RETHINKING VENDORS

Written by Tom Rogers, CEO
Vendor Centric

First edition

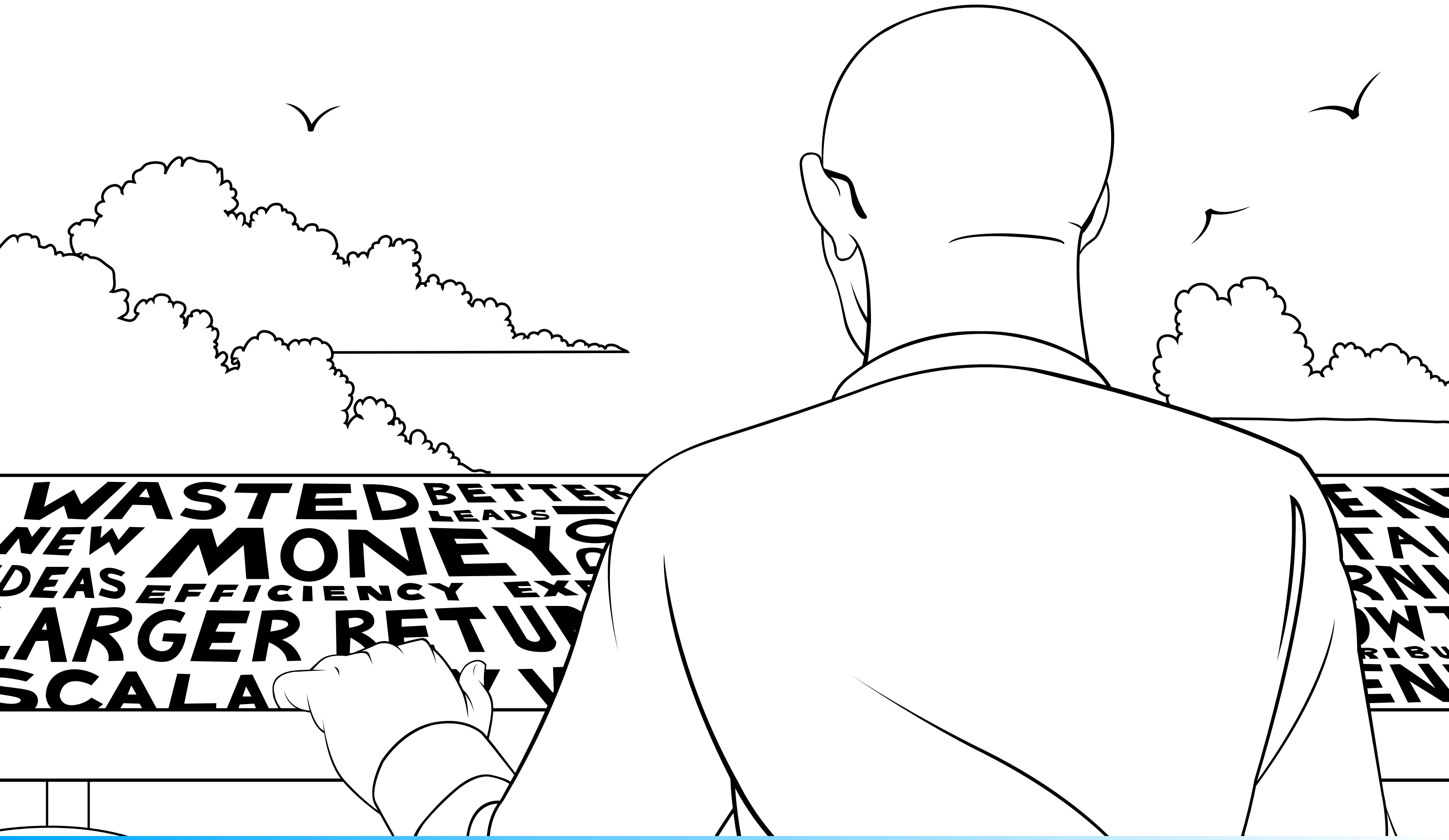
About Vendor Centric Shorts

Our Shorts are just another way we share our ideas and insights about the value of building strong vendor relationships and the impact those relationships can have on the success of organizations in any sector and of any size. We have designed Shorts to capture and express our thoughts on a single idea at its natural length; writing that doesn't easily fall into the conventional parameters of a book, article, or blog. We write them to educate, not to sell. And they are—and always will be—free.

