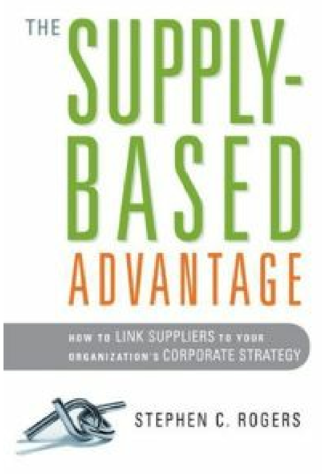

Book The Supply-Based Advantage

How to Link Suppliers to Your Organization's Corporate Strategy

Stephen C. Rogers
AMACOM, 2009
Listen now

- play
- pause

00:00
00:00

Recommendation

Stephen C. Rogers enjoyed a 30-year career at Procter & Gamble, and he offers everything he learned about maximizing supplier relationships in this tome. His book is for dedicated supply chain management professionals. Rogers enlivens it with personal stories, industry case studies and fascinating research. Long descriptions of supply chain strategy, processes and contingencies slow the reading down for the half-interested. However, *BooksInShort* regards Rogers's efforts as a graduate school class for those fascinated with the topic and for professionals who want to sharpen their knowledge. So if you are importing coffee from Africa and you want to maximize your suppliers' contributions, pour yourself a cup and get comfortable.

Take-Aways

- The strategic goal of a superior supply chain management is to gain a "sustained competitive advantage."
- This advantage comes from the "co-creative value" between suppliers and buyers.
- Combine customer service functions with supplier management to produce superior performance and delivery results.
- Early industrialists – Frank Mars, Josiah Wedgwood, William Procter, James Gamble – combined logistics, manufacturing and customer demand to build major companies.
- Top managers often do not appreciate suppliers' knowledge or the benefits they confer.
- Supplier relationships take time to develop, mature and manage.
- Supply departments account for more than 50% of a company's annual expenses.
- Avoid cost reductions that decrease value or erode customer satisfaction.
- Corporations require the exchange of physical goods, relationships, ideas, information, services, and financials, including credit and cash flow.
- In a superb case of supply chain coordination, 12 million copies of Harry Potter and the Deadly Hallows shipped worldwide overnight, and no one disclosed the story's ending.

Summary

Becoming Supplier Focused

Though few senior executives appreciate the process, building an exceptional supply base and strengthening supplier relations is integral to business success. When you combine customer-facing corporate functions (marketing, product design, sales, or customer service) with supplier management skills, you can gain superior performance and delivery results. Give your suppliers a clear understanding of your needs. Suppliers provide benefits, but corporate managers might expect them only to deliver a product or service. This is a serious mistake. Suppliers also can participate in the company's interaction with customers. Any firm can achieve a competitive advantage by efficiently managing its supply chain. Businesses accrue this advantage when they recognize the value of suppliers' contributions and make use of them at opportune times.

> "Supply management is a family of complex processes that includes an amazing number of tools and skills in order to span the range necessary to manage the full supply base."

Superior supply chain management sets out to deliver a "sustainable competitive advantage." While some companies already possess this advantage from branding (Procter & Gamble), shopper experience (Target) or customer service (Nordstrom), supply chains offer unique ways to attain this edge. Viewing your suppliers as expenses and pushing them to reduce costs complicates your relationship, leading to adversarial feelings and short-term savings at the expense of productive relationships.

> "Innovation is the lifeblood of sustainable competitive advantage."

To achieve a sustainable advantage, build "co-creative value" with your suppliers. Give them something in exchange for their intellectual, financial or capital contributions. Building and maintaining this competitive advantage should be an ongoing, transformational process.

Forgotten Allies

"The vast majority of companies continue to view purchasing as a 'grimy, mundane' back office administrative function." But about 70% of a company's products, services and operations come from outside suppliers. People who are not directly part of your firm contribute to your business; for example, outsiders are a factor in your advertising, websites, packaging, materials and ingredients. Even though suppliers play a crucial role, senior managers often view them as vendors and operational necessities who are almost always too expensive.

> "Sometimes, executives simply don't 'get it' when dealing with suppliers."

