

Partners in progress

This paper looks at the role of supplier development programmes and how they add value to their relationships

Identifying the supplier right for development

Procurement effort should be focused on those key categories of spend that are most likely to deliver significant additional value to the business, as developing current or potential suppliers can be resource-intensive. Using portfolio analysis (Kraljic Matrix) to segment spend, it is relatively straightforward to determine the most appropriate categories and, therefore, which suppliers to engage in a supplier development programme.

Once the supplier has been chosen, the next step is to identify the skills and capabilities that, ideally, the supplier will possess and profile potential suppliers against this ideal. At this stage, two further factors should also be considered: the expected benefits from supplier development for the buyer organisation, and the supplier's ability to develop and change. Plotting this information on a matrix will help to identify those suppliers that potentially will yield the best results. Another consideration is the cost of development for both the buyer and the supplier to ensure that there is an acceptable return on investment for both.

In the leverage and acquisition quadrants, there will be a large choice of suppliers and the introduction of a supplier development programme may serve only to limit sourcing flexibility. However, in the strategic and critical quadrants of the matrix, the boot is often on the other foot.

Buyers need to protect themselves from supplier power, and long-term relationships built up through supplier development programmes may be a way of achieving this. This is because the expenditure is large enough to encourage supplier participation and the category's supply market is difficult to buy in, so the relationship tends to be seen as long term rather than short term.

Generally, supplier development is used where there are tangible value benefits to be gained over using competition in the long term, a potential supply vulnerability or where suppliers are believed to have the power, as one UK-based building materials organisation felt towards its suppliers of wooden pallets. Despite receiving poor quality and sporadic service, the organisation was reluctant to change its suppliers because of the complex range of different specifications required.

However, after introducing a supplier development programme, and working together to solve the problems, the organisation was able to reduce the number of pallets it used from 57 to 11, enabling it to benefit from reduced costs of more than 44 per cent and from improved service levels.

The objectives of any programme will be based largely upon the gap identified between existing supplier performance and the standard required now and in the future. The style of development can be challenger, coach, mentor or both, depending on the balance of expertise that exists between the buyer and the supplier.

For example, in the automotive industry it is now commonplace for key component manufacturers - first-tier suppliers for gearboxes or engines, say - to assume responsibility for research and development on behalf of the manufacturer. This typically results from a combination of coach, mentor and challenger roles being assumed by the parties to achieve the best results.

Buyer/supplier relationships

Inevitably, any supplier development programme will be influenced by the type of people involved from each party and the chemistry between them. The importance of getting that right cannot be overstated.

All staff who have significant contact with suppliers should be involved, as well as purchasing personnel. This includes other disciplines that have a significant influence on sourcing, such as quality assurance, operations and design, and development, as well as senior management. Ideally, a supplier development team would also include someone from product marketing, as they are best equipped to translate the end-customers' value proposition to the suppliers' focus and contribution.

The stated commitment to a supplier development initiative means that it is highly likely the relationship between buyer and supplier will progress and migrate up the relationship spectrum. For example, they could move from competitive leverage or preferred supplier level up to performance partner or even strategic alliance partner. However, this progression should not occur by default. A well-structured supplier development programme should link the achievement of specific performance deliverables to discrete steps in this relationship migration, where suppliers receive benefits for delivering on their commitment to change and development.

Suppliers accustomed to traditional adversarial attitudes and negotiating stances may be suspicious and reluctant to change, at least at first. There do appear to be grounds for apprehension, citing cases in which a dominant party has used an apparent development programme as a smokescreen for a more exploitative and dictatorial approach. Some suppliers may retain fundamental objections to the more open methods of the relationship philosophy and prefer not to change their ways, or are unable to change their ways.

Not all companies, therefore, will be good candidates for relationship migration. Buyers will need to decide whether there are more favourable alternatives or whether they will

Partners in progress

This paper looks at the role of supplier development programmes and how they add value to their relationships

need to continue on a more traditional basis. The relative strength of a buyer's negotiating position in the supply market, together with the negotiating ability of the buyer, will determine whether the resistance of a reluctant supplier can be overcome and a genuine conversion made.

A successful relationship, of course, is likely when both sides commit hearts and minds, as well as signing formal pronouncements, to making it work. However, there is a danger that some suppliers may feel obliged to put on a front and appear to accept the policy, but lack genuine conviction. The sooner these suppliers are identified the better, as without genuine commitment the relationship will quickly sour.

A number of different offerings can add value to the relationship, and could help to compensate for any price increases or offset them. Examples include:

- joint focus on identifying and solving the shared problem together;
- incentivised performance and shared risk and reward;
- product innovation, assistance with research and development, or even outsourcing
- responsibility for development;
- scheduling delivery in order to support product availability;
- consignment stock or simplified ordering and invoice processes;
- packaging waste reclamation, reduction or both;
- improvements and developments in product yield;
- higher quality levels.

There are many ways to increase the value that suppliers can deliver. This is why the best supplier development programmes work when there is active participation internally from teams identifying whole life-cycle advantages, which are linked to strategic needs.

This process is a best-practice approach to identifying core business competence linked to a supplier development programme. But the results will depend on the drive and active support of senior management of all parties involved - tokenism will not achieve the goal.

Ian Ford is a senior consultant with ADR International (www.adr-international.com)

Taken and adapted from the SM Magazine archived article, Features 19 June 2003