

HOW TO MANAGE AND STAY IN CONTROL OF SUPPLIER RELATIONSHIPS

January 2019

Supplier Relationship Management

There are a couple of important points to remember when managing relationships with suppliers. The first is that it's actually down to the individuals within each company to forge the relationship, not the companies themselves. Secondly, even though it's a professional, business relationship, a degree of social interaction is essential to help define the relationship between the individuals involved and create good relations.

Imagine that you work in a small building company which contracts with an artisan tradesman. You are both happy to work together and your relationship is characterized by the reliability, integrity, commitment and loyalty you have for each other. This is a typical personal business relationship with both you and the tradesman seeking to do what you can to look after the other as best as possible.

The situation is, however, different when it comes to larger companies. While similar personal relationships may exist, there are usually more people involved on both sides resulting in a significantly greater number of relationships. To be effective at managing the supplier, all of these individual relationships need to be aligned to a single cause, but this isn't always easy to achieve.

Even within the closest of partnerships, we need to remember that we are talking about a commercial relationship which creates obligations for both parties. Despite this, the relationship also has the potential for imbalance or for the parties to follow different agendas to what was originally agreed. To avoid this happening, we need to manage the relationship effectively. There are two dimensions to this:

1 - THE NATURE OF THE RELATIONSHIP

In other words, how the relationship exists and is defined, what the parties do, how they do it, what is/is not acceptable and all the other factors that constitute a given relationship. In a close friendship, there are usually boundaries in terms of how we treat the other, what we do or avoid doing, mutual respect, thinking

about how the other party might feel, or perhaps the expectations the other may have set in terms of expected behaviour. Such things may remain unsaid but those in the relationship know how they need to behave. The same applies for a relationship with a supplier but here we need to consider what we want this to be and then work to ensure it is realized.

2 - STAGE MANAGING INTERFACES

This is where we need to understand and manage all the points of interface between us and the other company. Managing relationships with suppliers is about ensuring that the nature and extent of all relationships operate with a common purpose and that all on our side understand their role to support this.

While we may think a particular supplier is important to us, we need to remember that not every account is of similar interest to them. They will, naturally, direct their resources to growing and maintaining the accounts they see as priorities so there is no point in us identifying that we need a strategic collaborative relationship with a supplier if they are not interested in us. It is, therefore, essential that we use the Supplier Preferencing tool to help determine how to approach the relationship with a supplier.

STAYING IN CONTROL OF THE RELATIONSHIP

Once we have defined the relationship, we then need to ensure we stay in control of it.

'Divide and conquer', or 'divide and rule' is a strategy that suppliers can use in big companies to gain and maintain power. Essentially, it involves breaking up larger concentrations of power into smaller groups or individuals that have less power than the whole. It can happen by default or purposefully unless someone intervenes.

There are two ways to prevent suppliers dividing and conquering. The first is to centralize the procurement function and give it complete control over all organizational spend. This however is often impractical or not desired. Alternatively, procurement could work

with the wider business to bring complete alignment in the way everyone is engaging and interacting with suppliers.

Centralized procurement functions can work well but create new challenges to ensure that the needs, wants and aspirations of the business are being met. Also, moving from decentralized to centralized involves a major organizational change which will require new systems, processes, procedures, capabilities and cultural shifts.

The more achievable option is for procurement to work together with the wider organization. For this to be effective it needs to be more than just a meeting with stakeholders. Instead, there needs to be universal recognition that procurement is integral to any business activities where suppliers are involved.

If stakeholders only ever view procurement involvement as a “necessary interference”, then they will only ever be reluctantly accommodating. However, if procurement involvement is seen as an “essential enabler” of overall business success then stakeholders will be more receptive and will positively engage.

This is not just about good relations. It’s about giving procurement a degree of power to act, prevent or stop things that might be at odds with effective supplier management. It’s also about setting boundaries which, when in place, will result in suppliers who previously could divide and conquer losing their power. This shift does not happen easily and requires the following key elements:

- executive-wide agreement and alignment regarding the role of procurement;
- active executive sponsorship, promotion and reinforcement of the role of procurement;
- business-wide education for anyone who interfaces with suppliers on how buyer and seller relations work, how suppliers seek to gain advantage and what to do or not do to ensure alignment and advantage over the supplier;
- building strong inter-functional relationships between procurement and key stakeholders; selling the benefits and reinforcing how to proceed with suppliers; and
- share success – show how procurement initiatives add value.

There are a number of things that we can do or put in place to take control of the supplier relationship, such as:

- building and maintaining a supplier interface map;
- implementing a code of conduct for all suppliers;
- agreeing rules of engagement with important suppliers and ensuring internal business-wide agreement and alignment;
- summarizing how strategic and very important relationships will work by developing a relationship charter;
- educating the wider business and establishing principles around how to engage with suppliers; and
- conducting relationship surveys – both internally and with the supplier.

Once all of these are in place, staying in control of the relationship with the supplier will be a smoother process all round.

This article is adapted from 2nd edition Supplier Relationship Management: Unlocking the Hidden Value in Your Supply Base (9780749480134) by Jonathan O'Brien © 2018 and reproduced by permission of Kogan Page Ltd. It first appeared on the Supply and Demand Chain Executive website on September 24, 2018.

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 purchasing capability.