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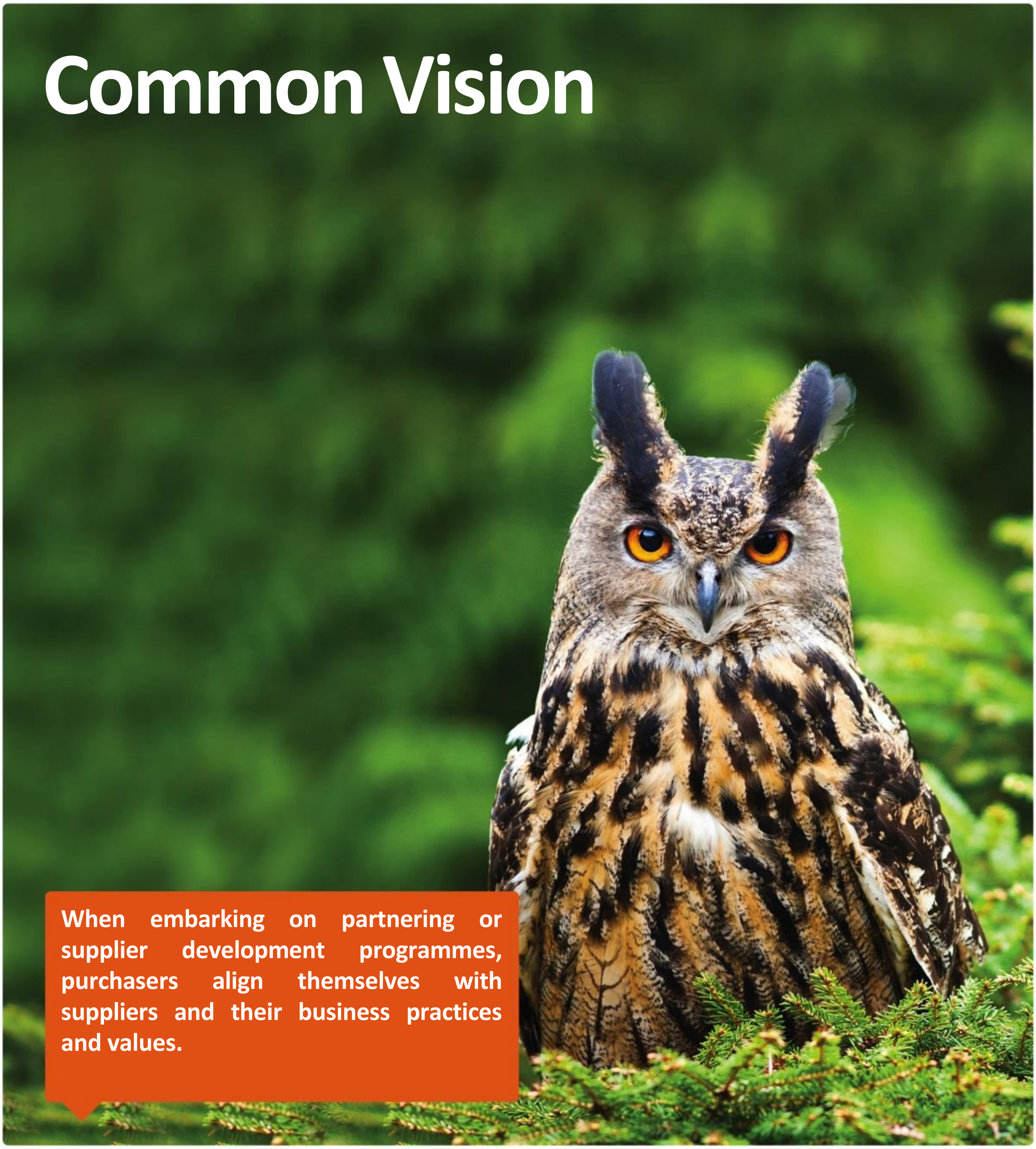
CIPS KNOWLEDGE

Common Vision



When embarking on partnering or supplier development programmes, purchasers align themselves with suppliers and their business practices and values.

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Common Vision

The adversarial approach to procurement is no longer seen as the best way to get the most out of supplier relations. It still has a part to play, namely in the purchase of low value, low risk commodity items and services, but increasingly cooperation within the supply chain is accepted as an efficient means of enhancing trading relationships in the long term. This in turn can improve product development and quality of service and has the potential to significantly reduce operational costs.

