

The ups and downs of relationships

Building good relationships with suppliers requires a genuinely balanced approach. But is procurement striking that balance? Anusha Bradley reports

Supplier-relationship management (SRM) was a recurring theme at the CIPS Premier Conference held in London this month.

The consensus among delegates at the two-day event was that SRM must be addressed, but that in practice it is achieved to wildly varying degrees.

So why is it important? What are the benefits of good SRM? And why is it so difficult to do? According to Carey Evans, managing director of consultants Relationship Audits & Management, very few buyers know their suppliers by name. Good relationships are the key to business success but in his view the area needs more work. "Procurement professionals don't have enough training in relationship management. If the personal relationship breaks down then your business breaks down," he says.

Mark Goyder, Premier Conference speaker and director of Tomorrow's Company, agrees, he states that: Relationships are a side of the business you neglect at your peril.

This view is reinforced by a recent survey by research firm Grasp, which concluded UK firms risk both their reputation and financial stability because they do not know enough about their suppliers.

But is the same level of familiarity required for all suppliers? Ken James, chief executive of CIPS, told delegates there are some common themes regardless of the type of relationship: Relationships vary from basic short-term, to complex long-term. But setting them up well and managing them in the longer term is crucial, particularly where they deliver high levels of strategic advantage - or on the other side of the coin - devastating potential risk.

And your organisation's customers will judge you on the quality of relationships you develop. René de Sousa, senior procurement specialist at CIPS, says: You are only as good as your suppliers. Good relationships help firms mitigate risks when they fall on hard times, need to audit their supply chains or seek innovation.

A recent Envirowise study shows that in many cases the opposite is happening. It found 56 per cent of retailers and wholesalers shop around for cheaper suppliers during hard times, 53 per cent push suppliers to cut prices and 36 per cent seek to reduce their supply base.

Traditionally, procurement has been too cost-centric, commentators say, and there is only so far purchasers can go in driving down the price of a product.

As Evans puts it: The focus on cost is myopic. Successful business relationships should be symbiotic.

Real added value and cost savings are realised only once time and effort is put into establishing and nurturing relationships. For example, Siemens has saved more than £1 million in 18 months after encouraging suppliers to come up with money-saving ideas.

Closer relationships with suppliers can also help to mitigate against risk. The introduction of new financial reporting systems for UK public companies as well as anticipated European legislation, means purchasers will soon be expected to know more about their suppliers and report potential risks.

Pharmaceutical firm AstraZeneca reviews its suppliers' financial information to ensure they continue to be sustainable and says it has achieved time and cost savings by working closely with them.

New technology also means that buyers no longer have an excuse not to know more about suppliers. At the eWorld Purchasing & Supply conference in London last month, Bernhard Raschke, head of Europe procurement solutions at AT Kearney, said technology aided solid, transparent relationships and was critical in getting suppliers engaged in collaborative chains.

De Sousa adds: Relationships do not have to be a fully-fledged partnership to be beneficial, as long as both parties know where they stand. The key is communication of expectations.

But Andy Brown, chief executive at supplier-buyer consultancy TiVA, is not convinced this message always gets through. Sometimes buyers "over use aggression, leverage and muscle".

So what of the future? Professor Martin Christopher from Cranfield University believes it lies in symbiotic relationships. Supply chains will compete and will be customer-centric. As a result an agile, responsive supply chain is crucial to success and will require more collaboration and management-relationship skills to deliver win-win partnerships.

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