

Superpower buying organisations

Large UK supermarkets through their power and expertise have the potential to shape supply chains. The use of this power must be used with caution in order to maintain sound supplier relationships, promote sustainability, implement first class corporate social responsibility principals and avoid adverse publicity.

Power in supplier relationships

Multinationals have come under much scrutiny regarding their power on supply chains. Supermarkets are often in the press for applying unfair trading practises on their suppliers. The abuse of power has had an effect on their supplier relationships to the extent of anonymous complaints to the Competition Commission (CC) resulting in the Office of Fair Trading (OFT) commissioning a code of practice for supermarkets (Asda, Morrisons, Tesco and Sainsburys, known as the Big Four) following a monopoly report by the CC in 2000. The report claimed that there was a climate of apprehension among many suppliers in dealing with supermarkets which was founded on the imbalance of market power between them.

By having a strong position in the market buyers can influence the competitiveness of their suppliers in both a positive and negative way. The CC reported that even in a competitive market, buyer power, if exercised inappropriately, may damage the competitiveness of smaller suppliers in the long run and thus may have adverse effects on consumers. The adversarial approach that supermarkets have adopted regarding supplier relationships has had many lasting impacts.

Corporate social responsibility (CSR)

Following this publicity lobbying groups such as Tescoopoly and Breaking the arm lock have been formed by farming, consumer and environmental alliances. The increased publicity has encouraged supermarkets to adopt tighter CSR policies. David Cameron, Conservative Party leader, spoke at the 2006 Business in the Community (BITC) annual conference regarding CSR, and quoted Tesco by name four times.

CIPS believes that following good CSR principles is simply good business practice, and buyers should embrace how their organisation is run and their commitment to all stakeholders. Purchasing and supply management (P&SM) professionals should consider the long term implications of their actions and to question objectives that may unintentionally have negative socioeconomic consequences.

CIPS believes that the following elements are considered most relevant within the supply chain and that they relate to, and recognise the importance of the various stakeholders concerned (employees, customers, suppliers, the community, the environment and shareholders).

- Environmental responsibility
- Human rights
- Equal opportunities
- Diversity
- Corporate governance
- Sustainability
- Impact on society
- Ethics and ethical trading
- Biodiversity
- Community involvement

P&SM professionals should play an integral role in influencing board directors to affect the desired company position relating to CSR.

Supply chain sustainability

Buyers have a responsibility to maintain and promote sustainability in the whole supply chain, both up and down stream. The term corporate citizenship defines the accountability of forward and backward linkages of the supply chain. Organisations should be able to provide an audit trail of environmental and social impacts from raw materials through to the sale of goods and services.

Backward linkages for the Big Four would include conditions of employment and wages, child labour, and environmental issues. This may also stretch to ensuring suppliers remain profitable and innovative, and therefore competitive. By driving prices down on farmed products there is a risk that farmers will adopt cheaper and less environmentally conscious farming methods in order remain profitable.

Forward linkages include issues such as the safe disposal of products once used and recycling. Recently supermarkets have been under pressure to take responsible action in the battle of obesity in the UK by providing clear label advice. Sainsbury's have partnered with MEND, a UK obesity prevention and treatment campaign to address health issues.

Accountability

The Big Fours relationship with their suppliers was so dictatorial that organisations were forced to go to the OFT and CC to make their concerns heard. The code of practice now puts supermarkets in the spotlight, makes them more accountable resulting in increased administration and auditing requirements. By working more effectively with suppliers to resolve conflicts these issues can be avoided.

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Benefits of supplier relationship management

The CIPS view of the purpose of investing in a relationship with a supplier is to improve their performance in fulfilling the needs of the buying organisation, thereby improving the buying organisation's performance and creating mutual benefits. P&SM professionals must be able to understand and deploy power and dependency factors in supply chains and buyer/supplier relationships. Equally, CIPS encourages buyers to be aware of the way in which their organisation will be perceived and managed by their suppliers.

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