

## Vendor Compliance Outsourcing: Is it the right choice for the multifamily industry?

*By: Notivus*

According to the “The Trillion Dollar Apartment Industry” Report, prepared by Stephen Fuller for the National Apartment Association (NAA) and the National Multi Housing Council (NMHC) the Apartment industry serves 35 million Americans and is expected to add 7 million more apartments in the next decade. To support this infrastructure, the industry spent \$83.1 billion to build, operate and maintain apartment homes in the US in 2011 alone. Considering this, the market continues to demand highly qualified vendors and suppliers to support the on-going growth in the industry. Further, property owners and investors are increasingly demanding more effective risk mitigation strategies related to 3<sup>rd</sup> party relationships. This places considerable responsibilities on property managers to ensure they are working with properly credentialed vendors and as the market grows the degree of difficulty in managing this will increase. In response, outsourcing vendor compliance management has been on the rise in the multifamily industry for the past several years and now is gaining greater acceptance than ever before. Is outsourcing vendor compliance the right approach for multifamily property managers and owners? In this article, we explore the business problem and the results multifamily property managers are seeing by outsourcing vendor compliance.

### **The Vendor Compliance Challenge:**

Managing vendor relationships without specialized software and staff expertise is difficult and can be costly. Further, tight operating margins, regulatory changes, managing multiple risk level concerns, adhering to lender and individual owner requirements, and guarding against conducting business with undesirables are all factors that make achieving compliance costly for property management firms. It is estimated that expenses can be as much as \$250 per vendor to manage internally.

Property Managers work with vendors that provide close to 700 different types of services with varying levels of risk. Therefore, they need to effectively screen vendors to ensure they possess the appropriate credentials to work in their supply chain. Industry research has shown that of vendors serving the multifamily industry, 45% have had a lapse in General Liability Insurance, 31% have had a lapse in Auto Insurance, 11% have a Derogatory Background, 8% have a Serious Criminal Record, 43% have incomplete records, and 22% lack the correct professional license. Hiring vendors that lack the necessary credentials exposes apartment owners to potentially significant financial loss and compromise to their company’s reputation and brand.

It is becoming clear that vendor compliance is not just a simple exercise handled in the corporate office but a function that impacts the entire enterprise, from operations to accounting to legal to procurement. Further, credentialing vendors to your compliance rules is only a part of the process. Having accurate vendor information that is consistently fed into your existing systems improves decision-making and ensures consistency through the property manager’s enterprise.

The bottom line is vendor compliance has become a key factor in business success requiring appropriate attention and management.

## The Vendor Compliance Outsourcing Trend:

As the owner of a management company, you have probably entertained the thought of outsourcing vendor credentialing to protect your business and comply with client requirements. The benefits of outsourcing seem obvious, touted by experts across numerous industries as the answer to cutting costs for business functions ranging from information technology to payroll & benefits administration, accounting, marketing and human resources. What about the benefits of outsourcing vendor compliance management? The results and rewards being captured in the multifamily market are more than compelling and mimic that of other functions being outsourced in multifamily and in other vertical markets and businesses. But, is there more to outsourcing than the bottom line? What are the other reasons companies choose this route? What about ramifications to aspects of your business that are not so easily quantified?

## Multifamily Companies realizing substantial benefits from outsourcing:

According to the Gartner Research, there are many reasons why companies outsource. An increasing number of property management firms have caught the wave and outsourcing has become prevalent in the industry.. Below are some of the most salient benefits of vendor compliance outsourcing to the multifamily business:

1. **Increased Productivity & Focus.** Whether you use dedicated staff at your corporate office or your site property managers, vendor compliance management is a time-consuming activity. With this burden removed, your personnel can focus on doing more productive things. Outsourcing allows you to retain employees for their highest and best use, rather than consuming their time with tasks that may take them longer than someone who is trained in these specific areas.
2. **Gain access to expert capabilities.** Your return on investment is so much greater when you outsource vendor compliance to a firm that specializes in the areas you need. Instead of just the knowledge of one person, you benefit from the collective experience of a team of expert professionals. Further, outsourcing vendor compliance is typically at no cost to the property management firm.
3. **System to system integration increases compliance and reduces cost.** A comprehensive vendor compliance service provider will integrate vendor information in real-time with your existing systems. Up to date information results in better decision making, prevention of hiring of non-compliant vendors and accurate records for accounting and tax reporting.
4. **Maximize restructuring benefits.** When you are acquiring or disposing of properties, adding and reducing vendor pools can be challenging. They need to be handled, however, and outsourcing is an optimal way to do this.
5. **Reduce Risk.** Keeping up with a vendor's insurance coverage, licensure, and ensuring they do not have potentially negative past criminal activity is expensive and time consuming. Vendor credentialing mistakes can be disruptive in business relationships, both with your vendors and with your clients. An effective vendor compliance service provider is far less likely to make a serious error than your in-house staff, staying on top of compliance industry best practices and laws affecting your relationships with vendors.

6. **Access to the latest and greatest in technology.** Can your staff effectively manage vendor compliance without technology? Outsourcing gives you the benefit of software technology built to manage vendor compliance as well as access real-time information.
7. **Reliability.** In-house vendor compliance activities function as reliably as the people doing the work. Unless you have assigned dedicated internal resources to managing vendor compliance, the function is likely more of a distraction than a core focus and inadvertently broadens the risk exposure to your company. With a vendor compliance service, you are assured of focused attention, consistency in the application of your business rules, and quality timely output.
8. **Speed.** Since vendor compliance providers are specialists with vast technical resources at their disposal, they can process even the most complex credentialing requirements at lightning-fast speed. This keeps your vendors working for your residents.
9. **Insight.** A good vendor compliance services provider will know all the ins and outs of credentialing and regulatory mandates on the federal, state and local levels. Your employees could try to achieve the same level of understanding, but it would take a considerable investment in time and effort.
10. **Sourcing Vendors.** Locating new vendors for existing properties or new properties can be costly and time consuming. The vendor compliance service provider will maintain a searchable database of vendors that other property management firms work with and provide a simple and automated way to add them to your network.

**Take away:**

Multifamily operators and owners are giving considerable attention to outsourcing as an effective way to mitigate risk exposure in 3<sup>rd</sup> party relationships. It is clear that companies that have chosen to outsource are realizing compelling risk management & financial benefits. Considering these facts, the focus on outsourcing vendor compliance is receiving top attention as a key operating and business growth strategy.

**About Notivus:**

Notivus delivers innovative vendor compliance solutions to the Apartment Industry and Major Corporations. Utilizing proprietary state of the art technology and high touch customer service, Notivus created an on-line community that revolutionized how property managers and their vendors manage risk & compliance, build relationships and improve commerce. With over 25 years of experience transforming credentialing criteria for the Fortune 1000, the healthcare industry and Homeland Security, Notivus was invited by leaders in the multifamily industry to adapt its technology and expertise to meet the needs of vendors and apartment managers. Receiving rave reviews from vendors and property managers alike, Notivus has become the multifamily industry's answer to credentialing and compliance.