

Making Suppliers Greater Strategic Stakeholders within Purchasing Organizations

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92nd Annual International Supply Management Conference, May 2007

Abstract. Historically, relationships between purchasing organizations and their suppliers have focused on tactical elements, such as price, delivery, and service, which often led to operational complacency on both sides. At a time when procurement organizations are being transformed into strategic sourcing teams, the role of their suppliers must be transformed as well.

The Opportunity. This paper will discuss a number of ways in which tactical interactions with suppliers can be transformed into strategic relationships. These methods include:

- Selection of appropriate national account managers
- Use of strategic supplier councils
- Implementation of mutual performance scorecards
- On-site supplier support
- Supplier participation in the strategic planning process of purchasing organizations

Objectives. Our session will address one of the biggest challenges facing supplier relationships, the “supplier knowledge gap”, which refers to the lack of understanding on the part of suppliers’ senior management of the relationships with their customers. Case histories will give participants valuable insights into a proven set of strategic supplier relationships tools.

Stakeholders. The term “stakeholder” describes the working relationships that successful suppliers have with their customers in the purchasing organizations they support. Being a “stakeholder” to a procurement operation is fundamentally different from processing orders. A “stakeholder” is a supplier who is fully integrated into the strategic planning process of the purchasing organization of the client firm.

The Supplier Knowledge Gap. Often, the biggest disconnect between a supplier and a procurement organization is the lack of comprehensive knowledge by the supplier’s senior management of how the relationship with the customer is evolving. After all, senior executives of a supplier organization can be extremely valuable resources in linking the supplier to the customer.

With this in mind, why is it that many senior executives are literally in the dark as to the “real” standings of their firm has with a customer organization. The reasons for this gap are fear and time. National account managers of supplier firms are reluctant to tell their superiors too much about the way they are doing business with their clients. All too often, these national account managers are measured on the amount of new and recurring business they bring in.

Communicating details of customer relationships to their bosses is a time-consuming process that reduces time available to sell.

It is thus incumbent upon the management of a procurement organization to initiate action steps that will help to reduce this knowledge gap while helping to develop stronger bonds with strategic suppliers. Doing so enhances the operational effectiveness of both parties.

The National Account Manager. A national account manager (NAM) is the key supplier representative who has the ear of his/her senior management while having overall responsibility for the business generated by a particular purchasing organization.

As in all successful relationships, there needs to be a close understanding between the NAM and his/her counterpart in the procurement organization which requires both parties to take a long-term view of their interactions. This is important as it demonstrates that a strong relationship will generate significant benefits for both the supplier and the client firm.

All companies and their purchasing organizations have their own corporate and operating cultures. To become true partners with their customers, NAMs must recognize this fact. An approach that is successful in working with company "A" is often not appropriate in cooperating with company "B". So what happens when a purchasing manager realizes that a particular NAM is not working out? It may be necessary to request a different NAM from the senior management of the supplier, treating this situation as if one were hiring someone to fill a key position within the procurement team. In many ways, a NAM should be considered a vital member of your organization.

Any supplier who is reluctant to reassign NAMs may be setting itself up for poor performance reviews and a possible loss of business. Replacing NAMs must be based on important business conditions.

Strategic Supplier Councils. Manufacturing firms have long used supplier councils effectively as sounding boards and advisors in key decisions. Procurement organizations in service industries should be encouraged to follow suit.

Supplier councils are an excellent way to make supplier representatives feel that they are part of the client's decision-making process. Council meetings usually involve discussions of strategic planning issues of the customer organization. The give and take between purchasing personnel and supplier representatives at such events goes a long way toward demonstrating that pricing is just one of a panoply of issues in long-term supplier relationships.

Strategic supplier councils also provide purchasing departments with an excellent external source of feedback on key topics related to the doing business with suppliers. Supplier representatives frequently leave such sessions feeling a stronger bond with their customer. This kind of outcome can go a long way in making suppliers better negotiating partners.

Inviting key members of selected suppliers' senior management to council meetings is an excellent way of communicating your firm's desire to develop closer working relationship with these suppliers.

