Supplier management

7

simple initiatives with great impact

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Introduction

Creating real value in procurement with real impact on the business is key if procurement wants to earn a chair at the leadership table. This will only happen if procurement delivers real value, and not 'only' cost savings. Supplier management should be a core part of the overall responsibility of procurement, and below we have described seven simple initiates with great impact.

The focus of the seven initiatives is to work with existing suppliers on creating value because this is the simplest and best approach to real value creation. It is a far easier approach than having to replace existing suppliers, as the new suppliers need to be implemented fully before real value can be generated.

Today supply chains compete against supply chains, which means your suppliers should be part of your battle against your competition. You only get them to join this battle by engaging them and working with them towards greater value creation. This is the reason why we made this e-book to help you get your suppliers and stakeholders engaged.

I hope you enjoy the read.

Sincerely,
Lars Kuch Pedersen

#1 Ask your CEO to be measured on value creation.

This might not sound simple to you, but it can be a lot easier than you expect. Great CEOs like to be challenged, if you have great arguments.

You should ask your CEO to be measured not only on cost savings, but also other metrics related to value creation. Examples of other value creating metrics that could be applied are:

Metric	Purpose	Relevant to..
Supplier innovation delivered	To focus on supplier delivered innovation capabilities and impact in order to strengthen competitiveness.	Innovative companies.
Supplier quality performance	To focus on supplier quality and minimize number of quality issues and cost of quality failure.	Manufacturing, wholesale and retail.
Supplier delivery performance	To focus and continuously improve supplier delivery performance to minimize cost of late/none delivery.	Manufacturing, wholesale and retail.
Stakeholders' supplier satisfaction	To track internal stakeholders' satisfaction on the performance and relations of suppliers.	All companies.

If you were to present such metrics to your CEO, he would typically object and say the reason procurement exists is to realize cost saving. Then you need to educate your CEO, using the following reasoning:

First your CEO needs to understand that your company is not an isolated entity that can work completely independently and be competitive in the market without external partners and suppliers. A company is part of a larger supply and value chain. A supplier is an extended 'team' that is part of your company's value chain. A supplier contributes in the value chain, like an internal team does, to the overall aim of serving your end customers. A supplier just happens to be a team that works in a different legal entity outside the company, but the supplier can still have a significant influence on the overall performance and competitiveness of the company.

Or in other words: Supply chains compete against supply chains. Your suppliers are an important part of your supply chain, and they should join you in your battle against the competition, and these new metrics should reflect this.

If you only measure suppliers on cost savings, there is a lot of value creation potential from suppliers that will not be realized, and a lot of hidden costs not visible that will continue to be added.

#2 Make the most of your time with supplier segmentation.

You must segment your suppliers into different supplier segments (could be named strategic, tactical and tail suppliers), which you must manage differently using different approaches and resources. Segmentation of suppliers is key and a way to help you ensure the proper alignment of your resources and time.

Start by identifying those suppliers with whom you can work to achieve greater levels of value creation for your company – let's call them your strategic suppliers. These are typically large spend suppliers but could also be smaller, critical suppliers that may be able to deliver innovation or services that could have great value for your company, thus making your company more competitive in the market.

Next identify your tactical suppliers, such as suppliers you frequently buy from but who have limited spend, and where there are alternative suppliers available in the market. With tactical suppliers you want to maintain a solid relationship but probably adopt a standardized approach that can be semi-automated.

The tail suppliers are the rest of the suppliers. Do not focus resources and time on these.

"The point of supplier segmentation is to manage different suppliers differently"

The point of segmentation is to make clear decisions on how to manage the suppliers in the different supplier segments differently. You can use the template below to clarify how you want to manage them:

Supplier segment	How to manage?	Frequency	Standard agenda
Strategic suppliers	a. Scorecards shared with suppliers. b. Stakeholder surveys. c. Quality + Supply Chain invited to review meetings.	Quarterly	1. Update from supplier. 2. Review of last quarter scorecards. 3. Status on joint projects. 4. Update from stakeholders. 5. Strategic roadmap update.
Tactical suppliers	a. Scorecards shared with suppliers. b. Stakeholder surveys.	Half-yearly	1. Update from supplier. 2. Review of last half-year scorecards. 3. Status on joint projects.
Tail suppliers	Management by exception.	None	None

Putting the above segmentation into practice will help you save time on the tail suppliers, which you can use on the strategic suppliers where your time is much better spent enabling you to create more value with them.

#3 Create 1%+ real cost savings without any RFQ

The secret of creating 1%+ cost savings without any RFQs is the following:

Carry out business review meetings with all your strategic suppliers.

Ask suppliers nicely for 2% cost savings, explain carefully that you are under pressure to deliver these savings, and then ask them what you can offer them in return. The last question is very important!

You probably have something non-financial to offer that has great value for the supplier – maybe you have not realized you have this, so be creative here. Below are some examples of what you can offer your suppliers:

A: Offer to help the supplier make a business case with you as a customer reference that the supplier can use in their marketing. This has great value for the supplier – especially if you represent a great brand.

B: Offer to help the supplier get in contact with a relevant person in your network. You probably know someone who could benefit from the supplier's product/service. If you recommend the supplier, it can have a big effect and will be of significant help to the supplier.

C: Increase agreed delivery time from supplier to you, and/or delivery window/timeslot. Whether you can do this or not depends on how your supply chain is structured. But in some cases, it may not hurt your business, and it can have a significant value to the supplier.

D: Lower agreed credit terms. This depends how you measure working capital. In some cases, your WACC (weighted average cost of capital) is lower than the suppliers' WACC, and in these cases it can make a lot of sense to lower credit terms for better pricing. It may be worth discussing with your CFO what can be done.