About Rethinking Vendors

Rethinking Vendors© is our first Short. It was written by our cofounder and CEO, Tom Rogers, and really captures our core philosophy about vendors. That is, organizations are missing a tremendous opportunity when they view—and treat—their vendors as costs rather than strategic resources. When organizations surround themselves with the right vendors and establish the necessary systems and culture to support those vendor relationships, they realize operational and competitive advantages that they simply couldn't have achieved on their own.

Rethinking Vendors was written for organizations that see the lost opportunity in these relationships, and know they can be so much more. We hope you enjoy the read!



RETHINKING VENDORS

A SEA OF WASTED OPPORTUNITY

Wasted opportunities. This is the current state of affairs in the ongoing relationships between businesses (of all types and sizes) and their vendors.

I've worked with more than one hundred public- and private-sector organizations across the United States, and I've come to learn that the vast majority of them are missing out on opportunities to

> extend the knowledge and skills of their workforce,
> generate new and creative ideas,
> enter and expand into new markets,
> lower operating costs,
> increase operating capacity, and
> strengthen infrastructure.

Opportunities to leverage incredible resources that are, frankly, right in front of them. Opportunities to get more, much more, out of their relationships with *their vendors*.

Let's face it. The traditional approach companies take when building and leveraging their vendor relationships doesn't work. It creates unnecessary tension and animosity between the customer and the vendor. It leads to high costs, increased risks, wasted resources and, maybe most important, lost opportunity. It's a huge problem—and there's plenty of fault to go around.

Let's start with vendors. Way too often, vendors place more emphasis on *closing* the deal than on *executing* the deal. They agree to unrealistic expectations—and then they don't meet them. They don't implement systems and processes to make it easy to collaborate with customers. And they generally stink at communicating. I mean *really* stink.

But vendors aren't the only ones to blame. Customers do a great job of creating many of their own problems—the ones for which they end up blaming their vendors. They aren't clear about what they really want, yet they somehow expect the vendors to figure it out. They set unrealistic expectations for both themselves and the vendors. And they generally stink at communicating. I mean *really* stink.

Exacerbating the problem is the view of most companies that vendors are simply commodities that can be easily replaced. They are costs to be cut. They are "the other guys," best kept at a safe distance.

I have a different perspective.

Vendors are an incredible resource that, when smartly selected, integrated, and managed, can enable organizations to achieve results that they could not achieve on their own. They provide knowledge … and skills … and experience … and scalability … and lots of other things that are core to the success of every organization—big or small, public or private. They should be integrated into every organization's extended workforce and treated as a true strategic partner.

But here's the problem: Organizations don't think about vendors in this way. They see them as costs, not assets. They undervalue the benefits vendors can provide, and they spend very little time managing and nurturing the relationship. As a result, there is a huge gap between what companies spend every year with their vendors and the value they get back for that money.

We are living through the most brutal recession that many people have ever experienced, with a recovery that's moving at the speed of a glacier. Everyone is looking for a way to manage costs and continually do more with less. During this time, the conversation has centered almost entirely on cost cutting—the money that's not spent. But where is the conversation about getting more out of the money that is spent? That is, the millions—even billions—organizations spend each and every year with their vendors?

It's time for a new conversation, one that views vendors as strategic partners and focuses not simply on cost cutting but on maximizing the value of the vendor relationship.

It's time to start thinking differently about vendors. And to take deliberate actions to get more out of the customer/vendor relationship.

There's gold in them-there hills. And the time to start mining it is now.

RETHINKING VENDORS

THE UNTAPPED VALUE OF GREAT VENDORS

Great vendors are, well, great. They provide value over and above what they sell. They are a strategic asset to any organization, a partner in execution, and an important member of the extended workforce. Here are a few things you get from great vendors.

Knowledge
Great vendors provide brainpower on an as-needed basis. They offer strategic ideas and tactical insights on how to plan, grow, manage risks, and streamline operations.

