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How supplier partnerships can enhance the benefits of working collaboratively with external organisations



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Introduction

In the past many manufacturers regarded their suppliers with some suspicion, almost as adversaries. Little loyalty was shown to the suppliers and consequently the supplier was never certain as to their future relationship with an organisation. Often the purchasing or procurement department would see their role as screwing the best deal possible from a supplier.

The huge growth in outsourcing and more importantly the online access to information have changed that. Companies have realised that achieving world class excellence in their own sites is not enough. It is important to raise the standards of suppliers as well as learn from them by working in partnership with them. Tightly controlled service level agreements are being replaced by joint service agreements with free exchange of data and knowledge. However, the success of these agreements will depend on mutual trust, a highly developed commercial relationship and an efficient system of data exchange. In order to improve the effectiveness of data exchange, companies are sharing with their suppliers (and customers) common systems such as EAN standards (European Article Numbering), EDI (Electronic Data Interchange), CPFR (Collaborative, Planning, Forecasting and Replenishment) and also comprehensive SRM (Supplier Relationship Management) systems.

Supplier collaborative partnerships are practised in all sectors of the economy, e.g. manufacturing, logistics, major projects and services.

Types of Suppliers

In order to develop a supplier strategy for collaborative partnerships I propose to identify the types of suppliers as follows:

1. Transactional

Suppliers who are used for basic requirements on an ongoing basis, but who represent no significant benefits to the organisation. These types of suppliers are chosen for procuring low value day to day supplies. Transactional suppliers are usually chosen from multiple quotations and controlled by traditional purchase orders.

2. Transitional

These suppliers are specialists and useful for procuring high risk items in the short term. This can prove difficult to manage and it is often necessary to force a change in the nature of the engagement so that it is more clearly defined by legally bound service level agreements.

3. Collaborative

Suppliers who are highly visible to the organisation and who are used regularly for longer term medium risk items of strategic value. The intention here is often to develop the relationship, particularly through senior level interventions and well defined strategic contracts. This is supported by broader programme performance and other strategic benefits, such as knowledge sharing.

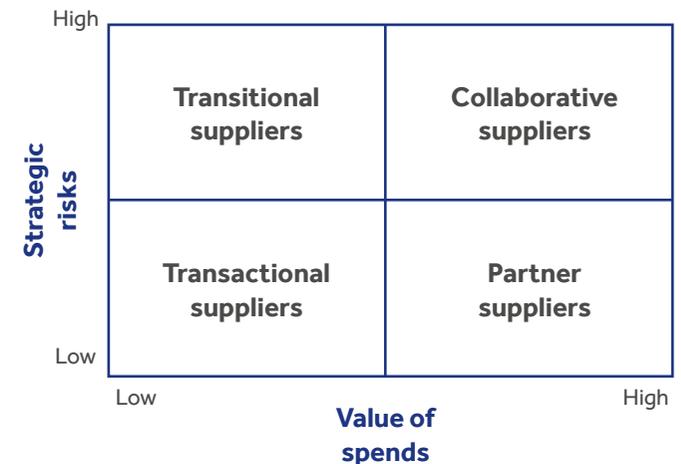
4. Partner

Suppliers who have a significant influence over the sustainable competitiveness of the organisation and who need to be engaged from multiple perspectives for the long term. The partnership is based on a longer term deal for supplying relatively low risk but high volume items. The OEM (original equipment manufacturer) and the supplier both share both the risk and benefits. The relationship is comparable to the relationship between the corporate team and the sister companies in a multinational organisation.

The agreements for transactional and transitional suppliers are bound by traditional SLAs (service level agreements), while more flexible supplier collaborative partnership contracts are appropriate for collaborative and partner suppliers. Collaborative suppliers are supported by a robust risk management plan.

In terms of the hierarchy of relationships, the model below (Figure 1) might be representative of what to expect. The collaborative suppliers and partner suppliers are also known as preferred suppliers, who are usually selected by a rigorous process and tested over many years.

Figure 1. Types of Suppliers



Supplier Partnerships in Manufacturing

The benefits of supplier partnerships in manufacturing are best illustrated by the Toyota example. Toyota supply chain policy is based on a rigorous supplier selection process that enables them to work with the best and most competitive partners. To ensure the delivery of the parts to their manufacturing facilities is through their logistics partners, picking up parts from multiple supplier locations delivering just-in-time to support their production. Toyota believes in developing mutually beneficial, long-term relationships based on mutual trust with all suppliers. To foster that trust, Toyota pursues close and wide-ranging communication to share their business knowledge to enhance the relationship. Toyota supports the development of suppliers' manufacturing processes and looks to their innovation to build on global success.

