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<https://doi.org/10.61796/jaide.v1i6.647>**THE CHALLENGES OF VENDORS' SELECTION:
ASSESSING THE STRATEGIC STEPS OF
MITIGATING THE CHALLENGES****Dr. Olawale AMUZAT**Department of Business Administration Faculty of Business School
Binary University of Management and Entrepreneurship Malaysia**Dr. Ndifreke Akaninyene ENO**Department of Marketing Faculty of Business Administration
University of Uyo*Received: Apr 10, 2024; Accepted: May 15, 2024; Published: June 20, 2024;*

Abstract: The study analyzed the challenges to vendor selection: assessing the strategic steps of mitigating the challenges. Vendor Selection is one of the crucial decisions frequently executed by many industries. In recent times, the number of suppliers has increased enormously depending on a wide range of criteria. For many organizations, effective vendor selection is of vital importance. As the pace of market globalization quickens, the number of potential vendors and factors to consider when selecting vendors' increases. While selecting vendors, organizations encounter a multitude of challenges that can impact the efficiency, effectiveness, and overall success of their operations. These challenges stem from various factors, including vendor reliability, compatibility, cost considerations, and risk management. Overcoming vendor selection challenges requires a systematic approach that involves careful planning, evaluation, and decision-making. Start by clearly defining your organization's needs, objectives, and priorities. Research the market to identify potential vendors that offer products or services aligned with your requirements. On this basis, the study concluded that in many projects there are bound to be critical success factors and they have much impact on vendor selection. The critical success factors include the work sequence with a timeline that an individual can demonstrate in his/her plan to meet the project timeline. As it is the work sequence with timeline includes strict adherence to the project scope, provision of the project timeline, evaluation of the procurement document, milestone, selection of the right procurement strategy, preparation of work sequence document, and many more. One of the recommendations made was that the project manager must be proactive and do due diligence early on with the project to lead as required including developing a progress review to track if indeed the project is meeting its intended delivery plan.

Keywords: Vendor Selection, Strategic Steps and Challenges

This is an open-access article under the [CC-BY 4.0](https://creativecommons.org/licenses/by/4.0/) license**Annotation**

For many organizations, effective vendor selection is of vital importance. As the pace of market globalization quickens, the number of potential vendors and factors to consider when selecting vendors increases. Contemporary supply management maintains long-term partnerships with vendors and uses little but reliable vendors. Therefore, choosing the right vendors involves much more than scanning a series of price lists and choices; but depends on a wide range of factors that involve both qualitative and quantitative methods. Supply chain management is the management

of upstream and downstream activities, resources, and relationships with vendors and customers, which are required to deliver products or services. If this is done well, it will lead to a competitive advantage through differentiation and lower costs, as suggested by Porter (1980). Therefore, to ensure adequate supply chain management, businesses need to determine the critical success factors in supply chain management that can provide a competitive advantage. These critical success factors must be identified and conveyed to senior management in firms that want an effective and efficient vendor. Among supply chain management issues regarding purchasing decisions, vendor selection is the essential activity of a firm's purchasing department. The purchasing function has gained greater prominence in supply chain management due to factors such as globalization, increased value addition in supply, and accelerated technological change. Purchasing involves buying the raw materials, supplies, and components for the organization.

Vendor selection is the process by which vendors are reviewed, evaluated, and chosen to become part of the company's supply chain. It is the process by which firms identify, evaluate, and contract with suppliers. This selection process significantly reduces costs and improves profits and the quality of the products and services. The vendor selection process deploys an enormous amount of a firm's financial resources and plays an important role in the success of any organization. The main objective of the vendor selection process is to reduce purchase risk, maximize overall value to the purchaser, and develop closeness and long-term relationships between buyers and vendors. The vendor is one of the five competitive forces holding bargaining power as per the Competitive Forces Model defined by Porter of the Harvard Business School in 1979 (Porter, 1980).