Skills
Great vendors provide technical and industry-specific skills like legal, marketing, accounting, and technology that you don't have on staff or that you need for a particular project or initiative.

Experience
Great vendors bring best practices they've learned from working on many projects with many other organizations. They have tackled projects you haven't. They know what went right, what went wrong, and how you should design your own process to get it right and not wrong.

Scalability
Great vendors give you a way to grow (or shrink) in a way that limits your investment and risk. They enable you to ramp up (or down) targeted aspects of operations in a cost-effective way. They provide you with people, space, technology, and other resources crucial to operations.

Distribution
Great vendors enable you to extend your business and reach new markets by leveraging proven, established distribution channels.

Cost Efficiency
Great vendors give you the ability to operate faster and cheaper. They give you ideas on how to do things less expensively. They help you leverage buying power, and they turn fixed costs into variable costs.

Great vendors are ones that you want to find, and nurture, and manage, and hold on to. They are the ones that give you tremendous return on your investment of time, effort, and money. They are the ones that can be a key driver in the success of your organization.

Great vendors can be game changers.

But not all vendors are great. In fact, there are a lot of bad vendors out there. You can sniff them out when you hear frequent, recurring complaints about

poor quality,
slow responsiveness,
late delivery,
blown budgets,
inaccurate billings,
wrong advice,
inexperienced teams,
poorly written deliverables,
… and the list goes on.

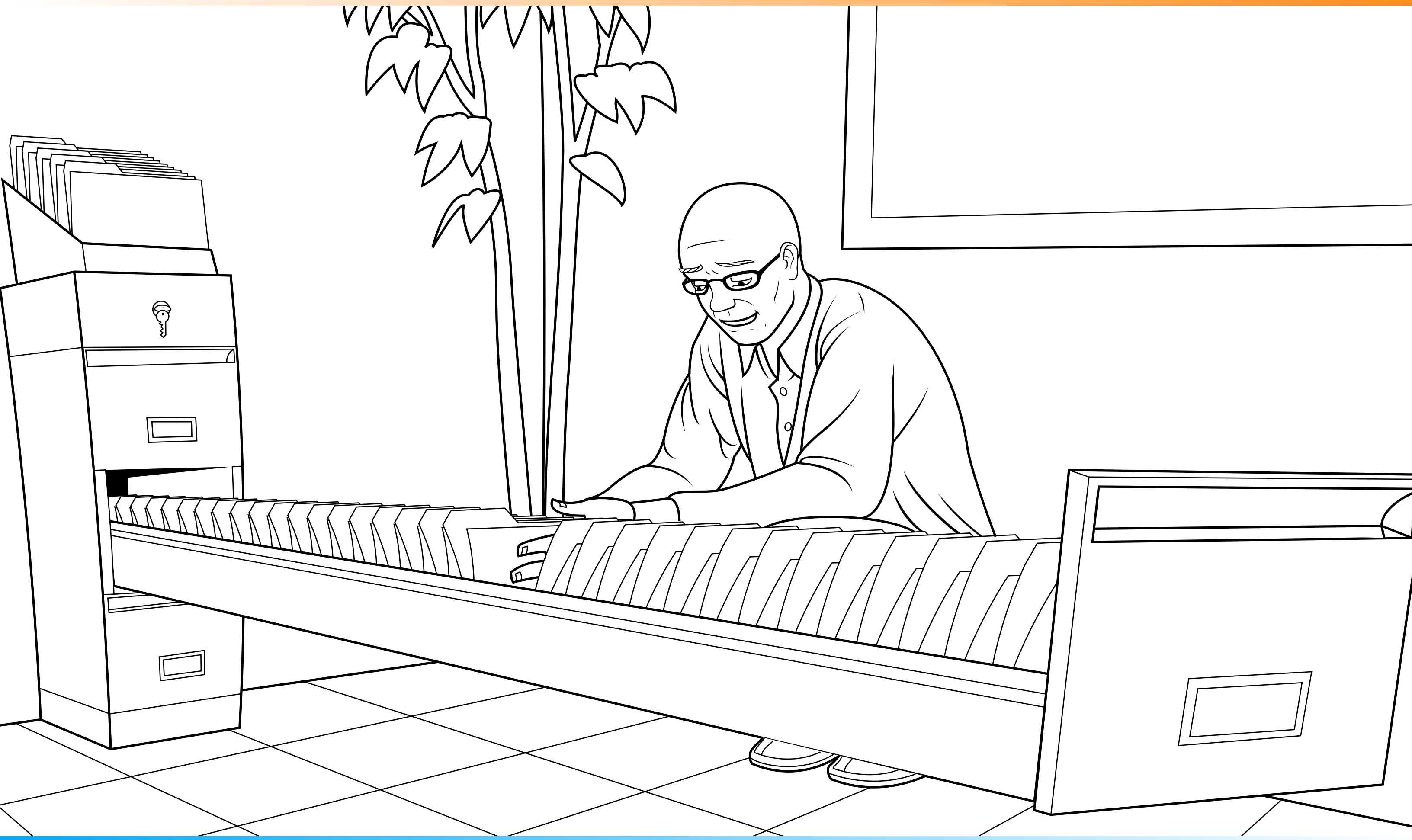
Bad vendors waste your time and cost you money. They frustrate employees. They over-promise and under-deliver (again and again). At best they disrupt your business; at worst, they devastate it.

