



Transforming your supplier base – an operational guide

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What can you do to make a complex supply chain contain lower risk while delivering higher value? There are three key phases: Recognition, Measurement and Action.

Phase 1: Recognition

Recognise your supply chain as the central nervous system of your operation.

Recognise the amount of money that it ties up in your organisation: up to **70% of value of sales** in some sectors.

Recognise that there are many actions you can take to drive better value out of your supplier base. Dealing with complexity is not always, in itself, a complex process. Identifying purchase price savings opportunities can be as easy as finding a global supplier that delivers the same goods or services from a region with much lower factor costs. At the same time however, it can be more challenging for the buyer to determine total landed cost for these products and services.

If it isn't broken ...

The task of evaluating risks inherent in a global supply network is often overlooked - as long as no major disruption happens. Supply chain excellence seems to be taken for granted in many organisations. This acceptance at face value can leave managers with few, if any, tools to measure and control their activities.

Even if your supply chain works 'most of the time' right now, you should be aware of the issues that sophisticated global supply operations can generate. The complicating factors include:

- Late involvement of suppliers in your product development process, or lack of understanding of product requirements. Your suppliers don't understand, at a deep level, what you really expect from them.
- Inadequate documentation of product specifications or late modifications. Suppliers are insufficiently aware of key changes inside your operation and are working with outdated information or processes.
- Greater logistics obstacles to shipments to and from the supplier, adding to lead times and risking slippage.
- Complex international trade laws and bureaucratic processes, again adding to lead times.
- Exchange rate, raw material and labour fluctuations which drive many companies out of business at the originally negotiated terms and lead to supply disruption and production slippage.

In contrast, when you get it right with the supplier network, the benefits will include:

- Appropriate and timely supplier innovation that enables product differentiation and cost advantage
- Improved supplier quality that reduces re-work and increases production efficiency
- Improved delivery performance that reduces inbound logistics costs, reduces excess / obsolete stock and increases product availability
- “Easy to do business with” suppliers that reduce administration cost
- Reduced supply shortages, which could otherwise jeopardise manufacturing deadlines – timely operations help avoid penalties
- Reliable and flexible deliveries that help win market share in tight markets
- Carefully selected suppliers that help reduce total landed cost and provide the basis for continuous cost reductions
- A diversified supply network that is flexible in response to changing market conditions or business disruptions

Diverse suppliers – consistent categories

Recognise the different types of supplier that you have currently and differentiate them based on the risk they pose on your business and the supply market opportunity you might want to leverage. See the exhibit below for a ‘quadrant’ view of the supplier universe.