Mutual Performance Scorecards. To be effective, every organization needs to be measured. Periodic performance scorecards are valuable means of quantifying the current operating level and a basis for establishing higher levels for future achievement and directing their implementation.

Many purchasing departments use their supplier councils in the development of the factors and weights to be included in performance scorecards. By asking selected suppliers to participate in the scorecard creation process, both parties can better understand the purpose and significance of these evaluations.

Supplier performance scorecards should be presented in a positive way, not as a means to punish poorly performing suppliers. After all, you want your suppliers to be the very best they can in serving your purchasing operations and firm.

The frequency of preparing and presenting supplier performance scorecards should be based on the nature of the product or service involved. For first-time users, it may be sufficient to complete this process just once a year. Evaluating a supplier's overall performance on an annual basis is a good way to gain the attention of your key suppliers and their senior management, particularly if it is linked with a recognition process for outstanding performance.

Inviting members of senior management of all suppliers being evaluated to the scorecard presentation session is essential. This approach serves several purposes:

- Demonstrating to the senior management of suppliers that their performance is being evaluated.
- Providing senior management, perhaps for the first time, with an objective view of their relationship with your firm.
- Creating a forum for both sides to voice their views and concerns at a high level of interaction.

But the cooperation process should not stop there. In what amounts to a role reversal, world-class procurement organizations ask their key suppliers to fill out customer performance scorecards. This powerful communications tool can provide invaluable feedback and insights into supplier concerns and plans. Customer organizations need to contribute proactively to their supplier relationships and performance for mutual benefit.

On-Site Supplier Support. In the 1980s and 1990s, it was routine to have technology-related supplier personnel co-domiciled in their customers' operations. This changed with the shift from using single suppliers to multiple suppliers for technology and communication services. However, the pendulum may well be swinging back toward having more supplier representatives working on-site.

Today's suppliers, to provide expanded value-added services, are often quick to offer a staffing presence in their customers' operations. This move has included having suppliers' personnel work in purchasing organizations. Such functions as order placement, customer service, help desk, and e-procurement duties are now frequently being performed by representatives of suppliers. Such actions have given suppliers and purchasing staffs more closely integrated business relationships and systems.

Strategic Planning Process. As more of the daily functions performed by procurement departments become strategic in nature, there is a greater reliance on strategic planning. Being proactive in terms of planning on the part of purchasing staffs means involving more stakeholders. These stakeholders often include internal personnel in units such as Legal, IT, HR, Finance, and key customers, as well as a number of strategic suppliers.

It is all but impossible to have an effective planning process for the purchasing function without vital input from these stakeholders, especially suppliers. Their inclusion in the planning process opens up all types of communication avenues. Information discussed in the planning sessions should enable key suppliers to see the “big picture” of their clients’ operations, both in purchasing and in the corporation. Participating suppliers are in a better position to determine how they can contribute to your firm’s competitive goals. Likewise, the feedback you receive from your suppliers in the strategic planning process is a valuable tool in managing external inputs of goods and services. Also, having suppliers participate in your planning process can significantly reduce your chances of being blind-sided by production delays or price increases.

Conclusion. Most suppliers want purchasing organizations to look past pricing as a critical means of evaluating new business. By attempting to make your strategic suppliers greater stakeholders in the overall performance of your team and company, a significant step is being taken toward the achievement of that objective. However, not all supplier representatives will feel comfortable with this process since it may be new to their way of doing business.

A supplier-purchasing relationship will only work if the right NAM is serving your account. You need to have NAMs that realize the importance of working together on common objectives for the long term.

It is essential to the success of the entire stakeholder process that the senior management of all strategic suppliers becomes involved with the operations of the customers’ purchasing organizations. Their awareness of what is occurring during the periods between RFPs or RFQs will greatly benefit the relationship between both parties. Senior management of your suppliers can be a major advocate and resource for you.

Utilizing supplier councils and performance scorecards are proactive means of including key suppliers in achieving the objectives of your procurement operation. On the same note, opening your strategic planning process to suppliers can place all parties on the same page and allow for better communications.

Suppliers can contribute a broad array of value-added services. Purchasing organizations should be aggressive in working towards making suppliers a strategic part of their operations.