



## Unit - 3

## Specialised Buying & Vendor Management

### Learning Outcomes

**By the end of this unit the learner will be able to:**

- ✓ Explain the various features of Vendor Management
- ✓ Describe the importance of Learning Cycle and Training in vendor Management

## Unit 3

# Specialised Buying & Vendor Management

## Introduction

Specialised buying encompasses all the tasks undertaken by a company's purchasing division, in order to purchase and/or import raw materials, equipment, plant and so on. Importing is a popular option, either due to the unavailability of the items within the country at the time or the significantly lower costs of procuring items from overseas. As there is no country that can provide its businesses with *all* the resources it needs domestically, importing has become a standard practice.

## Vendor Management

The term 'vendor management' refers to the process of finding, contacting and developing working relationships with vendors and providers outside the organization itself.

## Choosing the Right Source

The decisions made when selecting a vendor can have wide-reaching implications on the organisation in general. For the purchasing manager, the challenge lies in identifying ideal sources and ensuring the company maintains a good working relationship with the source. On the part of the vendor, this means ensuring everything is delivered on time, at an affordable price and is of an acceptable quality standard.

A good vendor will meet the following two criteria:

- i. Each vendor should be able to fulfil every purchase order at an affordable price, while maintaining high quality standards across every item.
- ii. In addition, the vendor should have contingency plans in place, in order to deal with emergency situations and issues within their own supply chain.

Both of the above are typically dependent on competition. There needs to be a certain amount of competition among vendors, in order for each individual source to make decisive efforts to improve quality standards and reduce costs for the benefit of the buyer.

## Identifying the Right Source of Supply

Outlined below are several important points to consider when identifying a quality source:

- (a) Which items are being procured nationally and internationally using single sources?

- (b) Have you identified alternative suppliers or vendors worth considering?
- (c) What strategies need to be adopted to develop sources to provide high quality products?
- (d) Have you identified strategies to reduce risks associated with supply monopolies?
- (e) Have you determined whether all sources of supply have been identified?
- (f) What main elements make up the cost of items?
- (g) Can supply cost of components be forecasted for the next year?
- (h) Which likely events can affect potential vendors in the years ahead?

- (i) Will changing prices influence manufacturing costs?

Micro points to address in finding the right source include the following:

- (a) Obtaining and studying the supplier's track record
- (b) Obtaining information on the financial standing of the supplier from their balance sheet
- (c) Establishing the capacity of the supplier to expand if necessary
- (d) Considering any possible delays and delivery lead times
- (e) The supplier's willingness to comply with your terms and conditions
- (f) The ability of the supplier to cope in emergency situations
- (g) How much expertise the supplier and their production staff have
- (h) The supplier's overall reputation and position within the industry
- (i) Evidence of commitment to innovation and evolution
- (j) Determining suppliers' capacity and flexibility to expand in the future
- (k) Records on delivery lead time and delays

## Selecting a Source

The following can be useful when looking to locate the ideal vendor:

- (a) Any prior experience you have had with the vendor
- (b) References from similar businesses
- (c) Catalogues
- (d) Trade directories
- (e) The internet
- (f) Advertisements to register vendors
- (g) Trade conferences

Additional considerations for a vendor development strategy:

- i. If you wish to remain a priority for the vendor, you'll need to remain loyal to just a select few vendors. This ensures healthy competition between the vendors, keeping prices low and quality high.
- ii. As a rule of thumb, large projects involving large teams of contributors should have approximately 2 to 3 vendors. The stronger the relationships you maintain with these vendors, the bigger the benefits for your business.
- iii. Where fast moving items are concerned, it's useful to have three or more vendors on your books.
- iv. Where several vendors are offering identical quality and value for money, select the vendor that is based in the nearest/most convenient location possible.

- v. Remember - it can take anything from 2 to 5 years to develop a good vendor programme. It's not something that can be rushed, as it may take time for you to determine the qualities and limitations of the vendor's you work with.

### Benefits of choosing a Source of Supply

- Reductions in spending by maintaining comparatively low inventories
- Additional savings by purchasing items instead of manufacturing them
- Better value for money by placing orders for larger quantities of items
- The ability to deal more effectively with seasonal variations in demand
- Lead times significantly reduced by ordering items from a single source
- Improved quality control and general consistency of quality
- More time for managers and senior staff to focus on other tasks
- Process computerisation frees up even more time and saves the business money
- The likelihood of issues with item rejection and late delivery is reduced

### Vendor Registration and Development

The formal process of bringing a vendor on board means 'registering' them with the buyer's business. This typically involves the provision of a detailed questionnaire, with which the vendor is able to provide a detailed snapshot of their business and its performance. The exact content of the questionnaire will vary from one purchasing organisation to the next, but will typically cover a series of important basic details.