These benefits come from common objectives, close communication, and the sharing of knowledge, skills and resources. They can be achieved through a partnering approach or by going a stage further and creating supplier development programmes, where the purchasing organisation actively assists the supplier in meeting its requirements.

The approach taken depends on the nature of the product or service being supplied and its value to the purchasing organisation. Similar to many supplier selection processes, the Purchasing Portfolio provides a simple yet effective model for identifying the areas where it would be beneficial to invest in developing supplier relations. The Purchasing Portfolio categorises purchases by risk and value and is represented by the following matrix:

SECURITY **High risk, low value** **Preferred supplier**	**STRATEGIC** **High risk, high value** **Partnering**
MANAGE PROCESS **Low risk, low value** **Commodity purchasing**	**LEVERAGE** **Low risk, high value** **Preferred supplier**

It is in the strategic category where partnering or supplier development can reap the most rewards, as the product or service being procured is of both high value and high risk to the organisation. It is important that some form of analysis, such as the Purchasing Portfolio, is carried out prior to embarking on a supplier relationship programme. It takes time and effort to develop relationships with suppliers and proper preparation and research will ensure these are applied in the right direction.

Purchasers need to decide the approach they want to take, to examine the potential with individual suppliers, and to consider if the industry within which the supplier operates is open to such levels of cooperation.

Building the relationship

Partnering is about a sharing relationship between buyer and supplier, in which they work towards achieving common targets and minimising costs. Both parties should benefit from the relationship and the objectives should be integrated into the purchasing organisation's overall business plan and be supported at the highest level to ensure commitment. The supplier must also be committed to the relationship, and wherever possible have similar business practices and corporate cultures. For example, their approach to corporate social responsibility and environmental issues are important as partnering will align suppliers with the purchaser's brand and public perception of the organisation.

The actual sharing can incorporate information, knowledge, staff, skills and resources in order to maximise their return towards meeting common goals. These could include a drive to achieve best practice, cut lead times, reduce stockholding, boost capacity, reduce time to market or increase innovation. The key to achieving such outcomes is in the relationship management on both sides, and dedicated resource will help ensure ongoing communication, monitoring and improvement.

Key Performance Indicators (KPIs) are a good means of measuring success and identifying any problems and it is wise to have an exit strategy within the contract in the event of the partnership failing. In particular, this should address confidentiality because of the information sharing nature of partnering and the high degree of trust required.

Supplier development takes partnering a step further and is used to describe situations where the buying organisation provides resources or assistance to the supplier, such as technology or finance, to help them produce a product or service that meets the buyer's requirements. There are many models under which partnering and supplier development can be carried out, including the following:

- The Network Sourcing Model, which is based on the following ten characteristics: supplier tiering, few suppliers, high asset specificity, low value added, bilateral design, supplier innovation, close high trust relations, supplier grading, supplier coordination and supplier development.
- The Supply Chain Model, which extends the relationship to include raw material sources and end consumers.
- Sako's model, which promotes long-term relationships based on trust and strategic advantage.
- The Lean Supply Model, which advocates a mutual relationship for joint strategies between buyer and supplier.

All of these models share the common features of supplier grading, supplier coordination and development in the change process. They draw on a number of processes to build the relationship and achieve mutual goals, including:

- Supplier cooperative associations – this is based on the Japanese Kyoryoku Kai system of creating a mutually beneficial group of an organisation's most important suppliers, based on trust, sharing of business strategies, engineering and cost information.
- Cross transfer of staff – this can be permanent or temporary and is used to further cement relationships and sharing.
- One-to-one developments – this is about working together for synergy and strengthening

relationships through joint problem solving and mutual gains. It could be in the form of on-site training of the supplier's employees, individual suggestions directly to suppliers, or technical assistance.

Guidelines for success

CIPS recommends some general guidelines to help purchasers optimise relations with key suppliers, which can be applied to the different buyer-supplier relationship models discussed above:

- Supplier support and development programmes must be a philosophical part of the company's over-all business strategy. These long-term programmes stress continuous improvement in the supplier's processes, product/service quality, and delivery performance.
- During initial meetings with suppliers, top management should attend, introduce and explain the goals of the programmes. Top level commitment helps validate the programmes.
- Suppliers must also benefit from the alliance. The supplier development team should view suppliers as their customers and make sure that the benefits expected by their customers are exceeded.
- Purchasers should help suppliers improve their operations. One or two purchasing professionals should dedicate time to work with supplier associates at suppliers' sites.
- The union should strive towards overall cost reduction, but not at the expense of fair profit. Cost savings should be shared equally after the supplier has met the purchaser's target costing.
- Partners must work closely together and meet regularly to ensure smooth communication.
- Purchasers should facilitate supplier study groups. These provide a forum for suppliers to share strengths and build on common weaknesses.
- Purchasers should institute supplier performance reporting to help suppliers analyse and measure their productivity. Reports should track statistics on quality and delivery.