Bad vendors are a big reason why organizations take a keep-your-distance approach with all of their vendor relationships. But this is the wrong approach.

Lumping vendors into one big bucket limits an organization's ability to leverage the knowledge, skills, experience, scalability, distribution and cost efficiency that can be afforded by their great vendors. It wastes resources, and it limits opportunity.

What organizations should be doing instead is getting more strategic about how they identify, build and manage a portfolio of great vendors and, in turn, eliminate the bad ones.

How many great vendors are in your vendor portfolio?



RETHINKING VENDORS

YOUR VENDOR PORTFOLIO IS BIGGER THAN YOU THINK

If you ask one hundred people to answer the question “What is a vendor?” you probably won’t get one hundred different answers, but you will certainly get many different perspectives.

Some variations can be attributed to people’s past experiences; some are the result of where people sit within organizations; and some are simply created by the fact that there is no common definition that resonates. Just about everyone can tell you what a customer is, but they are not as clear (or consistent) when giving you their definition of a vendor.

Here’s my definition—and it’s pretty simple:

A vendor is any business or person that is not on your payroll that you pay to provide some type of good or service that supports the running of your business.

In other words, anyone your organization pays that isn’t an employee. Here are a few examples of what I consider to be vendors:

Independent contractors
Consultants
Insurance and benefit providers
Landlords
Lawyers
Accountants
Software companies
IT service companies
Telecommunications providers
Printers
Merchant card processors
Banks

Outsourced service providers

Utility companies

Car rental companies

Hotels

Parts suppliers

Shipping companies

… and that's the short list

Typically, the type and number of vendors an organization has depends on its size. The bigger you are, the greater the variety and depth of your vendors. And of course, the more vendors you have, the more money you spend with them.