Traditionally, the selection of vendors is often based on the price criterion. The cheapest vendor is usually selected without considering the additional costs this vendor may introduce in the value chain of the purchasing organization. Thus, the costs related to unreliable delivery, limited quality of goods supplied, and poor communication are not involved in the selection process. However, studies conducted in the identification of criteria conclude that vendor selection is based on different interactive criteria. Multi-criteria decision-making techniques have become commonplace in vendor selection methodology. This made the methodology complex and technical and opened new horizons for researchers. The analysis of criteria for selection and measuring the performance of vendors has been the focus of many academicians and purchasing practitioners since the 1960s. There have been numerous advances and developments in supply chain techniques and management in recent years. Selecting these right vendors plays a vital role in any business because (in manufacturing companies) it significantly reduces unit prices and improves corporate competitiveness. However, in today's globally competitive marketplace, emphasis on quality and timely delivery, in addition to cost consideration, adds a new level of complexity to vendor selection decisions. Among the issues of supply chain management regarding purchasing decisions, vendor selection is the most important activity of a firm's purchasing department. Organizations have been divided into operative functions such as marketing, planning, purchasing, finance, etc. The supply chain is a strategy that integrates these functions creating a general plan for the organization that satisfies the service policy and maintains the lowest possible cost level due to the incredibly competitive environment that they are exposed to procurement involves buying the raw materials, supplies, and components for the organization. The activities associated with it include selecting and qualifying vendors, rating vendor performance, negotiating contracts, comparing price, quality, and service, sourcing goods and service, time purchases, selling terms of sale, evaluating the value received, predicting price, service and sometimes demand changes, specifying the form in which goods are to be received, etc. A key and perhaps the most critical process of the purchasing function is the efficient selection of vendors

because it brings significant savings for the organization in the long run. The identification and analysis of criteria for the selection and evaluation of vendors has been the focus of attention for many academicians and practitioners. In his seminal work, Dickson (1966) conducted a questionnaire survey mailed to about 300 commercial organizations, primarily manufacturing firms. The procurement managers of these firms were asked to identify factors that were important for selecting vendors. His findings were divided into two categories: vendor selection practices by firms and vendor selection practices by individuals.

Concept of vendor

The concept of a vendor is fundamental in commerce, representing an entity or individual that sells goods or services to customers, often in a business-to-business (B2B) or business-to-consumer (B2C) context. Vendors play a crucial role in the supply chain, acting as intermediaries between producers and consumers, facilitating the exchange of products or services for monetary compensation. Vendors can take various forms, ranging from small-scale artisans selling their crafts at local markets to multinational corporations distributing their products worldwide. Regardless of their size or scope, vendors share common characteristics and functions within the marketplace. Firstly, vendors serve as sources of goods and services, offering a diverse array of products to meet consumer demand. They may specialize in specific industries or market segments, catering to niche preferences or providing essential commodities on a mass scale. Through their offerings, vendors contribute to the availability and accessibility of goods and services, enriching the marketplace with choice and competition.

Moreover, vendors assume responsibility for aspects such as product quality, pricing, and customer service. They strive to maintain competitive advantages by ensuring the superiority of their offerings, whether through innovation, superior craftsmanship, or strategic pricing strategies. By delivering value to customers, vendors foster trust and loyalty, establishing enduring relationships that drive repeat business and positive word-of-mouth promotion. In addition to serving end consumers, vendors often collaborate with other businesses within the supply chain. They may act as wholesalers, supplying retailers with bulk quantities of merchandise for resale, or as suppliers, furnishing manufacturers with raw materials or components for production. Through these partnerships, vendors contribute to the efficiency and effectiveness of the supply chain, optimizing resource allocation and streamlining distribution channels. Furthermore, the concept of a vendor encompasses a spectrum of roles and business models, including traditional brick-and-mortar stores, e-commerce platforms, independent contractors, and service providers. With the advent of digital technology, online vendors have proliferated, leveraging the internet to reach global audiences and conduct transactions remotely. This digital transformation has revolutionized the vendor landscape, enabling unprecedented levels of connectivity, convenience, and scalability.

