



Are You Conducting Regular Vendor Reviews?

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Some small and mid-sized firms do business with a variety of vendors that provide a wide range of different services — from mailing and fulfillment to printing, production and graphic design. As such, the money that these businesses spend on vendor services can really add up over time and result in a significant amount of the company's cash burn.

This makes it critical that businesses implement policies and procedures designed to ensure that vendor relationships and expenses are reviewed on a regular basis. It's logical that the finance department take a lead role in this vendor review process, given the impact that vendor expenses can have on a company's bottom line.

Challenges of Vendor Management

Businesses face many different challenges when it comes to vendor management, including the following:

- Over time, vendor relationships can become routine and even automatic. This can lead to circumstances that are not ideal for the business or the vendor.
- Vendor relationships can also become skewed over time so that one party benefits more than the other. Ideally, these relationships should be mutually beneficial, with each party achieving a “value-add.”
- Sometimes businesses end up focusing their time and effort on relatively minor vendor relationships that don't significantly impact the bottom line.

Constant diligence is required to ensure that vendor relationships remain mutually beneficial and companies spend their time focusing on the relationships that can have the greatest bottom-line impact. There are many negative impacts that can occur if a company fails to do so, including the following:

- The company may end up paying higher prices for goods and services provided by vendors, thus increasing its cost of goods sold and reducing its profit margins.
- The level of customer service provided by the vendor might start to decline if the vendor feels that the business is “automatic” and it no longer has to be earned.
- The resulting vendor instability can lead to a greater level of overall business instability. In a worst-case scenario, a company's vital supply chains could be disrupted, making it impossible to fill customer orders and leading to lost sales opportunities.

How an Outsourced CFO Can Help

The best way to make sure that vendor reviews are performed on a consistent basis is to hire an outsourced CFO services provider to lead the effort. An outsourced CFO will bring tools and techniques that allow for a better understanding of the business and financial impact of each vendor relationship. For example, an outsourced CFO:

- Can provide valuable input to help you measure the level of significance of each vendor in terms of their impact on the company's bottom line.
- Will possess an extensive list of many different types of vendors they have done business with. This will make it easier to compare the prices and services of your vendors with other similar vendors to ensure that you are getting the optimum level of service at the best possible price.
- Can help negotiate long-term vendor contracts that can reduce business risk and uncertainty going forward by locking in price and service agreements for a set number of years.

Hiring an outsourced CFO services provider to help perform your periodic vendor reviews can result in a number of positive outcomes for your company, including the following:

- You will enjoy mutually beneficial relationships with your vendors, with each party achieving significant "value-add."
- You will benefit from lower prices over the long term and higher levels of customer service.
- Your business risk will be reduced, including risk to your vital supply chains.
- Your long-term financial planning will be more accurate and simple since you will know what your costs in future years will be.
- Some vendor relationships may evolve over time into true business partnerships where synergies allow both parties to realize meaningful growth.

Concluding Thoughts

Your firm may do business with a variety of vendors that provide a wide range of different services. If so, the money you spend on vendor services can result in a significant amount of your company's cash burn. This makes it critical to implement policies and procedures designed to ensure that vendor relationships and expenses are reviewed on a regular basis. An outsourced CFO services provider can help ensure that vendor reviews are performed on a consistent basis, which can result in many positive outcomes for your business.

About CFO Edge

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