VENDOR M

The Life Cycle Approach

Vendor management is often overlooked or avoided by managers due to a lack of clarity about the entire process. The life cycle approach to vendor management will explain the five categories of vendor management that create a successful vendor relationships.

ANAGEMENT:

By Scott Offermann

Within every organization there is a reliance on the use of vendors to deliver supplies and to perform routine maintenance, specialty services, and one-time and emergency repairs. While it is a simple task to call someone to deliver merchandise or services, or to repair a broken item, the management of that one task is sometimes overwhelming.

From the identifying, qualifying, receiving a copy of the certificate of insurance, entering the vendor in your financial system, scheduling the service, managing the repairs, having the invoice submitted correctly, paying the vendor, and, when necessary, ending the relationship, the function of vendor management can be overwhelming. There are many examples of how one particular vendor consumed a great many hours when trying to do something as basic as submitting the invoice correctly, having them arrive unexpectedly, sending the wrong skill level of technician, delivering items that cannot be unloaded, etc. The process of managing the vendor is not a single-step process and professionals need to understand the life of the relationship, recognizing that the ownership of the vendor relationship and management of vendors throughout the life cycle is a major component in the success of any business.

The life cycle of any vendor management process can be broken down into five major categories:

- Qualifying,
- Engagement,
- Managing the delivery,
- Managing the finances, and
- Ending the relationship.

Qualifying

Qualifying a vendor is the process of determining if the vendor has the legal and business requirements, expertise, and capabilities of delivering to your expectations. The following are several areas of concern when qualifying a vendor.

Appropriate Insurance, Bonding, and Business License

Insurance provides financial protection in the event that an accident occurs resulting in damage to property or personnel. Most of us are familiar with a certificate of insurance and realize that those requirements must be determined prior to engaging with any vendor. The limits and requirements are determined by many business factors, including the policy limits of each insurance category, such as general liability, auto, worker compensation, and the "Additional Insured" requirement for your organization. These requirements are determined in conjunction with your organization's risk manager or insurance provider. This category also includes possession of a valid business license, specialty license (such as a contractor license), and the ability to collect taxes and fees.

Adequate Financial Capabilities

Having adequate financial capabilities refers to the credit-worthiness of the vendor, as well as the ability to pay for goods and services, including supplies, payroll, and operating expenses. Consideration needs to be made concerning the abilities of the vendor to perform services in between payments. If you have selected a vendor that is not able to purchase the material or pay its employees without receiving payment, then this vendor does not have the financial qualifications for the delivery of services required.

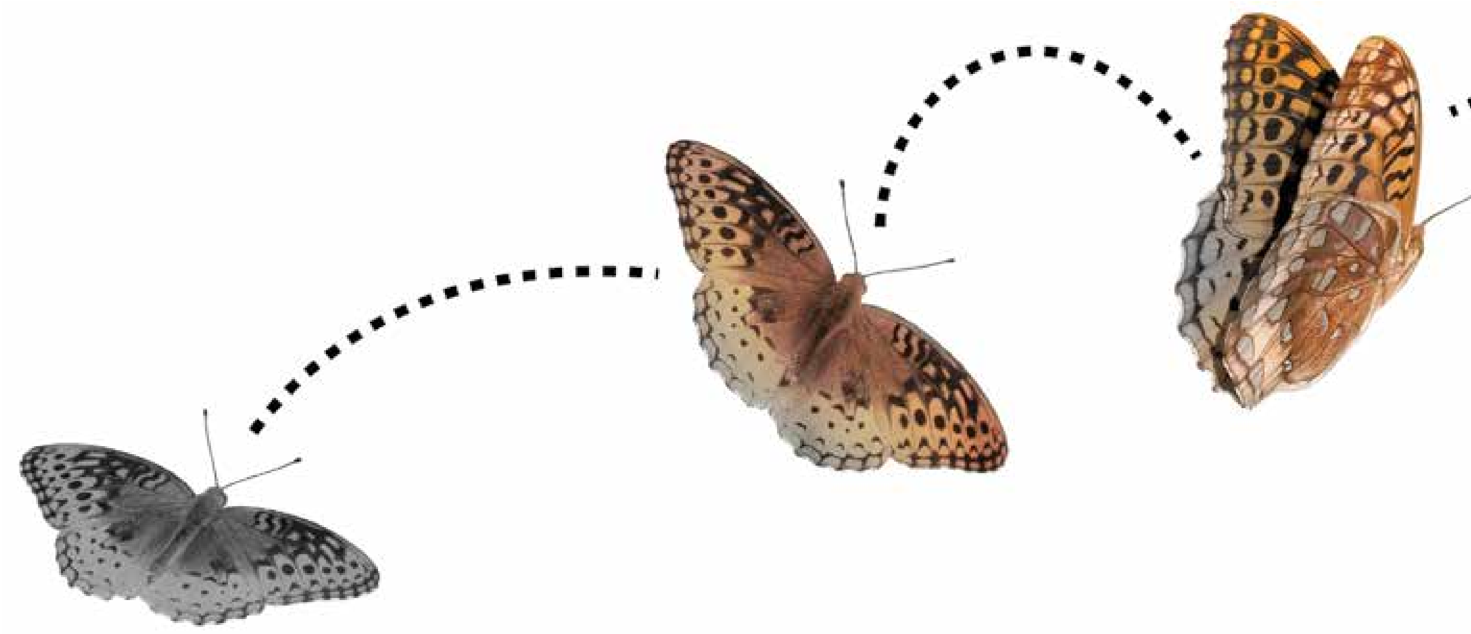
Adequate Staffing, Training, and Licensing

