

What the Vendor Manager Can Learn from Retailers

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Some may believe that big box retailers like Wal-Mart and Home Depot have learned to live off of the tiny margin earned by selling commodities, but that's not the case. While these companies do buy products on a wholesale basis, very much like vendor management companies, and they sell many products at discounted prices, what they are really selling, based on their financial results, is value. There is a lesson here for our own industry.

The dictionaries say that a commodity is something for which there is demand, and yet is supplied without qualitative differentiation in the market. A chunk of gold is a chunk of gold. In a commodities market, whoever has the lowest price wins the business.

Unfortunately many in our own industry view vendor management this way. I often hear that we're in a commodity business. But we don't sell commodities. If a commodity is something sold "without qualitative differentiation in the market" how could our products be commodities? Said over and over again perpetuates the myth.

Seeing the value

Clients can also view appraisals, title policies and closings as commodities. Here's how it happens. We prepare wonderful proposals that take 20 or 30 pages to clearly describe all the qualitative reasons a lender should work with us. We lay out the rationale, based on our superior technology, our focus on customer service, and our reporting and accounting procedures. We talk about our ability to comply with RESPA, Sarbanes-Oxley and the many other regulatory requirements.

The client reads our proposal and says: "Well, you know, I'd really like to use you, but your competitor is willing to do this job for \$25.00 less per unit. Match it and you'll get the business; otherwise we'll use your competitor."

What the prospect has said essentially is that your company's technology, customer focus, reporting, accounting, and compliance are without qualitative differentiation. When we roll over we've taken all those qualitative things of value and boiled them down to price, commoditizing what we do.

Big box retailers often mention affordable prices in a general sense, but they focus on and emphasize the total package. In addition to everyday low prices, a Wal-Mart offers quality, variety, and convenience. Others, like Home Depot and Lowes, appeal to a do-it-yourselfer's need to create something or increase the value of their home. These additional factors, in

addition to high volume, ultimately affect their prices. Wal-Mart's Chief Financial Officer, Thomas Schooley, recently told the Wall Street Journal that the company's strategy begins with the inventory: if the quality is good, there is less of a markdown.

In our industry, when we minimize the real value we bring to the table in favor of an offer of a slightly better price than the competition, we undervalue what we do.

A lender has three choices when it comes to vendor management: Manage appraisal, title and closing vendors in-house, set up an affiliated business arrangement, or outsource vendor contract and work flow management to a VMC. Taking on the work VMCs do today-finding and recruiting appraisers, title abstractors, and closing agents, qualifying them, reviewing work samples, checking licenses, performing due diligence, managing work in progress, processing fees, etc.-the lender would soon learn that they are saving a great deal by working with a VMC. In a non-commodity business these savings are what ought to be talked about.

We must define what value means in our industry and then translate that into terms that clients can understand. This means creating and sharing our value proposition. A value proposition is anything that increases productivity, reduces overall operating costs and/or provides the client with a self serving strategic advantage. Competitive pricing is important. But as big box retailers like Wal-Mart continue to prove selling an overarching value proposition in addition to competitive pricing is the key to survival in any business cycle.

In the end, it comes back to marketing and merchandising. Even though Wal-Mart is among the world's most criticized companies, the firm's management does not allow the critics to define who they are and what they do. Wal-Mart defines itself.

There's a lesson in there for our industry. If we really do provide the best products, use the best technology, and focus on customer service, we have the overall package that can prevent our industry from becoming a commodity business. All we need now is to build our brand around a unique value proposition; then do in practice what we say we do in selling situations.

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