



## Effective vendor management

Yash Tanti<sup>1</sup>, Prinsa Patel<sup>2</sup>

<sup>1,2</sup> B.V. Patel Institute of BMC & IT, Uka Tarsadia University, Bardoli, Gujarat, India

### Abstract

The supplier performance has a significant effect on the competitiveness in implementation of Just-In-Time delivery and entire supply chain. This paper examines the supplier selection process and procurement methods of the company Rajhans Desai – Jain group. In this paper, the supplier performance was described; the supplier must be introduced and developed before being an approved supplier. Considering, the importance of supplier performance as a part of vendor selection, it will not be successful if no good cooperation from supplier in terms of quality and business point of view. This paper proposed the strategies in managing vendor called Vendor Management System (VMS), which shown for development of the supplier performance to reach ready state before entering the Just-In-Time. The Vendor Management System (VMS) identifies five phases starting from qualification, measuring, analysing, implementing and maintaining the supplier performance. The suppliers who reach the ready state level as company goal and expectation will be selected to enter the company's family.

**Keywords:** vendor, vendor management system, just in time, procurement

### Introduction

The vendor management system is for supporting the good quality of material, delivery on time, good service and cooperation, reasonable price, strong and close relationship to continuous improve, etc. As the growing popularity of just in time and supply chain management, the supplier seems to be more significant role for manufacturing to achieve their customer satisfaction in terms of quality, delivery and business point of view. The smooth running of production line could be interrupted by the poor quality of material. The schedule to delivery will be affected by both poor qualities of material and poor delivery performance. Also the manufacturing will get less profit if they select the non-reasonable price of material, as of the material is the cost of manufacturers. In order to achieve the Quality Manufacturing Excellence (QME), the Vendor Management System (VMS) is the one most important factor of success. The vendor/ supplier are the partnership that concerned to manufacturer not only the quality but also other business issues.

As vendor relation, it is necessary to work closely between manufacturer and supplier as a team working such as training a supplier's staff about quality techniques, including a design review meeting to gain ideas on how supplier parts can best be used, providing sale projections or forecasts with supplier to support their production scheduling, sharing information of accept/ reject criteria for manufacturer and supplier, etc. Such this, it leads to establish the vendor management team at Manufacturer to assess, work, and coordinate with the vendor at a first stage of production. The supplier development is a vehicle that can be the important factor to increase the competitiveness of the entire supply chains. The supplier development had been studied since the supplier selection phase, the quality of materials; good delivery performance and cost are some of major criteria in selection suppliers. Other than these criteria, AHP was developed to set priorities involving

subjective judgments in supplier selection and also AHP was to solve the supplier selection problem in supplier management process. The excellence methodology to select the supplier is important phase for VMS, but it is not enough to guarantee whether the supplier will send the excellence quality of product as manufacturer's requirement all along and every shipment. As of the supplier is the vendor partnership relation to manufacturer, the fully cycle to development suppliers must be performed to know and involve the between this relationship. The supplier developments among several researches now are more emphasized on the supplier selection and evaluation. In this paper we have proposed the fully system of Vendor Management System (VMS) program and its model to support the Just in Time and Supply Chain Management that this Vendor Management System (VMS) will cover the supplier development from selection, measure, improve until the supplier achieve the excellent quality. The Vendor Management System (VMS) will also provide the recommendation of supplier before they enter to the Just in Time (JIT) and Supply Chain Management (SCM).

### Methodology

#### Statement of Problem

Current vendor management practices in the construction industry are performed on fragmented basis with unstructured communication and no clearly established responsibilities between the parties involved. The highly fragmentation is a result of the separation of design and construction, lack of coordination and integration between various functional disciplines, poor communication, etc. Furthermore, dependency of the general contractors on other parties such as suppliers and subcontractors reinforces the construction industry fragmentation. All of these are the important factors causing performance-related problems such as delay in material ordering and receiving, low productivity, cost and time overrun, conflict and disputes.