Having adequate staffing, training, and licenses depends on the size of the job and the deliveries required. The vendor needs to employ a sufficient number of qualified staff to provide the service. Training of the staff is key to providing the deliverables and maintaining any specialty license. The specific industry will dictate the training frequency and requirements. In some instances, the training will be continuous and ongoing, while in other instances there will be limited training requirements. The training also includes the training and certification for operation of equipment and required basic safety training or specialty safety training related to the work being done, such as fork lift training or confined space entry.

Appropriate Technology

Technology requirements and expectations differ from company to company and can include accounting software, mobile phones, mobile technology, work management tools, e-mail capabilities, and diagnostic equipment. This is significant as the vendors selected should be capable of managing the service delivery to a matching expectation. The expectations and requirements should be determined based on the need prior to the initial engagement and be in alignment with industry standards.

When preparing to seek a vendor, it is helpful to understand the vendors business. This will assist in managing the expectations and understanding their abilities and the limitations. Understanding your vendor's business is your responsibility as much as it is the vendor's responsibility to understand your business requirement. The more you understand how your vendor's business is operated, the greater the success of the partnership. This does not mean that you should try to manage your vendor's business or insist that it make changes in the business operation. It does mean that you should understand the fundamentals of how the vendor does business.



For example, if you understand the HVAC company has scheduled service calls and that the technicians will be in the field repairing and maintaining equipment, you will know that there are not technicians sitting in the office waiting for a service call and they must complete one job before starting another. Understanding what the vendor needs to be successful is helpful when setting expectations. When contracting vending machine services, for example, there must be a minimum expected level of sales, typically associated with the population of a building. If there is not a large enough population to support the vending machines, the vendor will not be successful, regardless of how hard the vendor tries. When qualifying the vendors, you should be asking questions to understand their business and how it supports your needs.