Supplier Partnerships in Logistics

In order to achieve an integrated supply chain the various members need to work together. The three most important types of supply chain related strategic alliances are **third party logistics (3PL)**, **retailer-supplier partnerships (RSP)** and **distributor integration (DI)**.

Summary

Supplier partnerships are an essential tenet of supply chain management. We live in an interconnected world. Even if your business achieves world class excellence in your own site, it would be like driving a Ferrari down a congested M25. Working closely with the first-tier suppliers as partners leads to a sustainable supply chain performance. Well- vetted preferred suppliers are suitable for flexible supplier partnerships while transactional and transitional suppliers should be supported by service level agreements. The model in Figure 2 outlines the supplier collaborative partnership process.

Third Party Logistics (3PL)

The use of a third party to take over some or all of a company's logistics responsibilities is now common. 3PL is simply the use of an outside company to perform all or part of the firm's materials management and product distribution function. This might include one or all of the activities of transportation, warehousing, package delivery, and information systems. 3PL relationships are certainly more complex than traditional logistics supplier relationships. Modern 3PL arrangements involve long term commitments and often multiple functions or process management.

Retailer-Supplier Partnerships (RSP)

As customer satisfaction becomes more important in gaining a competitive edge, and as prices reduce and retail margins become tighter due to large scale competition, it makes sense to try and to create co-operative efforts between suppliers and retailers. At one end is information sharing, in the middle is continuous replenishment enabled by sharing information from point of sale, and at the other end is a consignment scheme of vendor managed inventory (VMI). The goal of many VMI programmes is to eliminate the need for the retailer to oversee specific orders for replenishment.

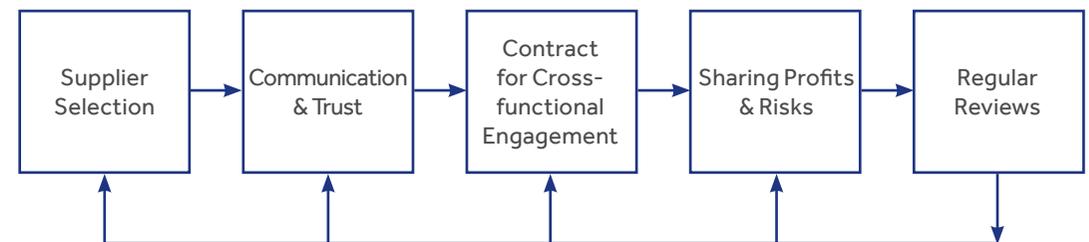
In a simple quick response strategy, suppliers receive point of sale (POS) data from retailers and use this information to synchronise their production and inventory activities with actual sales at the retailers. In this strategy the retailer still prepares individual orders, but the POS data is used by the supplier to improve delivery performance and hence reduce supply variability.

Supplier Partnerships in Projects and Services

The first-tier suppliers or contractors are responsible for project delivery. Therefore, a supplier partnership is essential in the execution of major projects (such as HS1 and HS2, the Elizabeth Line and Heathrow Terminal 5). A good example is 'the T5 agreement'. The supplier partnership for the Heathrow Terminal 5 project (named 'the T5 agreement') was the contract between BAA and its first-tier suppliers when the project started in 2002. The agreement was based upon an open book commercial arrangement with the sharing of both benefits and risks by BAA and its first-tier suppliers. Success was claimed to be rewarded and failure was shared by all. All were united under the single banner of T5 with a shared sense of values. This enabled completely integrated expert teams to work together to identify potential problems and issues at each stage of the project cycle. The first-tier suppliers were responsible for the appointment and management of 'second- tier' suppliers or subcontractors.

In banking, the main group of suppliers are depositors, who supply the primary resource of capital. Following the merger of Halifax Plc and the Bank of Scotland, the newly formed HBOS embarked on an SRM (Supplier Relationship Management) project. The objective was to integrate two legacy systems into one market leading SRM package. The project was completed during the first five months of 2002 and ensured better interactions with suppliers. It also enabled HBOS to measure supplier profitability across the group.

Figure 2. Supplier Collaboration Partnership Model



Reference: Basu, R (2003), *Managing Global Supply Chains*, forthcoming, Routledge, Abingdon, UK

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