



Podcast Series – “About Managing Contractors and Vendors”

Episode 7 Transcript: Choose a Vendor – Vendor Selection Criteria

When you begin the process of selecting a vendor, step 1 is fairly easy. That is to specify what you need them to do. You've pretty much done that already when you made the decision to outsource the work. We talked about this in Episode 5.

However, it is harder to say what specific capabilities will be needed to do the work. The easiest part is to specify that they already have proven experience at doing the same work. But if your project is new, unique, or has special requirements, then listing the specific and measurable criteria for the best vendor is more of a challenge.

And it is even harder working out how you will assess that capability. This is where phrases such as "As evidenced by..", or "As demonstrated in.." can be very useful.

You may want to talk to the recruitment experts in your H.R. Department, or confer with Purchasing. Typically they have a depth of experience in creating selection criteria, and figuring out ways to apply these.

In Episode 6, we covered the range of things to do in preparing to select your vendor, especially creating the RFP. In this episode, rather than jumping to the selection, we step back and give more detail and a proven approach, with tips for setting criteria to make the best selection of a vendor for your project.

First, let me tell you a story. Several years ago we had been engaged by a client to help them select a vendor who could provide a learning management system, or LMS. We did extensive research of the marketplace at the time, and determined who were the leading vendors.

First we created a set of criteria that our vendor would have to meet, to be successful in performing the client project. Using this list, we narrowed down to a list of four vendors we believed would be able to bid on the job.

One of the vendors, we had worked with before. We knew something of their work, but had not fully assessed their capabilities for this larger project. We sent the request for proposal, or RFP, to the four vendors. In this, we indicated our selection criteria so they would know what we were looking for.

When all proposals came in, we had follow-up discussions with each of the vendors. It was clear the vendor company we had worked with did not have a sufficiently robust business model or operation to do the work and grow with the project. Their proprietary solution was relatively light, and didn't have the power needed for this particular project.

We recommended another vendor, and told each of the others that their bids had not been successful. The company that we had previously worked with took us to task quite emotionally, and accused us of being disloyal because they thought our two companies had a personal relationship and we would automatically select them.

Our approach has always been to develop solid criteria, and make objective decisions against these, rather than make selections based on personal favors, or how well you get on with a vendor.

As it turned out in the case we described, the unsuccessful company was already going through business difficulties, and closed their doors not long after. Had they been selected, the client would have been faced with starting again from scratch.

The point of this story is that it's important to start with a clear understanding of what it will take for a vendor to be able to do the job to the standards you want with a high level of reliability. Once you have established this, you can then look at things like how well you get on with them and recognizing existing relationships.

To get you started, the transcript of this podcast adds a summary of some broad selection criteria that can be applied to many projects. Details are at the end of this podcast. There is other free material and content on setting criteria on the site.

One important model our clients like is the Think180 matrix. This shows selection priorities for four different types of vendors. The two key dimensions in this matrix are, one, how much the work of the vendor is integrated with the business, making them more like a partner, and two, who the recipients are of the vendor's services.

In other words do they deliver internally to your company, or externally to your customers? For example, if they are facilities vendor and provide a straightforward service to your company such as payroll, then the selection priorities are their core competency, cost effectiveness, responsiveness and reliability.

If they are delivery partner, and provide an essential service to your customers as an extension of your own company, then they must have the core knowledge and expertise, be able to take initiative and responsibility on your behalf, and look and feel like your company to the customer. For more details go to Think180.com and view the outsourcing matrix, which you can download for free.

Having the right selection criteria makes it much easier for you to set priorities for selection, review proposals, interview prospective vendors, and perform due diligence and checking.

Also consider whether the criteria you are setting is for starting up the project, taking over an existing one, maintaining a project under way, or transitioning an existing project from in-house. A vendor who does a very good job maintaining an existing operation may not be as effective in starting one up.

When you're setting selection criteria, it's a good idea to do this against the budget that you have, and the likely costs and benefits for a different class of service.

It's worthwhile looking for potential showstoppers – some key factor that may make a particular vendor unsuitable. For example, if the job is likely to expand quickly, does the vendor who will do the job today have the ability to expand and grow with it? Are there any legal requirements that the vendor may need to meet?

There will be hard and soft criteria. Hard criteria are more about the level of experience, the business model, cost, quality programs, and capabilities such as response times and volumes. The soft criteria include things like how well they work with your company and engage in problem solving, or how creative they are.

When a project involves creative work, quantifying subjective or creative requirements is important. These requirements can be explained by describing the style of output to be produced, or the impression created with customers. We have worked with clients developing these more subjective elements, and it is often a hot topic on our workshops.

It is easy to select a vendor on the basis of liking them, or your comfort with them. Vendors you know, and who have performed well in the past, may appear to be a safe choice. However, as an example, a vendor who develops effective product data sheets for marketing may not be the right choice for developing more sophisticated training materials or user guides.

So, get off to a strong start when choosing a new vendor. Put the time and thought into creating solid and relevant criteria that will not only allow you to select the right vendor, but also help you manage the project once it is underway. It is quite easy to select the wrong vendor, but much harder and costly to shift to a new one.

I hope this has provided you with information to get you started. As I mentioned, there is more material and resources on the Think180 website. Just click and go to "Ensure Vendor Effectiveness", then note the resources listed at the right, including a link to these podcasts and the transcripts as PDFs. And if you need our services, Think180 is available to provide training or experienced consultation.

In our next episode, we will look at reviewing the proposals, and comparing vendors against the selection criteria. We will cover how to interview and compare, and do additional checking ("due diligence"). We will give you tips on how to make the final selection before moving forward and offering a contract.

Thanks for listening. I hope this has been helpful to you in preparing for your vendor selection. As always, we welcome questions, feedback and success stories. Please feel free to share this podcast with your colleagues. Our email address is podcast@think180.com.

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Appendix 1

Twelve Broad Selection Criteria for Vendors

This list can be used as a starting point for building a set of selection criteria. Most of these apply generally to all projects, but need to be adapted, and augmented with specific project requirements.

1. Appropriate relevant experience and proven expertise
2. Availability of resources for present and future needs
3. Business model that suits project and client operations
4. Level of preparedness to commence on time
5. Responsiveness to changing conditions within the project
6. Ability and willingness to work with client priorities
7. Robust processes in place for ensuring required quality
8. Appropriate communication style of vendor's key contacts and liaison
9. Effective processes and attitude for problem-solving
10. Ease of managing vendor – compliance, flexibility, integrity
11. Value-added capabilities – beyond the scope of agreed work
12. Pricing overall value appropriate to the project and budget