Engagement

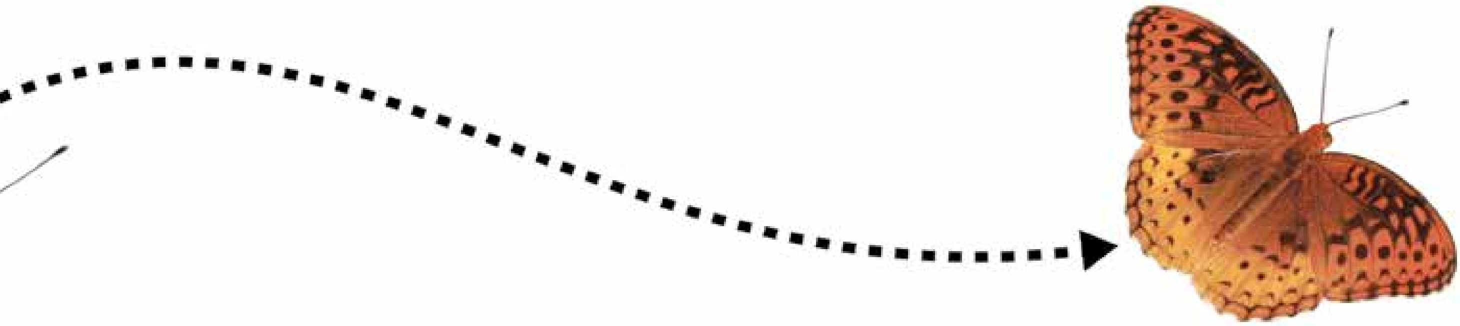
The specific engagement of the vendor is done either by contract or by purchase order. The days of engagement by handshake have been replaced by contracts outlining the deliverables and fees for those deliverables. When engaging, a detailed statement of work to define what the delivery expectations are and conversely what the vendor will charge for delivering those expectations is a necessity. This can be a very complicated document or very simple one, depending on the requirements. If there are any questions or concerns about delivery, manpower, timelines, or financial components, discussions before any work begins or material is purchased will avoid misunderstandings during the delivery.

Managing the Delivery

Managing the delivery is not just the scheduling and oversight of the vendor, it is also providing the required support needed from the customer to achieve the desired outcome. This is a two-way relationship with deliverables and receivables from both parties. As the customer, you need to work with the schedule to make sure the items and areas being affected by the work are available at the time the vendor arrives. This includes selecting times that have minimal impact to business operation and the support you or your team need to provide, such as access to areas or escorts when required, as well as managing the occupants surrounding the work area. As the business representative, you are responsible for familiarizing contractors with the buildings, safety plans, and house rules specific to the business and the buildings managed. Most important, as the customer, you must dictate the time the work is to be done and the start and stop times, and you must also verify safe working conditions and measure the results against the expectations detailed in the statement of work.

When the work is completed, there are additional requirements associated with the delivery that are your responsibility. First is the verification that the work is complete, which includes signing and receiving any documentation required, such as delivery tickets, operation manuals, warranty information, and surplus material for repairs. In some instances, such as construction projects, the final documentation may not be available for weeks or months after the completion of the physical work. Additionally, there may be a need to receive training specific to the work done or transfer knowledge and information from workers to customers that will be required in the future. In some instances, the training will be complicated and may require scheduling at a different time. The delivery is not considered complete until all the documentation and training has been delivered.

The organization's internal requirements are just as important to manage. This includes the documentation of the deliverable, adding the equipment to the assets list, and informing your customer of the completion. Managing the internal requirements includes those unwritten requests that will



help you manage your workload. These are items such as informing critical customers or managers of updates in the process or completion of the deliverable.

Managing the Finances

When a job is concluded (or at a set time during the work, such as monthly), invoices are generated and sent for payment. The first step to managing the finances is during the qualification of the vendor, because payment terms are defined. This includes producing the invoice accurately and in a timely manner. If information is missing or the format is confusing, redefine the financial expectations when you are qualifying the vendor.

The vendor needs to understand the customers' requirements and provide the necessary information and a formal invoice, and you must manage the internal finances. These include the supporting of the company's financial policies and procedures, such as understanding the payment cycles and what information is required on the invoice, including identification of the contract or purchase order on the invoice, and sending invoices to the appropriate e-mail or physical address and to the correct recipient. You need to understand what the organization's requirements are for processing the invoice so that the vendors can be quickly paid.

It is your responsibility to follow up and verify that payments have been made and the vendor is satisfied. This is typically done in response to a vendor inquiry rather than directly reaching out to them. If there is an inquiry directed to you, it is your responsibility to research and follow up with both the vendor and your internal team.

32nd Annual Government Contract Management Symposium

NOVEMBER 18-19, 2013 ▪ WASHINGTON, DC

BRIDGING STRATEGIES, LEVERAGING CHANGE, MOVING FORWARD

INTRODUCING THE FIRST ALL-FEMALE LEADERSHIP PANEL!

