

## Vendor Master Cleansing Four Steps to a Streamlined Vendor Base



A comprehensive Vendor Master Cleansing streamlines operations for both Payables & Procurement. This vendor clean-up is typically performed as part of a system conversion process, but should be performed annually to enhance internal controls & foster processing efficiencies. The cleansing should incorporate the identification of inactive vendors for purge, flagging duplicate vendors for removal, isolating multiple "remit to's" for possible consolidation, implementing consistent vendor name & address conventions, commoditizing the vendor base, and establishing corporate linkage to support a strategic sourcing initiative.

Below are the steps we recommend as part of this clean-up process:

### **Eliminate Inactive Vendors**

Our experience with large payables organizations indicates that on average, 50% or more of vendors on the vendor master file are inactive. The periodic elimination of inactive vendors increases processor keying speed, reduces errors, and will likely enhance system response time. The recommended timeframe for purging vendors are those with no invoice activity within the prior 12 months (covers seasonality & retains those vendors billing once-a-year). The timeframe retained should coincide with the paid invoice data that is retained for on-line inquiry. Most purchased Accounts Payable systems have the capability to purge inactive vendors, but due to infrequent use, the system staff may not be confident in its usage.

For invoice processors, removing inactive vendors speeds keying by offering less vendor choices, and reduces the potential for selecting an outdated or incorrect vendor number. From a system response time, reducing the vendor base can significantly reduce the run-time for any report that extracts data from the vendor master file. It is critical to check with your purchasing counterparts as vendors often cannot be purged that are linked to open purchase orders on file.

### **Remove Duplicate Vendors**

Duplicate vendors are an exposure for any A/P organization, but represent an increased risk for an organization that has absorbed multiple locations and/or systems into a centralized operation. Duplicate vendors increase the likelihood of duplicate payments, and intensify the difficulty in compiling a comprehensive spend profile for vendor negotiations (i.e. "IBM", "I.B.M.", "International Business Machines", etc.). APEX Analytix has created a "Duplicate Vendor Report" that utilizes complex algorithms to flag vendors that are likely duplicate vendors on file. A sample of the duplicate vendor can be provided upon request.

In efforts to prevent duplicate vendors from re-appearing, we recommend that the vendor creation process require a look-up by the vendor address prior to adding new vendors. This will minimize adding redundant vendors at the source, particularly when the names or initials would be keyed slightly different. The vendor maintenance team should be using "Vendor Name & Address Standards", also available upon request.

### **Consolidate Multiple Remit To Addresses**

Many of your larger vendors will have multiple remit to locations. These addresses are often geographically placed to expedite the flow of funds into the vendor's operation, or can be a function of the vendor's ownership structure. Those vendors with significant remit to's often include those operating in the areas of telecom, waste management, industrial parts, post offices, computers and more.

Our largest clients have been successful in persuading suppliers to accept all payments to one remittance address (regardless of division). The savings can be fairly significant for both parties, as the supplier realizes administrative savings by having fewer people handling incoming remittances. An additional benefit is the ability to more easily capture all payment activity through one vendor number for use in negotiating company-wide purchasing agreements. This is an initiative best pursued with procurement, as they can potentially make the one "remit to" a condition of doing business with your company.

### **Pursue Strategic Sourcing**

With few exceptions, Fortune 1000 organizations are burdened with an oversized base of suppliers. Given that the average Fortune 1000 company buys approximately 400-500 commodities and maintains a global vendor base of over 50,000 suppliers, this means that there is an average of over 100 vendors per commodity. This is clearly not optimal from a procurement or accounts payable standpoint. Those organizations that have been successfully optimized their supply base have addressed the following challenges:

1. Senior management understands and supports the quantified impact that an aggressive strategic sourcing program has on earnings per share;
2. The procurement organization has created the necessary systems to capture global spending, and routinely quantifies the financial savings from sourcing projects;
3. Preferred vendor agreements are in place for 80% or more of the organization's common purchases;
4. The proper structure and/or incentives have been implemented to ensure employees buy only from preferred vendors, and that negotiated prices are fully complied with.

Until all four areas are addressed, Payable & Procurement will be fighting a difficult battle in maintaining a streamlined vendor base.