

UNLOCKING INNOVATION FROM YOUR SUPPLY BASE

How to really do it

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Supplier Relationship Management

It's difficult to read an article on innovation without seeing Apple mentioned somewhere. The common association of Apple with innovation is old news, but few stop to think about how this actually happened and the lessons that can be learned from this. Apple's innovation wasn't the sole outcome of a bunch of clever people working out of a lab in California, it was the product of a clever initiative to get the best brains in the world, each bringing something different, to work together towards a common aim. These best brains weren't just Apple employees, they resided in the key suppliers that pioneered much of the technology many of us carry around today.

The rhetoric demanding that the suppliers of tomorrow 'must innovate' frequently echoes around the corridors of modern corporate procurement functions. The problem is the associated expectation that it will just happen; that all you need to do is tell your suppliers to innovate and they will. This belief is misguided.

The supply base is home to possibly the greatest and most varied source of innovation that could create huge competitive advantage for us. After all, our suppliers are the experts at what they do, and if they have emerged from the recession in good shape they are also the experts at ensuring they can be there for the future—no small feat and one that demands constant innovation and reinvention. The innovation that could transform our business may already be out there, hidden from our view but talked about in the boardrooms of our key suppliers. If it isn't out there, then our supply base holds the potential to create it if we could only find a way to inspire and incentivize our suppliers to do so.

BARRIERS TO INNOVATION

We want innovation and our supply base can provide it. Then why aren't we surfing on the crest of the next great idea wave? The simple answer is that supply base

innovation doesn't just happen, and there are a number of significant barriers that stand in our way:

1. PROTECTIONISM

Suppliers will naturally seek to protect their investment in the innovation. They won't readily share details of what they are working on until they are ready to tell the world, unless they believe you could help them realize their ambition, and only then provided there is sufficient trust in the relationship to do so.

2. A FAIR RETURN

Suppliers will want to commercialize their ideas and innovations and get a fair return. If you expect your suppliers to innovate for free or demand that they bring you the latest thing as part of your expectations around 'continuous improvement', the chances are your suppliers will pay lip service to this and talk instead to other companies who are prepared to pay.

3. NOT POINTING IN THE SAME DIRECTION

It doesn't follow that our suppliers will naturally be working on the very thing that we need. Suppliers will set their own direction based upon achieving their business goals which may or may not fit with our needs. Without intervention to achieve alignment with a supplier, any innovation will be a 'hit or miss' affair.

4. PLAIN OLD LACK OF COMMUNICATION

Even if parties are prepared to open up and share their plans, someone needs to ask that question and often, when it is business as usual, that simple question gets forgotten. Good supplier review meetings should make time for this sharing, but then sharing is only beneficial if something happens next.

5. FAILURE TO ACT

If a supplier brings you a great idea that could add competitive advantage to your business, but the idea doesn't make it past the minutes of the meeting, then it is lost. Not only do we need suppliers to innovate, but

businesses need a robust way to evaluate and respond to supply base innovation.

UNLOCKING SUPPLY BASE INNOVATION

These obstacles can prevent supply base innovation from ever seeing the light of day or, worse, encourage suppliers to take their great ideas to your competitors. It is easy for executives to demand that suppliers innovate, however the reality is that issuing such an edict to the procurement function is unlikely to make it happen. Instead the business must consider its overall approach to pursuing innovation with the supply base being one component. Innovation is in fact a business-wide concern and with this mindset in place there are some key enablers that will unlock supply base innovation to help grow a business and build competitive advantage:

CHOOSE YOUR PARTNERS WELL

Lots of suppliers will have good ideas which they want to share, but you need to choose with whom you want to work. This demands clarity of the overall strategic business direction and figuring out how the supply base can contribute to realizing this. This means identifying the technologies, skills and capabilities you need, looking to see who has these today (and crucially who could have these tomorrow), and with whom you think you could grow.

ALIGN YOUR DIRECTIONS

The best innovation happens naturally when there is alignment of direction and when achieving your goals resonates with, and helps the supplier achieve, theirs. This means you need to understand the supplier's direction and check there is alignment before you begin.

CLIMB THE SAME MOUNTAIN

Not only is alignment important, but innovation is often a journey you go on together to achieve a mutually agreed and beneficial outcome. It is like setting out to climb a mountain and working together toward the peak, one step at a time. Apple didn't achieve its success by handing an innovation instruction to its suppliers, instead it worked together with suppliers to create the key bits of technology they needed.

BASE YOUR RELATIONSHIPS ON TRUST

There is no place for arm's length relationships when it comes to unlocking innovation from a strategic supplier. Instead there must be a relationship based upon trust. Trust doesn't exist between companies; it exists between individuals within companies. Trust is therefore built up by the right people working in an open, transparent and consistent way.

ENSURE THERE ARE MUTUAL REWARDS

Innovation is often more than a piece of work that gets completed to an agreed specification. It is much more than that and often we don't know we have it until we stumble across it. Assemble the best minds on both sides, with the right brief, and chances are something of potential could emerge. However, both parties need to be motivated, or they might hold back. If both parties stand to benefit from a breakthrough, chances are they will put everything they can into finding one. The final component of supply base innovation is mutual rewards, so if you are successful, they are successful!

Working with the right suppliers and ensuring your relationships have a good foundation are the first steps to creating a symbiotic environment, that not only allows for innovation, but stimulates and inspires it. By helping to nourish this relationship, you may find innovation you didn't even know was possible, and through this process you will add truly game-changing value to your business.

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