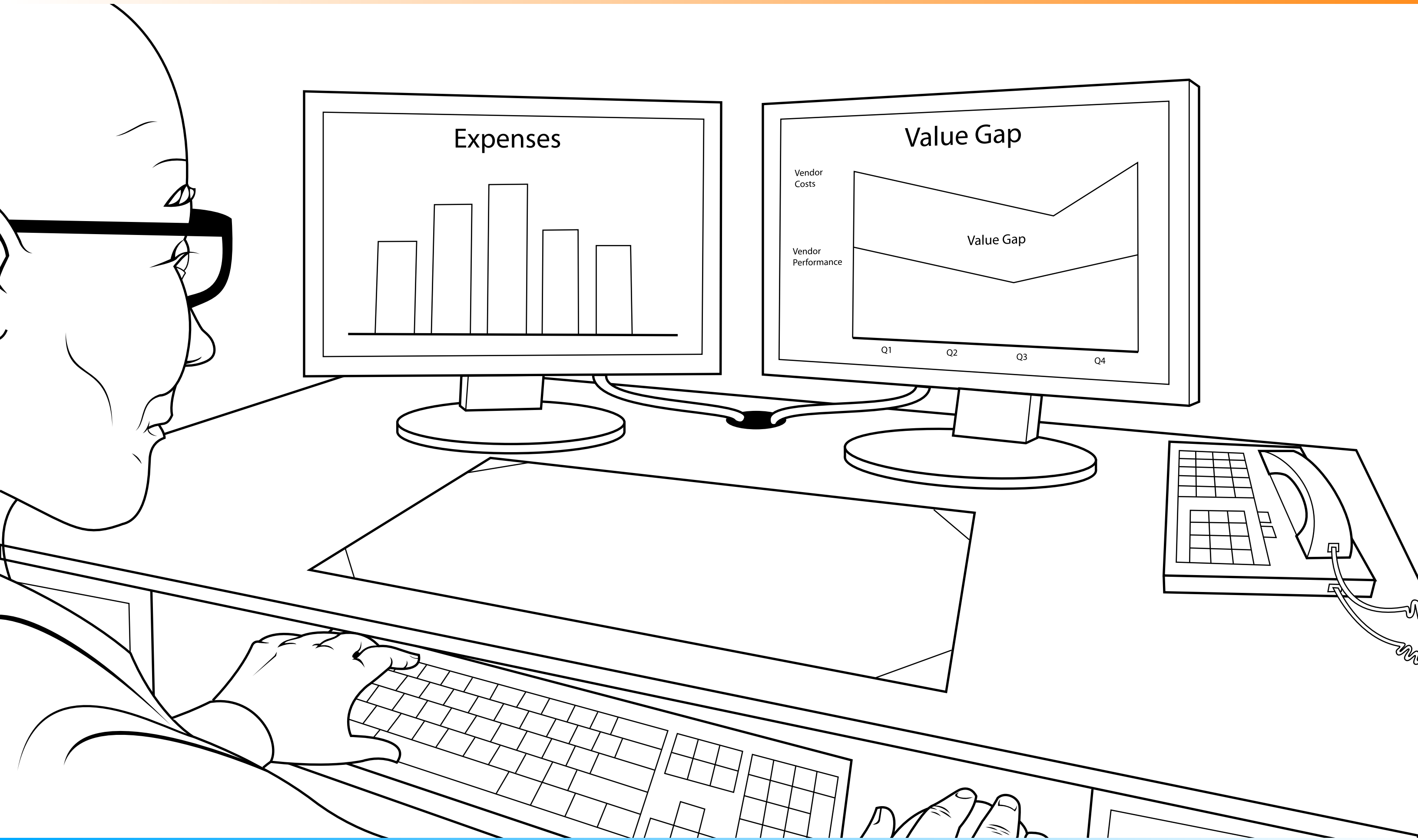
Here is a statistic that surprises most people: the typical organization spends anywhere from 40 to 60 percent of its annual operating budget on vendors. In some industries, that percentage goes higher than 70 percent. And these are only the hard costs.

In addition to cutting checks for goods and services, companies also incur soft costs to manage each vendor relationship. This includes time and effort employees put into

finding a vendor,
meeting with the vendor,
evaluating the vendor,
negotiating contracts with the vendor,
collaborating with the vendor,
procuring goods from the vendor,
resolving problems with the vendor,
reviewing, approving, and paying invoices to the vendor, and
tracking compliance for the vendor.

That’s a huge effort to manage a single vendor relationship. Now multiply this effort by 50 or 500 or 5,000 or (fill in *your* blank) vendors. That’s a significant investment of time, effort, and money.

How much are you investing with your vendors?



RETHINKING VENDORS

THE VALUE GAP

Given the significance of the resources invested with vendors, every organization must focus on maximizing the value received in return. But there is a big problem; organizations simply don't approach vendor relationships from this perspective. Instead, they tend to focus heavily (even myopically) on one aspect - cutting costs.

Businesses have been on a cost-cutting tear in the last few years. This was initially in response to a rapid downturn in the economy, but more recently it has been a means to manage through an incredibly sluggish recovery.