Early industrialists in the United States understood how to connect materials sourcing to potential customer demand. John Deere, a Vermont blacksmith, started his farm equipment company in 1837, when most plows were made from wood and cast iron. In the Midwest, clay-like soil clung to plow blades, making the work laborious. Deere found that a certain steel manufactured in England shed the clay. He expanded his steel importing and built cast-steel plows. Sales of the popular plows quickly depleted his inventory. Deere moved his operations to Moline, Illinois, to take advantage of better transportation logistics regarding the steel he needed. Candy manufacturer Frank Mars, English china producer Josiah Wedgwood, and William Procter and James Gamble of P&G fame also united logistics, manufacturing and customer demand to build hugely successful companies.

Follow the Blueprint

Companies often fail to communicate their principles, objectives and values to suppliers. Nike learned this when press reports depicted its shoe manufacturing plants in Asia as hotbeds of poor working conditions and low wages. Caught off-guard, Nike revamped its manufacturing strategy and sourcing. It eventually adopted an entirely new, socially responsible set of supply chain practices – but not before its reputation suffered significantly.

> "Cost control is the ticket to the sustainable competition game."

Managers should recognize suppliers' contributions. To improve efficiency, innovation, and profitability, Procter and Gamble mandated that half its new products originate outside the company. P&G enlisted the help of patent lawyers, universities, suppliers and inventors to serve as "idea magnets." These outsiders leveraged relationships with top suppliers and delivered value.

> "Your suppliers need to keep you competitive, but it is your job to enforce that expectation."

Selecting and managing suppliers is the essence of strategic sourcing. To build a unique sourcing strategy, use a bottom-up analysis that encompasses the full scope of planning, from needs assessments to analysis and tactics. To secure a competitive advantage, assess your internal needs and capabilities, determine the results you want, and establish procedures for review and evaluation. Employ each supplier's unique knowledge, contacts and new product development potential. Suppliers can provide intelligence about expansion into new markets, regulatory requirements and supply sources.

Managing Supplier Relationships

Supplier relationships are complex and take time to develop, mature and manage. Such relationships go through four stages: "analysis, segmentation, performance management and relationship management." Sourcing strategy determines supplier relationships, and vice versa. "The game is a combination of absolute cost, cost relative to consumer expectations and budget constraints, cost direction and velocity, and, importantly, cost relative to competition."

> "The real strength of a supplier relationship is not clear until times get tough – dating and honeymoons are fun, marriage is hard work on both sides."

When a fire destroyed a plant that produced components for brakes for Toyota, it threatened Toyota's 15,000-car-per-day production goal. Within three days, all Toyota's production plants had shut down; the closures potentially could have lasted for weeks. But by leveraging its relationships with other suppliers, Toyota restarted operations within five days. Within nine days, all its production lines were running again, thanks to 200 car-part manufacturers and 150 companies that provided raw materials and equipment, including 70 machine tool makers.

> "Unbridled power at any position in the supply chain can change the dynamics throughout the chain."

The "SOCCER model" is a field-tested technique for analyzing supplier capabilities. SOCCER involves analyzing a supplier's strategy, operational capability, customer approach, cost structure, economic performance, and research and development. You can also evaluate a supplier's power in terms of its buying clout, size, reputation and number of patents.

The Supply Web

Companies have supply webs or networks, not chains. Complex corporations require more complex systems, which could involve the exchange of physical goods, relationships, ideas, information, financials (cash flows and credit), and services.

> "A seemingly simple task, measuring supply cost, can erupt into arguments across companies and even within single firms."

Upon the publication and distribution of 12 million copies of *Harry Potter and the Deadly Hallows,* the challenge was to ship copies to bookstores worldwide a day before the book's official release. The deadline was intended to keep people from giving away the book's ending online. Security was paramount (to make sure no delivery truck drivers took copies), as was gaining pledges of confidentiality from printers and suppliers, and organizing transport logistics. The plan worked. The delivery success rate was 99%, and the public never learned the book's ending.

> "The test of competitive advantage is flexibility to expand market knowledge in the existing organization as needed."