However, being a vendor is not without its challenges. Competition, regulatory compliance, supply chain disruptions, and shifting consumer preferences are just a few of the factors that vendors must navigate to succeed in the marketplace. Adaptability, innovation, and strategic foresight are essential qualities for vendors seeking to thrive amidst these complexities. In conclusion, the concept of a vendor encompasses more than just a seller of goods or services; it represents a vital link in the economic ecosystem, connecting producers with consumers and driving the dynamics of supply and demand. Whether operating locally or globally, vendors play a pivotal role in shaping the marketplace and driving economic growth and prosperity.

Concept of Vendor Selection

Vendor Selection is one of the crucial decisions frequently executed by many industries. In recent times, the number of suppliers has increased enormously depending on a wide range of criteria. A selection of suppliers is a sensitive process that may impact various supply chain activities. Due to the dynamic business environment, the success of the supply chain becomes most important. Therefore, supply chain management has become more popular among academicians and practitioners (Beske et al., 2014; Kannan, 2018; Ikram et al., 2018; Akbari and Do, 2021). One of the business's major functions is purchasing from qualified suppliers. Vendor selection (VS) is a serious challenge in developing long-term relationships with the organization (Kannan et al., 2015; Kannan, 2018; Chai and Ngai, 2020; Sen et al., 2018). To stay in a competitive position, the firm must select suppliers by assessing various criteria such as cost of raw material, quality, quantity of products, etc., along with all benefits and non-beneficial criteria to get a robust result.

The traditional method of selecting suppliers just focused on price, but the modern method focuses shifts to quality, quantity, technology, lead time, service, etc. In the last five years, three renowned researchers reviewed the extensive literature on SS. Govindan et al. (2015) investigated the green SS topic that appeared from 1996 to 2011 and demonstrated that most of the research papers used a single decision-making method in analysis. The selection of suppliers in the technology era and globalization becomes difficult, as many alternative suppliers are available. It has also become much more complicated due to real-time information sharing in a dynamic supply chain. However, for a successful long-term commitment with a supplier, the firm includes various criteria in the decision-making process. The multi-criteria decision-making (MCDM) methodology has been considered to support the decision-maker. There is a strong relationship between the success of the supply chain and suppliers' performance. Therefore, this research benefits top management in identifying effective and ineffective suppliers by assessing their criteria.

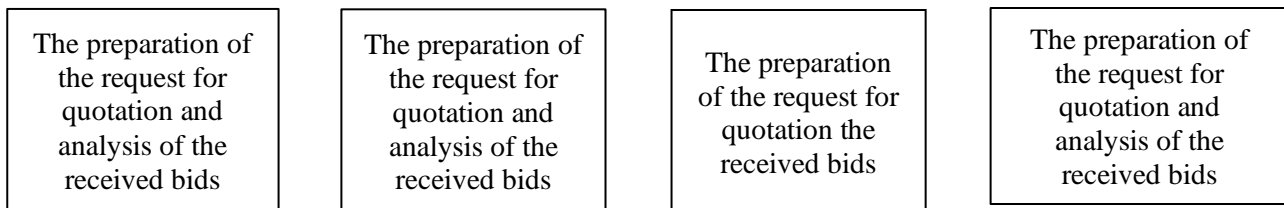
One major aspect of the procurement function is vendor selection, the acquisition of required materials and services for all types of business enterprises. By its very nature, the procurement function is a basic part of business management. In today's competitive environment, it is impossible to successfully produce low-cost, high-quality products without satisfactory vendors. Thus, one of the most important purchasing decisions is the selection and maintenance of a competent group of suppliers. The selection of competent suppliers has long been regarded as one of the most important functions to be performed by a purchasing department. Vendor selection decisions are complicated by the fact that various criteria must be considered in the decision-making process. The analysis of criteria for selection and measuring the performance of vendors has been the focus of many academicians and purchasing practitioners since the 1960s.