### Research Aim

The present study aims of revealing the vendor management of Rajhans Desai-Jain group. It also aims that attempts to investigate how the purchase department does the material requirement planning, select vendors, manages their vendors, maintains relationship with vendors, obtaining quotes and negotiating contracts, evaluating performance and monetary transactions etc.

Data is being collected from 10 contractors of the purchase department at Rajhans as a sample. E -questionnaire was distributed among them. Questions were level of agree regarding the quality of the vendors.

### Research objectives

The objective of this research work is to get an insight into the procurement systems adopted by the project promoters and the contractors in awarding subcontracts or procuring goods and services at Rajhans projects. To study the vendor selection criteria and its importance in real market. To find the importance of procurement of material and services to project promoters engaged in Rajhans projects which initiates them to adopt the most efficient. Also to study the effectiveness in selection of vendors and their evaluation for firm's sustainability.

### Introduction to Effective Vendor Management

Vendor management is a discipline that enables organizations to control costs, drive service excellence and mitigate risks to gain increased value from their vendors throughout the deal life cycle. Vendor management research helps clients select the right vendors; categorize vendors to ensure the right contract, metrics and relationship; determine the ideal number of vendors; mitigate risk when using vendors; and establish a vendor management organization that best fits the enterprise. It includes the activities in researching and sourcing vendors, obtaining quotes with pricing, capabilities, turnaround times, and quality of work, negotiating contracts, managing relationships, assigning jobs, evaluating performance, and ensuring payments are made. It requires a lot of skills, resources, and time. This enables organizations to optimally develop, manage and control vendor contracts, relationships and performance for the efficient delivery of contracted products and services. This can help clients meet business objectives, minimize potential business disruption, avoid deal and delivery failure, and ensure more-sustainable multi sourcing, while driving the most value from their vendors.

Contractors has to select the procurement process, each project will be different and must be treated on its merits and be matched to an appropriate procurement system which exposes the contracting firm. Contractors then have to classify vendors on the basis of certain criteria. They are:

1. Cost
2. Quality
3. Services
4. Background
5. Risk factors
6. It knowledge
7. Environment

While doing this they may face supplier selection problems because selecting the right supplier is a difficult task as

suppliers are characterized by strengths and weaknesses which require careful evaluation. This is generally done through a ranking process of a set of suppliers previously qualified & regards the monitoring and control of the suppliers' behaviour.

Also vendor management includes an n important concept of material management which has several benefits.

Benefits of material management: -

1. Reducing the overall costs of materials
2. Better handling of materials
3. Materials will be on site when needed and in quantities required
4. Improvement in labour productivity
5. Improvement in project schedule
6. Better relation with suppliers
7. Reduce of surplus materials
8. Reduce storage of materials on site
9. Labour savings
10. Stock reduction

This is generally done through a ranking process (ranking problem) of a set of suppliers previously qualified. The second phase regards the monitoring and control of the suppliers' behaviour.

### Industry details

The real estate sector is one of the most globally recognized sectors. Real estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy. It is also expected that this sector will incur more non-resident Indian (NRI) investments in both the short term and the long term. Bangalore is expected to be the most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

Real estate sector in India is expected to reach a market size of US\$ 1 trillion by 2030 from US\$ 120 billion in 2017 and contribute 13 per cent of the country's GDP by 2025. Retail, hospitality and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs. The growing flow of FDI into Indian real estate is encouraging increased transparency. Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards.

### Literature review

Mr. Mandar Chaudhary (2016) <sup>[1]</sup> "An effective vendor management system". The objective of this research work is to get an insight into the procurement systems adopted by the project promoters and the contractors in awarding subcontracts or procuring goods and services. To suggest improving construction procurement practices to achieve better value for money and ensure that customers are more satisfied and to ensure the effectiveness in selection of vendors and their evaluation for firm's sustainability. This study was carried out based on literature review and

questionnaire survey. The data collected from the questionnaire survey is analysed using the statistical methods, and their results are tabulated. It tells us that to know the present material procurement processes and vendor development practices adopted by the contractors engaged in road and highway projects.