This complex project involved only one product. Companies with multiple product lines have multiple supplier networks. When designing multiple supply chains, managers must ask what the supply chain adds to their competitive strategy. For a cellphone company, this could include billing, software enhancement, customer service, and network flexibility and reliability.

> "Popular mind-set and internal bias make in/out sourcing decisions quite political, regardless of which way a company is leaning."

Supply chain managers often debate the merits of centralized versus decentralized purchasing systems. One IBM executive proposed that centralization could save 15% to 20% of the cost of using decentralized suppliers. While the company did not widely adopt a centralized approach, the discussion fostered a "center-led" approach involving centralized supplier selection and management based on cross-functional sourcing teams. This group of teams, which worked with a chief procurement officer, now enjoys a sound reputation for organizational supply design.

> "The process to manage suppliers for value is fueled by data and information."

There is no ideal supply-structure business model. Structures depend on the goals of individual businesses. Determine what percent of your company's expenses goes to suppliers. Which suppliers do you pay the most, and what percentage of your budget do they capture? How much do suppliers contribute to your overall capabilities? Use this information to shape your supply chain and overall strategic decisions.

How Supply Management Contributes to Your Company

Build and maintain companywide awareness that suppliers can provide a competitive advantage. This requires a cross-functional effort, from planning to internal collaboration to action.

> "Virtually every supply management article or book urges creation of a business case for use in selling strategic sourcing to senior management."

"Suppliers are often an afterthought, part of the business model's 'givens' unless something major goes wrong." In light of that traditional view, how can you elevate suppliers to their proper place in your company's mind-set? First, top management must get involved. Supply managers should demonstrate that optimizing the supply network improves revenue, innovation and corporate reputation. Supply managers also should make contributions that go beyond the balance sheet; merely reducing costs might decrease value and erode customer satisfaction, and you cannot cut costs indefinitely. The better, longer-term approach is to use supplier capabilities to make the company more effective, often by outsourcing to boost performance. Use each supplier's unique knowledge, contacts and new product development potential. Suppliers can provide intelligence about expansion into new markets, regulatory requirements and supply sources.

> "A company that stands still in a competitive marketplace is probably moving backwards."

A supply manager can even discover and push strategic innovation. R&D at most companies does not involve supply managers because supply's traditional focus has been cost reduction and supplier interactions. However, supply managers often innovate when solving problems regarding surges in demand that require more labor, manufacturing capabilities or new materials.

To increase the company's internal cooperation with the supply department, managers should enlist the support of the legal, IT and finance departments. The legal department is critical because it drafts supplier contracts. Overly strict contract language can prevent suppliers from doing their best to expand relationships and can undercut the interactions that encourage suppliers to be "commercially flexible." In many cases, when lawyers draft contracts without input from supply managers, the contracts are too rigid and are bent on getting concessions from suppliers. "The basis for doing business is getting what you need, when you need it, and that requires working together, not adversarial conflict." The stumbling block to this is often the legal department's contract review authority. If applied injudiciously, this authority can wreck any chance of creating value between suppliers and the supply management department.

IT can provide purchasing, contract management and tracking data to make the supply department more efficient, but the supply manager must work with IT to enable cooperation.

Looking for Talent

Procurement specialists are in short supply. Companies cannot find sufficient, talented supply management people to meet current demand. While universities are offering more classes on this topic, many of them are producing graduates with strong supply-side (commodity purchasing) backgrounds but without the skills to deliver a competitive advantage. Successful supply managers should be flexible and analytical, and they should be able to work on cross-functional teams. They need good negotiating and social skills. Finding supply managers who can deliver such an advantage requires smart recruitment. Seek experienced people who have a commercial sensibility and know the sourcing process. Train them, and allow them frequent contact with a variety of suppliers so they can develop the skills and broad-based perspective they need to excel.

If your organization is successful in developing quality supply management talent, other firms looking for skilled supply managers will raid your company for employees. To protect your internal supply-management talent pool, expand your talent base so you can transfer quality supply managers to other parts of the corporation and create a companywide, sustainable supply chain advantage.

About the Author

Stephen C. Rogers, an adjunct professor at Xavier University, spent 30 years at Procter & Gamble.