

Evaluate to accumulate

Siemens is cutting millions from its supply costs by getting to grips with its supplier relationship management process. Emma Clarke finds out how

Suppliers are arguably the most important contributors to competitive advantage, helping companies not only to reduce costs but also encourage innovation, says Klaus Gotthardt, head of strategy and policy for strategic procurement and logistics at Siemens UK. He states: With companies sourcing more and more from outside, it is impossible to create all innovation in-house, but there is a huge amount of new ideas that you can bring in from suppliers.

Theories such as this may not be ground-breaking, but rigorous approaches to ensuring the success of supplier management are. Underpinning good supplier relations, he says, is good management that involves selecting, evaluating, classifying and then developing suppliers. Only once you have built this bedrock, he says, is it possible to introduce more advanced forms such as contract management and opportunity management.

Critical evaluation

Supplier evaluation is central for the electronics company. Introduced initially in Germany and Switzerland, the process has only recently been introduced to the UK's corporate shared service division.

While not the division's first encounter with supplier management, its more rigorous approach is expected to yield dramatic improvements by reducing costs in the supply chain and improving relationships and service. Ultimately it aims to generate an estimated £2 million savings.

Andy King, purchasing manager at the corporate and shared services division at Siemens UK, explains the old approach. "We invited suppliers to quarterly review meetings, but we didn't have the information to back up our comments on their performance. Most of what we had was subjective; there were no hard facts behind it". And without concrete information the division could not communicate its expectations to suppliers.

Monitoring performance

So what is Siemens actually doing? First, the evaluation tool logs performance and feedback about its existing suppliers. Siemens then presents this information to them, highlighting areas of good and poor performance. This generates one of two responses: either encouraging an improvement in the relationship, or justifying a decision to end it.

The evaluation happens at least once a year and suppliers are assessed against four criteria which are purchasing, quality, logistics and technology. Each assessment varies according to the commodity, and criteria sets are weighted. Individual suppliers are awarded points for total cost performance, cost reduction, fulfillment of strategic requirements and co-operation, service and support.

Following the evaluation process, suppliers are awarded poor, insufficient, good or outstanding status. As Gotthardt points out, this is an important element of supplier management, as "once you evaluate suppliers' performance you can start discussions about problem areas and look at how they can improve and develop".

Based on the gaps identified in the evaluation, Siemens sets performance-improvement objectives. Suppliers are invited to quarterly review meetings to ensure they continue to improve and also prevent and discuss any issues.

Another element to Siemens' approach is supplier-aided economic value-added (SAEVA) process developed last year by the company's UK procurement division. Here, suppliers are encouraged to deliver improvements that result in savings. Through this method Siemens has cut more than £1 million from its supply bills over 18 months and estimates that a further £3 million of savings will result through the programme.

Setting objectives

Over the past year, Siemens UK has evaluated 14 of its main suppliers, accounting for over half of corporate shared services' total spend.

These include Adecco and Reed Personnel for temporary and contract labour; Cable & Wireless and O2 for telecommunications, Carlson Wagonlit Travel for business travel, Corporate Express for office supplies, Fantoni Solutions for furniture and LEX Vehicle Leasing for fleet.

As a result of an evaluation of IT supplier Insight, the firm was asked to promote the use of the click2procure online marketplace within Siemens Operating Companies (SOC) and to work closely with manufacturers to gain additional discount for volume procurement by pooling SOC's purchasing.

Other development objectives for suppliers include monthly collective invoices, reduction of defective products delivered, an increase of the delivery reliability or reduction of the development time of goods.

King explains that the process is not off-putting to suppliers as most of the work in implementing the evaluation is carried out by purchasing and internal Siemens customers. He states: The main success of this product has been for our suppliers' account managers and in the past they thought they were doing a good job and focusing on areas that were important to us, but this wasn't always the case. This ensures they prioritise their work on areas that are actually important to Siemens.

Suppliers, adds Gotthardt, are thankful for feedback that is transparent and objective. It also becomes easier to talk about any issues.

Shared responsibility

The supplier evaluation tool also enables strategic procurement and logistics, together with internal customers, to share responsibility for supplier management. First, procurement builds the evaluation and agrees the questions with suppliers. These are then distributed to the customers who use the procured goods and services.

While the buying department will answer the purchasing questions, issues covering quality, logistics and technology will be completed by other departments.

The evaluation part takes about six weeks annually but the entire supplier management process takes a whole year. Siemens plans to use this mechanism for all of its suppliers and is now introducing the tool across its other divisions in the UK.

There are also plans to introduce a classification tool. As well as monitoring the supplier's past performance, it will examine the supplier's fit with Siemens' ongoing plans. Suppliers are evaluated here in terms of how they fit with those plans, in terms of market factors and commitment, their competitiveness and their technology.

King explains: In terms of market structure, this could be how a supplier might need to change its services to fit with changes in the market such as fuel prices. For commitment, this could be how committed a supplier is to providing services to Siemens. And for competitiveness, it could be how they provide ideas of the total cost of the product. In terms of technology we could look at how a supplier's technology roadmap fits with our own.

With these essentials in place, Siemens believes it is in a better place to build best-practice approaches to supplier relationship management.

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