Examples of which include the following:

- (a) Name of the supplier
- (b) Location of the supplier's communication office
- (c) Location of the supplier's warehouse
- (d) Location of the supplier's factory
- (e) The supplier's general track record to date
- (f) Willingness of the supplier to work with the buyer's terms, conditions and quality specifications and other pertinent issues such as offering warranty for items purchased
- (g) The capacity of the supplier to handle and urgent and emergency requests
- (h) The expertise and experience of the supplier's in house staff

- (i) Information on the break-even points of manufacturing units
- (j) Evidence of the supplier's reliability and efficiency
- (k) Evidence of innovation and commitment to quality
- (l) Ownership status of the organization and details of affiliates
- (m) Issues the vendor has encountered and how they have been overcome
- (n) Details of quality control, inspection and testing facilities

## Vendor Rating

An overall vendor rating is determined in accordance with the extent to which they have satisfied key criteria. The following points should be taken into consideration when rating a vendor:

- (a) To what extent does the vendor prioritise and document quality control?
- (b) Does the vendor clearly have a knowledge and understanding of what you need?
- (c) Are you confident in the vendor's current delivery system and standards?
- (d) Have you carefully considered the rejection level of the vendor?
- (e) Is the vendor's production planning system effective enough?
- (f) Does the vendor have a good research and development strategy in place?
- (g) Is the vendor clearly striving for continuous improvement and optimisation?
- (h) Is the vendor's equipment and technology in general up to date?
- (i) Can you say for sure that the vendor has a good reputation?
- (j) Does the vendor prioritise fair and amicable working conditions for its staff?
- (k) Is there anything specific about the vendor you're not entirely convinced with?
- (l) Does the vendor have ISO 9000 certification?

## Aims of Vendor Rating

The whole point of the vendor rating process is to work out which vendors are able to provide the items you need at affordable prices, while ensuring consistency of quality and total reliability. However, vendors may also use their own criteria to assess and evaluate the buyers they work with.

The primary aims of vendor rating for the purchasing organisation are as follows:

- i. It can save the buyer time and money, while ensuring the best possible value for money and the highest quality products on a consistent basis.
- ii. It promotes objectivity and transparency, encouraging vendors to perform at a higher level and creates healthy competition between vendors.
- iii. It ensures that the vendor takes the purchasing organisation seriously and acknowledges its commitment to quality and affordability.

- iv. It provides a structured way of evaluating the quality of the vendors available - far more effective than making things up as you go along.
- v. It provides the purchasing organisation with a record of vendors considered and evaluated, which may be useful for future reference.
- vi. It provides the vendors themselves with the opportunity to assess their own strengths and weaknesses, while striving for continuous improvement.
- vii. It is considered the best way of fairly distributing businesses or contracts.

Of course, the list of questions detailed above is by no means exhaustive. It should also be revisited and updated on a regular basis, in accordance with the requirements of the purchasing organisation in general. At all times, however, it is important to maintain confidentiality and keep all vendor information confidential.

## Vendor Rating Methods

There are several effective ways of rating vendors, but most purchasers simply 'award' the vendor a positive, negative or neutral rating for each question/consideration. All of which will be determined by their performance, and the extent to which they are an appropriate fit for their business. Ultimately, the vendor that scores the most pluses is the most suitable vendor for the job.

### Rating Methods include:

- (a) Weighted Pointed Plan (based on quality, price and delivery schedule)
- (b) Cost Ratio Method (based on are identifiable purchasing and receiving costs to the value of shipment received from supplier)
- (c) Eavston's Vendor Selection Method (selecting the ideal standards and diluting them till one or two vendors qualify)
- (d) Forced DecLion Matrix Method (using relative weights attributable to factors such as price, quality, lead time, service etc.)
- (e) Dowst's Key Questions Method (answering key questions about the vendor like why, who, how etc., helps to build a vendor profile)
- (f) Spear Supplier Evaluation Method (macro level factors used for analysis include management, engineering, finance, material, manufacturing, quality and reliability etc.)
- (g) IBM Quality Rating (uses factors such as desired inspection costs to actual inspection costs)
- (h) Bell Quality Rating System (uses factors such as acceptable to rejected material)

