

CHANGING THE STRATEGIC SUPPLIER PARADIGM

How to use agile thinking to help build joint collaborative relationships



An Insight Whitepaper

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Supplier Relationship Management

In an ever faster changing world where corporate survival and success requires a new agility, it is no surprise that the traditional view of the supply base being there to simply respond to the demand we create is somewhat outdated. Instead, the successful companies of the future are the ones that view selected parts of the supply base as an extension of the business itself and the rich source of value, innovation and capability that drive new competitive advantage.

How exactly can companies achieve this? Leading expert on Supplier Relationship Management Jonathan O'Brien outlines what organizations need to do to build high performing strategic collaborative relationships with the critical few strategic suppliers that can make a dramatic difference to our business. He also explains why realizing this requires a shift away from what has gone before to a new paradigm of supplier relationships.

Forget everything you have ever learnt about how buyers ought to manage suppliers. Forget scorecards, KPIs, supplier performance measurement, contracts, arm's length relationships and quarterly business reviews, and so on. So why don't these established ways work any more? They do, for the vast majority of buyer scenarios, so we shouldn't forget these things completely. Although they still have their place, let's take a moment to think differently. Instead of defaulting to our standard supplier management toolkit as traditional procurement approaches so often require, let's start at a place based upon a belief our supply base holds possibilities that can vastly enrich our business and then figure out what we can do to use our limited resources in order to best tap into this. If we give ourselves permission to think like this, for just a moment, we can begin to open up new ways to engage with our strategic suppliers. Then, if we are to direct our precious resources towards this to best effect we need some modern agile thinking and action. If we do both these things, a new paradigm for how our

strategic suppliers can be the future engine of value for our organization begins to emerge.

In this paper, I will outline how we need to think differently and change what has gone before if we are to unlock the value possible from the supply base. I will explain how organizations can truly adopt agile approaches to how they do this using a ten step process that begins by challenging the traditional starting point for procurement teams seeking to achieve this goal.

I - AVOIDING PYRAMID PARALYSIS – CREATE THE CONDITIONS TO DO SOMETHING DIFFERENT FROM THE OUTSET

We are all familiar with the classic supplier importance graphic. Most firms have one: the tiered pyramid representing the distribution of suppliers based upon importance, perhaps with those deemed strategic sitting at the top. Such classifications quickly become the basis to determine and drive a wide range of actions, often universally applied to everyone at that tier and quickly sucking up our resources to fulfil the many different obligations for managing suppliers at this tier. However, these are not necessarily the things that will add value in every case and can serve to do little more than paralyse the business. The moment the organization creates a supplier management regime can be the moment it dooms itself to not pursue supply base value. Imagine the scenario – a regime that stipulates that all high spend suppliers will have quarterly business reviews (QBR). Sounds logical enough until you realize that an organization with 100 or so important suppliers then needs 2-3 people doing nothing but QBRs to satisfy the regime. QBRs are the cornerstone of supplier management for many organizations and, arguably, they play a key role to keep dialogue going so we know each other. However, the very notion of prescribing a regular frequency event based upon a classification rule can demand a small army to make it happen. Worse, if these do little more than follow a set agenda, look back at historic performance because that is what we have always done, and create a set of minutes and actions for the sake of the meeting,

then the actual value gained must be questioned. Not much agility there!

Instead, what if we only spent time with the suppliers that needed it or where it would make a difference? What if we had the courage to spend less time on the suppliers who consistently perform well or where the risk is low and more with those who could make the biggest difference to us? What if we could design the intervention with suppliers as one that ebbs and flows according to what goes on, with the attention we afforded each supplier being unique to them and that point in time? Then we begin to be agile and direct resources where it will add the most value to us and, in order to do this, we have first to know what value we need and want.

2 - WHAT VALUE DO WE NEED FROM OUR SUPPLY BASE?

“What value do we need and want from our supply base?” This is a question that rarely gets asked but is in fact the question that can change the game. If our organization determines its strategy by only looking inward at what the company does or might do, then the supply base will only ever be something that responds to the demand created by this. It is passive; reacting to the demand the organization creates and based upon the assumption that the organization possesses the ability and capability to know and do everything needed for success. If this is the case then we can simply carry on as before - there is little need for any new type of intervention. However, this is now what some of the most successful companies on the planet do. Increasingly, forward thinking organizations are realizing that there is a world of hidden potential out there in the supply base where innovation, new ideas and opportunities abound in companies hungry to be the future leaders in what they do.

