Suppliers Are Your Friends

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Abstract. For many companies, supplier management is a complex part of the sourcing process due to the correlation between a sound supply base and a company's overall success. This reliance on suppliers can be advantageous if the suppliers are strong and solid relationships have been established. However, it can be risky if suppliers do not deliver, or if there is a lack of confidence in their ability to meet company objectives. The Purchasing group is measured by these supplier relationships, yet many companies are uncertain they have the control or knowledge to benchmark performance and track savings. Through technology-enabled supplier management, these relationships become enhanced and mutually beneficial.

Best Practices. Most often, supplier relationships are defined by a lack of real knowledge and visibility into how well suppliers are meeting stated company goals and objectives. This information void is potentially very damaging to profitability when under-performing supplier contracts are renewed.

To develop best practices, companies must first examine current policies surrounding both supplier selection and negotiation strategies. Questions to consider include:

- What guidelines are in place to award contracts to suppliers?
- Are award allocations fully optimized?
- How is supplier performance tracked? Or, more importantly, IS supplier performance tracked?
- Is it encouraged to invite new suppliers to bid for business?

Top performing organizations are fully aligned with best practices and receive increased cost savings that translate directly to the bottom line. These companies leverage existing technologies to create a collaborative process that results in a "win-win" situation for all parties involved.

Supplier Discovery Process. The supplier discovery process is important for organizations looking to expand their supply base to drive down costs or to reduce risk. Increasing competition for awards helps companies avoid complacency with long-term suppliers and, as a result, lose money. To ensure that quality standards are not compromised, it is key to evaluate potential new suppliers by a set list of qualifications. Making sure that the Purchasing group is aligned with these provisions is an important first step.

Optimizing Award Allocation. With complex sourcing events, it is difficult to use "trial and error" or "rule of thumb" methods to achieve near optimal results. Typically, optimization yields an additional 5 to 15% savings, above and beyond the savings generated by competitive bidding events like eRFPs and online auctions.

With many line items to consider, multiple offers per supplier, and several rounds of bidding, a spreadsheet program like Excel quickly becomes unwieldy as the number of columns reaches into the thousands. Simplistic tools don't have the power to quickly find the perfect allocation scenario. With the use of technology-enabled award optimization, companies can easily test several award scenarios and determine the best way to allocate business. Thus, companies can allocate awards to suppliers that provide the best value, rather than solely the lowest cost.

Through optimization tools, companies gain the ability to:

- Account for suppliers' capacity and price break schedules
- Choose to allocate a percentage, or a spend amount to a supplier with a specific characteristic, such as location or MWBE status
- Limit the number of suppliers to receive awards
- Consider switching costs or costs to support an incremental supplier
- Consider qualitative factors like service levels, years of experience and certifications

Tracking Supplier Performance. Supplier performance tracking is enhanced by technology, where companies have the ability to maintain a supplier record and monitor performance for automatic inclusion in future negotiations. Through the implementation of a supplier scorecard program, companies can easily quantify intangibles, such as quality and level of service. Scorecard information can then be factored in to influence future RFXs, and help justify the company's chosen supply base.

Becoming the Low-Cost Customer. Negotiating with the same suppliers for decreased prices has diminishing returns, and can damage the overall relationship. Companies must first understand suppliers' cost structures before entering into the negotiation process. Reducing the cost of suppliers to conduct business is essential to lowering overall costs for goods and services.

Technology enables companies to become the low-cost customer. Often, a substantial portion of the overhead costs pertains to relationship building and account management. Technology can eliminate these expenses through cost-effective communication, self-service vendor management tools and implementing a "preferred" supplier program that authorizes buyers to choose from only select suppliers. These tactics allow suppliers to offer a lower cost and at the same time, receive a higher profit margin.

Summary. Companies and suppliers do not have to be pitted against each other. Through careful planning and a new perspective, suppliers can be become true strategic partners. By leveraging these relationships, companies can turn their supply base into a true competitive advantage.