## Parameters of Vendor Rating

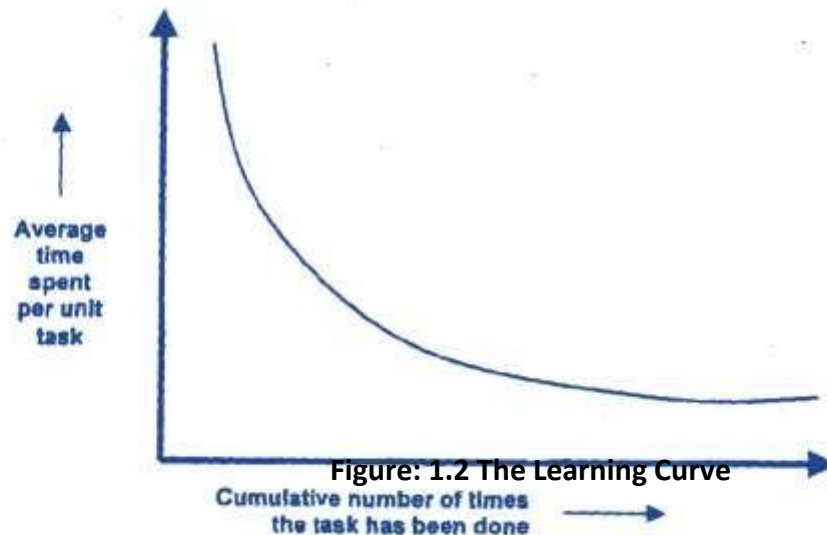
Some of the most important factors to consider when assessing and rating vendors are detailed in the table below:

Technical	Financial	Managerial	Service
<ul style="list-style-type: none"> <li>• Past quality performance</li> <li>• Warranty performance</li> <li>• Inspection plans</li> <li>• Toolroom facilities</li> <li>• Test equipment</li> <li>• Personnel skill level</li> <li>• Support documentation</li> <li>• Design facilities</li> <li>• Value analysis</li> <li>• Quality consciousness</li> <li>• Plant capacity</li> <li>• Plant layout</li> <li>• Maintenance policies</li> <li>• Generating facilities</li> <li>• Manufacturing experience</li> <li>• Inspection methods</li> <li>• Process rejections</li> <li>• Repairing rejects</li> <li>• Replacing rejects etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Volume discount</li> <li>• Credit terms</li> <li>• Cash discounts</li> <li>• Product price</li> <li>• Real profit margin</li> <li>• Return on total assets</li> <li>• Current ratio</li> <li>• Quick ratio</li> <li>• Funds flow analysis</li> <li>• Follow-up procedures</li> <li>• Inflation hedging policies etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Number of workers</li> <li>• Number of executives</li> <li>• Management ability</li> <li>• Adapting to change</li> <li>• Reputation of Board, Management Information Service (MIS), Corporate image, Guarantee integrity</li> <li>• Length of time in business</li> <li>• Industrial relations</li> <li>• Staff morale</li> <li>• Structure</li> <li>• Systems</li> <li>• Managerial skills</li> <li>• Management styles</li> <li>• Strength &amp; Weaknesses</li> <li>• Opportunities &amp; threats etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Delivery lead time</li> <li>• Delivery reliability</li> <li>• Small order supply</li> <li>• After sales service</li> <li>• Spares supply</li> <li>• Emergency supply etc.</li> </ul>

**Table 1.1: Parameters of vendor rating**

## Learning Cycle and Training

In accordance with the learning cycle, tasks being completed for the first time take longer to tackle and accomplish. As time passes, the same individual or business carrying out the task develops a familiarity with the task, and is therefore able to complete it quicker. The graph below representing a basic overview of the learning curve, displaying the amount of time spent on a task verses how many times the task has been performed:



The learning curve is applicable in the field of material management and purchasing, in that initial tasks have a tendency to take far more time and effort to complete. Nevertheless, experience breeds efficiency, which significantly reduces the time needed to achieve specific objectives. The learning curve applies to every member of the workforce at every level - all the way from new members of the workforce right through to executive leadership figures.

### Pitfalls of Learning curve

The learning curve does not apply to items and actions, but to 'situations, attitudes, problems or negotiations'.

Duties for the material manager include the following:

- (a) In what ways can the learning process reduce material costs?
- (b) In what ways can the learning process be used to negotiate prices with vendors?
- (c) At what point in time can a new recruit be allowed to perform tasks without supervision?
- (d) How can one shorten the learning curve?
- (e) What is the time taken by new systems to attain steady state?

According to the learning curve, no person or system functions at an optimum level from the very beginning. Instead, there is an inevitable process of learning and development that results in this learning curve. The curve can be shallower or steeper, in accordance with the complexity of the tasks and the quality of the training provided by the business. Steeper learning curves indicate faster and more effective learning processes, while shallower learning curves indicate the opposite.