Framework for supplier relationship management

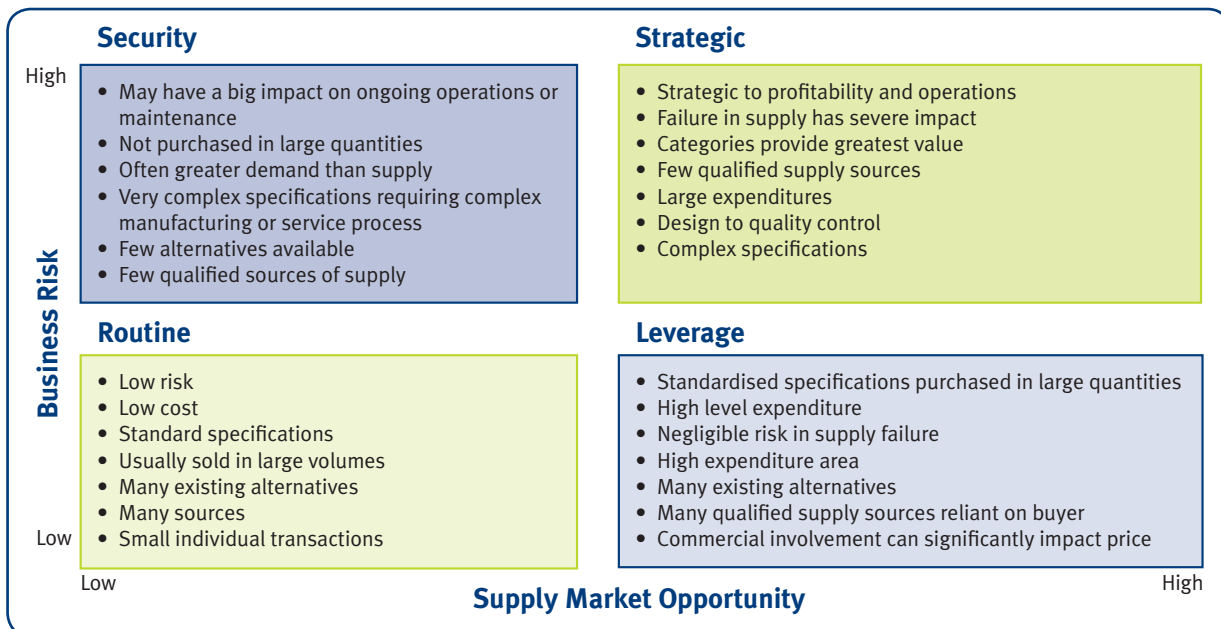


Figure 1: A consistent framework for categorising a diverse supplier base

In general, cost savings are going to be the major consideration with commodity suppliers – where there is a wide and well-established market to choose from. The key drivers with strategically important suppliers - or those with security implications – include reliability, business continuity and maximum alignment with your own commercial and operational agenda. Typically, it is these suppliers which are most likely to be taken further up your food chain into alliance and partner development.

Right now, can you categorise all your suppliers?

Recognise that you probably don't have the detailed dashboard of accurate operational data you really need to assess and baseline your existing supplier portfolio.

Supplier consistency against clear internal benchmarks is essential for building a robust supply chain for the future. And this will involve measurement.

Phase 2: Measurement

Many companies with extended supply chains face similar challenges, such as poor data quality, high variability of supplier performance or limited co-operation between local materials management and global sourcing teams.

To measure, you need a baseline

To improve this situation, you need some standards to measure against. Identify key performance criteria for your supplier base. Ensure they are consistent and in tune with your strategy. Then measure your existing and prospective suppliers against the criteria.

Some of the key questions that supply chain executives need to be able to answer at any time are:

- How does the supply chain support the operating strategy of your organisation?
- How much is poor supplier performance really costing the organisation?
- What are the risks inherent in the supply chain?
- What mitigation strategies are in place and what is the status of the actions?

Fact-based analysis, carried out if necessary at the suppliers' sites, will yield the detailed knowledge you need to identify gaps and plan measurable improvements.

Missing decision-critical supply chain data limits the ability of senior management to identify issues, risks or additional improvement opportunities. Without reliable management information and relevant key performance indicators (KPIs), supply chain management will remain a real challenge.

Create a reality-driven picture of where you are right now with your suppliers and your supply chain. Compare the reality with your aspirations and identify the gaps.

Phase 3: Action

Work with the suppliers you have identified as being capable of positive development.

How do you do this in practical terms?

You adopt a consistent methodology for the management, control and reporting of key actions and outcomes, right across your supply chain and with your entire remaining supplier base. The methodology and its tools help measure and enhance supplier performance while managing risks inherent in the supply chain.

Enhanced performance begins with information. In fact, information flow across the supply chain is crucial. Specifically there needs to be timely and accurate sharing of data around the following issues:

- Accurate product and demand planning data has to be shared with suppliers as early as possible
- Suppliers have to share information about production capabilities and capacities, throughput and delivery times
- Information from supplier evaluations and audits has to be shared openly, in order to develop mutually beneficial relationships
- Reports and meetings have to be KPI driven with clear roles and responsibilities for follow-ups
- When risks of single sourcing are too high for a specific category, connections to alternative sources of supplies have to be maintained

What is needed to ensure the information flow described above? The information won't start to flow without people knowing that it is valuable and necessary **and** having the processes in place to gather and share it.

A robust supply chain and supplier base management control system will provide fact-based insights vital to all key areas. These include:

- Sourcing
- Supplier qualification
- Contract compliance
- Supplier management
- Outsourcing decision making

A comprehensive management structure forms the basis for closed loop planning, reporting and controlling, where roles and responsibilities are clearly defined. It also provides an important tool to evaluate and manage any risks in the supply chain. This enables managers to take corrective actions before supply problems jeopardise operations. They don't have to wait for things to go wrong in order to fix them.

Effective management systems need management involvement

Be prepared to get involved and get your hands dirty. This will mean going onto supplier sites and into supplier premises supporting them with experienced supplier development experts. It will mean helping them to solve their front line issues. And it will mean putting in place continuous feedback loops with suppliers, so that problems can be identified, monitored and solved in real time. This will enable supplier to deliver not only to their agenda but also to yours.

Greater involvement, enabled by a practical supplier performance management, creates advantages that include:

- Reduced supply shortages, which could otherwise jeopardise manufacturing deadlines and threaten to incur penalties.
- Reliable and flexible deliveries that help win share in tight markets.
- Carefully selected suppliers, who help reduce total landed cost and provide the basis for continuous cost reductions.
- A diversified supply network that is flexible in response to changing market conditions or business disruptions.