The selection of vendors is a fundamental issue in the supply chain which heavily contributes to the overall supply chain performance. It is the responsibilities that relate to procurement and involve the selection of vendors to acquire the necessary products and services to support the organizations. The procurement department takes responsibility for vendor selection, which is an integral part. Vendor selection is a subsidiary process that allows clearly stating, defining, and approving those vendors that meet the requirements of the procurement process. The procurement department is responsible for creating a list of potential vendors and submitting the list to the senior management for decision-making. However, the ultimate decisions on the vendors need to be made following the vendor selection criteria.

Vendor Selection Process

The vendor selection process is one of the critical organizational activities that are managed by the procurement department. Therefore, the purchasing manager needs to develop and use an effective process for finding qualified vendors to award the business. This process is often intensive, and it requires a major commitment of resources. The vendor selection process, which is part of the purchasing process, is initiated with market research after defining and specifying the functional or technical specifications. This process contains four steps as described below.

Table 1:
Vendor Selection Process



- Determining the method of subcontracting is the most important thing to decide whether to choose a turnkey (performing the whole assignment) or partial subcontracting besides the pricing method before awarding the work. (Existing Documents review).
- Set the potential vendors' preliminary qualifications and draw up the bidder's list. (Mandatory vs Non-Mandatory Requirement).
- Preparing the request for quotation and analysis of the received bids. (Pricing Strategy)
- The vendor selection is also the most crucial step in the purchasing process and a basis for many other activities. (Critical Success Factors).

In certain situations, the number of approved vendors available is insufficient; hence, thorough supply market research should be conducted to find new vendors. According to Weele (2014), when the quotations are received from potential vendors, the purchasing department should conduct a preliminary technical and commercial evaluation to weigh the technical, logistics and quality, financial and legal aspects. In addition, the offered price can be compared between the vendors, but the more important thing is to look at the total cost of ownership instead of the prices themselves.

Handfield (2009) also introduced seven steps for the vendor's selection process, which are:

- Recognizing the need for vendor selection: The process can be initiated based on anticipating a future purchase requirement. Here, the Project Managers might have some preliminary specifications on the type of the needed materials, processes, or services. However, the specifications have no specific details, but these specifications are enough to initiate the process of finding a potential source of supply.
- Identifying the essential sourcing requirements: Understanding the importance of the requirements that are essential for the purchaser, which might vary from item to item.
- Determining the sourcing strategy: That includes, for instance, domestic versus foreign suppliers, single versus multiple supply sources, and short-term versus long-term purchase contracts.
- Identifying the potential supply sources: This step depends on different information sources.
- Reducing the vendor's number in the selection pool: Purchasing staff often use an in-depth evaluation of all possible suppliers to narrow the number to a small list that will be used for an in-depth formal evaluation.
- Determining the vendor evaluation and selection method: The method will be applied to the

remaining vendors after the first cut in the former step. The evaluation and selection can be conducted using many methods, including evaluating the vendor's information, using a list of preferred suppliers, or carrying out a site visit.

- g. Selecting the vendors and reaching an agreement is the last step of the evaluation and selection process.

To study vendor selection practices by individual decision-makers, the Researcher selected four unique purchasing scenarios involving markedly different situations and a list of 23 factors reported in the purchasing literature as important to the supplier selection decision problem.

Table 2.2 Dimensions of CSF

CSFs	<i>Definition</i>
Quality	The ability of the vendor to meet quality specifications consistently which include quality features (material, dimensions, design, durability), variety, production quality (production lines, manufacturing techniques machinery), quality system, and continuous improvement.
Delivery	The ability of the vendor to meet specified delivery schedules which include lead time, on-time performance, fill rate, returns management, location, and transportation.
Price	The price criteria include unit price, pricing terms, exchange rates, taxes, and discounts.
Performance History	The performance history of the vendor deals with the financial, economic, social, organizational, and societal areas.
Warranties and claim policies	The superiority of the specified written guarantee promises to repair or replace the product, if necessary, within a specified period, and the claim policy as a formal request for coverage or compensation for a covered loss or policy event.
Production capacity	The volume of products or services that can be produced by a vendor using current resources.
Technology and Capability	The technological capability of a vendor and the ability to acquire new technologies and technical resources for research and development practices and processes.
Cost	The cost is a monetary valuation of effort, material, resources, time, and utilities consumed, risks incurred, and opportunity forgone in the production and delivery of a good or service.
Mutual trust and easy communication	The level of trust in the quality of the work provided by the vendor. And refers to the obligations owed between the buyer and the vendor. Easy communication is a simple exchange of information between the firm and the vendor.
Communication system	The communication system of the vendor includes information on progress data of orders.
Reputation and position in the industry	A ranking and reputation of a brand, product, or company, in terms of its sales volume relative to the sales volume of its competitors in the same industry.

