


# P&SM: Supplier Development



The process of working with certain suppliers on a one-to-one basis to improve their performance (and capabilities) for the benefit of the buying organisation.



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### Introduction

The CIPS' practice documents are written as a statement in time. They are a collection of views on good practice within a particular subject area and are intended to provide direction on good practice with some guidance for context and interest. The reader is encouraged to use the CIPS practice documents for their own purposes, such as writing policy statements, guidance or procedures. This particular practice statement has been written primarily for the benefit of full-time purchasing and supply management professionals, but can be used by anyone associated with, or interested in, purchasing and supply management (P&SM).

This document is about supplier development.

### Definition

Supplier development is the process of working with certain suppliers on a one-to-one basis to improve their performance (and capabilities) for the benefit of the buying organisation. It can take the form of a one-off project or an on-going activity that may take some years to come to fruition.

Joint buyer/supplier development activity to improve the integrated performance and capabilities of both the supplier and the buyer is more commonly referred to as partnering (for more information, please refer to the CIPS position on practice on partnering which is also available on this site).

Both supplier development and partnering are subsets of relationship management (for more information, please refer to the CIPS position on practice on supplier relationship management which is also available on this site).

### Background

Supplier development started to gain traction as a business idea after the Second World War, particularly in Japan. It was only in the 1970's when the process started to take hold in the United States of America<sup>1</sup> that it began to be used more widely as a business tactic.

In the UK competitive pressure was forcing companies to reduce inventory costs and, as a result, quality and delivery times were becoming important considerations alongside price. In response, purchasing departments were instrumental in improving the quality of goods and services by specifying a requirement for suppliers to achieve ISO 9000 quality standards. As interest in quality migrated to the concept of 'continuous quality improvement' it was a logical step for buyers to expect their suppliers to also adopt this enhanced approach.

### Explanation

The major driving force for development of suppliers is the competitive pressures of the marketplace, and it is through the decisions of many individual purchasing departments that this force acts. As market places go from local to national to global, the strength of this competitive force dramatically increases. CIPS, therefore, believes that the widest possible

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<sup>1</sup> Frahm, Scott: Supplier Development: A Survey of Risks and Benefits, <http://scm.ncsu.edu/scm-articles/article/supplier-development-a-survey-of-risks-and-benefits>, 08/2003 (14/02/12).

professional tendering process is a tried and tested vehicle for deriving the benefits and value of this market process.

However, P&SM professionals must also recognise that significant issues arise with costs, time, resource and especially risk when the decision is taken to change a current supplier for a new one selected by a tendering process. Therefore, there is a case to be made for reducing the cost and risk by taking a current supplier and helping it to develop performance and capabilities that will be of value to the buying organisation.

### What does supplier development involve?

Handfield & Krause et al (2000) believe that it is best to view supplier development as a long-term business strategy that is the basis for an integrated supply chain<sup>2</sup>.

Supplier development is, at its simplest level, about giving regular feedback of the supplier's performance as experienced by the buyer's organisation, together with any customer complaints. This information can often, in and of itself, provide a strong incentive for suppliers to improve their performance, particularly in areas such as delivery reliability and lead times. This approach can be further bolstered by using the expertise in the buying organisation to develop the supplier's capabilities and hence increase the total added value in both products and services. P&SM should also be receptive to the possibility of embracing supplier expertise and aligning it to the buying organisation's business needs.

A further advantage of this supplier development approach is that the areas chosen for improved performance or capability are tailored to the specific needs of the buying organisation, and this alignment ensures that the benefits feed directly through into the organisation's products and services, enabling it to become even more competitive in its own market place.

There is no single approach to supplier development. There are many different types and approaches that are appropriate for different supply markets and P&SM professionals must select the most appropriate approach to suit the relationship they have with the supplier.

There are instances when changes in legislation, regulation, systems or procedures occur which will affect all suppliers. In these circumstances the buying organisation will need to adopt a suitable supplier development programme that uniformly targets all key suppliers. Conference, workshop or rolling seminars can be a cost-effective way of approaching this development requirement.

While formal supplier programmes have much merit, they should not replace an agreed and well-crafted dispute resolution procedure within the contract. This procedure should establish the root causes of the problem and a requirement for procedures to be modified, or new ones introduced, to ensure that there is no future repetition. Because complaints are more specific and personal, the supplier has a direct incentive of converting a disgruntled customer back into a satisfied one.

Areas for development might include some or all of the following:

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<sup>2</sup> Handfield R, Krause D et al *Avoid the Pitfalls in Supplier Development* MIT Management Sloan Review, Winter 2000, Vol 41, Number 2

- Cost reduction that helps to maintain the supplier's profit margin
- Quality improvement that both reduces reject costs and/or increase reliability of buyer's goods or manufacturing processes

Quality improvement in service provision that meets the customer needs and is subject to continuous improvement.

