

P&SM: Supplier co-ordination



A technique to add value as well as remove waste. It involves a buying organisation identifying its most important suppliers and bringing them together on a regular basis for the purpose of mutual benefit.



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Introduction

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This document is about supplier co-ordination.

Definition

Supplier co-ordination is a technique to add value as well as remove waste. It involves a buying organisation identifying its most important suppliers and bringing them together on a regular basis for the purpose of mutual benefit and in particular to:

- Devolve strategy and policy throughout the chain to create a sense of common purpose
- Strengthen trust and the relationships of the members
- Share knowledge and expertise
- Facilitate joint development and learning
- Jointly identify ways of minimising waste
- Identify opportunities for joint research and innovation

Background

The process of supplier co-ordination arose in the 1950's and 60's in Japan, and is also known by the Japanese name of 'kyoryoku kai'. It was founded by Toyota in the 1930's and is the Japanese term for a supplier association. Toyota encouraged co-operation between its major suppliers in order to provide a platform for them to discuss improvements and production techniques with the goal of lowering the total cost of production.

Explanation

P&SM professionals should be looking for optimisation at all times and supplier co-ordination is a useful tool for this. However, it is a very demanding activity requiring many different skills on the part of P&SM professionals, involving as it does bringing different suppliers together and encouraging them to work to the common good. The principles of the kyoryoku kai approach can also be used for internal suppliers (eg. design teams) and it could be argued that this is similar to cross-functional working.

CIPS believes that it is important to select suppliers that are in synergy with each other as there would be little point in bringing together an organisation's 'top ten' suppliers if there was no connection or inter-relationship between them. This means that suppliers should be grouped into categories in which they have something in common eg. a glass bottle supplier, a bottle top supplier, and a packaging supplier. Another way of grouping would be into supply chains, so that the first, second and third tier suppliers of a vital supply chain can be brought together.

Suppliers who are in competition, either in the buying organisation's space or in other markets, might not be willing to work together in this way for fear of losing a measure of competitive

advantage. However, there are some exceptions. For example, a well-known utility invites the UK's large construction contractors to a contractor's construction forum held twice yearly. The large construction contractors are all in competition to win the utility's business and the business has to be tendered regularly in accordance with the European Union Utilities Directive. However, this forum is to discuss the utility's future workload and the contractors' resources to meet this; plus toolbox briefings as well as specifics such as health and safety, environmental issues, etc. The contractors lead individual sessions, chaired by their respective managing directors, to debate these issues. The objectives are mutually beneficial to all; eg. to avoid problems with the Health and Safety Executive and/or lose labour time.

Supplier co-ordination is found most often in the private sector, but CIPS would argue that in some respects it is also applicable to the public sector. For example, a local authority commissioning a new leisure centre could bring together the suppliers of catering, cleaning, pool management etc. under the general objective of improving health and safety. It is also worth mentioning that PFI projects are arguably a form of *kyoryoku kai*.

CIPS believes that P&SM professionals should be mindful of all competition laws when undertaking any form of supplier co-ordination, and seek legal advice as appropriate.

There are many examples where competing suppliers work together on projects facilitated by the buying organisation; environmental responsibility and health and safety are particularly popular. Some forums have covered issues such as standards in mobile phones. The underlying motivation here is enlightened self-interest. Other forums have involved contractors working together on designs and contract remits in order to avoid problems for the successful tenderer further down the line. If contractors do this regularly then no one will lose out and everyone should derive benefit from the shared experience.

CIPS advises that trust is central to the success of *kyoryoku kai*, and must be between all those participating. In some cases it may be necessary to have confidentiality agreements in place.

CIPS considers it important for buyers and suppliers alike to benefit, and be seen to benefit, from *kyoryoku kai*. The buying organisation must ensure that they do so, otherwise the forum will not be sustainable. Ideally, the forum should be a long-term arrangement with the objective of continuous improvement.

Most forms of *kyoryoku kai* employ traditional P&SM processes, such as value analysis and value engineering, to identify waste and generate options for improvement. CIPS believes that whatever techniques are employed with *kyoryoku kai* the outcome should be some form of tangible benefit.

The key to successful outcomes in *kyoryoku kai* is to avoid discussions about the cost base, which is generally seen as too commercially sensitive to be covered in such a forum. It is difficult to devolve policy and strategy to suppliers through *kyoryoku kai* if the suppliers are different sizes with different cultures. If this is the case then imagination and flexibility are the keys to success.

Equally, the issue of power in supply chains needs to be considered; if one supplier is larger and more powerful than the others then this needs to be managed. In particular, if the suppliers are more powerful than the buying organisation then *kyoryoku kai* becomes rather challenging.

There are alternatives to kyoryoku kai that can achieve similar ends, such as an e-supply Hub. This is a virtual meeting place in which suppliers can air issues, and share experiences and problems (on professional indemnity insurance, for example).

Conclusion

Kyoryoku kai is a way of solving problems and bringing about improvements but P&SM professionals need to deploy the necessary hard and soft skills to determine whether circumstances are right to ensure success. It is perhaps worth adding that greater use could be made of the concept, a development which CIPS would like to see take place.

There are many attractions to supplier co-ordination, but it must be emphasised that any benefits must be tangible and, ideally, quantifiable. P&SM professionals should be aware of, and alert to, these benefits, whilst at the same time realising that such arrangements are not necessarily appropriate for every situation. Nevertheless, they should ensure that they have the necessary skills to identify and derive benefit from possible supplier co-ordination scenarios when circumstances are right. This includes P&SM professionals working in the public sector.

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 infos@cps.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

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