

IMPROVE SUPPLY CHAIN THROUGH SUPPLIER RELATIONSHIP INITIATIVES

By Prof. Ketan Gandhi



Historically, the buyer-seller relationship has been more akin to master slave relationship than anything else. The inefficiencies in reaction time and the associated costs are the result of this particular aspect of relationship. The competitiveness calls for focus sharply than ever on the bottom line to maximize profitability and enable long-term competitive advantage. In the context of improving the bottom line means to increase revenues at a faster pace than costs – putting an ever-increasing focus on cost reduction. In addition, with the business environment continuously becoming more global in nature, more outsourcing to developing countries and a supply market defined by rising raw material costs and limited sources, we need the ability to compete.

During last few years, supply chains are being challenged to bring in cost efficiencies, flexibility of operations and transparency of communication. With this demand on the supply chains, there is a need for the buyer to change his role from only a service receiver to also a service provider. This paper elaborates on the need to measure the supplier's satisfaction, and then shares how to use the outcome as tool to strengthen supply chain. It also highlights the improvement areas that will enhance relationship with supplier.

Introduction:

To emerge ably as winners in global competitive business environment, it is

essential to make the supply chain strong and flexible. The strength of chain would emerge from the relationships that are nurtured between the buyer and seller of each link, and the flexibility would be a result of the transparency of communication, speed of reaction and the focus on core competence.

The Emerging Supply Chain

The purchasing activity is no longer seen as a passive, reactive function and

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Conventionally, whenever the activity of purchasing has been taught or discussed "make or buy" has been one of the major points of understanding. A time has come

when purchasing has to be viewed holistically, integrating the purchasing department with the rest of the firm and then integrating this firm with both the suppliers and the customers in the supply chain.

Supplier today is to be seen as if he is a staff function to the buyer. As inbound work-in-process, and outbound inventory decrease, the purchasing and manufacturing functions are becoming increasingly visible and transparent to customers and suppliers.

The purchasing function has been historically responsible for optimum quality and lowest possible total cost, which generally meant lowest price, developing and maintaining reliable and competitive supplier, contributing to low inventory and smooth flow, and cooperating and integrating with other functions.

Buyers would need to emerge as strategic partner at higher level in the value chain instead of merely as back-office purchase function. Buyer's goal would be striving for reducing costs while improving adaptability, speed and innovation – and sourcing and procurement operations are becoming engines to drive cost reductions and profit increase. Buyers have recognized they can improve the effectiveness and lower the cost of running procurement and sourcing by minimizing the staff allocated to transactional activities and by optimizing staffing in the areas of expertise and strategy related activities. Buyers need to focus on developing more effective, efficient and innovative supplier relationships.

Focus on core competence

In new business scenario, increasingly, the businesses rely on the aspects of core competence. This means that the development of proto types, new products and at times technology, which will be otherwise be performed internally, are not being increasingly shifted to the suppliers who have this as a core competence.

Role of Relationship

This new approach requires collaborating efforts in planning, forecasting, consolidating demand, and sharing information both within the firm and with the supplier. The relationship between a firm and its supplier must be capable of being modified as price, cost and other factors impact either firms business. (England and Leenders, 1975)

Relationship based purchasing requires new skills, decision making approaches and performance measures. A spectrum of buyer-supplier relationship has evolved in recent times. From a time when purchasing was a inquiry-quotation transaction, the system has passed through different stages involving a three bid lowest quotation; discussing the delivered price in terms of total cost, shipping and transportation terms, payment terms, rework and other cost associated with low quality, and external failure costs once the product is in the customers' hands. This has resulted in a relationship where both buyer and seller seek to gain a benefit in the market at the expenses of outsiders (rather of each other) (Cavinato, 1994)

Key trends in areas of supplier relationship management and procurement

Several research and benchmarking study has revealed four key trends in this area.

Quote

“First, the prominence of sourcing and procurement organization is on the rise in the corporate structure, and these organizations are being viewed as strategic partners at the highest levels of the corporation instead of merely as back-office functions. Indeed, the study shows that over 25% of companies have elevated the role of the procurement function to report directly to either CEO or CFO.

Second, companies are looking more and more to their procurement organizations to reduce costs, bringing to bear mounting pressure to meet year over-year cost reduction targets. This is evidenced by study findings showing that 76% of companies have formal strategic sourcing and spend management programs in place with a specific focus on achieving cost reduction goals.

Third, there is a growing recognition that companies can improve the effectiveness and lower the cost of running their procurement and sourcing organizations by minimizing the staff allocated to transactional activities (procure to pay) and by optimizing their staffing in the areas of expertise and strategy-related activities. In fact, top performers in the study allocate 73% of their procurement staff to strategic, value-added functions and only 27% to transactional activities.

Fourth, companies with the most

effective procurement and sourcing functions are the ones that achieve the highest levels of spend reduction. These companies share a number of common traits, chief among them the use of technology to enable best practices, the enactment of formal spend management and strategic sourcing programs, and the close management of indirect and services spending.