Approaching cost-cutting strategically can have a favorable impact on every business. After all, most have a natural tendency to carry a little extra weight when times are good and to trim back when times get tough. Strategic cost cutting can eliminate nonproductive and low-value activities and costs by

eliminating poor-performing programs,

improving pricing by adjusting to current market rates,

identifying opportunities for improved productivity, and

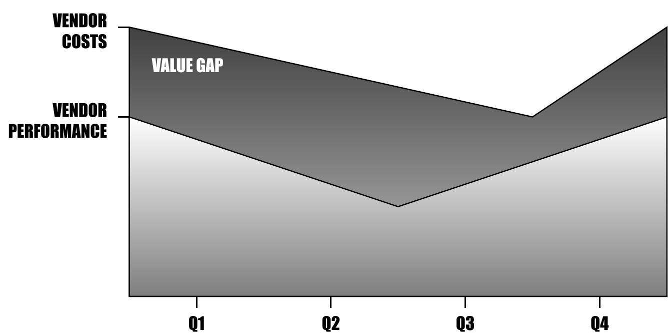
being smarter and more deliberate in how money is spent.

While cost cutting is generally viewed in a negative context, it is actually a healthy component of management and a part of the natural ebb and flow of any business. It may not always be desired, but it is to be expected.

Yet the *true value* derived from any vendor relationship is not the result of cutting costs; rather, it is from smartly managing relationships with the right group of vendors to produce the greatest return on investment.

Remember, regardless of how much an organization cuts costs it will still spend, on average, 50% or more of its operating budget with vendors. So it's paramount for every organization to get the highest level of value it can from this investment. Owners expect it. Shareholders expect it. The board of directors expects it. And, in the public sector, taxpayers expect it.

Yet every day, organizations buy goods and services from vendors without getting relative value in return. Whether a result of cost overruns, poor quality, unpredictable service or dozens of other reasons, the bottom line is that businesses waste thousands (millions) of dollars every year. Money wasted from working with too many bad vendors, and from neglecting relationships with the great ones. We have a term for this chasm between dollars spent and value received in return - we call it The Value Gap.



The Value Gap can be measured by any organization so long as three things are present: the amount spent with vendors, clear performance standards for those vendors, and data that can be used to evaluate vendor performance against those standards. Put these three things together and any organization can assess how much value is being lost each and every year due to an under-performing vendor portfolio.

How much value are you losing each and every year?

RETHINKING VENDORS

SET THE STAGE AND GET MORE VALUE FROM YOUR VENDORS

So the path to tapping into a pool of tremendous opportunity is clear: be more strategic in building your vendor portfolio and focus on closing the value gap. Doing both really well can literally change the dynamics of your organization. It can reduce costs and increase profitability. It can provide scalability and access to new ideas. It can reduce risks and increase capacity. It can open new markets and drive growth.

It's the job of everyone in senior management to get more out of their vendor relationships, but getting results doesn't just happen. It requires a focus on both cost <u>and</u> performance management. And it must be driven by well-designed processes and systems that produce:

> ***Alignment***
> Figuring out where vendors fit and can best support you strategically, operationally, and financially.
>
> ***Standards***
> Establishing guidelines and ground rules for expectations, activities, and performance.
>
> ***Collaboration***
> Ensuring you use the most effective processes and systems to facilitate communication and work with your vendors.
>
> ***Data***
> Ongoing collection of information to understand how things are really working and to make improvements continually.
>
> ***Transparency***
> Sharing information on pricing, performance, risk, and compliance to get everyone on the same page and working toward the same goals.

Each one of these serves to strengthen your relationships with your best vendors and, in turn, drives higher levels of value to you. Finding great vendors establishes the team; putting the right data, processes, and systems in place are the tools that produce results.

Your job is to do both.

And if you do it really well, you can produce benefits far beyond anything you could get from simple cost cutting alone.

Start building great vendor relationships now.

RETHINKING VENDORS

ZAPPOS GETS IT

One of the best examples of a hugely successful company that really leverages the value of great vendor relationships is Zappos, the one billion dollar (and then some) online shoe, clothing, and accessory company. If you've bought a pair of shoes online in the last five years, you've probably heard of them.

Tony Hsieh, the CEO of Zappos, talks a lot about the company's approach to vendors in his book *Delivering Happiness: A Path to Profits, Passion and Purpose*. In the book, he talks explicitly about the value of vendor relationships, how Zappos works tirelessly to make them true partners in the business, and how these partnerships have been a significant contributor to Zappos' success.