Nikhil Chandra Shil (2009) [2] “A case on vendor selection methodology: an integrated approach”. The current research aims at selecting the right vendor from a list of vendors within a corporate set-up which is an addition to the current literature. The researcher is privileged to have the scope of using the internal database of a multinational corporation (MNC) to apply the methodology. Secondary data is used by 16 variables of market survey. AHP (Analytical hierarchy process) is then used to calculate weights through pair-wise comparisons. Primary data is also used with the help of questionnaire sent to National association of Purchasing managers and agents. Multiple regressions analysis, regression method is also used. At the end it is stated that supplied selection methods have been changed from years to years. It has been proved that the performance level of suppliers also depends on the extent of their satisfaction with the buyers. The same supplier may have different performance levels for different buyers due to change in satisfaction with the buyers. Therefore, in order to enjoy maximum performance from the suppliers, try to keep them highly satisfied.

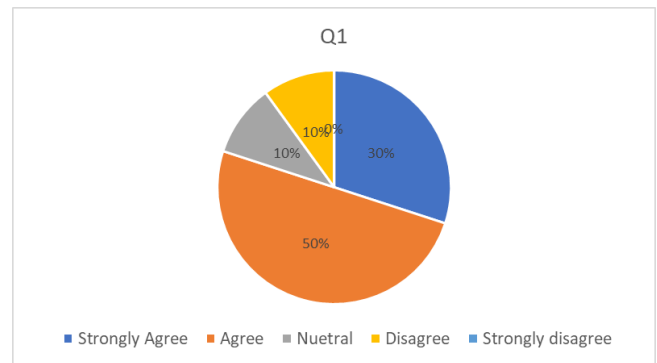
Zeroone Zac [3] “Vendor management and strategies”. The purpose is to know the Vendor Management and Strategies in Tanay Public Market. This aims to determine the strategies that they apply in their business to maintain their customers. And to also know how great the service of the vendor. Totally secondary data is used because no data from primary methods. It concludes that social media plays a major part in people’s lives.

Protiviti [4] (Consulting company) “Vendor management: realizing opportunities in the financial service sector”. This paper presents the principles and building blocks of effective vendor management, including an example of a successful and evolving VMO (vendor management organization). The building blocks of the vendor management framework presented in this paper can be assembled in ways that address each institution’s unique organizational structure and needs. Methodology is secondary qualitative data. At last it states that regulatory considerations and compliance are necessary components of vendor management, they are not necessarily sufficient.

Panyaluck Udomleartprasert, Chatriwat Sommechai [5] “An Effective Vendor Management System (VMS) - Enhanced Just in Time Implementation”. The major purpose of this phase is to know the performance of supplier in term of mass production, shipment, delivery, price, etc. other than the quality system as first qualification phase. The methodology used for this research was both primary and secondary method. In secondary data analysis the literature reviews of different types of similar articles are examine. The study concluded that the vendor management system had been implemented some phase in manufacturing in Thailand and the result influence the improvement in term of incoming performance measuring and measurement aspect phases.

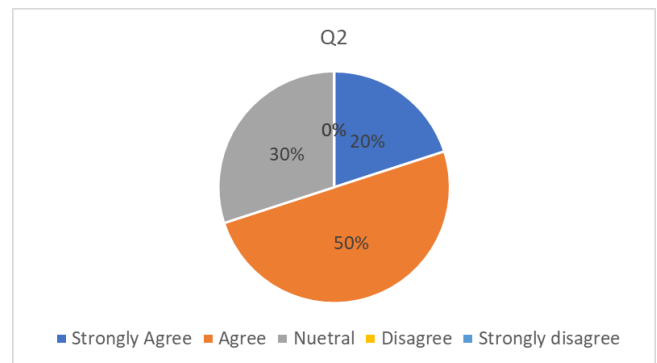
**Data analysis**

Q1) Vendors should communicate everything to their contractors.



