

A paradigm shift in technology

Thomas R Cutler describes how vendor relationship management has replaced and extended traditional customer relationship management

Vendor Relationship Management or VRM is the reciprocal of CRM (Customer Relationship Management). VRM provides manufacturing enterprises a wide range of technological tools for efficient vendor interactions that benefit both the manufacturer and the vendor.

In a true business processing model, VRM improves markets by providing mechanisms that equips full-service organisations to be independent leaders rather than lagging participants in relationships with vendors and other parties on the supply side of the marketplace. VRM works because vendors have reason to value it, and industrial and

distribution organisations have reasons to invest the necessary time, effort, and attention to implementation.

Larry Caretsky, president of Commence Corporation suggested, "Until recently, CRM systems took on the full burden of relating with customers. VRM technology provides complex enterprises with the means to take some of the CRM functionality and to help make markets work for both the vendors and customers. The goal of VRM is to improve the relationship between demand and supply by providing new and better ways to relate to each other."

ProjectVRM is headquartered at the Berkman Center for Internet and Society at Harvard University

and headed by Doc Searls, a fellow with the center. The group has identified certain principles and encouraged input and participation in the development of the VRM concept.

ProjectVRM principles

- User-centricity
- Reduce, reuse and recycle (Don't reinvent the wheel)
- Reciprocity and everybody wins
- Leverage network effects
- Relationships are more than transactions
- Solve real-world problems.

User-centricity

Work from the perspective of the end-user. Users should control who, how, and what happens throughout the entire process. The process should create value for the user first, vendors and others second. Note that by creating value for users, there should be plenty to go around.

Reduce, reuse, recycle

Don't reinvent the wheel. A lot of technology and solutions have already been developed to address various pieces of our online world. When possible, reuse existing tech and learn from prior experiences. That means researching what has

About the author

Thomas R Cutler is the president and CEO of Fort Lauderdale, Florida-based TR Cutler, Inc, the largest manufacturing marketing firm worldwide – www.trcutlerinc.com. Mr Cutler is the founder of the Manufacturing Media Consortium of three thousand journalists and editors writing about trends in manufacturing. He is also the author of the Manufacturers' Public Relations and Media Guide. Mr Cutler is a frequently published author within the manufacturing sector with more than 300 feature articles authored annually. He can be reached at trcutler@trcutlerinc.com

already been done and integrating the past whenever possible.

Reciprocity and everybody wins

VRM should create value for everyone in the value chain. Although the focus is on the user, each link in the relationship should come out better after implementing a VRM protocol. When everybody wins, it will be much easier to convince everyone to participate.

Leverage network effects

Network effects scale as more people participate. Whenever possible, build systems with this characteristic. In particular, reducing transaction costs across many different transactions can dramatically change a market, even when those costs are relatively small part of each transaction. So, use network effects to leverage the value of our efforts as far and wide as possible.

Relationships are more than transactions

Although vendor relationships are ultimately bounded by transactions, they begin well before and continue well after. Build systems that enable rich, long-lived relationships in ways that create real value.

Solve real-world problems

People have lots of challenges and frustrations with existing sales, shopping, and support systems. Pick one and re-invent it from a user perspective. If putting the user in control creates real value with minimal investment by the vendor, we have a good chance of getting traction with both users and vendors.

Most sourcing projects start by identifying high-potential opportunities, by gathering historical information on how

much spend was allocated to certain vendors for different commodity groups. In order to leverage the maximum spend volume for future negotiations, the analysis must span the entire enterprise and include data that is often collected from a wide range of systems including

- Global spend analysis
- Content consolidation
- Report on procurement data.

VRM, a SaaS solution

Commence Corporation has adapted all of these principles as a current CRM leader and transformed these principles into a VRM SaaS (software as a service) offering. Modifying the core CRM product has allowed the company to transfer direct selling organisations into vendor savvy organisations. Caretsky notes, "VRM is a vital reinterpretation of CRM because the role of interfacing effectively with vendor is increasingly important with a global supply chain. Tracking and holding vendors accountable is no longer a novel concept in business, rather an essential transactional requirement."

Vendor relationship management supports the areas of strategic sourcing and vendor lifecycle management to better prepare operational procurement. It helps an enterprise, whether industrial or retail, to constantly optimise their supplier selection, compress cycle times, and devise sourcing and purchasing strategies.

Vendor evaluation and monitoring through VRM

The CRM business process is transformed by VRM and utilised finally to evaluate vendors on the basis of web-based surveys is essential. In order to meet specific reporting requirements, VRM technology allows enterprises to

configure individual surveys and questionnaires, select the criteria to be evaluated, and stipulate when the evaluation is to take place. After the data has been collected, several analyses are available to help select suitable vendors and negotiate best conditions.

- Maintain vendor evaluation
- Monitor and list display
- Analyse vendor performance
- Capture evaluation data.

Strategic sourcing through VRM

The VRM business process allows organisations to identify strategic sources requirements and optimise the source of supply for each individual item. VRM will help to identify saving opportunities and evaluate suppliers in their ability to provide materials and services at low-cost, high quality, and according to schedule.

Once VRM users have determined the best source of supply for specific requirements, the enterprise has the ability to collaborate in project teams both internally and with suppliers, to establish on-going effective relationships based on global agreements including

- Supplier qualification
- Request for quotation
- Reverse auctions
- Sourcing event analysis
- Contract development
- Contract distribution
- Contract execution
- Contract monitoring.

VRM is the next extension of CRM today

While the VRM process and conversation is relatively new, immediate implementation of these technologies are so cost-effective (under US\$ 100 per user/ vendor per month in a SaaS environment) that even modest improvements result in short-term return-on investments. ■