Key factors known to impact the learning process include:

- i. The character and personality traits of the worker, as some are not nearly as keen as others to develop new skills and expand their knowledge.
- ii. The general culture of the workplace - whether or not there is a constant drive to improve workers' knowledge and skills through targeted training and development.
- iii. The quality of the training programs provided by the organization and the extent to which they are accessible by the workforce.

Unsurprisingly, the most important and influential of these three factors is the quality and accessibility of the training provided by the organization. In the absence of quality training and development opportunities, even the most enthusiastic employees may find it difficult to progress. Personality traits and employee character are outside the control of the organization, but every business has every opportunity to provide high quality training and development opportunities for its employees.

Quality training more effectively shortens the learning curve than anything else and should therefore be prioritised. In instances where a learning curve remains shallow, it can be typically attributed to one or more training and development issues.

### Systematic Training Needs Analysis

The materials manager is expected to:

- (a) Ensure every member of the workforce understands the company's objectives and philosophy
- (b) Provide a complete overview of all essential procedures and rules for the department
- (c) Provide ongoing training and development opportunities for every employee
- (d) Update all training materials and programs on a regular basis for consistent quality
- (e) Ensure employees have access to an extensive library of helpful resources and learning materials
- (f) Lead by example and focus on their own continuous professional development

Improving the materials manager's ability involves:

- (a) Focusing on the development of problem-solving and analytical skills
- (b) Offering training on the appropriate use of new tools and techniques
- (c) Following the examples set by senior leadership figures
- (d) Considering and revisiting their personal and professional philosophies
- (e) Remaining committed to ethical and professional conduct at all times
- (f) Taking part in training and development opportunities where possible

## Documenting the Processes, Codification and ISO 9000

Questions for the Material Management Department:

- (a) How should vendors be rated?
- (b) Have the purchase order been typed without any mistake?
- (c) Who should approve of items to be purchased?
- (d) What are my accommodation and other entitlements during inspection trips?
- (e) Which location is most suitable for a specific item?
- (f) Where can I find this particular item?
- (g) Where can a vendor's file be found?
- (h) Which items are fast-moving and which ones are slow-moving?
- (i) How can items be properly disposed of?
- (j) What are the procedures for coding new items?

In order to ensure everyone is on the same page, purchasing organisations must meticulously document their activities and ensure copies are made available to all involved parties. ISO 9000 exists to help ensure the products and services produced and offered by companies are of consistent quality.

In order to prepare a good document, items must be coded. Coding is considered important because it:

- Makes it quick and easy to identify items
- Eliminates the requirement for long and complex names
- Allows for similar items to be arranged in an orderly way
- Eliminates duplication
- Allows for bulk ordering of items
- Improves lead times
- Helps with the simplification and standardisation of items
- Simplifies computerisation and stock transfer between businesses

Each code should be easy to understand by all parties involved.

## Materials Management Computerisation

The computerisation of materials management and general vendor management has brought a variety of benefits to purchasing organisations worldwide. Examples of which include the following:

- (a) **Efficiency** The efficiency of computerised materials management systems vastly exceeds that of any traditional materials management framework. All of which saves the business time and money.
- (b) **Effectiveness** Computerisation has also had a direct impact on effectiveness and productivity at a variety of levels throughout the business.



- (c) **Communications** The speed and efficiency with which information can be communicated using computerised materials management systems is unsurpassed.

The computerisation of materials management processes in general has led both the buyer and the vendor to expect and demand the following:

- Immediate and up to date information on their current status
- Fast and reliable answers to their questions
- All commitments honoured with no delays or interruptions
- Continuous communication between the two parties

As for how computerisation helps the purchasing manager:

- It significantly reduces the requirement for paperwork
- It ensures more time is freed up for other tasks
- It reduces procurement and delivery times
- It provides immediate and accurate access to information
- It generates reports and highlights key findings automatically
- It promotes better communication with vendors
- It can be used to carry out a variety of inventory control functions
- It provides an immediate real-time snapshot of current inventory
- It assists with the production of accurate forecasts
- It makes it easier to plan ahead
- It assists with procurement in emergency situations
- It provides flexibility and scalability for growing businesses
- It eliminates many aspects of human error from the equation
- It makes it easier to identify strengths and weaknesses

### Further Reading:

- ✓ *P Gopalakrishnan, M Sundaresan, (2011), Materials Management: An Integrated Approach*
- ✓ *Thomas V. Bonoma, Gerald Zaltman, (2011), Organizational Buying Behavior*