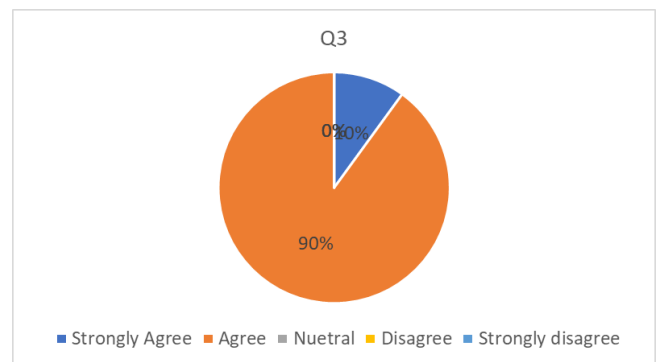
From the chart, we can see that half of the respondents agree that vendors should communicate everything to their contractors, and 30% of respondents strongly agree with the statement. While remaining are neutral and disagree with the statement.

Q2) Vendors should follow the ethics of the business and does not indulge in any malpractices.



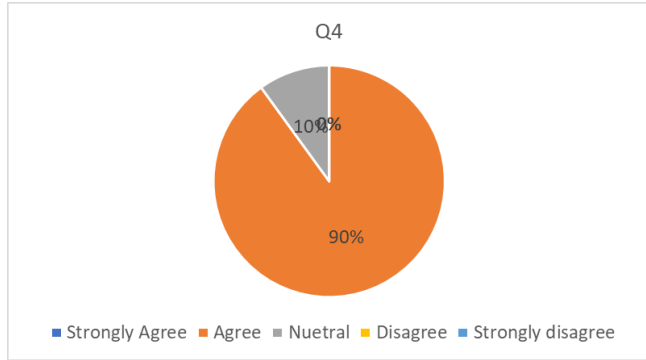
Half of the respondents agree with the statement that vendors should follow the ethics of the business and does not indulge in any malpractices. 20% strongly agrees with it and 30% are neutral.

Q3) Vendors should accept their accountability.



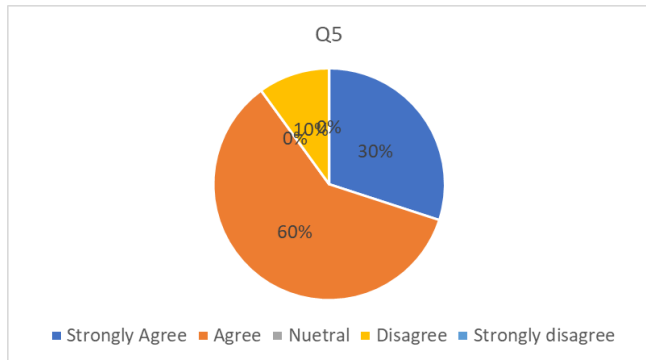
For this statement, mostly all of them agree with the statement that vendors should their accountability, and 10% strongly agrees with it.

Q4) Vendors should have the ability to analyse and anticipate current & future trends.



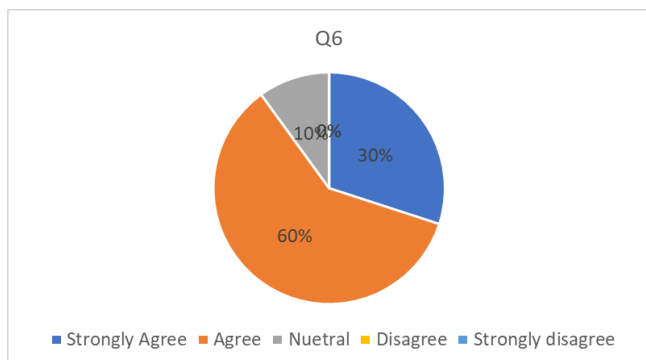
As we can see in the chart that 90% of respondent agrees that vendors should have the ability to analyse and anticipate current & future trends, while 10% are not sure about it.

Q5) Consistently high service levels that meet our expectations.