Attitude	The attitude of the vendor while in contact with them such as politeness and confidence.
Vendor's profile	The superiority and reputability of the vendor's status, past performance, finance, certificates, and references.
Risk factor	The risk factor is a measurable characteristic or element, a change that can affect the value of an asset, such as exchange rate, interest rate, and market price.
Repair service	The ability of the vendor to restore something damaged, faulty, or worn to a good condition.
Geographical location	The geographical location of the vendor.
Reliability	The vendor's quality of being trustworthy and dependable based on the references (buyers' feedback), financial stability (capital, annual turnover), past and current business partners, company organization and personnel, diversity of ownership, and cultural awareness.
Service	The ability of vendors to provide intangible products including customization (size, shape, color, design, label service), minimum order quantity, communication (response time, information, language), industry knowledge, flexibility, and response to change.
Professionalism	The vendor's competence or skill is expected of a professional.

How to Overcome Vendor Selection Challenges

Overcoming vendor selection challenges requires a systematic approach that involves careful planning, evaluation, and decision-making. Whether you're selecting a vendor for IT services, procurement of goods, or any other business need, here are steps to mitigate common challenges:

Define Clear Requirements: Start by clearly defining your organization's needs, objectives, and priorities. Create a detailed list of requirements that the vendor must meet, including technical specifications, budget constraints, timeline expectations, and any specific features or functionalities required.

Conduct Market Research: Research the market to identify potential vendors that offer products or services aligned with your requirements. Utilize online resources, industry publications, trade shows, and networking events to gather information about vendors, their reputations, and their offerings.

Develop Evaluation Criteria: Establish evaluation criteria to objectively assess vendor proposals. Criteria may include factors such as expertise, experience, reliability, scalability, pricing, customer support, and cultural fit. Assign weights to each criterion based on its importance to your organization.

Request for Proposals (RFPs) or Quotes (RFQs): Issue RFPs or RFQs to selected vendors, outlining your requirements, evaluation criteria, and instructions for proposal submission. Request detailed information about the vendor's capabilities, approach, pricing structure, service levels, references, and any additional information relevant to your decision-making process.

Evaluate Proposals/Objectives: Evaluate vendor proposals objectively against your established criteria. Score each proposal based on how well it meets your requirements and objectives. Consider factors such as the vendor's track record, technical expertise, financial stability, responsiveness, and the quality of their proposal.

Conduct Due Diligence: Conduct thorough due diligence on shortlisted vendors to verify their credentials, reputation, and financial stability. Check references, customer testimonials, case studies, and online reviews to assess the vendor's reliability and performance.

Engage Stakeholders: Involve key stakeholders in the vendor selection process to gain buy-in and ensure alignment with organizational goals. Solicit input from relevant departments, such as IT, procurement, finance, and operations, to identify potential concerns, requirements, and preferences.

Negotiate Terms and Contracts: Initiate negotiations with preferred vendors to finalize terms, pricing, service levels, and contractual agreements. Ensure that the contract clearly defines deliverables, milestones, responsibilities, warranties, termination clauses, and dispute resolution mechanisms.

Manage Risk: Identify and mitigate potential risks associated with vendor selection, such as vendor lock-in, service disruptions, data security breaches, and regulatory compliance issues. Develop contingency plans and mitigation strategies to address unforeseen challenges or changes in vendor performance.

