one-part service (supply chain enhancement)—both of which complemented the firm's existing procurement processes and systems.

Since implementing the platform, CEMEX has been able to transform the way it assesses and mitigates risk within its supply chain. Avetta simplifies the engagement and evaluation of suppliers, for example, and ensures alignment with the unique operating principles and existing regulatory requirements.

The solution also validates historical performance for CEMEX and predicts future results in sustainable business practices. "Engagement with Avetta significantly improved our interaction with suppliers in three main areas: monitoring, measuring and evaluation," says Daniel Panormo, procurement director. "The improved reporting and accelerated escalation processes allow us to drive better safety performance."

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Using tech for consistent, reliable vendor prequalification

A UTILITY COMPANY THAT BUILDS, owns, and operates electrical, natural gas, and water networks, EPCOR Utilities needed a consistent contractor vetting process to ensure that it had the right contactors in the right place and at the right time—to reduce risk for everyone. It also wanted to improve prequalification, centralize prequalification functions, and provide consistent contractor oversight to all business units.

Meeting those goals would require significant administrative work, with much of that effort focused on obtaining and verifying contractor information, and keeping the data current. To remain competitive and reach its quality and safety goals, EPCOR needed a system that would reduce its administrative burden and ensure the accurate and consistent vetting of contractors.

Turning to Avetta's cloud-based contractor management program for help, EPCOR instantly gained a complete view of its supply chain. And because Avetta's compliance specialists manage the program, EPCOR's administrative burden was reduced. "We had experience using other systems as contractors, and we knew how painful the process can be," says Guy Greenwall, senior EHS manager. "Ease of use was important not just for us, but also for our contractors."

With Avetta's system for flagging contractors' qualifications, EPCOR can now quickly and readily pinpoint the cause of an "amber" or "red" flag. It can also set controls on a contractor as needed to address specific issues. "When a contractor has a green flag in Avetta, we're confident that we're off to a good start," says Greenwall.

By standardizing the collection and verification of information, and ensuring it is accurate, complete, and current, Avetta's Supplier Prequalification service provides an additional layer of protection for global companies. Avetta's specialists vet each contractor and ensure that they understand what is needed to qualify for various types of contracts. The user-friendly interface gives EPCOR a complete view into its supply chain and flags any gaps in contractor qualifications. As a result, the company can now easily identify contractors that meet its specific requirements.

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The platform's Insurance Monitoring service helps manage risk across EPCOR's supply chain, where "live" specialists collect and track insurance certificates to ensure that the company and its contractors are adequately protected. Using the platform, contractors can upload their certificates of insurance, which are then verified and monitored by Avetta's specialists.

The contractor management platform also monitors prequalified contractors to ensure they have documentation and are following the required safety and sustainability procedures. This service not only removes the burden from the EPCOR business units to review contractor manuals, but it also provides visibility into how its contractors are implementing their policies and procedures. "Avetta is bundled into a consistent package," says Greenwall, "and the audit function ensures everything is kept current."

MAKING THE CASE FOR

Using contractor management software to manage supply chain risk

When organizations implement contractor management software, everyone wins.

FOR THE DIRECTOR OF EHS OR SAFETY: Tasked with developing, implementing, and overseeing their organizations' safety and compliance programs, these professionals need technology tools that help them work efficiently in an environment where the rules change daily. Using a contractor management platform, these directors can make accurate assessments of suppliers and contractors in real-time; review current job statuses; and get insights into safety records.

Because the platform works on a continuous basis, the contractor that "drops off" after one successful job can be quickly flagged as a potential problem—something that a manual system could have taken months or even years to detect. This is music to the ears of an EHS or safety director who wants assurances that the risks factors associated with specific projects are both visible and minimal.

"These directors only have one pair of eyes, but in many cases they're overseeing big departments that are spread across multiple locations, some of them global," says Mike Ford, Avetta's global expert on Sustainability and Health and Safety. "They're still expected to conduct supply chain due diligence, and that's exactly what the contractor management platform does for them." Because the system is cloud-based, it can be accessed from anywhere using a mobile device, thus allowing safety directors to run "24/7 operations" without having to physically be onsite.

"Many times, an EHS director will need to access contractor information at 2 a.m. to figure out if it can handle a new job," says Ford. "Avetta's system can actually answer those questions and highlight the contractor's capabilities, all without the need for further intervention on the part of the EHS professional."

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FOR THE CHIEF PROCUREMENT OFFICER: Focused on selecting the very best suppliers for their organizations, today's CPO is very focused on the "risk" associated with bringing a specific supplier on board. Unlike the EHS and safety directors, the CPO centers on the financial integrity of those suppliers, and whether they're capable of handling the volume of work that's about to be given to them.

Knowing this, Avetta's solution gives CPOs answers to critical questions like: Can the contractor support this contract? Will it outsource the work? Will it subcontract the work out to another party? Will it be able to fulfill its obligation?