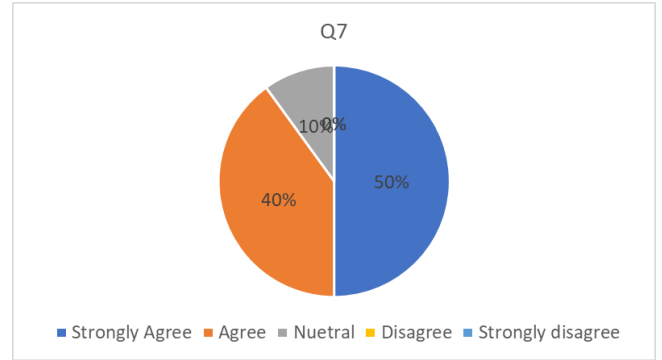
Here most people agree that vendors should constantly provide high service levels that meet our expectations, which accounts for 60% of respondent. 30% sample strongly believes this statement, while 10% disagree with it.

Q6) Vendor should be capable to supply the requirements of our company.



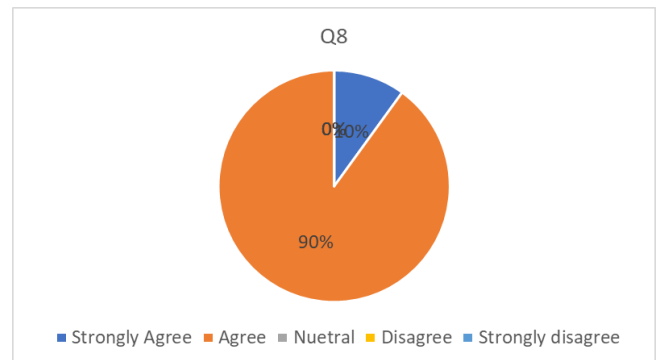
Here most people agree that vendors should constantly provide high service levels that meet our expectations, which accounts for 60% of respondent. 30% sample strongly believes this statement, while 10% are neutral.

Q7) Provides the best and most competitive pricing with quality in products/services.



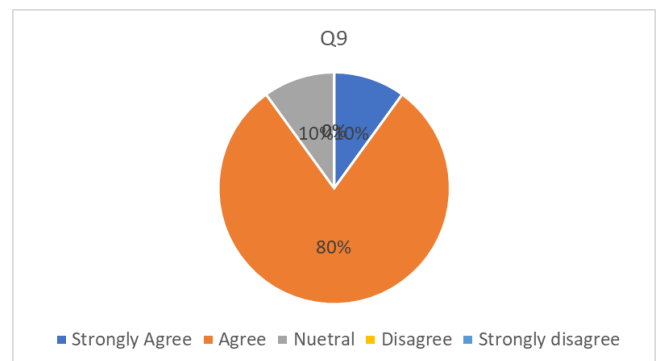
As we can see that half of the sample is strongly agreeing that vendors should provide the best and most competitive pricing with quality in products/service. And 40% agrees with the statement, while 10% are not confirmed.

Q8) Makes sure they can fill orders quickly and complete order before the deadline.



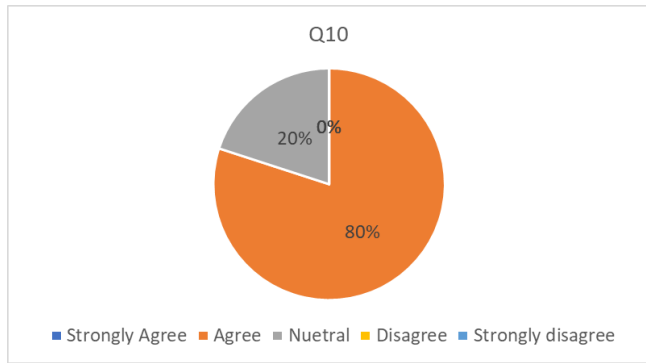
Most of the entire sample is agreeing with the statement that makes sure that vendor can fill orders quickly and complete order before the deadline. And 10% are strongly agreeing with the statement.