The new paradigm is one where the organization sees its supply base as an extension of the organization capable of bringing new, yet unknown sources of value to help realize corporate strategy. It is also one where the very strategy and corporate goals of the organization are informed and shaped by supply base possibilities, which in turn informs, and is informed by, how we connect with our end customer/user. With this in mind, the first step is to define the value we need and want at a macro level in order for our corporate goals and objectives to be realized. This might be multi-faceted with different levels of need ranging from risk mitigation, (eg: realizing corporate social responsibility objectives), improving overall effectiveness and performance, (eg: to enable cost leadership or quicken time to market), or to secure new innovation or other value that would help us make a step change. If we are clear what value the organization needs and wants overall, we can begin to identify the suppliers who are most important to help us realize this. These may not necessarily be our current supply base, especially if the company is instigating a shift in direction or focus.

3 - DETERMINE WHO IS TRULY STRATEGIC TO OUR ORGANIZATION

A strategic supplier is one that is of very high importance to our organization today, or for our future. It is easy to talk suppliers into being strategic and those who are tasked with managing these relationships will naturally prefer their supplier to be one that is strategic rather than important. One company I worked with had classified a leading office supplies company as a strategic supplier on the basis that “we are a very slow moving bureaucratic company and still use a lot of office supplies.” True, the spend was abnormally high, but there was nothing strategic about this supplier despite how the supplier attempted to position the relationship. It is not necessarily the suppliers with whom we spend the most that are strategic to us. In fact, adopting this view can limit possibilities.

A strategic supplier is one who holds the potential to change something in our business that makes our share price go up, or adds great value to end users in a public or not-for-profit setting. It is one who can bring great competitive advantage, help build our brand, create significant shareholder value, or could, if things were to go wrong, hurt us really badly. Our determination here must be framed by the value the organization needs from its supply base. A strategic supplier could therefore be a giant partner to whom we have outsourced an entire area of our business, but it could equally be an SME who is working on some exciting new technology, formulation or know how. It could be the relatively low spend supplier of a critical component without which we are unable to satisfy our customers, or a partner who can help open up new distribution channels for future offerings.

The new paradigm begins by being really clear who are the strategic suppliers of today, and also of tomorrow and therefore with whom we should be working. This doesn't, in fact, require us to write a big cheque to large consulting firm to determine this, it simply requires the right brains in the room for an afternoon and someone to ask the right questions and a list of strategic suppliers will soon emerge.

4 - HOW INTERESTED AND WILLING ARE THEY?

A strategic supplier relationship is just that - a relationship. If we have decided a supplier is strategic, it follows we would need to develop a relationship with them in order to get the value we need from them. It doesn't necessarily follow that they want or need a relationship with us. Great if they do because this willingness sets the stage for us to build the right relationship, but what if they are not that interested or, worse, what if they pay lip service to us to try and make us believe they are interested but it's really not so? This could undermine everything we are trying to realize from the relationship yet is a very real possibility and one

traditional procurement professionals can miss by being blinded by the misguided assumption the supplier will do what we want.

This can often be seen in the way some organizations approach supplier innovation. Asking suppliers to innovate rarely yields anything meaningful other than them revealing the few selected things they are prepared to share. Traditional procurement approaches where suppliers are required to provide 'an update on innovation' at each QBR will do little more than create a forum for a nice chat about superficial things. To truly get into the inner sanctum of their next best thing they would need to believe and trust in their relationship with you as one where this would be in their interest. This can only happen if we invest in building the right relationship, therefore as in any relationship, willingness to build it has to come from both sides.

Furthermore, it is not just about their willingness but also their capability. If our future plans depend upon our supplier being able to support our future needs then we need to know they are capable of doing this. If they are not, then we either need to work with them to help them or think again.

