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Measuring Key Suppliers

Suppliers need to find out what their customers are measuring their performance on and start measuring it. There is a move towards measuring suppliers on shared goals.

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Leading global excellence in procurement and supply

'Procurement has grown up', says Professor Lynette Ryals in her paper 'Holding up the mirror: The impact of strategic procurement practices on account management'. A shift from short term price reductions to long-term relationships with our suppliers is delivering more sustained shareholder value. Yet paradoxically the vast majority of relationships (approx 70%) are at arms length. She goes on to say that many organisations suffer from supplier delusion as they may believe they are in a partnership arrangement with a customer however, the buying organisation has a very different picture.

Supplier's often pour time, money and effort relentlessly into relationships with customers that will never be anything more than arms length. In a recent CIPS CPL event, Professor Ryals explored issues in selecting and measuring key suppliers and discussed the findings of her paper, just one of a series of research pieces looking at key account management at Cranfield University.

The paper is based on interviews with procurement directors and supplier relationship managers. Through her research in key account management, Ryals has identified that strategic procurement managers are just as committed to identifying mutual gain from key supplier/customer relationships.

Suppliers need to find out what their customers are measuring their performance on and start measuring it. There is a move towards measuring suppliers on shared goals. Kodak was used as an example of how a successful supplier partnering program produced not only lower costs, but reduced cycle times and improved solutions, while allowing suppliers to benefit from a greater share of the Kodak business. Kodak suffered losses by not anticipating the strength of the digital camera phenomena and partnering with suppliers has enabled them to tap into specialist knowledge and 'catch up' in this market.

With the development in the type of relationships we build with our suppliers procurement professionals face new challenges – how they measure the performance of the relationship and how they manage the balance in dependency when using a smaller number of suppliers. The Toyota motor company had two suppliers in Kobe, both of which made vehicle parts which no other factory could make. Following an earthquake these factories were put out of production and Toyota's whole assembly system ground to a halt. This example shows how being 'locked-in' to single sourcing can leave a customer vulnerable and at considerable risk.

The challenge is managing the trade-off between the risks of single source lock-in and the opportunities that partnering can bring to the table. The discussion then led to how suppliers can obtain recognition for winning new business. Research shows that the incumbent has more chance of winning business than new suppliers, as switching to a new provider has not only cost implications, but is also high risk – venturing into the unknown.

Key account managers often fall at the first hurdle when trying to move from the awareness to the consideration set. Suppliers are often still pushing the same requirements and USPs at both the tender and beauty parade stages, and this is a mistake. Once short-listed, the supplier has ticked all the boxes for requirements and it is often psychological issues that have a more powerful influence on the decision making process.

An example is when Marks and Spencer were reviewing a large IT system contract. Five suppliers were short-listed to present to the buying panel, the 5th supplier (who presented at the very end of the day) dressed in Marks and Spencer suits, knowing that everyone at Marks and Spencer could spot one of their suits from a mile. This subtle ploy portrayed a powerful message, suggesting that the suppliers were fully engaged with Marks and Spencer’s culture and their products. As there was little variation in the supplier’s offering it was important to reaffirm messages, no matter how subtle, of an appreciation of an organisation’s ethos; this is what helped win the business on the day. Paul Cousins from Manchester Business School discussed in the last CPL breakfast briefing the importance of socialisation awareness and techniques in supplier relationships.

It is also important to be aware that these messages work both ways. Suppliers are often sceptical of eAuctions as the message (rightly or wrongly) to the incumbent, can be that the organisation is not convinced that they are getting a good market price. The message to new suppliers is an open door and therefore an opportunity. The discussion then led to understanding building the customer value case, referring to “Creating Customer Value” (1995) by Earl Naumann, on benefits over sacrifices. Organisations are building in more service attributes to their technical offering in order to increase the perceived benefits. The example here was car maintenance building in valet and collection service aspect to enhance their product offering.

The theory of TCR (total cost of relationship) is the aspects considered when
defining the total cost of ownership, but also includes risk. This takes account of these added service attributes bundled into a product such as problem solving, dealing with complaints, rework etc. There is often a conflict when measuring supplier performance in that the supplier is measuring successes on the value-adding service attributes, or soft benefits, whilst customers are often still using the hard measures. As with the Paul Cousins socialization research, Ryals found that suppliers react more strongly to comments made regarding their performance rather than hard measures.

Types of partnering relationships were discussed and 3 basic types were identified, the most basic level only offering limited co-ordinated activities. Second tier partners (type 2) are involved with CPFR (Collaborative, Planning, Forecasting and Replenishment) activities such as Wall-mart passing the POS (point of sale) information back to their suppliers for analysis. The more embedded partnering, type 3, are sitting down with their suppliers and discussing issues and solutions on an operational and strategic level

Oxford Instruments obtained 70% of their revenue from one customer so invited the customer’s MD to their strategic planning meeting. The MD bought his organisation’s strategic plan to see if Oxford Instruments were interested in seeing it – shockingly this was the first time that they had seen it after a substantially long relationship. This level of information exchange is paramount for optimum partnering, especially when you are heavily reliant on one customer or supplier such as this example.

In summary trust, commitment and continuity are the three major success factors for relationship management and measurement, along the following building blocks:

1. Trust and commitment; relationship continuity
2. Investment in the relationship
3. Dependence on the relationship
4. Communication
5. Personal relationships
6. Reciprocity and fairness
7. Shared benefits

The lively question and answer sessions addressed the following issues:

Often the lifetime of a relationship is overlooked as well as disengagement methods. The procurement director at BUPA found that the average supplier relationship was 7 years, yet the average board members term was 2 years. Regarding disengagement the advice was to communicate. Talk about the issues with internal and external stakeholders to gauge opinion. Often we want to disengage with a supplier for personal reasons.

Perceptions of why we disengage or why business is not won in the first place are often muddled due to miscommunication. The salesman's perception is often that if a deal is won it is due to good salesmanship, if it is lost then there is something wrong with the product!

The lean vs. agile dichotomy was also discussed. A mass industry study in over 16,000 companies showed that agile pays off better than lean. However it's about what is most appropriate for your organisation. Ikea successfully use a combination of both lean and agile techniques in their supply chain policy. Their standard products are uniform, available all year round and use a lean approach yet they have additional season or infrequent products that rely heavily of agility.

By aligning strong relationships with fewer suppliers there was a concern over potentially creating an anti-competitive environment and influencing the market. The lift and escalator industry is an example of very few suppliers globally in a large market. Some organisations are looking at the extended service offering, "servicisation" method in order to differentiate themselves in the market.

Individuals, their attitudes, methods of communication and behaviour have an impact on relationships and no policy or process can steer every individual down the same path.

CIPS Group Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom
T +44 (0)1780 756777 F +44 (0)1780 751610 E info@cips.org

CIPS Africa Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E infosa@cips.org.za

CIPS Australasia Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E info@cipsa.com.au

CIPS Middle East & North Africa Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E mena.enquiries@cips.org