Q9) Should have products/services whenever required.



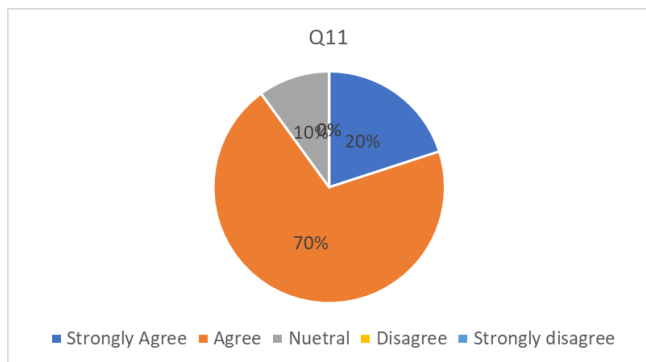
In the chart, it can be seen that 80% of the respondent are agreeing that vendors should have the products/services whenever required, and 10% are strongly agreeing. While other 10% are not sure about it.

Q10) Vendors should become our strategic partner.



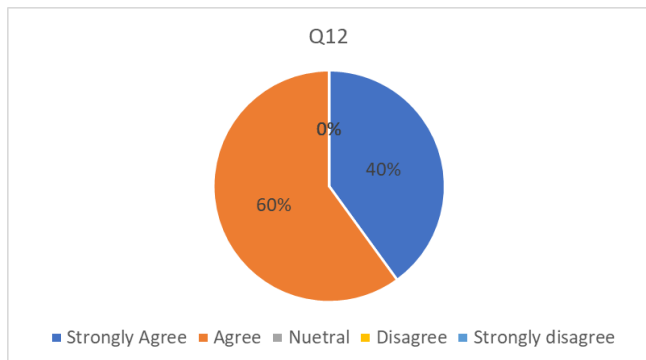
Here 80% of the respondent is agreeing that vendors should become our strategic partner, but 20% are not sure about it.

Q11) Fast delivery of products.



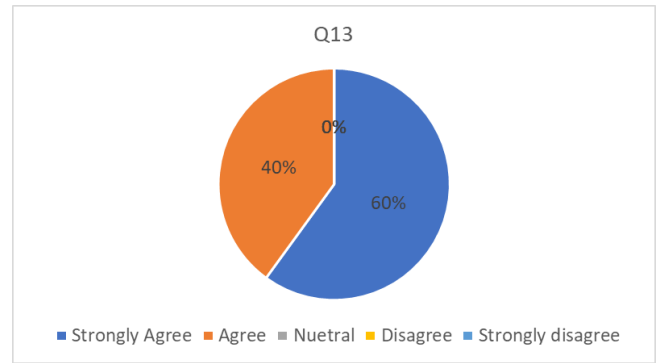
In this chart, 70% of the respondent agrees that vendors should provide fast delivery of the products/services and 20% strongly agree with this. But 10% are neutral about this statement.

Q12) Vendor performance should be inspected regularly.



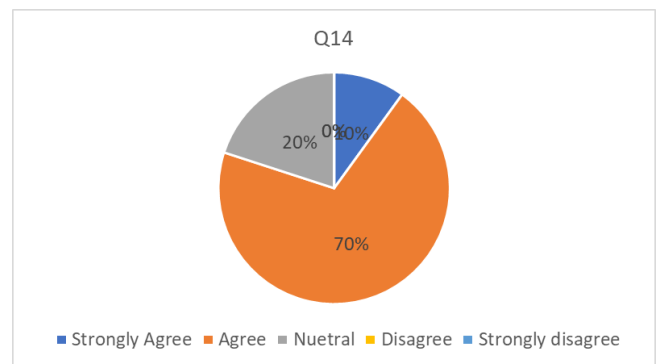
Here all the respondents are positive about this statement but 40% are strongly in support with this statement.

Q13) Cooperation with the company is necessary.