We can only begin to develop a relationship with a strategic supplier if we are certain they will, and are able to, respond in the right way. The question we must answer is: "Is this supplier likely to be willing and capable to engage with us and collaborate towards a new joint goal?". There are a range of procurement tools that can help this assessment. However, the point here is that one of the early pieces of work we must do is to make this determination before we engage with the supplier we want to go forward with or we risk wasting our time or being the only one in the boat rowing.

5 - ENGAGING WITH THE ORGANIZATION AND AGREEING OUR SRM STRATEGY

Procurement's job is to look after the suppliers, right? Maybe. Here, another traditional procurement view can prevent us from being agile. There are typically multiple touch points with suppliers across the business. Suppliers will, of course, exploit this where they can to shore up their position to their advantage and procurement can often end up battling against the organization to assert good practice. However, if we look at this differently, we can start from the point of thinking about our suppliers not as 'procurement's suppliers' but as the 'organization's suppliers'. This shift in thinking means that if we are to secure the value we need from our most important suppliers this has to be done in concert with the entire organization. It is also the reason why good Supplier Relationship Management can only succeed when it is an organization-wide philosophy.

What does this mean in practice? Quite simply, that the wider business must be involved in determining our strategy to engage with the supplier and be part of the journey to develop the relationship. In practical terms,

this is about setting up a small cross-functional team with the key individuals from across the business who have a part to play.

Contrary to popular thinking, joint collaborative working with a supplier should not be joint at the outset. Instead it must start internally within the business to understand how the entire organization wants to translate the value it needs and wants from the supply base into a potential strategy for a specific supplier we agree should be considered strategic. There is much work to do before we engage with the supplier - we must verify they are the right potential fit, we need to do deep dive research into them, the market, the supply chain and also our future requirements. We must have a clear view regarding what is our ambition for the potential relationship, the specific value and outcomes we might want and where we would want the relationship to get to. Finally, as we have seen, we must be certain the supplier is willing and capable. All this done internally before we engage the supplier. We must also decide if this vision is the same one we will share with the supplier, or if we want to keep some of our ambition private from them.

6 - SETTING OFF TO CLIMB A NEW MOUNTAIN WITH OUR STRATEGIC SUPPLIER

A strategic joint collaborative relationship must have a shared destiny. This comes from the value we have determined we need overall and specifically for this supplier, and the reason we deemed this supplier to be strategic. This is also the point at which we engage a, hopefully, willing supplier, and therefore our opening pitch to them is to outline the mountain we could climb together. If we both agree, and are both willing and able, then we can prepare to leave base camp.

Once we agree the mountain we will climb together, this outcome defines our relationship and all aspects of how we move forward together. Once again, new agile thinking that views things differently is essential. We have to shift away from traditional supplier management approaches to one that is outcome based - and with an outcome that can only be achieved if both parties work together.

Clearly at the outset of any new relationship with an important supplier there is much that needs to be agreed between us. Our new outcome-based mindset must shape how we proceed. There is no room for the hard, value claiming negotiations we might use with a general supplier where we have great leverage. Instead, negotiations must pursue the true win/win based upon how we can work together to achieve a greater outcome between us. Negotiations must be genuinely interested that both we, and they, will do well out of the agreement. That said, we must also not lose sight of the fact that we are entering into negotiation with a new strategic partner so it is not a reason to give everything away. Our negotiation should seek to secure the best deal for us and for them, working to create a position that feels fair and balanced. If we do not do this, or they end up

feeling they have done a poor deal, we risk undermining the relationship from the outset. Similarly, in agreeing the contractual arrangements between us, the contract should not be the basis for discussions but rather the output of them – reflecting and crystallizing the detailed discussions that define how we will work together.

7 - AGREEING HOW THE RELATIONSHIP WILL WORK

When I have worked with companies to help them establish the right relationship with their strategic suppliers I use a document called a relationship charter to define all aspects of how the relationship will work. This is a simple document, signed by both parties when complete, that defines the key players in the relationship, vision and scope of the relationship, how the parties will meet and/or engage with each other, the objectives and performance targets and specific projects both will engage on. Such a document sounds entirely logical. However, the point with a relationship charter is not the document itself but rather the vast discussions, negotiations and hard work that has to happen with both parties together in order to create the relationship charter that is important. The document is merely an output of these. However it is a very important output and creates an aligned basis for both parties to climb the mountain.

