Is It Time to Dump Your Vendor Management System?

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Most companies today have either implemented, or are exploring, some form of a Vendor Management System (VMS) to consolidate their external suppliers. Companies that sell a VMS point out that this system allows a Customer to get the most cost-effective solution for their needs within a certain category of suppliers; the “when suppliers compete, you win” mentality prevails. Some of the VMS even have performance metrics by which suppliers are measured and then rated in the system; thus making the case that not only does a VMS provide the most cost-effective, but also the best performing and most efficient solution within a certain category of suppliers. In theory, the concept is the very embodiment of capitalism – but what about practical application? The correct answer is … it depends.

Where to Implement?

A successful VMS has three key elements; a qualified base of Suppliers, good technology supporting the system, and an environment of cooperative competition, rather than threat and deterrence. Once you have the key elements, you need to focus on where you should and should not implement a VMS; and this is a step most companies miss out on – the “where” of a VMS.

When considering the “where” of a VMS, there are three main questions to consider: How broad is my top supplier base in a given category / industry? What impact will a VMS have on my FTEs in a given category / industry? What is my target impact or expectation on the resulting revenue and profitability in a given category / industry with and without using a VMS? Let’s take a quick look at each of these with some real world examples.

How broad is my top supplier base in a given category / industry? Let’s look at two examples; poly-bag manufacturers vs. package engineering firms. A simple search on the internet will reveal that there are well over a hundred thousand poly-bag manufactures globally; qualifying even 1% of these and then including them in a consolidated system would save time and money. If the specifications are clearly defined, then we can assume that one poly-bag manufacturer can make the same exact bag to meet your specifications as any other poly-bag manufacturer. Using one defined system, you can obtain competitive quotes by generating an RFQ only once, and in one system, rather than having to search, qualify, and generate individual RFQ’s for suppliers on your own. You can measure the quality of one manufacturer vs. another and thus eliminate sub-standard performance from the system. Conclusion: VMS is the way to go.

Package engineering is a highly specialized field which has consistently fewer graduates than jobs available; anyone who has ever worked in any type of capacity which involved finding and hiring a packaging engineer understands that high-quality packaging people are not easy to find. This market is extremely competitive with fewer suppliers than Customers. A simple search on the internet may reveal many packaging suppliers – but most of these are material-related suppliers, not package engineering firms. Narrowing down to just package engineering firms and qualifying each firm based on packaging development, or design, or equipment will reveal that the supplier base is very limited in each category. Narrowing that even further to the “top” quality firm(s) in each category will bring that down to maybe 3 – 5 firms globally. The RFQ or
RFP process should be individualized by firm, with the goal being to find the ONE right firm and build a relationship and cooperative partnership with that firm. Conclusion: VMS is not the right choice for this category / industry.

What impact will a VMS have on my FTEs in a given category / industry? There is only one way to get to the bottom of this question: Communication, Communication, and Communication! The basic building block of any relationship, including the Employee – Employer relationship, is communication. Open forum, anonymous feedback, blind survey – choose your tool, choose a venue that’s right for your company, and then get the feedback you need to decide whether a VMS is going to make life harder or easier for your FTEs.

Going back to our example from above – if you implement a VMS for your buyers of materials, such as, poly-bags, then you are going to make their life easier. Implement a VMS for your packaging department, and you are going to alienate good suppliers, and make the job of finding suppliers that are willing to work with the Company even more difficult than it already is; you’re not doing your FTEs any favors in this scenario.

What is my target impact or expectation on the resulting revenue and profitability in a given category / industry in using a VMS? Implementing any system without considering the financial impact is just plain dumb. Decisions that have been made without financial consideration always have a negative impact on the entire Company; and are the main causes of every major conundrum, from product recalls to entire shut-downs of facilities. The key is always to Buy Smarter, Not Cheaper. The question then, is whether or not your VMS is a smarter solution, or just a way to do things cheaper. We’ve heard many of these clichés: “It is far more wise to pay too much than too little,” or “You get what you pay for.” When it comes to knowing where to implement your VMS, you must consider these as hard facts; then make sure you establish a measurable financial impact. Again, remember – Smarter, Not Cheaper.

Since it’s inception, the popularity of the VMS concept has grown and there have been both positive and negative results; while there is a lot of truth to the idea that, “When Vendors Compete, You Win,” there is also a lot of truth to the idea that, “You Get What You Pay For.” The key here is to keep a balance and an open mind when answering that question. Doing the research and knowing the targets will at least start you off in the right direction.