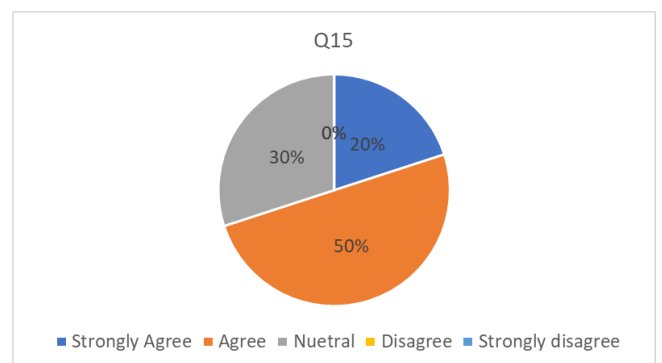
Here 40% of the respondents are agreeing this statement, and others are strongly in support with this statement.

Q14) Transparency should be maintained and vendors should be kept informed.



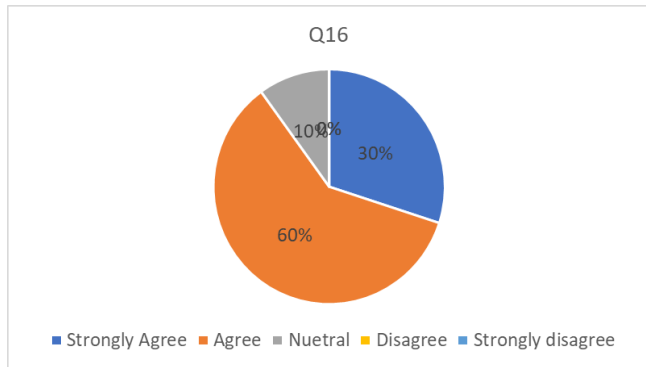
Contractors agree that there should be transparency and vendors should be kept informed which accounts for 70% of respondents, and 10% strongly agree this, but only 10% are neutral about the statement.

Q15) Clear and comprehensive recordkeeping should be done by vendor.



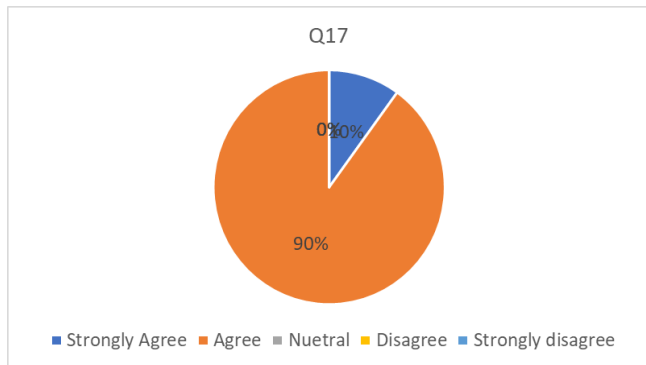
In this chart, half of the respondents are agreeing the statement that clear and comprehensive recordkeeping should be done by vendor, 20% strongly agree this but 10% are not sure about this.

Q16) Our company should be cultural fit where the best suppliers are willing to work with you.



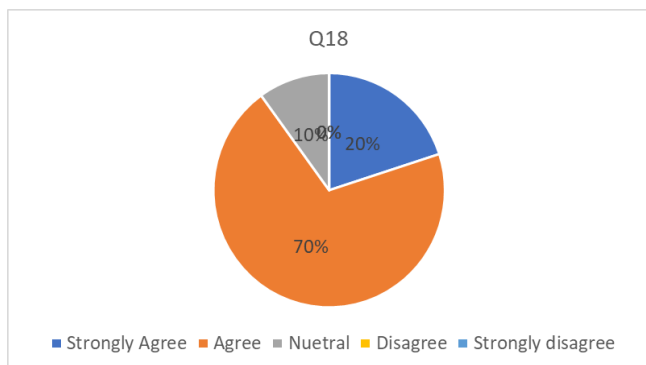
More than half of the population that is 60% agree the statement that our company should be cultural fit where the best suppliers are willing to work with you. Where 30% strongly agree this, 10% are neutral.