- Improved lead-times and/or delivery reliability
- Improved product or service functionality or performance and possibly new products or services that are tailored to the buyer's specific needs
- Improved support from the supplier. This may include items such as automated stock replenishment and reduced payment terms
- Improved product training for customer end users
- Supplier seminars that delineate supplier responsibilities and expectations that are geared towards improving corporate alignment
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- Improving environmental performance and sustainability within the supply chain

### Prerequisites of Supplier Development

CIPS believes that a fundamental pre-requisite for supplier development, and indeed the development of any P&SM strategy, is that P&SM professionals analyse, evaluate and appreciate their own organisation's corporate objectives and business needs. The supplier development projects which are undertaken must be in support of the P&SM strategy which, in turn, supports the organisational strategy.

Supplier development requires key technical P&SM skills, as well as contract management and project management skills. It also demands excellent interpersonal skills in order to develop communication between the buying organisation and the supplier and 'sell' the idea behind the development project both internally with colleagues and to the supplier. P&SM professionals must have the ability to work effectively with all those involved irrespective of their status in either organisation.

One of the key interpersonal skills required is empathy, i.e. the ability to appreciate others' perspectives. For example, the buying organisation must appreciate the supplier's position and the impact on their business of this development. In some cases, their other customers might perceive that they are being neglected as a consequence of so much resource being channelled into a supplier development programme of another customer, which may also be one of their competitors. An empathetic P&SM professional will recognise these issues and allow suppliers the scope to deal with them.

### Selecting Suppliers for Development

Before selecting suppliers for development, the P&SM professional must first have identified a reason and an understanding of why supplier development should be undertaken and what it involves.

CIPS advocates studying the supply base and evaluating the extent to which it meets the needs of the organisation. Suppliers of key supplies and services should be rated according to their



current performance and an ideal, or desired, performance as well as compared to other suppliers. This evaluation should also cover the relationship between the two parties, e.g. the style of relationship and how this compares to the preferred type of relationship. CIPS believes that these processes will encourage competition between suppliers, especially if it leads to a supplier accreditation such as 'Best of Breed'.

CIPS believes that it is ideal if the relationship between the suppliers and the buying organisation is managed on a key account basis, i.e. an individual is given responsibility to manage a number of contracts. CIPS also believes that supplier development is a two way process that includes buyer development so that those organisations can develop towards jointly developed organisational goals.

As supplier development can be a resource-intensive process, CIPS suggests that it should only be undertaken with those suppliers from which real business benefit can be derived. The selection of suppliers for development should be dependent on:

- Category strategy
- Scale of value/improvement
- Opportunity
- Cost, complexity and duration of value attainment
- Supplier co-operation
- Value/risk positional analysis

Suppliers can be categorised regarding supplier development in three ways: they are either being developed, on hold as a potential for development or identified as not being worth the investment of development.

Supplier development is undertaken with existing suppliers that can be, and agree to being, improved. The supplier's performance against agreed criteria should be measured in order to identify the scope for development at the outset and, once the development process has started, to monitor and manage improvement.

However, suppliers will be more motivated to take part in a development programme if complex detail reporting is avoided. Highly visible key milestones are the best monitoring system. Timetables for specific developments need to be reasonable in length if only to avoid the potential for disruption that might be caused by staff changes.

### Incentivising suppliers

Some suppliers may be resistant to being developed. This is why P&SM professionals embarking on supplier development require excellent commercial and interpersonal skills so that the right suppliers can be selected.

One of the best times to raise the issue of supplier development is either up front in the tender document itself, or secondly after a positive tender decision when the supplier will be feeling pleased with a successful outcome. Elements of the development programme can then be included in the subsequent contract.

For current suppliers, careful monitoring of their actual performance and presenting them with any poor results may act as motivation to sign up to a programme of development to close the gap to the customer's expectations.

Increasing the buying organisation's commitment to a supplier can encourage co-operation in a development programme. This could be by adding the supplier to a preferred supplier list, for instance. In particular, when significant supplier investment is required for capability or product development, the offer of a longer contract period can be helpful.

### Supplier positioning

In many cases, the development of the supplier will be of benefit to the supplier's other customers, some of which may be the buying organisation's competition. This in itself may be an incentive for the supplier to participate in a supplier development project (i.e. they can improve relationships with all their customers as a consequence). This may not matter if the development is in terms of improved service, greater quality, value add and management information, for instance.

However, where the supplier's product has been developed to meet a particular competitive advantage of the buying organisation the P&SM professional should consider the implications of this at the outset.

CIPS believes that P&SM professionals should always keep the starting objectives of developing a supplier in mind. This information should be used to determine when the process of developing a supplier can be brought to an end as the objectives and targets have been measured and delivered. In many cases, the results of the development may be simply a 'quick fix' or, at the other extreme, it may involve continual improvement or a step change.

### Conclusion

CIPS believes that whatever approach to supplier development is employed, P&SM professionals should ensure quantifiable and measurable results that lead to business benefits. Supplier development is, therefore, a significant opportunity to raise the profile of P&SM in an organisation and should be utilised by all P&SM professionals where appropriate. Input into a supplier development programme is required from many different stakeholders, but CIPS believes that P&SM professionals are best qualified to lead and manage the overall programme.

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