The suppliers will probably not give you the full 2% you asked for, but they will give you something if you approach them constructively. And then the 1%+ cost savings happen – like magic.

#4 Improve supplier delivery performance in a few hours

To improve supplier delivery performance, try this simple but very effective approach (for manufacturing, wholesale and retail companies):

#1. Go to your colleagues in the goods receipts area that receives the trucks from suppliers.

#2. Hand them a paper where you have listed your top 20 suppliers (see example below).

#3. For each of the suppliers ask them to rate their satisfaction with each of the suppliers on a scale from 1-5 (1=Very Dissatisfied, 5=Very Satisfied).

Supplier name	Rate your satisfaction on the supplier's delivery performance on a scale from 1 (Very dissatisfied) to 5 (Very satisfied).	If you score below 3, then make a comment why?
Supplier 1		
Supplier 2		
Supplier 3		
Supplier 4		
Supplier 5		
...		

#4. Ask them to comment on all scores below 3.

#5. Collect all the answers and type into Excel. Calculate average score per supplier. Rank the suppliers according to the scores.

#6. Present the scores and rankings to suppliers.

#7. Where needed, make a plan to suggest areas of improvement.

This only takes a few hours of work but will give you new insights and will have real tangible effects on the supplier delivery performance for your colleagues and your business. In addition, you send a signal to the organization and suppliers that supplier delivery performance matters and you manage it proactively.

#5 Improve supplier service and innovation with stakeholder surveys

It's easier than you think. Here is how to do it:

1. Identify the suppliers to be evaluated. This could e.g. be your strategic suppliers. Start simple and include maximum 20 suppliers in a survey. Later you can always increase the number.
2. Identify the internal stakeholders who are to evaluate the selected suppliers. For each stakeholder identify what strategic suppliers they each can/should evaluate. Again, start simple and later you can expand the number of stakeholders involved.
3. Identify what criteria/questions the suppliers should be evaluated on by your stakeholders. This could be questions (to be rated on a scale from 1=Very dissatisfied and 5=Very satisfied) such as:

   - Overall satisfaction with supplier.
   - Satisfaction with product/service offered.
   - Satisfaction with supplier after-sales support.
   - Satisfaction with impact of delivered innovation.

4. Make the survey and send it to the stakeholders for them to answer. You can do this using Excel, or if you need a more automated solution, you can use LeanLinking.
5. When stakeholders have replied, create supplier reports and share the results with suppliers.
6. Together, discuss how you can make the scores go up in the future and make a plan for this.
7. After 3-6 months make another survey to benchmark and track performance over time. Continue this process every quarter to ensure focus and progress.

#6 Reduce cost of ownership by tracking supplier issues

To improve supplier quality performance, you should start tracking supplier issues experienced by the goods receipt team (or other key people) in your company.

Have a meeting with your goods receipt team where you identify the following:

- How many delivery issues/problems they experience per week?
- How the process is in solving these issues/problems?
- How much time these issues/problems require of their time?
- Who these issues/problems influence?
- How they manage these issues? What system or solution they use, if any?

Based on the conclusions on the above questions, you should discuss how to set up a process where:

- The goods receipt team reports the issues/problems.
- The issues/problems are visible to the relevant supplier managers.
- A monthly statistic should be shared with each supplier's key account.
- A monthly call with the key account on how to reduce the number of issues/problems.

This way you will start a cooperation with the goods receipt team and the suppliers that will eventually reduce the number of issues/problems that the goods receipt team experience, and you have helped them save significant time while reducing cost in the supply chain.

You can do all this in Excel, or if you need an easier-to-use solution built-for-purpose you can use LeanLinking. The higher the number of issues/problems and time spent on solving these issues/problems, the greater the need for a built-for-purpose solution.

#7 Spend more time outside the office and more time in the data.

To create real value for your organization you must understand the business that your suppliers interact with. You must understand what internal stakeholders use what suppliers and for what purposes. You must understand the smaller and bigger challenges that these stakeholders are experiencing in a normal working day, and you must understand how your suppliers can help your stakeholders on these matters. To build this understanding requires that you spend significant time outside your office together with your stakeholders and with your suppliers.

"Management by walking around"

If you work in a production company your key stakeholders are probably in supply chain, quality and production. In these cases, go and meet them at their locations. For supply chain that could be in the goods receipt area, to discuss what their challenges are in relation to suppliers. For production, meet them on the production floor and discuss their challenges etc. This way you will achieve two purposes:

1) You will get a much better understanding of your stakeholders and their challenges in relation to suppliers.

2) You will clearly signal to your stakeholders that their challenges matter, and you are here to help them.

The input you get from meeting your stakeholders should be shared with the relevant suppliers. This could happen at the regular supplier review meetings mentioned earlier.

In addition to this 'management by walking around' you should also focus on getting access to all the relevant facts/data that are available on your suppliers in your ERPs, quality systems and other systems. This is intended to enable a more consistent and data driven supplier performance review cycle. You should carry out ongoing measurements and benchmarking on suppliers to understand how they perform. Be transparent about the facts/data and share them with suppliers on a consistent basis – not only when they underperform. If a supplier underperforms on a metric, then be transparent with the supplier and discuss how the supplier can improve their own performance.

Closure

As mentioned, creating real value in procurement with real impact on the business is key if procurement wants to earn a chair at the leadership table. This will only happen if procurement delivers real value - and not ‘only’ cost savings. I hope this e-book has given you some answers as to how you can take the first steps in practice to create real value for your suppliers.

I hope you have enjoyed reading this and that you find the advice that can help you in building your own value creating supplier management approach.

Feel free to contact us at LeanLinking if you want to take the next steps in supplier management.

Sincerely,
Lars Kuch Pedersen
LeanLinking

“Procurement without supplier management is like Sales without account management.

It doesn’t work”

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