How to Create a Vendor Management Process

To thrive in today’s competitive economy, your business needs every advantage it can muster. What enters your business through your supply chain is as important as what goes out to your customers and clients—and in order to maximize your success, you need an effective and strategic method for handling your vendor relationships. Proper vendor management is a balancing act between maximizing value, building strong relationships, and supporting your company’s short- and long-term goals.

Depending on the size of your business, your purchasing organization might work with anywhere from a handful to hundreds of vendors, each with its own contract terms and pricing. It might sound daunting, but you can establish a winning management process for your vendors with some careful planning and strategic thinking.

The Vendor Management Process Defined

Cutting costs with lower price points and reduced spend is no longer enough to give your procurement organization, and your business as a whole, a serious competitive edge. Effective development and maintenance of strong relationships with third-party vendors is essential. So is maximizing the value your company receives from contracts via these relationships.

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The vendor management process helps you achieve these goals through:

- Evaluating supplier capabilities, including turnaround times, pricing, and overall quality of goods and services
- Contract negotiation and payment confirmation
- Vendor relationship management
- Internal job assignments
- Ongoing performance evaluation via regular check-ins

**Why Vendor Management Matters**

Covering everything from substantial investments like IT services and insurance to everyday goods and services, vendor management is the system your company uses to interface with external suppliers. The capabilities, reliability, and affordability of each vendor can have a substantial impact on your company’s bottom line.

Consequently, vendor relationship management (VRM) is effectively risk management, and an essential business process in building value and giving your company a competitive advantage in the long run.

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**Building a Successful Vendor Management Framework**

With value taking precedence over cost, vendor management is about transforming your organization’s vendor relationships from simple supply-and-demand into mutually beneficial partnerships. This requires intelligent strategy, careful planning, and no small amount of hard work.

It’s worth the effort, however, since truly effective vendor management processes help you identify the best vendors. These suppliers provide the quality, service, price, and support that build lasting value and align with your company’s goals.

1. **Review Business Goals and Metrics**

Every business has different goals. To get the most from your vendor relationships, you first need to understand what you need from vendors to maximize your company’s success. Do you need massive quantities of a particular product from a single source with iron-clad reliability? A comprehensive set of insurance benefits for a multiple groups of employees at different price points? A high-tech software suite for a small but critically important number of staff? The answers will shape how you
evaluate the worthiness of a potential supplier.

Armed with a clear view of the goals procurement is supporting, you’ll be able to create benchmarks for the right kind of vendor. This will help you zero in on those suppliers who best support your company’s priorities and ambitions.

2. Evaluate Your Existing Third-Party Spend

Starting with a clear view of your existing spend is essential to optimization. Perform a thorough spend analysis to gain visibility of the resources already flowing out through direct and indirect spend.

A spend analysis can help you pinpoint which vendors are receiving the lion’s share of your company’s spend, and guide you to informed decisions as you refine your strategy.

3. Assemble Your Team

Like any complex component of a successful business, vendor management policy is best tackled by a team with expert knowledge. Build a specialized team focused on every aspect of the vendor management process, including:

- Establishing Best Practices and Vendor Management Strategy
- Establishing Key Performance Indicators (KPI) for Vendor Evaluation
- Create and Manage a Database of Existing and Potential Vendors
- Contractor and Vendor Selection
- Due Diligence for Potential Partners
- Transaction Management Related to VRM
- Vendor Contract Negotiation and Management
- Vendor Performance Reviews
- Ongoing VRM Development
- Interdepartmental Facilitation
- Implementation of Centralized Procurement Software
- Complete Accounting Documentation

The goal of this team is to continually streamline for maximum value and optimal total cost of ownership (TOC) for any goods and services provided. Its members serve as the primary point of contact for all vendors, and the strategic core of your vendor management system.

4. Use Smart Vendor Sorting

How you silo your suppliers will vary by industry and specific goals. But as a rule, vendors can be sorted into three general groups:
• **Primary (or Key) vendors** are single-source, with high value and low volume
• **Secondary vendors** have multiple sources and provide moderate value
• **Tertiary vendors** provide plentiful options, with low value and high volume

Sorting your vendors into these categories gives you a strategic starting point for further granulation and simplify performance management.

5. **Mitigate Vendor Risk—and Maximize Performance**

No matter the industry, every company has risks related to security, finance, technology, and reputation. If, for example, your company is focused on industrial manufacturing, your focus might be on mitigating environmental impact, reducing logistics expenses, and eliminating theft. On the other hand, if you specialize in information security services, it’s likely cyber security, data integrity, and fraud are among the heavy hitters on your risk list.

You can reduce your exposure by:

- Assigning a member of your VRM team to the role of Vendor Risk Manager, focusing on vendor risk assessment. This person carefully monitors all vendors for changes that could expose your company to unacceptable risks.
- Defining risk management plans for the three categories of vendor, as well as individual vendors, with multiple solutions for critical scenarios that might occur. For example, the risk management plan for any single-source supplier should have a contingency for immediate replacement in the event of disaster.
- Re-evaluating the risk of any supplier whose role changes and adjusting your approach accordingly.

You can’t plan for **everything**, of course, but a winning risk plan is one that defines as many potential scenarios as possible, with one or more strategic options for each. Monitor your supply chain at all levels, and stick to the plans you’ve made as circumstances demand—but don’t be afraid to adapt, either.

6. **Monitor Performance Regularly**

Whether they’ve been with you for years or are brand new to your company, vendors require regular performance reviews. The KPIs established by your VRM team will provide you with the guidelines you need to determine how much value a particular supplier is providing.

A few KPIs you might use as benchmarks when evaluating vendors include:

- Mutually-agreed-upon performance targets, e.g. volume of goods, server uptime, shipping delays, etc.
- Contract compliance
In-house satisfaction, including vendor relationships with key team members
Vendor risk based on company goals, market performance, and social and financial presence

Using these KPIs, you can quickly and reliably identify your “problem children” among your vendors and address any unusual changes or ongoing problems. You’ll also have a jumping-off point for relationship improvement (as needed), and head off disasters before they can damage or even destroy a mutually beneficial relationship.

7. Prioritize Effective Communication

Even the most efficient and effective vendors can’t read your mind. Make constant communication a cornerstone of your VRM team’s strategy. Keeping everyone in the loop will make it easy to avoid costly errors and nip potential problems in the bud.

Effective Vendor Management is Within Reach

Who says relationships have to be hard? With the right team, a strong strategy, and a solid vendor management policy, you can reduce risk, streamline your supply chain, and provide powerful support to your company’s goals—today, and in the future.

Take control of your vendor management process, and build value along with strong relationships.

Build Strong, Value-Centric Vendor Relationships

Find Out How
About PurchaseControl

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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