Top management should review the reports, provide comments, and forward them to the suppliers' top management.

- Annual supplier conferences should be held to inform, inspire, challenge and reward suppliers. These conferences should recognise suppliers who excelled in quality and delivery performance, productivity improvement and production support.

These guidelines convey the extent of the commitment required to enhance supplier relations, however with the right preparation and selection processes, this is an activity that can help gain a competitive edge in terms of speed to market, cost base and differentiating innovation.

Shared values

When embarking on partnering or supplier development programmes, purchasers align themselves with suppliers and their business practices and values. It is important that suppliers' activities do not reflect negatively on the purchasing organisation and suppliers' ethical and social responsibility should be researched thoroughly to ensure no embarrassing situations arise after the relationship has been developed. Consider elements such as the following when comparing approaches to corporate social responsibility:

- Environmental responsibility
- Human Rights
- Community involvement
- Impact on society
- Equal opportunities
- Ethics and ethical trading
- Sustainability
- Biodiversity
- Corporate governance

Partnering in practice

BASF is the world's leading chemical company. It has production facilities in 39 countries and trades in 170 countries. Its strategy at its Seal Sands plant on Teesside in the UK has been to marry technological and commercial innovation through partnering. One of the ways it has done this is through a partnership with the maintenance arm of Aker Kvaerner, a provider of services to the engineering and construction sectors.

Throughout the history of the Seal Sands plant the maintenance provision has been managed by BASF but outsourced to a number of different providers. Whilst the company names have changed, many of the employees had worked on the site for more than 20 years. Although the general belief for many years was that the service was world class, in reality an emphasis on cost control was stifling development and long-term improvements.

BASF decided to shake things up by looking at partnering. Its first step was to define what it meant by a partnership – a long-term, mutually beneficial relationship where resources, knowledge, skills and values are shared with a purpose of enhancing each partner's competitive position.

When BASF settled on Aker Kvaerner to provide the whole maintenance service for the site, the main reason was the approach of its senior management team. BASF saw the team as having the ability to see beyond traditional approaches and to adopt the new ways of working enthusiastically.

The core of the agreement is a performance-based contract, whereby Aker Kvaerner is paid according to a set of Key Performance Indicators (KPIs). Where Aker Kvaerner achieves or exceeds performance, BASF's productivity and profitability are enhanced. BASF then shares its additional gains with Aker Kvaerner.

Another innovative aspect of the agreement is the establishment of a shared reward system that focuses both BASF and Aker Kvaerner on the same goals and objectives. A site goal might be, for example, zero reportable accidents and a team objective might be to carry out health and safety audits. This approach has been fundamental in establishing site priorities and has encouraged collaborative working between the two organisations.

The most notable outcome of the partnership for BASF was an immediate reduction in the maintenance budget, owing to a reduction in headcount of 35 per cent. Other benefits have included the following:

- Reliability and productivity of the plant increased with the achievement of a record breaking year in terms of output;

- An improvement in the safety record – the site achieved 2 million reportable injury free hours;

- Reduced contact management for BASF as a result of working with a single maintenance company.

Since the Aker Kvaerner agreement, BASF has put similar alliance agreements in place with suppliers of other supporting services. For example, Eurest provides facilities management, Cleanaway provides cleaning and waste management, and Hertel manages insulation, painting and access. Where their activities overlap, all four of the alliance companies plan and work closely together, with minimal reference to BASF required.

Such has been the success of the venture that the four alliance partners are now using similar systems on other sites with their own customers – an excellent example of the mutual benefit that partnering can bring.

Key points

- Maintenance provision previously outsourced to a number of suppliers
- Emphasis on cost control was stifling development and long-term improvements
- Partnership established with single maintenance service provider
- Performance-based agreement put in place, with payment according to KPIs
- Where KPIs exceeded and purchaser's productivity and profit are enhanced, the additional gains are shared
- A shared reward system focuses both organisations on the same goals and objectives
- One of the key benefits was an immediate reduction in the maintenance budget

Source: DTI guide 'Partnering and your business'

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