

**Reduce Risk, Improve Performance
Through Enhanced Supplier Relationships**

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Abstract. The ability to effectively work with and manage suppliers is an element of growing importance in creating and sustaining competitive edge. As we state repeatedly in our new book, *“On Demand Supply Management: World Class Strategies, Practices and Technology”*, in order to drive performance and manage the growing risks of global and complex supply bases, companies must develop strong people and processes that are enabled by technology. Too often the issue is that technology is viewed as the answer for weak processes and people skills. Instead, these three elements must extend all along the classic strategic sourcing process to deliver results with manageable risk levels.

Introduction. While the current supply media headlines are devoted to the responsiveness, agility and risk management needed to control cost and meet customer expectations, it is the people and the processes that provide discipline and quality along the full strategic sourcing process continuum.

Supplier Selection. Too many companies view the choice of bidding tool as the primary step in the supplier selection process, expecting the outcome from the reverse auction or request for proposal to be the right one for the business. Supplier selection begins long before the tool is determined, incorporating the basic policies governing how the company views its suppliers along with the segmentation of the supply base to understand which suppliers are truly strategic. Only then should the decision of how to go to market be taken. The choice between auctions, traditional bidding or face to face negotiation has to follow, not lead, the supply strategy. Technology, far beyond RFX tools, plays a key role in this effort – from spend analysis to figure just who you are buying from, to market analysis to decide which suppliers to approach, to optimization tools that enable those suppliers to provide additional value and innovation to what would otherwise be a routine bidding event. One tool does not fit all jobs.

Supplier Management. Once the suppliers are selected the challenge quickly becomes ensuring that the promised value coming out of their selection actually finds its way into your company and its products/services. For most suppliers, performance management is

important – and technology based scorecards and contract management systems, when well implemented, make a huge difference but require discipline and rigor to implement. However, supplier management also must include working the people interface because it is the people that make decisions to support (or not) and execute the initiatives suppliers offer. Technology can also enable these aspects by connecting the people that matter and providing diagnostic relationship questionnaires that force thinking and engagement – even during serious disagreements. The keys are that 1.) supplier management must include both performance and people aspects and that 2.) e-tools are not a substitute for personal interaction – especially with strategic suppliers.

Value Mining. All of the above can provide some advantage but only for a period of time – a short one at that if your competitors are strong. The key to ongoing advantage is finding value beyond the existing products and specifications. This is where specialized e-tools can enable should cost analysis, joint product design and marketplace on demand responsiveness to customer need changes and demand volatility. (On demand here has nothing to do with software pricing approaches so don't be confused – it is about meeting customer requirements quickly and accurately and proactively finding customer needs ahead of your competition.)

Risk Management. Supply Management best practices (global sourcing, sole sourcing, supplier rationalization, etc.) have driven cost and quality improvement but at the same time have dramatically increased a range of supply risks (financial, trade management, SOX, on time delivery, quality, corporate reputation and so forth). Again, technology provides tools to manage these risks at levels unheard of just 5 years ago, but only if people are rigorous and disciplined in using them. Managing risk, more than any of the other aspects, requires strong people and well defined and understood processes to be in place to implement technology solutions in order to protect the business.

Doing Versus Talking. All of this sounds nice but the ability to justify the people upgrade approaches (hiring, retaining and training/growing), the process implementation efforts (change management) and the technology solutions (software is not cheap) are critical to ultimate competitive edge. It starts with two business cases – the first is fundamental: the business case as to why Supply Management is critical to the future of your company. This often fuels the people and process effort. The second is the business case for the technology investment made to enable the first business case. Once you have made the case, then the measurement of results becomes vital – both to justify the investments but more importantly to understand whether true value and competitive advantage are flowing into your company. The business impacts of strong supplier relationship management – both for performance and for ongoing breakthrough opportunities – need to come through and, when they don't, you will need to adjust your plan to make sure they do.

Presenters Are Available for Questions, and for a Book Signing. The presenters will be available after their presentation to respond to questions. Note: If you own a copy of *On Demand Supply Management*, bring it with you to the ISM conference and the presenters/co-authors will be available to autograph your book.

REFERENCES

Book References:

Smock, Douglas A. , Rudzki, Robert A. , Rogers, Stephen C.; *On Demand Supply Management: World Class Strategies, Practices and Technology*; J. Ross Publishing, Ft. Lauderdale, FL, 2007