



# TRANSFORMING VENDOR RELATIONSHIPS INTO PARTNERSHIPS

## OUR EXPERTISE

Retailers need to cultivate strategic, metric-driven partnerships with vendors to improve the flow of product through their supply chain and better meet customer expectations. Kurt Salmon's deep supply chain expertise and long history of working with both retailers and wholesalers uniquely positions the firm to assess a retailer's vendor-related organization, processes and technical solutions, and to subsequently design a vendor partnership program tailored to its unique needs.

## CONTACT INFORMATION

**Sean Whitehouse**  
Partner  
[sean.whitehouse@kurtsalmon.com](mailto:sean.whitehouse@kurtsalmon.com)

**Jordan Pious**  
Senior Consultant  
[jordan.pious@kurtsalmon.com](mailto:jordan.pious@kurtsalmon.com)

## OVERVIEW

As retailers look to drive margin growth by increasing visibility, speed and efficiency across the supply chain, the cultivation of strong, strategic partnerships with key vendors is critical to their ability to provide customers with the right product at the right time. However, many retailers still have chargeback-based vendor compliance programs, which can be seen as punishing. They need to instead develop vendor partnership programs—with processes and metrics, as well as a supporting organizational structure and technical solutions—that establish a mutually beneficial relationship between retailer and vendor. When a retailer treats its vendors as partners, everybody wins.

## DESIRED OUTCOMES OF A VENDOR PARTNERSHIP PROGRAM

Shifting from transactional and tactical vendor relationships to strategic and purposeful partnerships provides tangible business benefits. Among them are:

- » Improved inventory integrity throughout the distribution and store network
- » Reduced order-to-cash cycle time
- » Greater inbound receipt accuracy
- » Fewer total landed costs
- » Higher percentage of stock in stores

Creating a vendor partnership program starts with an assessment of a retailer's existing vendor compliance-related processes, organizational structure, technical solutions and tools, as well as the current program's business objectives. This involves collection and analysis of data and core documentation, as well as interviews with those participating in and affected by the program, from the retailer's employees to its key vendors.

The next steps are conducting benchmarking and developing a gap analysis of the retailer's processes, structure, systems and tools against industry best practices. Doing so will highlight both process and performance gaps and opportunities for improvement to tools and organizational infrastructure.

Once the gap analysis is complete, the vision of the future vendor partnership program can be determined. Significant areas of opportunity, both near and long term, are identified, prioritized and integrated into a high-level roadmap with recommended actions, timing and responsible parties. "Quick wins" are also highlighted, as are any additional areas ripe for future exploration.

## SEVEN STEPS FOR BUILDING VENDOR PARTNERSHIPS

### 1. Benchmark against other retailers

Start by comparing your company's program's existing processes with those of other retailers—especially retailers with the same or similar vendors, since unique retailer requirements can increase vendor costs. Conduct a comprehensive benchmarking exercise to determine whether all vendor requirements are adding substantial value to your business.

### 2. Tier vendors and reward high performance

Create a vendor tiering structure that defines vendor "levels" and categorizes vendors based on performance. Establish a reward system in which high-performing vendors receive increased orders and additional benefits—such as vendor-specific Web events like a "trunk show" to showcase their merchandise or the elimination of chargebacks—as long as overall performance continues to meet or exceed requirements.

### 3. Clarify and simplify vendor requirements

Conduct an activity-based costing exercise to determine the true impact of current vendor requirements and chargebacks. Share the results of your analysis with vendors to get their feedback and to ensure they understand the impact of chargebacks.

### 4. Train vendors

Look for opportunities to train vendors on how product should be shipped and other requirements, and be sure to make clear the rationale behind such requirements. Conduct annual visits to key vendor distribution centers to directly communicate requirements as well as to assess the services being provided to other retailers.

### 5. Assess system investment

Determine the benefits of replacing manual processes with a vendor management system. Start by developing a list of systemic requirements, such as real-time issue forwarding to vendors and a detailed vendor scorecard, through a cost-benefit analysis of potential capabilities. Use such vetted requirements to determine the overall benefit of a vendor management system as well as which system would best meet your program's needs.

### 6. Measure success

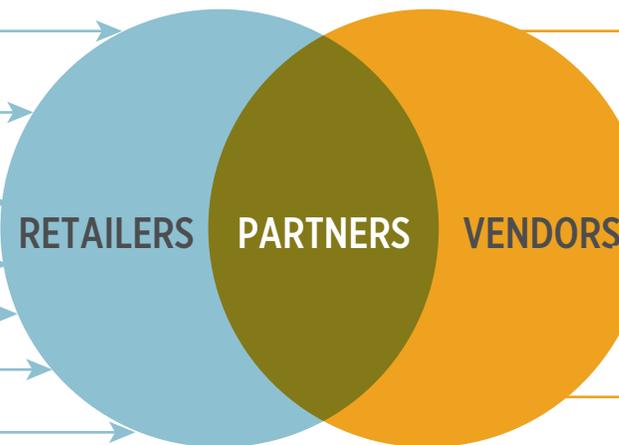
Begin by determining critical vendor partnership success goals, such as inventory integrity and chargeback avoidance, for both the retailer and key vendors. Define which metrics are necessary to meet such goals and develop a supporting tracking process. Vendor management systems often provide high-level dashboards with drilldown capability for data validation and research.

### 7. Create a vendor-friendly, flexible organization

Focus all elements of the vendor relationship program, both at the corporate level and in the distribution centers, on treating the vendor as a partner. Stress the importance of continuous communication and training with all vendors, especially those considered top tier. Create an environment in the distribution centers in which resources are flexed to ensure continuous auditing and rapid processing of results.

#### RECOMMENDED STEPS

- Benchmark against other retailers
- Tier vendors and reward high performance
- Clarify and simplify vendor requirements
- Train vendors
- Assess system investment
- Measure success
- Create a vendor-friendly, flexible organization



#### BENEFITS

- Improved inventory integrity throughout the distribution and store network
- Reduced order-to-cash cycle time
- Greater inbound receipt accuracy
- Fewer total landed costs
- Higher percentage of stock in stores