Q17) The vendor should be expertise in your product type and target market.



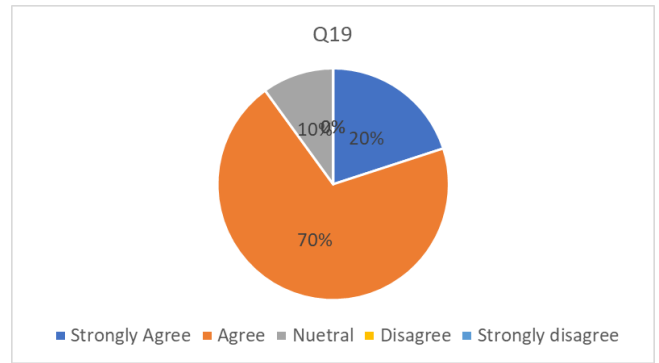
In this chart, most of all the population agree the statement that vendor should be expertise in your product type and target market and 10% are strongly with this statement.

Q18) Supplier should be involved in continuous improvement.



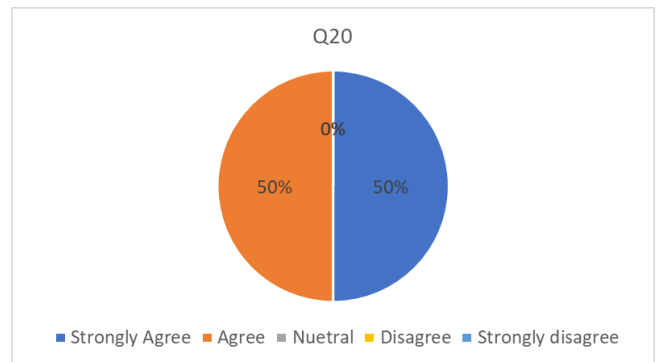
70% contractors believe that supplier should be involved in continuous improvement and 20% are strongly with this statement but 10% are neutral.

Q19) Suppliers should be flexible.



70% contractors believe that supplier should be flexible and 20% are strongly with this statement but 10% are neutral.

Q20) Vendors should be reputed because their reputation affects the image of our company.



All the respondent agrees the statement that vendors should be reputed because their reputation affects the image of our company, but half of the respondent are surely agreeing this statement.

### Conclusion & Findings

The main aim of work done is to understand the procurement processes and vendor development practices adopted by the contractors engaged in Rajhans projects and this is done by filing questionnaires from the contractors. Here different issues regarding the procurement processes in industry are analysed. Cases were obtained from the main contractors and the findings were compared with findings from literature and journals.

We found that Rajhans like to adopt strategies. Many of the contractors now don't want to procure the materials from the suppliers who provide them materials at the lowest price. They believe in finding the new suppliers, and want to procure the materials from new vendors. They feel that carrying out the efficient materials procurement processes is investment of time and money. The work was traditionally awarded to lowest bid but the idea of modified bid and renegotiating is now updated. Some firms of huge turn over believe in adopting the efficient procurement processes and continuously evaluate the existing vendors and also search for the new vendors. They believe in improving the

processes in order to be competitive in the present world. They give much importance to cost, quality, timely procurement, material procurement processes and vendor development practices.

This research work helped us to know the present material procurement processes and vendor development practices adopted by the contractors engaged in road projects. It completely depends upon the quantity of material to be procured, different levels of firms, availability of suppliers and supplier capabilities.

### **References**

1. Mandar Chaudhary. An effective vendor management system, 2016.
2. Nikhil Chandra Shil. A case on vendor selection methodology: an integrated approach, 2009.
3. Zeroone Zac. Vendor management and strategies.
4. Protiviti (Consulting company). Vendor management: realizing opportunities in the financial service sector
5. Panyaluck Udomleartprasert, Chatriwat Sommechai. An Effective Vendor Management System (VMS) - Enhanced Just in Time Implementation.