Historically focused on pricing as a key driver of supplier selection, CPOs need up-to-date data on company structure, financial integrity, business location, business logistics, and the ability to service contracts. They're also focused on minimizing supply chain risk. By vetting potential providers, a contractor management platform addresses these and other potential stopgaps in the supply chain and helps CPOs make good decisions on the fly.

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FOR THE VP OF SUPPLY CHAIN: Today's VPs of supply chain need to have eyes in the back of their heads to to keep up with all of the new supply chain risks lurking around every corner. A supply chain risk platform like Avetta serves as that "second set" of eyes for supply chain leaders who want to get out in front of potential contractor and supplier issues before they occur.

"The platform zeroes in on a supplier, reviews its activity, and evaluates the potential risk from a multidisciplinary perspective," says Ford. "Then, based on the individual company's requirements and the legislation that's in place, it gets objective supply chain risk data quickly."

The software also helps senior VPs measure supply chain performance over a wider geographical area—a must-have in today's workplace, where contractors are dispersed across the globe. Using the software, companies can implement specific benchmarks and assess and evaluate this performance both as part of the supplier evaluation process before contract award, and also post-award.

"This allows the use of objective data to make accurate procurement decisions," says Ford, "as opposed to having to keep undertaking evaluation on a job by job basis which can be very demanding on time and resources."

THE FOUR COMPONENTS OF CONTRACTOR COMPLIANCE

Contractor compliance doesn't end just because a new provider is onboard and working. It's a continuous process that includes these four key components:

1. **PREQUALIFICATION**: First, you need to identify and define contractor selection criteria based on your organizational safety standards and risk profile. The compliance program must also include assessment processes to gauge whether all contractors meet the desired compliance standards before they are engaged as partners.

2. **MONITORING:** Compliance management is a continuous process that must factor in frequent changes – both internal and external. For instance, there may be a change in safety legislation, or a supplier may choose to hire new workers for a project. You need the right tools and processes in place to easily adapt to such changing compliance requirements. Additionally, your contractor and supplier management program should also alert relevant decision-makers about the compliance status of each contractor on a timely basis. Any contractors in violation of standards need to be immediately prohibited from accessing the work site.

3. **ANALYSIS AND VISIBILITY:** Advanced analytics can put you in the driver's seat by giving you complete transparency into contractor and supplier information. Insightful dashboards and data visualization with a comprehensive view, frequent reports delivered to key decision-makers, an intuitive interface, and customizable analysis are some of the features you should look for in a supply chain analytics solution.

4. **REQUALIFICATION:** All stakeholders should also be alerted of any regulatory changes and informed of new documentation and practical requirements. Any communications with contractors — such as expiry

Letting you focus on what you do best

CONTRACTOR MANAGEMENT is one of the most effective supply chain risk management tools that an organization can have in its repository, but it isn't easy. In fact, compiling thousands of spreadsheets for regulatory reporting can quickly turn into a logistical nightmare. For many companies, especially those operating in highly regulated industries like oil and gas, chemicals, and pharmaceuticals, managing compliance in-house is both expensive and tedious.

At the same time, the cost of non-compliance—in the form of penalties, fines, productivity losses, settlement costs, and inefficiencies—can be ruinous. In fact, a recent Ponemon Institute/GlobalSCAPE survey found that the average annual cost of non-compliance with data protection regulations is $14.8 million. This represents a staggering 45% increase over the last nine years.

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Breaking through these barriers is difficult for companies, many of which have managed contractor qualification and compliance by cobbling together Excel spreadsheets, faxed documents, Word documents, and paper documentation. Unfortunately, as compliance requirements rise in complexity, more businesses operate globally, and contractor growth rates increase, these traditional methods only wind up adding more cost and risk to the contractor management process.

To ease these burdens, Avetta's cloud-based contractor management software takes a multidisciplinary approach that incorporates people, processes, and technology. Working closely with the companies that it serves, Avetta builds out configurable prequalification forms that incorporate all of the answers a company needs before they hire a new contractor. It also helps companies determine insurance thresholds and safety standards for those providers.

"We have experts and safety professionals who have been in their respective industries for decades, and who can lend their expertise to helping companies determine what they're trying to vet," says Mina Mina, VP of Product at Avetta.

"Highly configurable, the platform also includes a self-service analytics tool that can pull information from various sources and deliver actionable data that companies can use to make good decisions."

Rather than attempting to manage their global, contractor workforces in-house, savvy companies are implementing the technologies that effectively streamline and drive the costs out of the process. "Instead of managing this in-house and leveraging your own resources, you immediately get a team of industry professionals that have been doing this for a long time," says Mina Mina. "You can also have technology that streamlines the entire end-to-end process, leaving your company to focus on what it does best."

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