

Supplier Relationships

a report by

Ken Burnett

Practice Development Officer, Chartered Institute of Purchasing & Supply (CIPS)

Ken Burnett is Practice Development Officer for the Chartered Institute of Purchasing & Supply (CIPS) and he is responsible for answering technical enquiries from both members and non-members. Mr Burnett joined CIPS in 1991, having previously worked in consultancy organisations, research associations and academia. He is Secretary of the CIPS Legal Committee, one function of which is the production of books and papers on legal matters, a notable recent example being the updating of the CIPS suite of model forms of contract. Mr Burnett has also produced a considerable volume of papers and other publications on information technology and legal issues as well as on purchasing matters in general, his most recent work having been to produce chapters for the third edition of the *Gower Handbook of Purchasing Management*.

Introduction

'Supplier relationship' is an expression that, it can be argued, has positive connotations, indicating as it does that a relationship between buyer and supplier exists and that it is such that both sides derive benefit from it. However, this has not always been the case, since, traditionally, such relationships have tended to be adversarial, with each side trying to gain maximum advantage and leverage over the other.

The current trend is for the positive connotations of the word 'relationship' in the buyer/supplier context to become even more pronounced, with both sides carrying out their business in an atmosphere of co-operation and mutual advantage.

Andrew Cox, in his paper "Relational Competence and Strategic Procurement Management",¹ has developed a 'stepladder' of relationships, ranging from adversarial leverage at one end through to strategic alliances at the other. The steps in between are identified as 'preferred supplier', 'single sourcing' and 'network sourcing'.

Cox describes each of these stages in some detail; his account of preferred suppliers, for instance, may be summarised by saying that these are:

"suppliers who are judged to be the best to provide goods or services which are... at a relatively low level of strategic importance to the organisation."

Interestingly, the typology as put forward by Cox does not include a reference to partnership sourcing. He justifies this omission by suggesting that 'partnership' is best used as a general catch-all term referring to all forms of collaborative relationship between buyers and suppliers. It is stressed that Cox's model is only one of a number that have been developed. 'Partnership sourcing' has been defined by Partnership Sourcing Ltd. as:

*"a commitment by a customer and supplier to a long-term relationship based on clear, mutually agreed objectives to strive for world-class capability and competitiveness."*²

Benefits of Improving Supplier Relationships

It is now widely accepted that improved relationships between buyer and supplier are desirable, and forward-thinking companies are realising that developing and enhancing such relationships is an effective way of improving the level of efficiency of the whole supply chain. Specific benefits include shared product development costs, reduced cycle time and improved delivery performance.

D Krause, a researcher at Michigan State University, has stated that:

"with a reduced supplier base, organisations need to maximise the performance of the remaining suppliers. An aggressive supplier development programme can play an important part in helping the firm achieve its competitive goals."

How to Improve Supplier Relationships

Krause has shown that the methods used most commonly in the US for supplier development are, for example:

- investing in the supplier's operations;
- conducting visits to the supplier's site to offer advice on improving performance;
- promising increased business as a performance incentive;
- providing suppliers with regular feedback;

1. Andrew Cox, "Relational Competence and Strategic Procurement Management", *European Journal of Purchasing and Supply Management*, 2, 1 (1996), pp. 57-70.

2. <http://www.pslcbi.com>

- assisting suppliers in their staff development programmes;
- implementing an information sharing programme; and
- inviting suppliers on site to familiarise them with how the end-product is used.
- a programme of regular meetings should be put in place;
- introduction of supplier study groups (the Japanese principle of Kyoryoku Kai, which may be defined as a philosophy whereby suppliers meet with each other on a regular basis to discuss ways of improving performance and to consider developments in production theory and technique) – obviously, this advice is redundant for single supplier situations; and

Developing and expanding this list, further strategies for promoting positive buyer/supplier relationships include:

- ensuring that supplier support and development programmes are an integral part of the organisation’s corporate philosophy;
- ensuring the commitment of senior management – during the initial meetings with suppliers, senior management should explain the purpose of the supplier development programmes;
- suppliers must have reassurance that they will benefit from the relationship – the suppliers should be viewed not only as suppliers, but also customers; many of the usual principles of customer care are applicable;
- a supplier performance reporting procedure to enable suppliers to analyse and measure their productivity – senior management should review such reports, comment on them and forward them at the prescribed intervals to their counterparts at their suppliers.

Setting Up Good Supplier Relationships

These suggestions are aimed at improving a buyer–supplier relationship that is already in existence. The question is: “How should one go about setting up such a relationship in the first place?”



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It has been suggested that there are four key considerations for negotiating a successful and mutually beneficial relationship.

Examine Your Own Motivation Orientation

Enlightened self-interest is the orientation that helps to develop high-quality agreements through its focus on respective interests and results.

Focus on Relationship Issues

The importance of relationships should not take second place to contractual considerations.

Design Appropriate Procedures for Pre and Post-negotiation Interaction

In particular, buyers should:

- give careful consideration to the timing of interaction with potential suppliers;
- use well-established negotiation procedures; and
- develop strategies for handling possible future conflicts.

Conduct an Effective Negotiation Analysis Before Interacting with Suppliers

This analysis should involve:

- the examination of interests and issues;
- the generation of options;
- exploring how options can be made into specific agreements; and
- evaluation of the alternatives to the agreement.

Close buyer/supplier co-operation is well established in many larger organisations. Small and medium-sized enterprises (SMEs), on the other hand, often lack the resources to implement such initiatives. With this in mind, some useful guidelines were established in 1996, specifically for the smaller organisation.

- Choose partners who are your equal – Be sure to define both your own and your suppliers' expectations from the arrangement. Make an in-depth assessment of both organisations. Difficulties can be expected to arise if one of the partners has to act as 'parent' to the other.
- Define strategies, objectives and requirements –

Before developing a closer relationship with your suppliers, make sure that your organisation and its top management share the same view on what form such co-operation should take.

- Do not forget that it is still a customer–supplier relationship – The typical customer–supplier 'game' will not disappear overnight. Achieving a relationship based on mutual trust and understanding requires dedication.

Partnerships

Notwithstanding Cox's view discussed previously, partnerships are widely recognised as being a desirable objective in buyer/seller relationships. It has been suggested that smaller organisations can establish and maintain fruitful relationships with larger organisations on a partnership basis. By working in partnership, a smaller company purchasing from a much larger supplier can take advantage of resources and expertise that would be difficult to self-finance and, as a result, can offer extended services to their own customers.

What are the key drivers that lead companies to embrace the partnership philosophy? To some extent, they generally overlap with supplier relationships and include:

- drive for lower acquisition costs;
- reduced supplier base;
- shorter product life-cycles;
- concentration on core business; and
- pressures towards lean supply.

These have been put forward by Phil Southey. In Southey's view, partnerships are not without their limitations. He suggests that many breakdowns of partnership agreements stem from a failure to acknowledge what involvement in this kind of relationship really entails. He therefore proposes the use of what he calls 'bonding mechanisms', which can, in his experience, be instrumental in saving the 'marriage' between supplier and customer.

Among the mechanisms that Southey proposes are:

- interlinked directorships;
- cross-share holdings;
- supplier associations (Kyoryoku Kai); and
- third-party stakeholders – typically a bank who could act as a mediator and conciliator between the parties in the event of a dispute arising. ■

This article is continued in the Reference Section on the CD-ROM accompanying this business briefing.