# Preferred Vendor: What They Are and Why You Should Have A Preferred Vendor Program




## IN THIS ARTICLE


- Preferred Supplier Program Benefits
- Preferred Vendors vs. Approved Vendors
- Establishing a Preferred Vendor Program for Your Company
- Set Up Preferred Vendors in PLANERGY


As procurement professionals, we are constantly looking for ways to streamline our processes and save our organizations money.

A preferred vendor program can be a great way to do both.

By pre-selecting vendors that meet your organization's standards for quality, price, and delivery, you can save time and money on the procurement process.

In addition, a preferred vendor program can help your organization meet its environmental, social, and governance (ESG) objectives.

Only doing business with vendors that meet your ESG criteria can help ensure

that your organization supports sustainable practices.

In short, an approved vendor program is a win-win for procurement professionals and their organizations.

In business, the term “preferred vendor” refers to a supplier that has been vetted and approved by a company to provide goods or services to that company on an ongoing basis.

A preferred vendor program (PVP) is a system whereby a company formally identifies and selects a small group of vendors that it trusts to provide high-quality products or services at a fair price.

# Preferred Supplier Program Benefits

These programs are beneficial for both buyers and suppliers. By developing a PSP, an organization can streamline its procurement process, reduce costs, and improve quality and service levels.

For suppliers, PSPs provide increased demand certainty and allow for improved planning.

## Benefits for Buyers

A preferred supplier program (PSP) aims to improve an organization’s overall performance by identifying, qualifying, and selecting a group of suppliers that can provide high-quality goods or services at a competitive price.

PSPs benefit buyers because they can lead to reduced costs, improved quality and service levels, and increased procurement efficiency.

By developing long-term relationships with select suppliers, buyers can negotiate better prices and terms, receive early access to new products and services, and enjoy higher levels of customer service.

In addition, PSPs can help buyer organizations manage risk by consolidating their spending with fewer suppliers.

They also offer:

- **Improved decision making:** Much of effective business operations is data-driven. The list improves access to supplier information and makes purchasing easier for everyone in your organization.
- **Reduced risk:** Identifying critical suppliers allows you to monitor supplier performance more closely, to make sure they're meeting contractual obligations. If you determine that your reliance on specific suppliers is too much, you can start to diversify your suppliers and reduce risk across several of them.
- **Better control:** Working with a list of preferred vendors ensures you have better control over procurement. Through the relationships you build, you'll have more accountability and better service quality. Communication is often improved, reducing costly misunderstandings.

## Benefits for Suppliers

One of the main benefits is increased certainty of demand.

When an organization commits to working with a select group of suppliers over the long term, it provides those suppliers with greater visibility into future demand patterns.

This allows them to plan their production more effectively and efficiently, leading to cost savings.

Other supplier benefits include early access to new projects, higher customer satisfaction levels, and increased brand recognition.

# Preferred Vendors vs. Approved Vendors

A preferred vendor is a company's chosen supplier based on several factors, including quality, price, and customer service.

A preferred vendor typically offers more favorable terms than a non-preferred vendor, and the company may give the preferred vendor preference when awarding contracts.

An approved vendor is a supplier that has simply been deemed acceptable by the company.

An approved vendor may not offer the same benefits as a preferred vendor, but the company is confident that the approved vendor can provide acceptable goods or services.

In many cases, a company will have a small pool of approved vendors from which it will choose the supplier that meets its specific needs.

Be sure that if all your vendors are compiled on one list, there's an easy way for your team to separate the preferred vendor list from the approved vendors.

> *Creating a PVP in your organization may take time, but you'll reap benefits for years to come.*

# Establishing a Preferred Vendor Program for Your Company

There are four key steps in establishing a PVP:

1. ## Define Your Needs

   The first step is to sit down and assess your company's needs in terms of the goods and services it requires.

   - What kind of products or services does your company need?
   - How often will you need them?
   - What is your budget?
   - Are there any regulatory compliance issues we must consider as we evaluate vendors?

   Once you have answers to these questions, you'll be better positioned to identify potential preferred vendors.

2. ## Research Potential Vendors

   Once you know what you're looking for, it's time to start researching potential vendors.

   There are numerous ways to do this, but some good places to start include

online directories (such as Google My Business), industry-specific trade publications, and word-of-mouth recommendations and referrals from colleagues or other businesses in your industry.