Here is a great overview of how Zappos views and approaches vendor relationships, as described by Fred Mossler, the company's VP of Merchandising (and one of the original Zappos employees):

> "The typical industry approach is to treat vendors like the enemy. Show them no respect, don't return their phone calls, make them wait for scheduled appointments, and make them buy meals. Scream at them, blame them, abuse them…anything to get as much as possible and squeeze out every last dime.
>
> It's a wonder people don't realize that business doesn't have to be done this way. Ultimately, each party is out for the same thing: to take care of the customers, grow the business, and be profitable. In the long run, it doesn't behoove either party if there's only one winner. If vendors can't make a profit, they don't have the money to invest in research and development, which in turn means that the products they bring to the market are less inspiring to customers, which in turn detriments the retailer's business because customers aren't inspired to buy.

> We wanted Zappos to be different by creating collaborative relationships in which both parties share the risks, as well as the rewards. We found it much easier to create alliances when partners align themselves to the same vision and commit to accountability, knowing we'll all benefit from achieving our goals.
>
> Not only does this approach get both sides pulling in the same direction, it creates an environment and culture where people are inspired to get up every day, passionate for what they do. It creates empowerment and control of the business, as well as a sense of pride and ownership. It makes people want to do more because they know their contributions mean something."

Zappos has harnessed the power of a more deliberate, strategic approach to its vendor relationships, and its results have been nothing less than phenomenal: Zappos has gone from an idea to a billion-dollar company in less than ten years.

Zappos gets it. You can too!

About Tom

Tom Rogers is the cofounder and CEO of Vendor Centric, responsible for the company's vision, strategy, products, and services. He's also an entrepreneur at heart, having started and/or owned four professional service firms over his twenty-year career.

One of Tom's biggest passions is taking a new lens to an old problem and coming up with creative ways to solve the problem through a new product or service, or a new business. This passion is ultimately what led him to form Vendor Centric. Here's how:

> Over Tom's career he personally consulted with more than one hundred organizations, including privately held businesses, nonprofits, and federal agencies. In his work he noticed a common thread: clients were spending a lot of money with vendors, but they had no real strategies, processes, or systems to ensure they were getting the most value out of all of the money they were spending.
>
> So in 2011, Tom formed Vendor Centric along with his cofounder, Mikah Sellers. The company's mission is to help clients get better results from the money they spend with their vendors by transforming how they design, leverage, and manage their vendor relationships. Getting this message out is Tom's passion.

Prior to forming Vendor Centric Tom was managing director of Rising Point, a management consulting firm that provided management consulting to organizations across the United States. Before Rising Point, Tom was a partner in the national accounting and consulting firm BDO.

Connect with Tom at http://www.linkedin.com/in/tomrogerscpa

About Vendor Centric

What We Believe
Organizations of all types and sizes can significantly increase their ability to drive growth, control costs, and mitigate risk by being more strategic about their vendor relationships and by taking a more process-driven approach to how they manage those relationships.

What We Do
We work with private and public-sector organizations to implement strategies, processes, and systems that manage and improve every aspect of the vendor relationship. Our expertise includes:

Sourcing and Selection. We help clients create the right portfolio of vendors, establish the necessary standards to manage performance, and continually realign the portfolio to ensure there is a great fit.

Performance. We help clients align a vendor-performance management system with an organization's strategic goals and objectives to create exceptional, measurable outcomes.

Pricing. We help clients avoid unnecessary costs by ensuring prices with vendors are both fair and billed accurately.

Risk and Compliance. We help clients design and implement strategies that support risk and compliance management needs.

Vendor Management Outsourcing. We support clients in getting the greatest value from their vendor relationships by serving as their outsourced vendor management office.

You can learn more about our company and services at http://vendorcentric.com.

Acknowledgements

Very special thanks go to Matthew Lee Keith for illustrating Rethinking Vendors. Matthew worked tirelessly to help translate the concepts into art for this book and our website. He made it look easy, but it wasn't easy work. Thank you, Matthew.

Connect with Matthew at http://www.linkedin.com/in/matthewleekeith.