In short, the study found that in top-performing companies, sourcing and procurement organizations are increasingly important in the drive to reduce costs and increase profitability. Companies are developing more effective, efficient, and innovative supplier relationships and they are implementing technological Solutions in a more complex environment. And sourcing and procurement organizations are evolving into strategic partners at the highest levels of the corporation, while focusing more on value-added activities and less on repetitive transactional activities.”

Un Quote

(ASUG/SAP benchmarking survey)

Is Buyer a service provider?

In the new role of this buyer, a question that is asked often is: Are the goods and services flowing only from the supplier to the buyer or the supplier also recipient of monies and services from the erstwhile buyer? Thus, while the supplier, in the supply chain is providing goods and services to the buyer, the buyer in return is providing monies and services to the supplier. If this were the case, it becomes obligatory on the part of the buyer

to measure his performance for the quality of services rendered by him to the supplier (Partnership sourcing, 1991)

Vendor Rating System

Historically, as buying organizations mature, they tend to measure the vendors' performance and start maintaining records of promises kept, quality supplied and prices offered. The outcome is often termed as 'vendor rating system'. Industry experts raise concern on effectiveness of vendor rating system and its usefulness in deriving conclusions of vendor's performance.

Vendor Satisfaction as measure of Buyer's performance:

Is changing scene of global supply chains, the buyers will have to measure their own performance by measuring the strength of the services rendered by them to their suppliers? This is a shift in buyer's behavior and practice which is must in today's competitive scenario.

Identifying the parameters to be measured

The measurement of satisfaction, being a very subjective element, needs to be converted into an objective exercise (like any other survey). The biggest milestone is to figure out the parameters which need to be measured during the course of vendors' satisfaction measurement. The survey needs to be designed based on nature and type of transactions, interaction with suppliers and issues coming-up in dealings.

When buyers are outsourcing manufacturing of assemblies, customized

components (especially OEMs) as part of their supply chain in which engineering, bills of material, tires of suppliers for supply of components, production, and quality assurance functions are involved, from one of more approved suppliers, measure of supplier satisfaction would be necessary.

Supplier satisfaction survey:

When ever manufacturing is outsourced for full or part of assemblies, supplier satisfaction survey needs to be designed covering following broad parameters;

- A) Transactional activities
 - a. Request for quote or tender process
 - b. Activities related to release of purchase orders to suppliers
 - c. Timely Payments to suppliers
 - d. Communication with suppliers
 - e. Quality System and Quality Assurance Plan
 - f. Rework and design change implementation
- B) Expertise based activities
 - a. Drawings, Bills of Material and other documents to supplier
 - b. Prototype development Process
 - c. Development of new vendors
 - d. Vendor Rating System and its implementation
- C) Strategy and Compliance
 - a. Business Forecast, and Macro level planning i.e. capacity planning
 - b. Future expansion and long term association
 - c. Buyer team's competence, efficiency and approach towards suppliers

d. Participation of supplier in change initiatives taken in buyer's organization

D) Any other points customized to different industries

Methodology:

Survey questions need to be designed for above parameters and measure present status on a scale of 1 to 5 (1 being poor and 5 being Excellent). Based on feedback from suppliers, an action plan needs to be worked out for improvement of various services that buyer will have to extend to suppliers in response to goods that supplier has been supplying. Repeat surveys half yearly or annually depending on nature and volume of transactions would help buyer in tracking improvements. Based on surveys conducted by author, following areas have emerged as top 10.

- 1) Very little strategic discussions for long term planning by buyer and more focus on transactions
- 2) Business forecast accuracy and timely communication of changes
- 3) Reduction in variation in monthly order flows, if deliveries are regular
- 4) Communication of purchase order changes and from plant stores on goods receipt
- 5) Quality assurance plan and quality assurance system including buyer inspections

6) Stereo type Vendor rating system if doesn't capture real contributions of suppliers

7) Responsiveness of buyer for new ideas, products and technologies, design and other features being suggested by suppliers for better product and services

8) Frequency of Meetings with suppliers and transparent sharing

9) Prototype development process, design change management (for engineering products) and supplier's involvement

10) Consider supplier as part of buyer's value chain

If these areas and any other buyer transaction specific areas (as per findings of supplier survey) can be improved at buyer's end, it will improve supplier satisfaction for short and medium term.

Long Term Supplier Satisfaction Recommendations:

Buyer could also consider improving following actions for long term view of supplier satisfaction. These are in addition to improve transactional parameters that include communication, sharing, supplier's involvement in development process and feedbacks.

- 1) Shift allocation of purchase staff to expertise and strategy related activities from transactional activities

- 2) Focus on value added activities such as category management, spend analysis, supplier evaluation and on going supplier performance management
- 3) Propose IT system and e-commerce which can improve transactional activities with minimum human interface, automate processes and gain efficiency with out sacrificing effectiveness
- 4) Invest more in strategic sourcing programs
- 5) Rationalization and optimization of the supply base and better access to supplier performance data
- 6) Reduce process costs due to increase compliance, efficiency and integration along with reduced complexity
- 7) Compress cycle time through automation and faster execution of sourcing activities
- 8) Strengthen best practices deployment – category management and supplier evaluation and negotiation