"Leadership Imperatives: Quality and Performance during Times of Change"

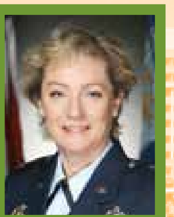
Hear from female flag and general officers from branches of the Army, Navy, and Air Force.

Sponsored by NCMA Women's Forum Community

MODERATOR:

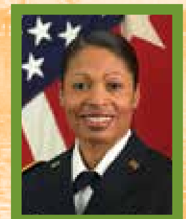
Tina Ballard
Executive Director, U.S. AbilityOne Commission

PANEL SPEAKERS:



Major General Wendy M. Masiello
Deputy Assistant Secretary for Contracting, Office of the Assistant Secretary of the Air Force

Rear Admiral Althea H. "Allie" Coetzee
Deputy Director, Contingency Contracting, Defense Procurement and Acquisition Policy (DPAP)



Major General Marcia M. Anderson
Deputy Chief, Army Reserve

OPM-APPROVED EVENT!

Learn more about this year's symposium at

www.ncmahq.org/cm/GCMS13

NCMA
NATIONAL CONTRACT MANAGEMENT ASSOCIATION

Ending the Relationship

At the conclusion of each project or contract, there is an ending point. This does not automatically mean that the vendor will not be used in the future, or that there is not a new contract. At the conclusion, the customer is responsible for the management of several items:

- Receiving and inventorying all documentation and support equipment, including receiving any business-related data, statutory records, closeout manuals, any remaining attic stock, spare parts inventory, or maintenance documents and instructions;
- Managing all warranty requirements, including validating or registering any new equipment and setting up any scheduled maintenance or maintenance contracts that are required;
- Validating that all payments have been satisfied, including any retention; and
- Removing the vendor from the active finance records if it is not being used again in the next 12 to 18 months.

Removing the vendor from the active finance records prevents the vendor from incurring costs associated with items such as the certificate of insurance, responding to general inquiries, etc. The management of vendor lists within an organization requires time and effort as well as incurring the cost to both the vendor and the customer. The ability to minimize the amount of vendors being managed reduces the operational costs of any business. As the owner of the vendor relationships, it is your responsibility to have them removed or deactivated from the organization's vendor management system. You will need to work within your finance requirements to determine if there is a vendor that can be placed into an inactive category rather than to have it deactivated because there may be a potential requirement to use the vendor in the future.

Vendors are an important part of the operation and should be managed with the same care and focus as the physical assets. Managing a vendor through the life cycle approach falls in line with how facilities professionals manage their buildings and the equipment supporting them. The management of vendors from beginning to end has been viewed as an unwanted task, but the appropriate attention will move your management from "reactive" management, where you are reacting to problems and issues, to "proactive" management that avoids problems and issues by design. This enables you to focus on other areas and issues that occur on a daily basis. It is important to recognize that vendor management is essential in the success of any business, and understanding that the responsibility of managing the vendors is indeed that of the owner of the relationship is critical. The appropriate vendor management will increase the operational excellence of you and your organization. **CM**

ABOUT THE AUTHOR

SCOTT OFFERMANN, CFM, MBIFM, CEM, is the account facility management director – Global, Cushman & Wakefield as Managing Agent for Symantec. He is a highly skilled facility management professional whose 25+ years of experience include delivering services in 36 countries and overseeing a delivery team of over 450 employees and dedicated service providers. He has delivered facility services as a direct and outsourced provider in health care, manufacturing, distribution, high tech, recreation, and call center environments. An authority on remote and direct management, his strong leadership encourages innovation and collaboration that results in the delivery of superior business services to his clients and customers. Further, as an expert in program development, his creation and delivery of programs drives global consistency and efficiency, enhances value, mitigates risk, and improves customer satisfaction. He is the author of "The Art of Saying 'No'" in the July/August 2013 issue of *Facilities Management Journal*; and *Creating a Strategic Energy Reduction Plan*, Fairmont Press, to be published later this year.

Send comments about this article to cm@ncmahq.org.