When supplier performance management is embedded in the sourcing-, outsourcing- or general supply chain decision making processes, it can also play a vital role as a risk management tool. Used correctly, it helps organisations that want to establish a global supply network to successfully implement their operating strategy.

Do well-managed and committed suppliers mean measurably better business?

Yes. Daily operational cost and procurement savings can happen almost immediately. The benefits of risk management are often not tangible as quickly, since they are more about risk avoidance than cost savings. But the reality is that a well-managed and committed supplier base works more consistently and makes a much improved strategic contribution – as proved by the experience of multiple manufacturers in many different sectors.

A strong and flexible supplier base is critical to increased productivity

For example, a manufacturer of compact loaders for construction and agriculture re-worked its production line to become more than twice as productive each hour. The increased output put a big strain on the supply chain. In particular, suppliers emerged as a key factor. Their ability to keep pace with radically increased production was critical to success.

The risk was clear: non-compliant suppliers would directly result in slippage and non-delivery. A comprehensive supplier management system was developed. It investigated and optimised the costs, quality, delivery performance and capacity of all the current suppliers. Internal benchmarking produced a clear and consistent picture of those suppliers who were equal to the task already. It also identified those who would need individual improvement plans.

Risk management was a central part of the approach. When the risk of single sourcing was too high, an alternative source of supply had to be identified by the global sourcing team.

Manufacturer and suppliers – a two-way street

Accurate information flow was crucial to success from the start. A rolling forecast of all required parts is now shared with suppliers, while critical parts and supplier lead times are kept up-to-date in the production system. This allows separate tracking of parts that could cause a production stop. It helps to avoid material shortages at the assembly line or costly re-work.

A KPI-driven reporting system is used to discuss and evaluate the risk of non-deliveries during the daily production meeting. Clear roles and responsibilities for suppliers and the manufacturer help to stabilise processes and allowed a ramp up to full production at the new levels in the first week of the transition.

Summary

After implementation of the three key phases of Recognition, Measurement and Action- ensure there is **ongoing involvement** through communication with suppliers.

Don't wait for problems to arise. Pro-actively identify potential risks and develop mitigation strategies to avoid risks turning into issues. If risks cannot be avoided, you should at least be prepared to have the right responses defined to be able to react immediately. Measure performance at critical points in your operations at short intervals to identify negative trends early – then use both your own skill and experience and the skill and experience of your suppliers to deal with the problems.

With the right baseline in place, accurate measurement and consistent management, control, reporting and support you will get what you want from your suppliers: consistent, cost-effective, high quality service that forms the backbone of a best-cost highest-delivery supply chain.

And if you want to go further with your key suppliers and move them towards real partnerships, you can do that as well: see our companion paper on external manufacturers.



About the Author

Martin Laub

Martin Laub is a Senior Project Manager with Celerant, and also leader of Celerant's Integrated Supply Chain Capability for our German business. With over a decade's experience in consulting, Martin's work with clients has spanned a number of industries (predominantly in Manufacturing), addressing a number of key business issues, specialising in the domains of Supply Chain Management, Supply Chain Performance Management, Sourcing & Procurement, Supplier Management, Operational Strategy and Business Management Systems and associated business processes. His work has results in considerable benefit realisation for his clients, and several of the projects he worked on won industry awards.

Martin has spoken at numerous conferences, and has published articles focusing on the themes of Integrated Strategic Sourcing and Supply Chain Intelligence.

Martin has an MBA from the University of Rhode Island (USA), and gained his initial degree in Industrial Engineering from the College of Rosenheim, in Germany.



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Erik is a Senior Project Manager with Celerant. During his 18 years in consultancy and industry (paper, packaging, chemical, pharma, medical device, healthcare), he has undertaken a wide range of global and transformational assignments in the Private Sector covering a variety of business functions, from R&D, Marketing & Sales through to Operations and Supply Chain. Erik specialises in creating business results through the delivery of sustainable behavioural change to clients, and the delivery of tools and techniques which include: Operational Excellence (Lean & Six Sigma), Program/ Project Management, Supply Chain, External Manufacturing/Outsourcing.

Erik is a seasoned Six Sigma Master Black Belt, has driven multi-million \$ productivity improvements in the Netherlands, Belgium, Germany, France, Italy, UK, USA, Japan and has been applying Process Excellence and business improvement principles for over a decade. Erik has a Business Administration degree from the University of Groningen.

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