



## Could Your Vendor Selection Strategy Use a Tune-up?

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**When you're selecting a vendor, consider the scope, budget, market, and business impacts that shape the results of your choice.**

As business professionals and individual consumers, we often make routine, impulsive, or unexpected purchases with either too much or not enough thought. While we hope for post-purchase affirmation, our expectations can sometimes be foiled with feelings of buyer's remorse and dissatisfaction. This often happens because we are not disciplined about investing the appropriate amount of upfront time and effort needed for a confident decision.

Whether we source products and services for our company or have selected a vendor to fulfill a personal need, our daily routines require us to be decisive. The reality, however, is that we add steps or overlook significant factors that can cause us to overpay or miss our expectations. We look for hidden answers or don't trust the answers we have, showing that even with good intentions, our decisions may not always be rational.

Suppose that every time we were uncertain about a purchase decision, we performed a simple thought exercise to feel confident in how much diligence we should apply?

The matrix in Figure 1 provides a framework for assessing the value you can derive from a thoughtful vendor selection. If you decide your sourcing opportunity falls in the shaded gray area for at least two of the four defined factors, we recommend using a structured vendor selection approach.

As an example, let's consider a few decision-making scenarios related to a common purchase that requires significant investment: an automobile.

FIGURE 1

	LOW	MEDIUM	HIGH	CRITICAL
SCOPE	Simple and Defined	Simple and Vague	Complex and Defined	Complex and Vague
BUDGET	Small	Medium	Large	Extra Large
MARKET	Highly available and market defined	Scarce and market defined	Highly available and business defined	Scarce and business defined
BUSINESS IMPACT	Low	Medium	High	Critical

## SCOPE

Understand the purpose of your purchase and communicate it to the vendors who will fulfill the transaction. A highly vague or complex scope requires additional effort to develop and clearly communicate requirements to ensure that purchase expectations are met.

### Auto Example:

- » We all have varying levels of expertise that influence our ability to effectively diagnose the maintenance a car may need.
- » The car’s dashboard provides alerts and notifications to help monitor its performance. However, these indicators notify us of issues ranging from a simple problem with a simple solution to a highly complex problem that would challenge most trained mechanics.
- » Finding the right mechanic with the skills to diagnose an issue and complete the repair the first time will minimize cost and frustration. Therefore, a higher level of due diligence in finding that right mechanic is recommended when facing something as vague or potentially complex as the “service engine soon” indicator.

### Business Application:

Applying appropriate effort toward understanding and communicating the sourcing need to a group of potential vendors will ultimately allow you to understand which proposed offering best fits your need. The complexity of your scope and the level of detail to which your scope is defined within your organization directly affect the resources required to attain the appropriate communication of scope.



*The most basic dashboard indicator is the low fuel indicator. This situation can be easily diagnosed and provides a clear understanding of defined scope: you need to refuel your vehicle.*



*A less common and less direct dashboard notification is the “service engine soon” indicator. This disturbing signal is triggered by anything from issues with your fuel-to-air mixture to faulty electronic equipment to serious mechanical issues. Once diagnosed, the repair can cost a lot and may require varying levels of expertise. For example, almost any mechanic can replace an oxygen sensor for around \$200. But something as complex as a full engine rebuild might cost upwards of \$4,000 and require a certified mechanic with specialized training.*

## BUDGET

Consider the constraints that impact your expectation of cost or delivery time. Any decision that consumes a large percentage of the budget will drive high expectations of returned value. Deadlines ultimately limit sourcing options and emphasize the importance of on-time delivery assurance.

### Auto Example:

- » Most of us spend very little time researching where we should buy something as common as windshield wiper blades. In fact, the majority of us wouldn't put much thought into which specific brand to buy, as long as they fit. The lack of concern and effort to make this decision is justified by the low cost threshold and wide availability.
- » Now, imagine you are a high school kid who spent the entire summer saving to buy a new stereo sound system for your car. How much thought and research would you commit toward a purchase that can consume a vast amount of your savings? You would likely go to great lengths to ensure that you receive the maximum value from that purchase by researching the brands, scrutinizing each feature, or waiting for a sale to get a discount.
- » Likewise, the amount of time to purchase and receive a product or service can influence our decisions. Are you the type of person who visits the instant oil change during your lunch break? Here, the choice for convenience and the predictability of a 15-minute service window make sense versus the alternative, where the same service might consume a few hours at a local dealer or mechanic.