Once you have a good idea of the available vendors, you can compare their prices and services. Make sure to also read online reviews and check for any complaints filed against the vendor.

3. ## Conduct Interviews

Once you've compiled a list of potential vendors, the next step is to narrow it down by conducting interviews.

This process should involve representatives from various departments within your company so that all stakeholders have a say in the decision-making process. Some questions you might want to ask during interviews include:

- How long have you been in business?
- What is your track record?
- Do you have any references we can contact?
- What is your pricing structure?
- What is your delivery timeline?
- What sustainability initiatives is your company part of? How will we fit into that?

By asking these questions, you'll get valuable insight into each vendor's strengths and weaknesses to decide which is right for your company.

4. ## Select Your Preferred Vendors

After conducting all of your interviews, it's time to select your preferred vendors. This decision should be based on cost, quality, delivery timelines, customer service, and reputation.

## Develop Your Preferred Vendor Agreement

Once you've selected your preferred vendors, be sure to formalize the

arrangement with contracts so that there is no confusion about the terms of the agreement going forward.

A Preferred Vendor Agreement (PVA) is a formal document that outlines the terms of a business relationship between a purchaser and a supplier.

The agreement defines the roles and responsibilities of each party, as well as the expectations for quality, delivery, and price.

PVAs are typically used by large organizations with high purchase volumes and the need to secure favorable terms with their suppliers.

For small businesses, PVAs can still be useful in securing better terms, but they may not be necessary if the organization only buys from a few suppliers.

In any case, it is important to carefully review the terms of a PVA before signing it, as it can significantly impact the business relationship.

Once signed, a PVA should be regularly reviewed and updated as needed to ensure that it continues to meet the needs of both parties.

## Common Sections in Preferred Vendor Agreements

- **General Purpose and Scope:** This covers the purpose and scope of the agreement.
- **Obligations of Company A:** This outlines what you as the buyer will do, such as submitting all purchase orders electronically or submitting a blanket purchase order.
- **Obligations of Company B:** This outlines what is expected of the supplier and its subsidiaries, including the products and services they're expected to provide, any exclusivity, etc.
- **Pricing:** The specific pricing you'll pay for products and services you order – such as cell phones, copiers, etc.
- **Term and Early Termination:** This discusses the length of the contract, as well as how to go about terminating the contract early and any fees associated with early termination.
- **Confidentiality:** Details of what information can be shared with others and what must be kept confident between the parties.
- **Indemnification:** Coers compensation for harm or loss.

- **Arbitration of Disputes:** Details what legal jurisdiction will handle any contract disputes and what steps to take should a dispute ever arise.
- **Notices:** Detials that all notices and communications must be provided in writing, with electronic receipt confirmation if delivered via fax or email.
- **Assignment:** Essentially states that neither party can assign the contract to another company without the written permission of the other.
- **Force Majeure:** Unforeseeable circumstances that may prevent either party from fulfilling their end of the contract.
- **General Provisions:** In this part of the contract, you include standard conditions, such as terms of payment and payment services, terms of delivery, and suggested measures against contract volution.

After drawing up the contract, meet with the vendor to go over its terms and make sure everyone understands it all before signing.

If you have a legal team available to review the contract, it's always wise to have them look at it it before agreeing to anything.

You can request changes to the agreement before signing, but once it's signed, it becomes a legally binding document.

Amending a contract after it's been signed is more complicated.

# Set Up Preferred Vendors in PLANERGY

A preferred vendor program is an excellent way to save money and improve service levels. It allows purchasing departments to focus on their core responsibilities while enabling vendors to offer the best price for the volume they order.

In addition, Preferred Vendors are held accountable for delivering on promises and providing higher levels of service.

PLANERGY makes it easy to store supplier information, designate approved and preferred vendors, and control which employees have access to what, for a streamlined procure to pay process.

# What’s your goal today?

## 1. Use PLANERGY to manage purchasing and accounts payable

We’ve helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Vendor Management Solutions page to see how PLANERGY can help strengthen relationships with keys vendors, monitor performance, and ensure vendor compliance. .
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

## 2. Download our “Indirect Spend Guide”

Download a free copy of our guide to better manage and make savings on your indirect spend. You’ll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

download a free copy of our guide

## 3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

# Related Posts