8 - CREATING THE RIGHT CONDITIONS TO DO SOMETHING DIFFERENTLY

As in any relationship, a strategic supplier relationship doesn't just happen, it has to be courted, pursued, built and reinforced with consistency and persistence. It also requires an investment by both sides to build this and make it happen. It is not enough to make strategic collaborative relationships a 'bolt on' to current practice. Instead we need to create the conditions that enable us to pursue such relationships with suppliers and this may well be different to what we have done before. Strategic suppliers should be managed by a carefully selected group of people, away from traditional buying processes, rules, procedures and expectations.

Such relationships are likely to require a new sort of transparency and communication with the supplier if they are to be successful. This may be quite different from how we have structured other third party arm's length interactions and might require our strategic supplier to become regarded as part of our organization in many ways. Collaboration doesn't happen by issuing a purchase order to our new strategic supplier. Instead joint working may well mean joint working at the same location with co-located individuals or teams. This might mean redefining organizational structures and also the approach to individual objectives and rewards. It also means adopting new ways to co-ordinate how parties will work together and we should be prepared for this to be very different to anything we have done before.

9 - THE RIGHT PEOPLE

The relationship is the key to successful outcomes and climbing our mountain to the top. In business, companies don't have relationships with companies but rather the people in them have relationships with people in the other companies. Therefore, any powerful relationship between companies is defined by the people who interface with each other. Obvious stuff, but this is a revelation for many who still try to drive strategic relationships by doing the same old thing. Success is about focusing on the people who will do this and creating the right conditions for a relationship to flourish. The current team may not have the right skills, personality and behaviours to do this, so it doesn't follow that procurement are necessarily the right people to look after and drive a strategic relationship forward. Just as a sales function recruits people based upon their ability to build rapport with a customer and work towards a sale, we must recruit people based upon their ability to build a successful, long term relationship with a key supplier.

Therefore we need people with a good degree of emotional competence, who have the right personality traits and know how to build and maintain a relationship. It is about people who are open and consistent in everything they do and who naturally engender trust. They also must have (or be capable of acquiring) the right technical and commercial know-how. Such people are hard to find, but they are out there and it is a bonus if they happen to work in procurement.

Finally, the importance of the people dimension in developing a strong strategic relationship with a supplier should never be underestimated. Possibly one of the most important things for any joint team is creating the conditions so that people socialize and get to know each other. If people on each side have a personal relationship with each other and know about each other's lives, it significantly changes how they view and work with each other. In fact, a bond of obligation to do the right thing toward the other emerges. Some of the best teams are the ones that make time to go and drink beer together (and share the cost).

10 - TRACKING AND GUARANTEEING OUR PROGRESS TOWARDS THE SUMMIT

Success in the joint working in our new strategic collaborative relationship comes by both parties successfully climbing the mountain and reaching the summit. This may be a long journey and one that needs both parties to support each other along the way. Once again, we must abandon traditional procurement thinking and be more agile and outcome focused. A scorecard of KPIs, looking backwards at performance so far, perhaps measuring how fast we have travelled in the last period, how many times the supplier stumbled and so on does little to help climb a difficult stretch. In fact, it can shift behaviour away from reaching the summit to satisfying the scorecard. We need a new

agile intervention with the supplier where we are working together with them, each sharing and knowing everything about the journey we are on, each focused on getting to the top and each standing to gain much so they want to get there.

Ultimately, making this happen is not about process, tools, systems and organizational structures, although these play a part. It is about people and how we get people from two entities working together with a common purpose and aim. It is also about the organization's ability to have the courage to move away from traditional approaches to procurement and supplier management, and try something different. If this is possible, there is a mountain out there bigger than any ever climbed before with a summit that will change the game for our company.

Jonathan O'Brien, CEO of Positive Purchasing Ltd, is a leading expert on procurement and negotiation and works with global blue-chip organizations to help transform their capability. He also helped pioneer the Orchestra of SRM® and Red Sheet® negotiation methodologies.

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WE'RE POSITIVE - WE HELP ORGANIZATIONS WORLDWIDE MAKE PROCUREMENT A STRATEGIC CONTRIBUTOR TO BUSINESS SUCCESS

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