

Vendor Management and Manifest Destiny

By Jeff Schurman

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The total cost of anything – appraisal, widget, dinner out -- consists of two costs: Production cost and transactions cost. Production cost is just that: The cost to produce the good or service. In theater, it is the cost to put on the show: write the script, hire the talent, rehearse, stage and deliver the performance. But this is only part of the total cost. There's also the transactions cost.

Transactions cost represents coordination costs incurred outside of the cost to produce the good or service. This includes search and information costs, commission on sales, marketing and advertising, accounting, technology, and quality control to name just a few. Think about it for a few minutes and you're sure to come up with a laundry list of transactions costs. And don't forget about risk. That's a transactions cost too; a potentially large one.

A new hire turns out to be a thief; an appraiser embellishes some comparables; a vendor does less than what was contracted for figuring never to be caught; a former protégé poaches your best customer. These risks, operational and opportunistic, can be devastating. Working with AMCs, lenders and appraisers – title abstractors and notaries too -- lay off a portion of the transactions cost and associated risk to the vendor management firm.

Going to the market to obtain services needed to close a loan the lender needs to weigh the total cost of procuring or producing the requisite components. The lender's goal is to select the organizational structure and the degree of in- or outsourcing that minimizes the total cost. This is no easy matter as there are lots of costs to consider:

- Finding reliable vendors
- Determining the optimal number of vendors
- Conducting due diligence to verify that the vendor does in practice what it says it does in selling situations
- Monitoring and enforcing service level agreements
- Measuring performance and reviewing the relationship over time

Essentially, the lender must weigh the total cost to produce settlement services in-house, outsource to a panel of vendors that can easily top 5,000 or more individuals, or outsource to 2-4 vendor management companies.

All of this, to my way of thinking anyway, suggests the manifest destiny of vendor management. The growth of the industry is inevitable. That is because vendor

management increases productivity, reduces production and transaction costs, and provides clients and vendors strategic advantages not otherwise available in the market. And yet, manifest destiny doesn't come about without aches and pains, and, a fair share of opponents bent on protecting the status quo. Therefore, it is vital to the interests of every appraisal management company, full-service vendor management company, multistate title agency, regional and national recording agency, and provider of goods and services to these firms to have a trade association looking out for their interests. That is why you need to support TAVMA.

TAVMA is the trade association of the real estate settlement services industry. In this role, it is our job to promote the industry and present our members positions to government, media, user groups, and service vendors. Yet we cannot continue in this vital role without the broad support of the industry. If you're not already a member you need to join now!

Go to www.tavma.org for additional information about TAVMA and to obtain a membership application. While you're there take a look at the TAVMA blog for the latest news and views about the industry we serve.