Monitor Vendor Performance: Establish mechanisms to monitor and evaluate vendor performance throughout the contract period. Define key performance indicators (KPIs) and service level agreements (SLAs) to measure the vendor's performance against agreed-upon benchmarks. Address any performance issues promptly through regular communication and performance reviews.

By following these steps and adopting a systematic approach to vendor selection, organizations can overcome common challenges and make informed decisions that align with their strategic objectives and drive business success.

Challenges to Vendor Selection

Vendor selection is a critical process for businesses aiming to procure goods or services from external sources. While selecting vendors, organizations encounter a multitude of challenges that can impact the efficiency, effectiveness, and overall success of their operations. These challenges stem from various factors, including vendor reliability, compatibility, cost considerations, and risk management.

One of the foremost challenges in vendor selection is ensuring vendor reliability and trustworthiness. Businesses must assess a vendor's track record, reputation, and adherence to quality standards to mitigate the risk of disruptions, delays, or subpar performance (Bhattacharya, 2015). This entails conducting thorough due diligence, including background checks, reference reviews, and site visits, to ascertain a vendor's capability and reliability in meeting contractual obligations.

Compatibility between the vendor and the buyer's organizational culture, processes, and systems presents another significant challenge. Misalignment in values, communication styles, or operational practices can impede collaboration and lead to friction during the implementation or

execution phase (Lourenço, 2011). To address this challenge, organizations must evaluate vendors not only based on their technical capabilities but also their cultural fit and ability to integrate seamlessly into existing workflows.

Cost considerations are paramount in vendor selection, as businesses seek to optimize value while managing budgets and expenses. However, striking the right balance between cost and quality can be challenging, particularly when evaluating competing proposals or negotiating contracts. Organizations must conduct comprehensive cost-benefit analyses, considering factors such as total cost of ownership, long-term value proposition, and potential cost savings or risks associated with each vendor option.

Risk management is an inherent challenge in vendor selection, as businesses must assess and mitigate various risks associated with outsourcing critical functions or relying on external suppliers. These risks encompass a broad spectrum, including financial risks, operational risks, cybersecurity risks, regulatory compliance risks, and geopolitical risks. Mitigating these risks requires proactive risk assessment, contingency planning, contractual safeguards, and ongoing monitoring and oversight throughout the vendor relationship lifecycle.

Furthermore, the proliferation of global supply chains introduces additional complexities and challenges to vendor selection. Businesses must navigate geopolitical uncertainties, trade restrictions, currency fluctuations, and logistical challenges when sourcing vendors from different regions or countries. Cultural, legal, and regulatory differences also pose challenges in cross-border vendor relationships, requiring organizations to adopt a nuanced approach to vendor selection and management in the global marketplace (Makatsoris & Weilemann 2006).

In conclusion, vendor selection is a multifaceted process fraught with challenges that require careful consideration, strategic planning, and diligent execution. By addressing challenges related to vendor reliability, compatibility, cost considerations, and risk management, organizations can enhance their ability to identify and engage with vendors that align with their business objectives and contribute to their long-term success.

Conclusion

The study concludes that in many projects there are bound to be critical success factors and they have much impact on vendor selection. The critical success factors include the work sequence with the timeline that an individual can demonstrate in his/her plan to meet the project timeline. As it is the work sequence with timeline includes strict adherence to the project scope, provision of the project timeline, evaluation of the procurement document, milestone, selection of the right procurement strategy, preparation of work sequence document, and many more. It is also true that the consultant's deliverables have a remarkable impact on the overall project timeline. Other critical success factors include but are not limited to the similarity in a reference project done by the proponent. Appropriate project management strategies good enough to optimize scope, time, cost, quality, and performance, is very vital in this direction. Those similarities in a reference project include scope, budget, experience, project methodology, evaluation scope, project goal, size, quality, capacity, and many in the list.

Recommendations

1. The project manager must be proactive and do due diligence early on with the project to lead as required including developing a progress review to track if indeed the project is meeting its intended delivery plan.

2. A project execution plan must be developed by the project manager to identify the right specification of the project and discuss the scope requirements of the project with procurement department.

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