Evaluate the Options: Choosing a Vendor Network

As a procurement manager, you know how important suppliers are to your organization. Their performance is crucial to achieving your financial, performance and quality objectives, and a poor supplier creates risks for everything from budget overruns to missed schedules and liability lawsuits.

Long before you make a purchase decision, you must create the right structure for vendor relationships with your procurement organization. Two leading models are private and cooperative vendor networks. In this article we'll explore the available options and show the advantages and disadvantages of each.

Aggregators

Vendor networks come in several forms. Among them are aggregators that bring together buyers and sellers. They host requests for bids and tenders from buyers and allow vendors to submit bids to multiple organizations. Some are financed through subscription fees paid by vendors, a model that some procurement experts feel leads to lower supplier quality. Some giant procure-to-pay (P2P) solutions also have vendor networks financed by supplier fees.

These aggregator sites tend to have lightweight functionality and are event oriented rather than focused on long-term supplier relationships. This type of network offers very little control to the individual procurement organization.

Group Purchasing Organizations (GPOs)

GPOs and cooperative purchasing networks leverage the purchasing power of their members to achieve lower costs on materials, goods and services. Many are geographically focused while others focus on aggregating purchasing with a specific vertical market.

In government co-ops, a lead government agency issues a solicitation for a good or service, evaluates proposals, and awards a contract. This contract is then available to other co-op members on the same terms, a process called piggy-backing.

These buying groups offer several advantages, especially if your organization is small. They give you access to a larger vendor network and more supplier competition, and they allow you to share the cost and labor of sourcing with other group members. If the lead agency that negotiates the contract has more experience than your organization, you can benefit from their expertise.

On the downside, you will not have full control over the buying process or vendor qualification criteria. And the pricing under these contracts may not be the absolute lowest. Piggyback arrangements entail on-demand purchasing over a period of time, and the vendor must set their price without knowing order volumes and delivery locations.

Moreover, cooperative networks are great for common items like office furniture or computer service contracts, where a multitude of vendors could satisfy your needs. But if your organization requires unique or hard-to-source goods, cooperative purchasing will be of little value.

To be successful, participants in a co-op will need to resolve issues around joint oversight and cost sharing. Sometimes it can be difficult for all participants to get funding approval at the same time or agree on leadership and management of the co-op.

Private Vendor Networks

Private vendor networks offer the most control to the procurement organization but also entail greater expense. These are most popular with mature purchasing teams who have a deep familiarity with their supplier landscape, expertise in procurement processes, and adequate competition for the things they buy.

An advantage of using your own private network is that you can qualify vendors based on the criteria you define, and these criteria can be as granular as you need. You probably already have relationships with the vendors you want to work with, and you can bring them into your network. Your background with the supplier and their knowledge of your requirements offers a competitive advantage to your organization.

Private networks allow you to procure to your exact specifications, especially for unique and hard-to-source items. You can control every variable in the procurement process including timing and contract format.

However, private portals have their own drawbacks. The greater expense of a private portal requires a high volume of purchasing to justify the investment. Some portals are partially financed through small charges to the winning bidders, but often the total cost of sourcing is borne by the procurement organization.

One of the leading reasons organizations choose a private network is to integrate their buying decisions into a long-term supplier management effort. Private vendor network solutions are often part of larger systems that cover vendor registration, documentation, RFPs, audit history and more. These automation capabilities free up procurement staff to focus on more strategic priorities.

Funding an e-Sourcing Initiative

For those of you considering an e-sourcing implementation project, there are a number of alternatives for you to consider. These options have varying degrees of performance risk, up-front investment, and assignment of cost and revenue to the buying organization, suppliers, and the software provider. For more information on funding alternatives, see our previous blog article, Funding an e-Sourcing Initiative.

At Bentley we have the experience and software tools for helping procurement organizations implement GPOs, Co-ops, and private vendor networks. Please contact us if we can be of assistance.