### Business Application:

Any executive will agree that budgets act like a spotlight within any organization. The larger the budgetary ask, the larger the spotlight. With increased budget comes an increase in the due diligence required to ensure that the organization receives the value it expects from the vendor. Also, working under agreed-upon deadlines demands a vendor that is trusted to deliver on time.

## MARKET

Evaluate all available options within the market to supply your specific need. The volume of critical features for comparison and the level of market scarcity among vendors should affect your decision. Lack of a common market definition for your need will drive high variability in the supply approach. High market scarcity will drive high cost variability.

### Auto Example:

- » Industry standards can simplify a majority of the decisions we face. Think of the last time you bought tires. Most tire vendors are quick to advise on the size of tire that fits each vehicle, then offer options that range from good to better to best. They do this because the features that differentiate the various choices have been greatly reduced as the market has standardized.
- » In contrast, custom enhancements to your vehicle can carry a wide amount of variability from auto body shop to auto body shop in cost and quality of work. The shops must listen to their customers and do their best to deliver what the customers have defined. Therefore, finding the right custom shop to perform the work requires a higher level of diligence.
- » Vintage automobile parts are a perfect example of products with high market scarcity. Imagine you are fortunate enough to own the 1961 Ferrari 250 GT California Spider from the movie *Ferris Bueller's Day Off*. Finding replacement parts for a car manufactured in Italy more than a half-century ago may pose a significant challenge. The select few dealers/providers/sources of such parts will often charge drastically different amounts as their impression of market demand fluctuates. This market variability in supply and demand requires great due diligence to make a confident purchase decision.

### Business Application:

The state of the market in relation to your business need can lead to a greater need for due diligence. A consistent market definition of a solution or product that fills a business need allows you to focus your efforts toward differentiated features. When a variety of products or solution approaches may solve the same business need, the comparison becomes more challenging. High market scarcity of any sourcing need drives greater variability in cost and quality, leading to an increased need for due diligence.

## BUSINESS IMPACT

Potential consequences provide better perspective on the importance of the decision.

### Auto Example:

- » The components and features in a car all serve a purpose. Some increase convenience or comfort; others are essential to operate the vehicle.
- » Rear-facing backup cameras—once an add-on feature and now standard with most new car models—provide an added level of convenience and safety. Ultimately, the consequence of a malfunctioning camera is looking backward when driving in reverse. If we consider the additional cost to buy a car that includes an integrated backup camera versus installing an after-market camera solution on a car without one, the minimal consequences involved may lead each of us to quickly choose the cheaper option without much thought.
- » Alternatively, the negative consequences of a malfunction in other car components rise exponentially. In some cases, the vehicle won't function without them. For example, you may want to perform a little extra due diligence to determine whom you trust to fix the transmission of your car. Ultimately, it can mean the difference between confidently getting to your destination versus calling a tow truck and having to pay the additional cost of getting your transmission replaced.

### Business Application:

The amount of realized or expected value to the business tied directly to a sourcing decision should increase the due diligence behind selecting the correct vendor partnership. Imagine the best- and worst-case scenarios for the final outcome of the partnership. Examine the overall positive and negative consequences to your business performance.

At the end of the day, we're all capable of making decisions, easy or complex. Yet adding incremental diligence in the overall thought and selection process will provide an elevated level of justification and a confidence boost to know you've made the right choice. You may also begin to gain the necessary support of others—including your peers, customers, and stakeholders—to fine-tune future, related decisions. Think how different the outcome of your next decision might be after tuning the level of diligence you apply toward that decision. Now pick up these keys and go.



### Follow the simple checklist to guide you to more effective and informed decisions:

- » Understand the purpose
- » Consider the limitations
- » Evaluate the market options
- » Outline the potential consequences

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